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

FINANCIAL MANAGEMENT DIVISION

January 2018
OFFICE OF AUDITS
Financial Management Division

OIG HIGHLIGHTS

AUD-FM-18-24

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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.

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.

Office of Inspector General
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OBJECTIVE

The objective of this audit was to determine whether the National Endowment for Democracy's (NED) financial transactions and operations, as well as those of its four core institutes, complied with the National Endowment for Democracy Act (NED Act),[1] applicable Federal regulations, and the grant agreements for FYs 2015 and 2016.

BACKGROUND

NED is a non-profit organization that was founded in 1983 with the stated goal of promoting democracy abroad. Although Congress recognized and authorized funding for NED in 1983 through the NED Act, NED is not an agency or establishment of the U.S. Government. The purpose of NED, as set forth in the NED Act and NED's articles of incorporation, is to do the following:

- Encourage free and democratic institutions throughout the world through private sector initiatives, including activities that promote the individual rights and freedoms (that is, internationally recognized human rights) that are essential to the functioning of democratic institutions.
- Facilitate exchanges between U.S. private sector groups (particularly labor groups and business organizations) and democratic groups abroad.
- Promote non-Government participation (especially through labor groups, business organizations, and other private sector groups) in democratic training programs and democratic institution-building abroad.
- Strengthen democratic electoral processes abroad through timely measures in cooperation with indigenous democratic forces.
- Support the participation of the two major American political parties, labor groups, business organizations, and other U.S. private sector groups in fostering cooperation with those abroad dedicated to the cultural values, institutions, and organizations of democratic pluralism.
- Encourage the establishment and growth of democratic development in a manner consistent both with the broad concerns of U.S. national interests and with the specific requirements of the democratic groups in other countries that are aided by programs funded by NED.

National Endowment for Democracy Funding and Expenditures

NED receives funding each year from Congress through amounts authorized in the Department of State's (Department) annual budget appropriations. NED also receives other discretionary funding from the Department that targets specific regions and projects.[2] Both funding types are

[1] Pub. L. No. 98-164, 97 Stat. 1039 (November 22, 1983) (codified as amended at 22 U.S.C. §§ 4411-4416).

[2] In FYs 2015 and 2016, NED also received $1.9 million and $1.6 million, respectively, in non-Federal funds. These funds were not included in this audit.

provided as grants from the Department. Table 1 summarizes the amount of funding NED received from the Department in FYs 2015 and 2016.

Table 1: Amount of Grant Funding for FYs 2015 and 2016

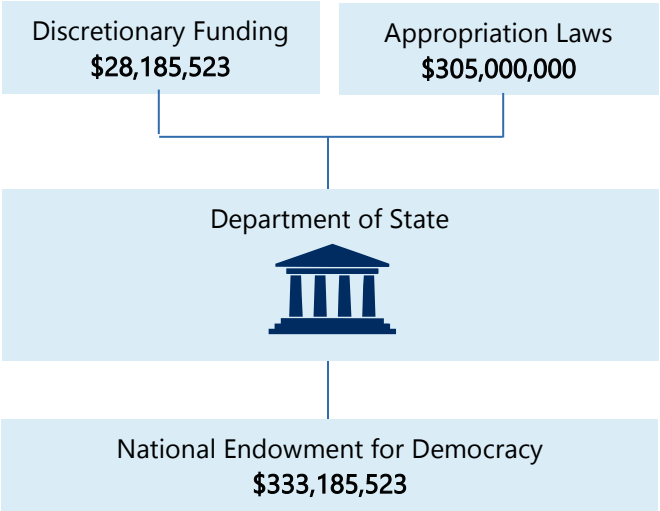
Grant Funding Type	FY 2015	FY 2016	Total
Annual Appropriation	$135,000,000	$170,000,000	$305,000,000
Discretionary - Cuba[a]	$7,425,742	$6,187,500	$13,613,242
Discretionary - Europe[b]	$2,381,189	$1,108,910	$3,490,099
Discretionary - Eurasia[c]	$0	$4,148,515	$4,148,515
Discretionary - Burma[d]	$3,468,320	$3,465,347	$6,933,667
Total	**$148,275,251**	**$184,910,272**	**$333,185,523**

[a] This effort is to advance democratic rights, political pluralism, and independent civil society in Cuba.
[b] This effort is to promote democracy and strengthen the development of civil society in the region.
[c] This effort is to promote democracy in the Eurasian region, Georgia, and the Kyrgyz Republic.
[d] This effort is to promote democracy and human rights in Burma.

Source: Prepared by Kearney & Company, P.C., based on NED financial reports for FYs 2015 and 2016.

Figure 1 shows the normal manner in which funding goes to NED.

Figure 1: National Endowment for Democracy Grant Funding for FYs 2015 and 2016



Source: Prepared by Kearney & Company, P.C., based on NED financial reports for FYs 2015 and 2016.

NED expends grant funds on activities it performs to promote democracy,[3] as well as on NED support services (that is, general and administrative overhead, such as salaries, travel costs, and rent). NED also provides sub-grants[4] to other organizations to fulfill the objectives of the grant

[3] These programs include the International Forum for Democracy Studies, the World Movement for Democracy, the Journal of Democracy, and the Center for International Media Assistance.

[4] Although NED makes sub-grants to other organizations, those awards are designated as "grants" rather than "sub-grants." This report uses the same terminology.

agreements it has with the Department. During FYs 2015 and 2016, NED provided sub-grants comprising approximately 38 percent of its annual appropriations to four "core institutes" to implement projects that will help achieve NED's purposes. The core institutes are the National Democratic Institute for International Affairs (NDI); the Center for International Private Enterprise (CIPE); the International Republican Institute (IRI); and the American Center for International Labor Solidarity, commonly referred to as the Solidarity Center (SC). Each year NED also grants approximately 45 percent of its grant funding to hundreds of non-Government organizations (that is, discretionary grantees) worldwide. Table 2 summarizes NED's expenditures for FYs 2015 and 2016.

Table 2: National Endowment for Democracy Expenditures for FYs 2015 and 2016

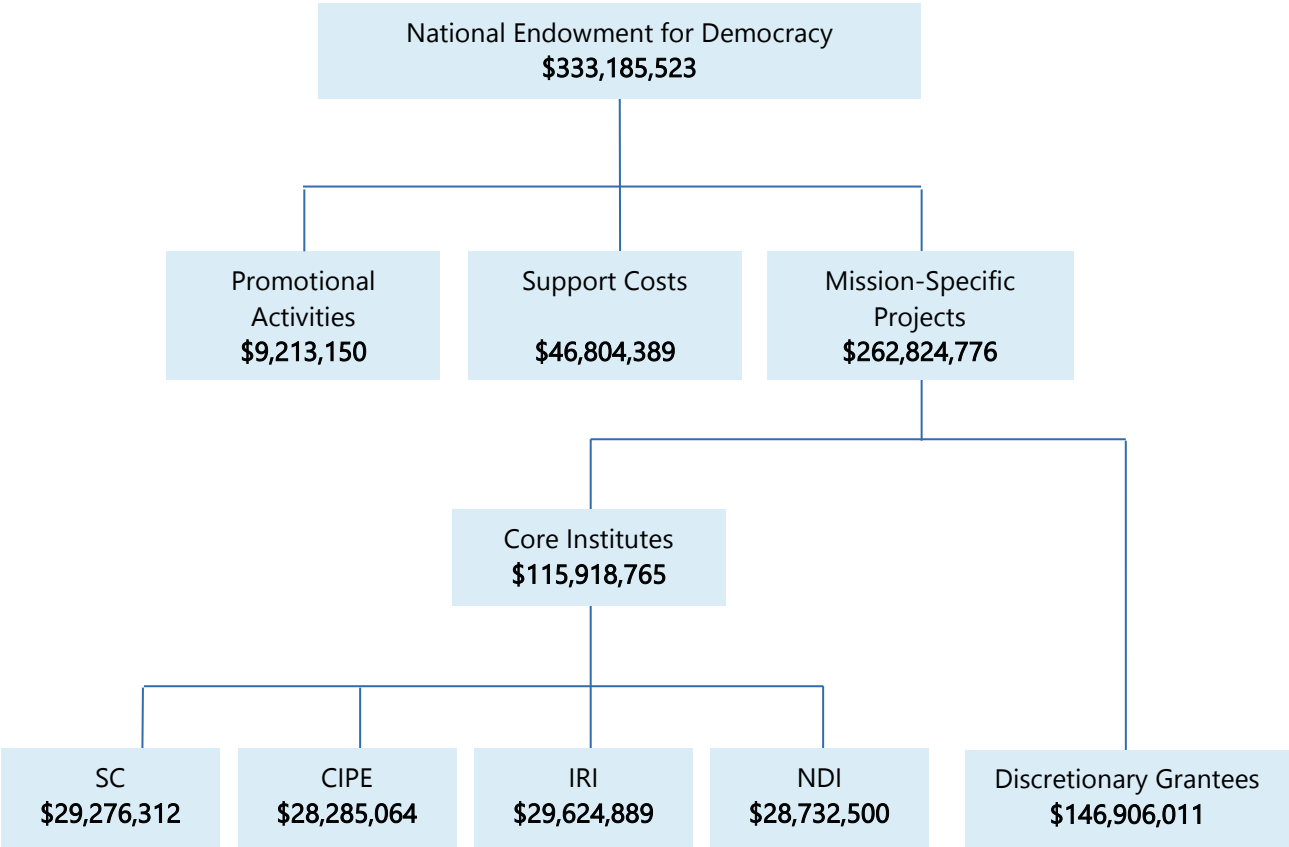
Expenditure Type	FY 2015	FY 2016	Total*
Internal Activities To Promote Democracy	$4,268,153	$4,944,997	$9,213,150
Internal Support Services	$22,866,517	$23,937,872	$46,804,389
Subtotal: Internal NED Expenses	**$27,134,670**	**$28,882,869**	**$56,017,539**
Grants to Core Institutes			
SC	$15,083,978	$14,192,334	$29,276,312
CIPE	$13,850,614	$14,434,450	$28,285,064
IRI	$15,367,756	$14,257,133	$29,624,889
NDI	$13,997,097	$14,735,403	$28,732,500
Subtotal: Grants to Core Institutes	**$58,299,445**	**$57,619,320**	**$115,918,765**
Discretionary Grants	$69,682,661	$77,223,350	$146,906,011
Subtotal: All Grants	**$127,982,106**	**$134,842,670**	**$262,824,776**
Total	**$155,116,776**	**$163,725,539**	**$318,842,315**

* The annual grants to NED from the Department have a period of performance of 5 years; that is, NED has 5 years to expend the grant funds.

Source: Prepared by Kearney & Company, P.C., based on NED's FYs 2015 and 2016 general ledger transactions.

Figure 2 shows the flow of funds from NED to other organizations.

Figure 2: National Endowment for Democracy Expenditures for FYs 2015 and 2016



Source: Prepared by Kearney & Company, P.C., based on NED's FYs 2015 and 2016 general ledger transactions.

Core Institutes

The core institutes have a close, long-term relationship with NED. For example, NED and the core institutes collaboratively plan for core institute projects funded by NED. The NED Board of Directors (Board) approves projects for the core institutes to implement each quarter. Rather than using a separate grant for each core institute project, NED provides quarterly funding to the core institute intended to cover the projects approved by the Board. As additional projects are approved by the Board in subsequent quarters, NED modifies its initial grant agreement to provide additional funding for the newly approved projects. As shown in Table 3, each core institute has a specific mission and objective.

Table 3: Core Institutes' Missions and Objectives

Core Institute	Missions and Objectives
NDI	NDI works to strengthen political and civic organizations, safeguard elections, promote citizen participation, and strengthen openness and accountability in government.

Core Institute	Missions and Objectives
CIPE	CIPE works to build civic institutions that support a democratic society. CIPE's key program areas include enterprise ecosystems, business advocacy, democratic governance, and anti-corruption and ethics.
IRI	IRI advances freedom and democracy worldwide by assisting political parties to become more issue based and responsive; assisting citizens to participate in government planning; and working to increase the role of marginalized groups in the political process, including women and youth.
SC	SC works to help build strong and effective trade unions and more just and equitable societies. Its programs focus on human and worker rights awareness, union skills, occupational safety and health, economic literacy, human trafficking, women's empowerment, and supporting workers in an increasingly informal economy. Solidarity Center programs support and contribute to the global movement for labor rights.

Source: Prepared by Kearney & Company, P.C., based on information obtained from various sources during the audit.

The core institutes use the grants provided by NED to execute projects, which include further sub-grants, general overhead costs, and fringe benefit costs. Table 4 summarizes the amount of expenditures by core institute in FYs 2015 and 2016 by type.

Table 4: Core Institute Expenditures for FYs 2015 and 2016

Expenditure Type	FY 2015	FY 2016	Total[a]
SC[b]			
Direct Program Expenses	$8,824,815	$8,251,644	$17,076,459
Expenses Incurred by Sub-grantee	$1,072,767	$1,003,066	$2,075,833
Indirect Expenses[c]	$4,936,093	$3,330,183	$8,266,276
Total SC Expenses	**$14,833,676[d]**	**$12,584,892[d]**	**$27,418,568**
CIPE			
Direct Program Expenses[c]	$8,497,301	$9,088,988	$17,586,289
Expenses Incurred by Sub-grantee	$2,500,156	$2,426,978	$4,927,134
Indirect Expenses	$2,872,261	$3,064,702	$5,936,963
Total CIPE Expenses	**$13,869,718**	**$14,580,668**	**$28,450,386**
IRI			
Direct Program Expenses	$9,643,913	$9,033,543	$18,677,456
Expenses Incurred by Sub-grantee	$464,054	$1,014,961	$1,479,015
Indirect Expenses[c]	$4,148,153	$4,024,525	$8,172,677
Total IRI Expenses	**$14,256,119[c]**	**$14,073,029**	**$28,329,148**
NDI			
Direct Program Expenses	$9,171,283	$10,234,576	$19,405,859
Expenses Incurred by Sub-grantee	$299,382	$645,455	$944,837

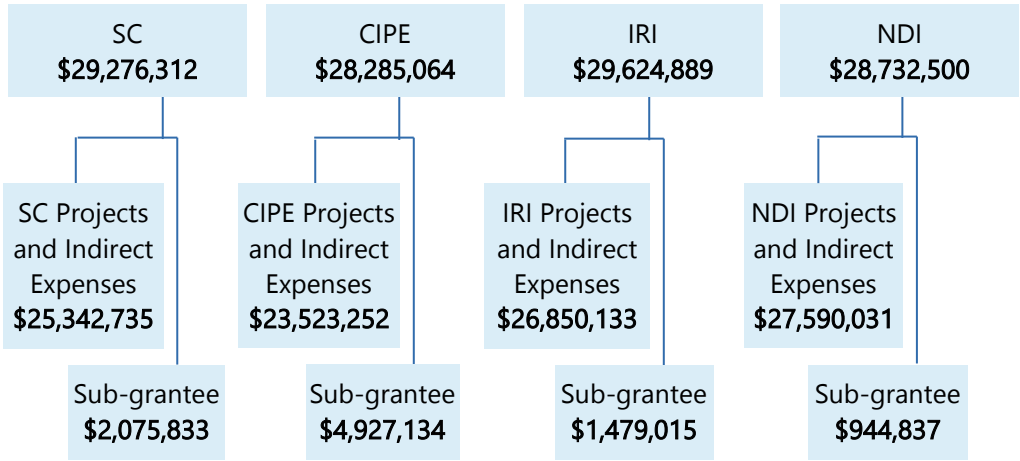
Expenditure Type	FY 2015	FY 2016	Total[a]
Indirect Expenses[c]	$3,907,393	$4,276,779	$8,184,172
Total NDI Expenses	**$13,378,058**	**$15,156,810**	**$28,534,868**
Total Expenses[d]	**$56,337,570**	**$56,395,399**	**$112,732,969**

[a]The annual grants to the core institutes from NED have a period of performance of 3 years. That means that the core institutes have 3 years to expend the funds.
[b] SC financial reports are based on the calendar year (that is, January 1 to December 31). The other core institutes prepare financial reports based on a fiscal year that is the same as NED's fiscal year (that is, October 1 to September 30). For comparative purposes, Kearney aligned SC expenses to the same fiscal year as the other core institutes by using data covering the appropriate fiscal period.
[c] Amounts on this line include fringe benefits on direct program salaries.
[d] Due to rounding, certain totals display a small variance.

Source: Prepared by Kearney & Company, P.C., based on each core institute's FYs 2015 and 2016 general ledger transactions.

Figure 3 shows the flow of expenditures from the core institutes.

Figure 3: Funds Received by the Core Institute and How They Used Those Funds During FYs 2015 and 2016



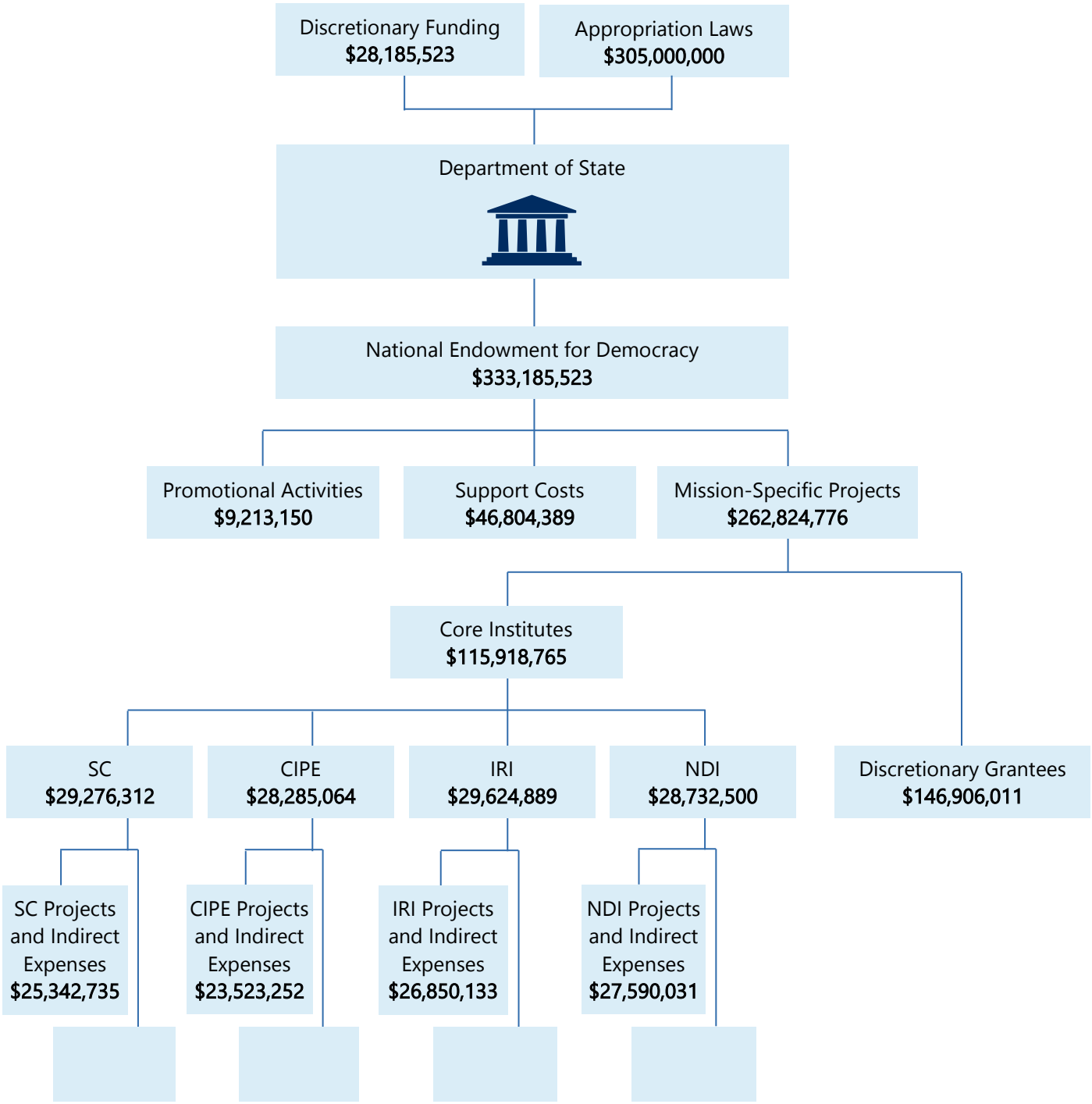
Source: Prepared by Kearney & Company, P.C., based on each core institute's FYs 2015 and 2016 general ledger transactions.

Discretionary Grantees

In addition to the core institutes, NED awards grants to other private sector organizations. Generally, these grants are for institutional support and specific projects that have a 1-year performance period. NED officials call these organizations "discretionary grantees" or "recipients." The process for awarding grants to discretionary grantees differs from the core institute process as the discretionary grantees are not included in NED's overall planning process. Potential discretionary grantees submit proposals for projects to NED, and these projects are considered by the Board each quarter.

Figure 4 shows the flow of grant funding and associated expenditures for NED and its core institutes.

Figure 4: National Endowment for Democracy and Core Institutes' Grant Funding and Expenditures for FYs 2015 and 2016



Source: Prepared by Kearney & Company, P.C., based on information obtained from various sources during the audit.

The National Endowment for Democracy Act, Federal Regulations, and Grant Agreements

NED and its grant recipients (both core institutes and discretionary grantees) must comply with requirements in the NED Act, Federal regulations, and grant agreements.[5] For example, Department grants to NED, including the amounts subsequently awarded to the core institutes and the discretionary grantees, are subject to requirements set forth in Title 2 of the Code of Federal Regulations (CFR), Part 200,[6] which establishes guidelines for determining whether costs associated with grants awarded to non-profit organizations are allowable, reasonable, and allocable. This section of the CFR also provides detailed guidance to award recipients for a number of specific types of grant costs (such as equipment, training, and travel). In addition, 2 CFR 200 establishes guidelines for monitoring sub-recipients and does the following:

- Sets forth cost principles for grantees (for example, grantees are responsible for the efficient and effective administration of the Federal award through the application of sound management practices).[7]
- Requires grantees to assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.[8]
- Establishes that grantees are responsible for oversight of the operations supported by the grant.[9]
- Establishes requirements for grantees regarding the retention of records, stating that "financial records, supporting documents, statistical records, and all other records pertinent to a Federal award must be retained for a period of 3 years from the date of submission of the final expenditure report."[10]
- Requires both that the financial management systems of grantees provide records that identify the source and application of Federal funds and that those records be supported by source documentation.[11]

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[5] The requirements included in the grant agreement between the Department and NED and the grant agreements between NED and the core institutes are generally the same.

[6] Part 200 of the CFR, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," was issued in December 2013 and went into effect in December 2014. The CFR consolidated eight Office of Management and Budget (OMB) Circulars into one authoritative document relating to grants management. The consolidated document made no substantial changes to guidance in the OMB Circulars. Some of the grant expenditures were from grants issued before December 2014 and specifically required compliance with then-governing OMB Circulars (for example, the FY 2015 grant, which was issued prior to December 2014). Kearney accordingly used 2 CFR 200 as authoritative guidance for its audit of transactions that were related to grants issued after December 2014 but considered the superseded OMB Circulars as authoritative guidance for its review of transactions related to earlier grants.

[7] "Policy Guide," 2 CFR § 200.400(a).

[8] 2 CFR § 200.400(b).

[9] 2 CFR § 200.328, "Monitoring and reporting program performance."

[10] 2 CFR § 200.333, "Retention requirements for records."

[11] 2 CFR § 200.302 (b)(3), "Financial management."

NED must also follow requirements included in its annual grant agreement with the Department. In addition to requiring compliance with 2 CFR 200, that grant agreement requires NED to ensure compliance with Executive Order 13224[12] and to include this provision in sub-award agreements.

National Endowment for Democracy and Department Grant-Related Roles and Responsibilities

NED has a grant-making structure that consists of three departments: Program, Grants, and Compliance. The Program Department develops program priorities, reviews potential award applicants, reviews award proposals and narrative reports, analyzes funding priorities, provides advice and recommendations to the Board, and monitors currently funded NED projects. The Grants Department issues grant agreements, amendments, and process payments; reviews budgets, financial questionnaires, and financial reports; assesses and provides guidance to grantees; and follows up on invoice and other grantee issues. The Compliance Department develops risk assessments and financial monitoring plans for each grantee, reviews invoices and daily transaction ledgers, and provides guidance to grantees on best practices.

Within the Department, the two individuals with primary oversight and monitoring responsibilities for any grant are the Grants Officer and the Grants Officer Representative. In the case of NED, the Grants Officer is from the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, and the Grants Officer Representative is from the Bureau of Democracy, Human Rights, and Labor. These individuals have different roles and responsibilities. The Grants Officer is the only person authorized to approve a payment and to award, amend, and terminate a Federal assistance award. The Grants Officer Representative has the technical expertise related to program implementation and is designated by the Grants Officer (in writing) to administer certain aspects of a specific Federal assistance award. The Grants Officer Representative is not authorized to approve or deny any request to amend the award.

AUDIT RESULTS

Finding A: The National Endowment for Democracy Generally Complied With Applicable Requirements, but Some Financial Monitoring Operations Could Be Improved

Kearney & Company, P.C. (Kearney), found that NED's financial transactions and operations generally complied with applicable portions of the NED Act, Federal regulations, and grant agreements between the Department and NED. For example, Kearney tested 49 expenditures related to NED's direct efforts to promote democracy and NED's internal support services

[12] Executive Order 13224, "Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism," prohibits U.S. Government funds from being provided to any individual or entity designated by the U.S. Government as a terrorist or as assisting terrorism.

expenditures to assess compliance with various requirements and found that expenditures complied with the key requirements of applicable laws, regulations, and grant agreements that were tested during the audit. In addition to testing specific transactions, Kearney also found that NED complied with general Federal requirements. Specifically, Kearney found that NED underwent the required audits, that its indirect cost rates were reviewed, and that the proposed cost rates were accepted. This compliance occurred because NED had an effective system of internal controls over financial reporting in place and had established controls over document retention.

Kearney also found that NED generally had controls in place to ensure that its discretionary grantees complied with the NED Act, applicable Federal regulations, grant agreements, and other general requirements set forth by NED for grantees. Specifically, Kearney found that NED had searched Federal databases to identify organizations that were blocked from receiving Federal funds and had performed required risk assessments of the discretionary grantees. However, Kearney found that NED did not always perform monitoring in compliance with internal policies.

Kearney also found that NED had obtained and reviewed Narrative and Financial Reports. In addition, Kearney found that discretionary grantees complied with specific grant agreement requirements tested and that NED had appropriately closed out grants as required. In general, NED had implemented a strong internal control environment for the oversight of the discretionary grantees. For example, it had committed significant resources to oversee the recipients. In addition, NED had developed useful policies and procedures for overseeing recipients; these policies, however, should be updated to reflect current expectations for overseeing the recipients. Doing so will minimize the risk that recipients might not fulfill the terms and conditions of the grants. In addition, Kearney identified nominal unsupported costs associated with the discretionary grantees reviewed.[13]

In addition, Kearney found that expenditures made by NED's discretionary grantees complied with Federal regulations, the grant agreements, and NED's internal guidance. For the 25 items tested, Kearney found that discretionary grantees complied with the key requirements of applicable laws, regulations, grant agreements, and policies that were tested. Discretionary grantees expended funds in compliance with Federal requirements, the grant agreements, and NED policies because NED developed and implemented a step-by-step guide for its discretionary grantees.

Transaction Testing of National Endowment for Democracy Internal Activities To Promote Democracy and Internal Support Services Expenditures

Kearney found that NED expenditures related to its internal activities to promote democracy and its internal support services complied with the NED Act, Federal regulations, and grant

[13] The nominal unsupported costs identified represent less than 0.01 percent of the grants selected for review.

agreements between the Department and NED. Specifically, Kearney tested a sample[14] of 49 transactions,[15] totaling $387,310 (8 transactions, totaling $233,763, related to NED's internal activities to promote democracy, and 41 transactions, totaling $153,547, related to NED's internal support services). For each expenditure sampled, Kearney obtained and reviewed supporting documentation, such as lease agreements, consulting service contract agreements, travel receipts, insurance policies, vendor invoices, and official personnel files for payroll expenditures. For the items tested, Kearney found that NED complied with the key requirements of applicable laws, regulations, and grant agreements that were tested, as described in Table 5.

Table 5: Attributes Tested and Their Related Criteria for Certain National Endowment for Democracy Expenditures

Attribute Tested	Applicable Criteria
Costs allowable in accordance with and not prohibited by the NED Act.	NED Act, 22 U.S. Code, Chapter 54 §§ 4412(b), 4413(b), 4413(h), and 4414(a), "Implementation of purposes," "Funding for private sector groups and covered programs only," "Recordkeeping requirements, audit and examination of books, etc.," and "Partisan politics."[a]
Costs charged to the grant must be necessary and reasonable for the performance of the Federal award and be allocable to the grant.	2 CFR § 200.403(a), "Factors affecting allowability of costs."
Costs must conform to any limitations or exclusions set forth in regulations or in the Federal award regarding types or amount of cost items.	2 CFR § 200.403(b), "Factors affecting allowability of costs."
Costs must be accorded consistent treatment. That is, a cost may not be assigned to a Federal award as a direct cost if any other cost incurred to the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.	2 CFR § 200.403(d), "Factors affecting allowability of costs."
Costs must be determined in accordance with generally accepted accounting principles.	2 CFR § 200.403(e), "Factors affecting allowability of costs."
Costs should not be included as a cost or used to meet cost sharing or matching requirements of any other Federally financed program in either the current or a prior period.	2 CFR §200.403(f), "Factors affecting allowability of costs."
Costs must be adequately documented.	2 CFR § 200.403(g), "Factors affecting allowability of costs"

[14] For additional details regarding the sample selection see Appendix A: Purpose, Scope, and Methodology.

[15] Kearney performed testing on less than 1 percent of the number of items in the universe and less than 1 percent of the value of the items in the universe. (The total number of transactions related to NED's internal activities to promote democracy and NED's internal support services was 21,059, totaling $56,017,539.) The low percentage occurred because these categories of expenditures had a large volume of low dollar value transactions. For example, the average transaction for promoting democracy was $1,796, and the average transaction for support services was $2,938. Kearney believes that the appropriately selected sample represents the population of the universe and supports its conclusions as set forth in this report.

Attribute Tested	Applicable Criteria
Costs must be recorded at the correct amount within NED's financial management system.	Grant Agreements S-LMAQM-15-GR-1005 2015 and S-LMAQM-16-GR-1012 2016, Section 12B, "Financial Reporting."
Only costs that are incurred during the performance period of the grant, or prior to the performance period if authorized by the Federal awarding agency, may be charged to the grant.	2 CFR § 200.309, "Period of performance."
Timesheet was approved by the employee's supervisor (applies to payroll related expenditures only).	2 CFR § 200.430(i)(1)(i), "Standards for Documentation of Personnel Expenses."[b]
Hours worked according to the Earnings and Wages Statement agree with the hours worked according to the timesheet (applies to payroll-related expenditures only).	2 CFR § 200.430(i)(3), "Standards for Documentation of Personnel Expenses."[c]
Rates compensated according to the Earnings and Wages Statement were authorized in the employee's official personnel file (applies to payroll-related expenditures only).	2 CFR § 200.430(i)(1)(i)-(ii), "Standards for Documentation of Personnel Expenses."[b,d]
Authorized compensation rates were reasonable to the extent that they were consistent with that paid for similar work in other activities of the non-Federal entity (applies to payroll-related expenditures only).	2 CFR § 200.430(b), "Reasonableness."

[a] "No funds granted by the Endowment may be used to finance activities of the Republican National Committee or the Democratic National Committee," and "No grants may be made to any institute, foundation, or organization engaged in partisan activities on behalf of the Republican or Democratic National Committee, on behalf of any candidate for public office, or on behalf of any political party in the United States." 22 U.S.C. § 4414(a).
[b] Charges for salaries "must be based on records that accurately reflect the work performed" and "be supported by a system of internal control which provides reasonable assurance that the charges are accurate."
[c] In addition to the supporting documentation described in the section, salaries for nonexempt employees must "be supported by records indicating the total number of hours worked each day."
[d] Records that support salaries must be "incorporated into the official records" of the entity.

Source: Generated by Kearney.

Testing Compliance With General Provisions of Federal Requirements

In addition to testing specific transactions for compliance with requirements, Kearney also determined whether NED complied with annual audit requirements[16,17] as well as Negotiated

[16] "A non-Federal entity that expends $750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provision of this part." 2 CFR § 200.501(a), "Audit Requirements."

[17] Title 22 of the U.S. Code, Chapter 54 § 4413(e)(1), states, "The accounts of the [National] Endowment [for Democracy] shall be audited annually in accordance with generally accepted auditing standards by independent certified public accountants or independent licensed public accounts certified or licensed by a regulatory of a State or other political subdivision of the United States." 22 U.S.C. § 4413(e)(1), "Eligibility of the [National] Endowment [for Democracy] for Grants."

Indirect Cost Rate Agreement (NICRA)[18] and Indirect Cost Rate review requirements.[19,20] Kearney confirmed that NED underwent the required audits, that its indirect cost rates were reviewed during FYs 2015 and 2016,[21] and that the proposed indirect cost rates were accepted.

Internal Control Environment

Selected transactions complied with key requirements in Federal laws and regulations, and NED complied with general Federal grant requirements because NED implemented an effective system of internal controls over financial reporting and document retention. During audit work, Kearney noted that NED was able to provide adequate supporting documentation for each sampled transaction and that transactions were appropriately endorsed as needed. NED was able to maintain an effective system of controls because it had committed resources to maintain effective grants management and financial management. In fact, approximately 25 percent of NED's staff worked in one of these two sections. The grants management and financial teams were accountable for, among other responsibilities, reviewing and approving payment requests, reviewing financial reports, tracking project costs, and tracking spending rates. In addition, these components monitored compliance with the terms of NED's grant agreements with the Department. Effective internal controls were also evidenced by NED's unmodified opinions[22] on internal controls over financial reporting and on compliance and other matters during FYs 2015[23] and 2016.[24]

Testing of Discretionary Grantees With General Provisions of Federal Requirements

Overall, Kearney found that NED generally had controls in place to ensure that its discretionary grantees (also referred to as "recipients") complied with the NED Act, applicable Federal regulations, grant agreements, and other general requirements set forth by NED for grantees. To evaluate the grantees' compliance with requirements, Kearney selected a sample of 45 discretionary grantees that received payments of $10,358,688[25] from a population of 3,778

[18] The responsibility for negotiating indirect costs rates with organizations doing business with the U.S. Government is assigned to a specific cognizant Government agency. The cognizant agency usually has the largest dollar volume of contracts with the firm or organization. The resulting NICRA is binding on the entire Government.

[19] Cognizant agencies can perform reviews of proposed indirect cost rates.

[20] "The negotiated [indirect] rates must be accepted by all Federal awarding agencies." 2 CFR § 200.414(c)(1), "Federal agency acceptance of negotiated indirect cost rates."

[21] Although the Department is the cognizant agency, it requested that the Department of the Interior's Interior Business Center perform the review on its behalf.

[22] An auditor issues an unmodified opinion on internal control if the auditor concludes that the client's internal control is designed and operating effectively in all material respects.

[23] "National Endowment for Democracy OMB A-133 Supplementary Financial Report Year Ended September 30, 2015," RSM US LLP (January 29, 2016).

[24] "National Endowment for Democracy Uniform Guidance Supplementary Financial Report Year Ended September 30, 2016," RSM US LLP (February 9, 2017).

[25] The sample included 5 "high risk" recipients totaling $735,181, 10 "medium risk" recipients totaling $1,440,131, and 30 "low risk" recipients totaling $8,183,376. See Appendix A: Purpose, Scope, and Methodology for additional details on the sample selected.

recipients, totaling $261,542,620. For each recipient sampled, Kearney tested various aspects of NED's internal controls to determine whether NED ensured that the discretionary grantees complied with Federal requirements.

Kearney found that NED had searched Federal databases to identify organizations that were blocked from receiving Federal funds and had performed required risk assessments of the discretionary grantees. Kearney found, however, that NED did not always perform monitoring in compliance with internal policies. For example, NED did not always monitor medium and high risk grantees in accordance with NED policy after the first year of the award and did not always comply with its internal policy on reviewing recipient's invoices. Kearney found that NED did follow up with discretionary grantees regarding any identified deficiencies and that it obtained and reviewed Narrative and Financial Reports. Kearney also found that discretionary grantees complied with specific grant agreement requirements tested and that NED had appropriately closed out grants as required.

In general, NED had implemented a strong internal control environment for overseeing the discretionary grantees. For example, it had committed significant resources to oversee the recipients and had developed useful policies and procedures for overseeing recipients. However, NED's policies should be updated to reflect current expectations for overseeing the recipients. Furthermore, the policy did not require NED officials to reassess the level of monitoring required when additional funds were added to an existing award. Insufficient monitoring can increase the risk that recipients might not fulfill the terms and conditions of the grants. In addition, Kearney identified nominal unsupported costs associated with the grantees reviewed.[26]

Verification of Discretionary Grantees on the Specially Designated Nationals and Blocked Persons List

The 2015 and 2016 grant agreements between the Department and NED both state that "[Executive] Order [13224] prohibits all transactions and dealings in blocked property or interests in the [United States] or by U.S. persons, and also prohibits transactions with, and provision of support for, individuals or entities listed in or subject to the [Executive] Order [13224]." The grant agreements also state that "[i]t is the legal responsibility of the recipient/contractor to ensure compliance with these Executive Orders and laws." Among other provisions, Executive Order 13224 designates 27 individuals and entities that commit, or pose a significant risk of committing, terrorist acts and authorizes the Secretary of State to designate additional individuals and entities.[27] The Department of the Treasury's Office of Foreign Assets Control publishes the Specially Designated Nationals and Blocked Persons List, which is a list of

[26] The nominal unsupported costs identified represent less than 0.01 percent of the grants selected to review.

[27] According to the grant agreements, Executive Order 13224 also authorizes the Secretary of the Treasury to designate additional individuals and entities that provide support or services to, are owned or controlled by, act for or on behalf of, or are "otherwise associated with," an individual or entity who has been designated in or under the order. All property and interests in property of the individual or entity in the United States or in the possession or control of U.S. persons are blocked.

individuals and companies owned or controlled by, or acting for or on behalf of, targeted countries. The list also includes individuals, groups, and entities, such as terrorists and narcotics traffickers, designated under programs that are not country specific. In addition, the General Services Administration maintains a list of parties excluded from receiving certain Federal contracts, subcontracts, and financial and non-financial assistance awards.[28] To effectuate these requirements, NED's Grantee Guide states, "NED is required to check all grantee organizations and primary individuals to see if they are on this [Sanctions] watch list and does so before issuing any Grant Agreements."[29]

Kearney found that NED had documentation confirming that it had determined whether the 45 discretionary grantees selected for testing were included on the Designated Nationals and Blocked Persons List and the General Services Administration list of excluded parties, as required. To further validate the documentation obtained from NED's system, Kearney independently determined whether any of the discretionary grantees were on the General Services Administration list of excluded parties. For the 45 awards tested, Kearney found that none of the discretionary grantees were identified as a blocked organization.

Risk Assessments

The CFR states, "All pass-through entities must: Evaluate each sub-recipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the sub-award for purposes of determining the appropriate sub-recipient monitoring."[30] As NED's first step in assessing risk, discretionary grantees must submit a financial questionnaire.[31] NED's policy requires each potential grantee "to complete a Financial Questionnaire so Compliance can assess financial controls prior to issuing a grant."[32] Kearney found that NED obtained and reviewed the Financial Questionnaire, as required, for each of the 45 discretionary grantees included in the sample.

The next step in the risk assessment process is for NED "to rank grantees according to various risk factors prior to grants being issued."[33] To do so, NED uses an "Audit Risk Assessment," which is a scorecard that NED prepares based on a review of the financial questionnaires provided by the discretionary grantees. Some of the factors considered on the scorecard include the experience of the recipient's accounting personnel, whether the recipient is a first-time NED

[28] This list was initially maintained in the Excluded Parties List System. On November, 21, 2012, the list was incorporated with the System for Award Management.

[29] NED's Grantee Guide, Chapter 18, "Executive Order 13224."

[30] 2 CFR § 200.331(b), "Requirements for Pass-through Entities."

[31] The financial questionnaire is created by NED and distributed to potential recipients. The financial questionnaire requires specific information and documentation from potential recipients. For example, recipients must attest to their internal controls, accounting system, legal context, banking, audits, and sub-recipient monitoring.

[32] National Endowment for Democracy Compliance Department Policies and Procedures, Chapter 3, "Financial Questionnaires."

[33] Ibid, Chapter 4, "Risk Assessments."

grantee, and whether the recipient is audited. There are a total of 26 categories, and based on the cumulative score, the recipient is assessed as low risk (score of 0-15), medium risk (score of 16-25), or high risk (score of 26 or greater).

Kearney found that NED had prepared an Audit Risk Assessment for each of the 45 discretionary grantees sampled. Using each recipient's Financial Questionnaire,[34] Kearney independently completed an Audit Risk Assessment scorecard for each recipient and found that the scores determined by NED were accurate and the risk rankings assigned were appropriate.

Monitoring Grant Agreements

The CFR's guidelines to pass-through entities for monitoring sub-recipients state that depending on the pass-through entity's risk assessment of the sub-recipient, "the following monitoring tools may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals: (1) providing sub-recipients with training and technical assistance on program-related matters, (2) performing on-site reviews of the sub-recipient's program operations, and (3) arranging for agreed-upon procedures engagements as described in § 200.425 Audit Services."[35]

NED considers the results from the Audit Risk Assessments, in conjunction with the award amount, "to determine the type of monitoring to be conducted once an award is issued." NED's Compliance Department "conducts financial reviews of grantees via daily transaction ledger reviews, invoice verification reviews, desk reviews of external audit reports, and on-site reviews."[36] NED's Grantee Guide states, "The most common types of financial monitoring performed by NED's Compliance Department are invoice verification and daily transaction ledger reviews."[37]

Kearney found that NED did not always comply with its internal policies regarding these issues. Specifically, Kearney found that NED did not perform procedures in accordance with its Risk Matrix on an annual basis for high risk grantees or high dollar awards. Kearney also found 14 of 45 instances (31 percent) in which NED did not comply with its internal policy on reviewing invoices or daily transaction ledgers (DTL) for discretionary grantees. Kearney found, however, that when NED identified deficiencies with its discretionary grantees, NED took appropriate actions to address the deficiencies.

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[34] NED's Grantee Guide states, "The Compliance Auditor or Senior Auditor or Manager shall review financial questionnaires to develop risk assessments and financial monitoring plans."

[35] 2 CFR § 200.331(e).

[36] National Endowment for Democracy Compliance Department Policies and Procedures, Chapter 2, "Compliance Monitoring Strategy."

[37] NED's Grantee Guide, "10. Audit Requirements."

Monitoring Discretionary Grantees Based on Risk Strategy

NED's internal policy states that "the [NED] Auditor determines the type of monitoring to be performed based upon the risk and the dollar size of the grant based upon [the Risk Matrix]."[38] The Risk Matrix is a table from NED's internal policies that displays required monitoring activities based on NED's determination of the recipient's risk factor (low, medium, or high risk) and the amount of the award ($1 to $34,999, $35,000 to $59,999, $60,000 to $99,999, $100,000 to $199,999, $200,000 to $749,999, and $750,000 or greater). During the scope period of the audit, FY 2015 and FY 2016, NED's internal policies allowed monitoring activities to occur every other year. For example, the first year of the award would follow the Risk Matrix and be considered the "on" year, and then the subsequent year (that is, the second year of an award) would be considered the "off" year. NED considers the monitoring for the "off" years to be "standard procedure," which is limited to ensuring the recipient complies with the grant agreement's reporting schedule, including the receipt and review of Narrative and Financial Reports and the receipt of any specific grantee products, cumulative assessment reports, and compliance with special conditions.

Of the 45 discretionary grantees selected for testing, 5 were considered by NED to be high risk. Kearney found that NED monitored 1 (20 percent) of these 5 high-risk recipients using procedures described in the Risk Matrix for all years. NED monitored the remaining 4 (80 percent) recipients using standard procedures during the "off" year of each grant, in compliance with its own policy. Although NED complied with its policy, Kearney questioned whether limiting oversight of high-risk recipients (in any year) to standard procedures was reasonable. NED officials stated that its financial statement auditor had also questioned this practice and recommended that NED change its standard procedures for high-risk recipients. In response to this recommendation, NED updated its "Compliance Policies and Procedures" in January 2017 to include a new policy. NED's policy now states, "In the off year, if the grant is considered high risk, the Risk Matrix will be used as the basis for monitoring. Also, grants of $200,000 or more will be monitored by [an invoice verification for one quarter's expenses] during the off year."[39]

Monitoring Invoices and Daily Transaction Ledgers

NED's internal policy[40] states, "The Auditor determines the type of monitoring to be performed based upon the risk ranking and the dollar size of the grant." NED has a standard process for reviewing recipient's invoices or DTLs.[41] Specifically, the invoice or DTL verification is a process in which NED's internal auditors request supporting documentation for a subset of costs reported by the discretionary grantees in their Financial Report. The supporting documentation is

[38] National Endowment for Democracy Compliance Department Policies and Procedures, Chapter 4, Exhibit 4-B, "Risk Ranking Summary Worksheet."

[39] National Endowment for Democracy Compliance Department Policies and Procedures, Chapter 4, Exhibit 4-B.

[40] Ibid.

[41] A DTL is the accounting book (submitted by the recipient) that lists all of the disbursements related to the NED grant by budget category.

reviewed for the selected costs to ensure that amounts are supported and allowable. As shown in Table 6, the frequency of the invoice or DTL verification reviews depends on a number of factors, which are outlined in NED's Audit Risk Matrix.

Table 6: Invoice Verification or Daily Transaction Ledger Review Requirements by Risk and Amount

Grant Amount	Low Risk	Medium Risk	High Risk
Grant Amount Less than $35,000	DTL only	DTL only	1st quarter invoices only
Grant Amount Less than $60,000 but Equal to or More Than $35,000	DTL only	1st quarter invoices only	1st quarter invoices only
Grant Amount Less Than $100,000, but Equal to or More Than $60,000	1st quarter invoices only	1st quarter invoices only	1st quarter invoices and DTL
Grant Amount Less Than $200,000, but Equal to or More Than $100,000	1st quarter invoices only	1st quarter invoices and DTL	1st and 2nd quarter invoices
Grant Amount Less Than $750,000, but Equal to or More Than $200,000	1st quarter invoices and DTL	1st and 2nd quarter invoices	1st and 2nd quarter invoices1st
Grant Amount $750,000 and Greater	1st and 2nd quarter invoices	1st and 2nd quarter invoices	1st and 2nd quarter invoices

Source: Prepared by Kearney based on NED policies.

As shown in Table 7, Kearney identified 14 instances ("errors") in which NED did not follow its Audit Risk Matrix for reviewing invoices or DTLs. For example, Kearney found that NED officials did not perform the second quarter invoice verification or DTL review that was required by internal NED Policy when exceptions were not identified during the first quarter invoice verification review.

Table 7: Invoice Verification or Daily Transaction Ledger Review Testing Results

Grant Amount	Low Risk (Errors)*	Medium Risk (Errors)*	High Risk (Errors)*	Total (Errors)*
Grant Amount Less than $35,000	0	0	0	**0**
Grant Amount Less than $60,000 but Equal to or More Than $35,000	1	2	1	**4**
Grant Amount Less Than $100,000, but Equal to or More Than $60,000	3	3	0	**6**
Grant Amount Less Than $200,000, but Equal to or More Than $100,000	4	2 (1)	3	**9 (1)**
Grant Amount Less Than $750,000, but Equal to or More Than $200,000	22 (12)	3 (1)	1	**26 (13)**

Grant Amount	Low Risk (Errors)*	Medium Risk (Errors)*	High Risk (Errors)*	Total (Errors)*
Grant Amount $750,000 and Greater	0	0	0	**0**

* The term "error" in this table is in reference to instances where NED did not perform the full requirements of its Risk Matrix during grant monitoring. For example, the first column is for Low Risk grant awards. There were 12 awards identified that NED did not monitor in accordance with its policies (with funded amounts of $200,000 to $749,999.99).
Source: Prepared by Kearney based on NED policies and the results of its testing.

Additionally, Kearney identified one instance in which a medium-risk discretionary grantee that received $52,000 in funding in July 2016 did not provide NED with the requested supporting documentation for the first Invoice Verification Review, which was due in November 2016. According to NED's internal policy,[42] the grantee is given 30 days to submit invoices after the first Invoice Request Letter is sent. If the grantee does not submit the required invoices within 30 days, it is given an additional 15-day grace period. If NED does not receive the invoices after the 15-day grace period, the auditor must send a second Invoice Request Letter and hold all future payments until the invoices are received.

Although NED appropriately withheld payments to the grantee that had not provided supporting documentation in accordance with NED's policy, NED officials did not follow up with the grantee regarding the requested Invoice Verification Review until February 2017, which is beyond the 15-day grace period. In response to NED's second request, the discretionary grantee stated that it would provide the documentation the following week; however, NED did not receive the documentation. NED followed up with the grantee again in March 2017 (when the grantee was selected as part of Kearney's sample for the audit) and received no response. As of June 2017, the grantee had not provided the required documentation. Because of insufficient supporting documentation, Kearney was unable to determine whether the funds, totaling $52,000, provided to the grantee were allowable.[43] According to NED's administrative closeout policies and procedures,[44] NED will report any administrative closeout to its Department Grants Officer when there are "outstanding financial requirements resulting in more than $10,000.00 in unaccounted, questioned, or disallowed costs."

Furthermore, Kearney identified one instance during an Invoice Verification Review where a NED official did not follow up on an unsupported transaction as required by NED's internal policy, which states that internal auditors must "indicate the nature, amount, and description of any findings over $100."[45] One grantee did not provide supporting documentation for a nominal

[42] National Endowment for Democracy Compliance Department Policies and Procedures, Chapter 7, "Invoice Verification Reviews."

[43] According to NED's policy, unsupported discretionary grantee costs are not considered to be questionable until at least 1 year after the expiration of the grant agreement with at least four attempts to retrieve outstanding documentation. This policy aligns with the Department's requirements in the Federal Assistance Directive (May 2017). Therefore, in this report, Kearney did not consider the unsupported amount to be questionable.

[44] National Endowment for Democracy Policy on Administrative Closeout of Grants (September 2016).

[45] National Endowment for Democracy Compliance Department Policies and Procedures, Chapter 7.

expenditure that exceeded NED's $100 threshold.[46] The internal auditor stated that he had inquired with the discretionary grantee about the supporting documentation and had obtained a verbal explanation for the cost. The internal auditor stated that the verbal response was sufficient and that a receipt was not necessary because the amount was immaterial. Notwithstanding the nominal dollar amount of the transaction, this practice decision does not align with NED's policy.

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (AQM), (a) require the National Endowment for Democracy (NED) to follow up with one of its discretionary grantees to obtain the required support regarding a missing 2016 quarter one invoice, (b) require NED to determine the disposition of the $52,000 provided to the grantee and report its conclusion to AQM, and (c) recover any costs determined to be unsupported.

Management Response:[47] AQM concurred with the recommendation, stating that it will implement the actions described in the recommendation.

OIG Reply: On the basis of AQM's concurrence with the recommendation and planned actions, OIG considers this recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that AQM identified and took appropriate action to recover all costs that were unsupported.

Follow-up on Deficiencies Identified

The CFR states, "Pass-through entity monitoring of the sub-recipients must include: . . . Following up and ensuring that the sub-recipient takes timely and appropriate action on all deficiencies from the pass-through entity."[48] Furthermore, NED's internal policy states that "[f]indings identified by the external auditors and additional findings by Compliance are included in [NED's] desk review, along with the grantee's corrective action."[49] Kearney found that NED had identified deficiencies during its monitoring activities for 7 of 45 grantees. Kearney reviewed and confirmed actions taken by NED[50] for each deficiency, such as requiring segregation of duties, removing unallowable costs, and requesting additional receipts. Kearney

[46] The nominal unsupported costs identified represent less than 0.01 percent of the grants selected to review.

[47] Although NED provided comments on this and other recommendations, OIG has not separately responded to those comments in the body of this report because the recommendations were not directed to NED. NED's comments are included, in their entirety, in Appendix C.

[48] 2 CFR § 200.331(d)(2).

[49] National Endowment for Democracy Compliance Department Policies and Procedures, Chapter 2.

[50] NED's Grantee Guide states, "In the event that any audit findings, litigation, or other claims have not been resolved by the end of the 3-year period, [the recipient] organization must continue to maintain records and supporting documentation until all grant related issues have been resolved."

found that NED officials had followed up on all of the identified deficiencies and that the deficiencies were appropriately remediated.

Review and Approval of Narrative (Performance) and Financial Reports

The CFR states, "The Federal awarding agency must use standard, [Office of Management and Budget (OMB)]-approved data elements for collection of performance information (including performance progress reports,[51] Research Performance Progress Report, or such future collections as may be approved by OMB and listed on the OMB Web site)."[52] The CFR further states, "Unless otherwise approved by OMB, the Federal awarding agency may solicit only the standard, OMB-approved [Government-wide] data elements for collection of financial information.[53] This information must be collected with the frequency required by the terms and conditions of the Federal award, but no less frequently than quarterly except in unusual circumstances."[54] NED's grant agreements with its discretionary grantees generally require recipients to provide quarterly Narrative Reports and Financial Reports.[55]

For each of the 45 recipients sampled, Kearney reviewed the Narrative and Financial Reports submitted as part of the reporting process. Kearney identified two recipients that had not provided the quarterly Narrative and Financial Reports as required by the grant agreements.[56] According to NED officials, these two recipients could not be reached on a routine basis because of the unpredictable environment and extreme circumstances in which they worked. During the grant period, NED officials did, however, identify the lack of Narrative and Financial Reports as an issue and withheld payments to the grantee until the grantee provided the required Narrative and Financial Reports. That is, NED took appropriate action when discretionary grantees did not comply with grant terms.

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[51] NED's Narrative Reports contain detailed and comprehensive information about activities, progress toward objectives, and how the project is progressing.

[52] 2 CFR § 200.328, "Monitoring and reporting program performance."

[53] NED's Financial Report templates are sent to recipients along with their grant agreements. The templates are customized to the specific grant and include budget information and expenditure data (including current period, total, and remaining data).

[54] 2 CFR § 200.327, "Financial reporting."

[55] Section 12 of NED's grant agreement template, "Reporting Schedule." NED uses this section to document the coverage and due dates for both Narrative Reports and Financial Reports. These may vary based on the grantee, but the standard coverage is 3 months and is due on a quarterly basis.

[56] NED's Grantee Guide states, "[The recipient] is required to submit reports to NED documenting both progress (in a narrative report) and expenditures (in a financial report). The schedule for submission of reports is shown in Box 12 of the Grant Agreement. If reports are late or unsatisfactory, NED may suspend payment until the problem is corrected."

Discretionary Grantee's Compliance With Grant Agreement Requirements

NED required[57] discretionary grantees to have a separate bank account that was used only for NED-related activities.[58] Kearney confirmed that each of the 45 tested discretionary grantees provided the required Bank Verification Form.[59] In addition, NED sometimes included "Special Conditions" in its grant agreements[60] with the discretionary grantees. These Special Conditions were requirements for certain recipients that were not applicable to other recipients. For example, an issue discovered while previously monitoring a recipient may prompt NED to impose additional requirements. Of the 45 sampled awards, 10 included Special Conditions in the grant agreement. Each Special Condition was unique to that particular award or recipient, such as additional certification requirements if a grantee was found to have submitted an erroneous financial report. Kearney reviewed and confirmed that the discretionary grantees had complied with the Special Conditions required by the grant agreements (or modification to the grant agreements).

In some instances, NED's grant agreements[61] with discretionary grantees required some type of product.[62] Kearney noted that 13 of 45 sampled discretionary grants included some type of required product within the grant agreement. Kearney confirmed that the 13 discretionary grantees provided the products that they were required to provide, such as publications (articles, journals, pamphlets, and newspapers) and media (video or audio recordings and web sites). Furthermore, NED's policy required some discretionary grantees to provide a Cumulative

[57] According to NED officials, this requirement changed in 2016 with NED's implementation of the Uniform Grant Guidelines, which referred to separate ledger accounts rather than a separate bank account. NED officials indicated that NED will still require certain grantees to have a separate bank account based on NED's risk assessment and monitoring approach.

[58] NED's grant agreement template includes a separate form titled "Verification of Separate Bank Account." The form must be completed and submitted by the recipient to confirm that the bank account used to receive funds from NED is separate from the recipient's regular bank account.

[59] NED's Grantee Guide states, "The Verification of Separate Bank Account form is needed because the use of a separate account for only NED grant funds is a requirement of the Grant Agreement. The form certifies that [the recipients] are complying with this requirement and also identifies the bank account that will be used to receive all grant payments, including all the bank details."

[60] Section 14 of NED's grant agreement template is noted as "Special Conditions."

[61] NED's Grantee Guide, Chapter 7 "Reporting Guidelines," states, "[The recipient] may have a Grantee Product as a reporting requirement in [the recipient's] Grant Agreement. If [the recipient does], the items that are required and [the] due date for submission of the items are shown in Box 12 of the Grant Agreement." Section 12 of NED's grant agreement template is noted as "Reporting Schedule." NED uses this section to document grantee product expectations. If the recipient is expected to produce a product, the "grantee product" box is checked, and the grant agreement will require the recipient to submit its product with its reports.

[62] Grantee products are the result, or byproduct, of the grant award's project and are required to be submitted to NED. Grantee products include, but are not limited to, publications (such as books, journals, or newspapers) or other forms of media (such as videos, posts, recordings, or websites).

Assessment Report.[63] Kearney noted that 4 of 45 sampled awards included a requirement for these reports. Kearney confirmed that those four recipients had complied.

Award Close-out

The CFR states that "[t]he Federal agency or pass-through entity will close-out the Federal award when it determines that all applicable administrative actions and all required work of the Federal award have been completed by the non-Federal entity."[64] NED's internal policy also states, "Following the end of [the recipient's] grant periods, NED staff will review all files to determine that [the recipient's] grant requirements are complete."[65] Of the 45 discretionary grantees selected for review, 25 awards required closeout procedures due to expired grant periods. Kearney found that NED[66] had complied with Federal regulations and its internal policy by promptly closing out all 25 of the grant awards that required closeout. For each of the 25 recipients in the sample that required closeout, Kearney reviewed closeout documentation (such as closeout letters sent to recipients and NED authorization for closeout) and found that the documentation was complete and appropriate.

National Endowment for Democracy Internal Controls

NED's discretionary grantees substantially complied with Federal requirements, the grant agreements, and internal policies because NED developed and implemented effective controls surrounding its pre-approval, application, monitoring, reporting, and closeout processes. For example, NED has committed resources to maintain effective grants management and compliance teams. In addition, NED's Compliance Department provides information and guidelines, and conducts workshops that help discretionary grantees comply with NED's financial requirements. Moreover, NED has developed a grant guide that documents policies and procedures related to Executive Order 13224, financial questionnaires, risk assessments, compliance monitoring, reporting requirements, and award closeouts.

Although the Grant Guide is an important tool for NED officials and the discretionary grantees, NED's policies could nonetheless be improved in some respects. For example, NED's internal policies should be updated because they do not always align with current processes. For example, NED officials stated that NED's protocol that was in place during FY 2017 requires internal auditors to perform an invoice or DTL review in the second quarter only if the first

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[63] NED's Grantee Guide, Chapter 7 "Reporting Guidelines," states, "[The recipient] may be required to write a Cumulative Assessment Report as a reporting requirement. If [the recipient does], the due date for submission of the Cumulative Assessment Report should cover each of the previous grants listed in Grant Agreement Box 12." A Cumulative Assessment Report covers several previous grants made to a recipient. The purpose of the report is to provide NED with an overall review of the NED-supported work of a recipient's organization.

[64] 2 CFR § 200.343, "Closeout."

[65] NED's Grantee Guide, Chapter 12, "Grant Closeouts," states, "Following the end of your [the recipient's] grant periods, NED staff will review all files to determine that your organization's [the recipient's] grant requirements are complete."

[66] NED's Grantee Guide states, "The grant will be closed out and NED will place [the recipient's] file in inactive status. When the closeout is complete, NED will send [the recipient] a closeout letter."

quarter invoice or DTL verification identified questioned costs; this practice is inconsistent with requirements included in NED's internal policy. NED should also require grantees to reassess the monitoring required when funds are added to an existing award. For one of the exceptions identified, NED officials noted that the level of monitoring was not adjusted when the grant amount increased. NED officials stated that NED will update and address supplemental funding, specifically, in its policy.

These issues are important to address because insufficient monitoring can increase the risk that discretionary grantees might not fulfill the terms and conditions of the grants.

> **Recommendation 2:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, instruct the National Endowment for Democracy to review its "Compliance Policies and Procedures" to identify outdated procedures and update the policy document, as appropriate, as well as verify that the policies have been updated. At a minimum, the sections on the Risk Matrix and Invoice Verification should be updated.
>
> **Management Response:** AQM concurred with this recommendation, stating that it will instruct NED "to review its 'Compliance Policies and Procedures' to identify outdated procedures and update the policy document, as appropriate, as well as verify that the policies have been updated."
>
> **OIG Reply:** On the basis of AQM's concurrence with the recommendation and planned actions, OIG considers this recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that AQM instructed NED to review its "Compliance Policies and Procedures" to identify outdated procedures and update the policy document, as appropriate, as well as verified that the policies have been updated.

Transaction Testing of Discretionary Grantees Expenditures

Kearney found that expenditures made by NED's discretionary grantees complied with Federal regulations, the grant agreements, and NED's internal guidance. Kearney performed testing on a sample of 25[67] discretionary grantee transactions totaling $47,575. For each expenditure sampled, Kearney obtained and reviewed supporting documentation, such as travel receipts and vendor invoices. Kearney tested each transaction for compliance with the same requirements included in the NED Act, Federal regulations, and the grant agreements (see Table 5 in this report for applicable requirements). For the 25 items tested, Kearney found that discretionary grantees complied with the key requirements of applicable laws, regulations, grant agreements, and policies that were tested.

[67] Kearney selected five transactions for testing from five different discretionary grantees. For additional details regarding the sample selection, see Appendix A: Purpose, Scope, and Methodology.

National Endowment for Democracy's Grantee Guide

Discretionary grantees expended funds in compliance with Federal requirements, the grant agreements, and NED policies because NED developed and implemented a step-by-step guide for its discretionary grantees.[68] The Grantee Guide includes details for the discretionary grantees regarding the grant process, and, for example, explains various sections of the grant agreements, how to receive payments, reporting requirements, prohibited activities, and document retention policies. The guide also explains the terms and conditions of the grant, such as details related to prohibitions against funding terrorism and trafficking in persons. Other sections of the guide include allowability of costs, supporting documentation requirements, and financial management practices (such as accounting methods, internal controls, travel and per diem requirements, and timekeeping). The guide also includes examples of various documents that discretionary grantees may need, such as grantee agreements and samples of required Narrative and Financial Reports. During a previous audit,[69] OIG analyzed NED's Grantee Guide and determined that it contained the requirements of the NED Act, additional NED administrative requirements, and other applicable regulations.

Finding B: Core Institutes Generally Spent Funds Sub-awarded by the National Endowment for Democracy in Accordance With Applicable Requirements

Kearney found that, on the whole, NED's four core institutes (NDI, CIPE, IRI, and SC) complied with applicable portions of the NED Act, Federal regulations, and grant agreements between NED and the core institutes. For example, Kearney tested 72 expenditures from the core institutes to assess compliance with various requirements and found only one instance, totaling $718, in which the expenditure did not comply with requirements. In addition to testing specific transactions, Kearney found that the four core institutes complied with general Federal requirements. Specifically, Kearney found that the core institutes underwent required audits and that their indirect cost rates were reviewed and accepted. NDI, CIPE, IRI, and SC substantially complied with key Federal requirements because the core institutes generally had effective systems of internal controls over financial reporting in place and had established controls over document retention. The one identified exception occurred, in part, because the sub-grantee's Contract Accountant was unaware of cost principle requirements. Furthermore, the core institute did not inform NED of the situation, and accordingly, NED was unable to provide guidance on how to handle costs that were determined to be inappropriate.

Transaction Testing of Core Institutes Direct Program Expenditures

Kearney found that NDI, CIPE, IRI, and SC (the core institutes) expenditures that related to their direct program costs substantially complied with the NED Act, Federal regulations, and the grant

[68] NED's Grantee Guide, January 2013.

[69] OIG, *Audit of the National Endowment for Democracy Use of Department of State FY 2006 – FY 2014 Annual Grant Funds* (AUD-SI-16-05, November 2015).

agreements between NED and the core institutes. Kearney performed testing on a sample[70] of 72[71] core institute transactions totaling $688,032.[72] For each expenditure sampled, Kearney obtained and reviewed supporting documentation, such as lease agreements, consulting service contract agreements, travel receipts, insurance policies, vendor invoices, and official personnel files for payroll expenditures. As described in Table 8, Kearney tested each transaction for compliance with the requirements of the NED Act, Federal regulations, and the grant agreements between NED and the core institutes.

Table 8: Expenditure Attributes Tested and Their Related Criteria for Core Institutes

Attribute Tested	Applicable Criteria
Costs allowable and supported in accordance with and not prohibited by the NED Act.	22 USC Chapter 54 § 4413 (h) and § 4414 (a) (NED Act), "Recordkeeping requirements, audit and examination of books, etc.," and "Partisan politics."
Costs charged to the grant must be necessary and reasonable for the performance of the Federal award and be allocable to the grant.	2 CFR § 200.403 (a), "Factors affecting allowability of costs."
Costs must conform to any limitations or exclusions set forth in 2 CFR 200 or in the Federal award as to types or amount of cost items.	2 CFR § 200.403 (b), "Factors affecting allowability of costs."
Costs must be accorded consistent treatment. That is, a cost may not be assigned to a Federal award as a direct cost if any other cost incurred to the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.	2 CFR § 200.403 (d), "Factors affecting allowability of costs."
Costs must be determined in accordance with generally accepted accounting principles.	2 CFR § 200.403 (e), "Factors affecting allowability of costs."
Costs should not be included as a cost or used to meet cost sharing or matching requirements of any other Federally-financed program in either the current or a prior period.	2 CFR § 200.403 (f), "Factors affecting allowability of costs."
Costs must be adequately documented.	CFR § 200.403 (g), "Factors affecting allowability of costs."
Recorded at the correct amount within the core institutes' financial management system.	2015 and 2016 Grant Agreements between NED and core institutes, Attachment C, "Provisions."

[70] For additional details regarding the sample selection, see Appendix A: Purpose, Scope, and Methodology.

[71] As noted previously, Kearney performed testing on less than 1 percent of the number of items in the universe and less than 1 percent of the value of items in the universe because of the large volume of low dollar value transactions. As also noted previously, Kearney believes that the sample selected appropriately represented the population of the universe and therefore supports its conclusions about compliance with Federal regulations and the grant agreement for core institute expenditures.

[72] The sample comprised 17 transactions (totaling $218,780) related to NDI's direct program costs, 20 transactions, (totaling $176,107) related to CIPE's direct program costs, 18 transactions (totaling $146,809) related to IRI's direct program costs, and 17 transactions (totaling $146,337) related to SC's direct program costs.

Attribute Tested	Applicable Criteria
Only costs incurred during the performance period of the grant, or prior to the performance period if authorized by the Federal awarding agency, may be charged to the grant.	2 CFR § 200.309, "Period of performance."
Timesheet was approved by the employee's supervisor (applies to payroll related expenditures only).	2 CFR § 200.430 (i)(1)(i), "Compensation–personal services."
Hours worked according to the Earnings and Wages Statement agrees with the hours worked according to the timesheet (applies to payroll-related expenditures only).	2 CFR § 200.430 (i)(3), "Compensation–personal services." [a]
Rates compensated according to the Earnings and Wages Statements were authorized in the employee's official personnel file (applies to payroll related expenditures only).	2 CFR § 200.430 (i)(1)(i)-(ii), "Compensation–personal services." [b]
Authorized compensation rates were reasonable to the extent that they were consistent with rates paid for similar work in other activities of the non-Federal entity (applies to payroll related expenditures only).	2 CFR § 200.430 (b), "Reasonableness." [a,c]

[a] Charges for salaries "must be based on records that accurately reflect the work performed" and "be supported by a system of internal control which provides reasonable assurance that the charges are accurate."
[b] In addition to the supporting documentation described in this section, salaries for nonexempt employees must "be supported by records indicating the total number of hours worked each day."
[c] Records that support salaries must be "incorporated into the official records" of the entity.

Source: Generated by Kearney.

Of the 72 transactions tested, Kearney identified 1 exception related to an SC transaction, resulting in $718 in unallowable costs, as defined by Federal policies.[73] In this instance, one of SC's field offices used funds for renting office space. Kearney obtained a copy of the lease agreement and vendor invoices and found that only $1,182 was used for the rent payment. The remaining $718 was used to purchase various items (for example, landscaping) provided to the landlord. Apparently, the landlord considered this type of "in kind" transaction to be part of the rental cost. However, the purchased items were not part of the approved budget of the project. According to the 2015 grant agreement,[74] to be allowable, costs incurred must conform to OMB Circular A-122.[75,76]

[73] According to 2 CFR §200.403, "Factors affecting allowability of costs," for a cost to be allowable it must be necessary and reasonable, conform to limitations or exclusions in the principles, be consistent with policies and procedures, be accorded consistent treatment, be determined in accordance with generally accepted accounting principles, not be included in cost sharing, and be adequately documented.

[74] 2015 Grant Agreement Number S-LMAQM-15-GR-1005 (between Department and NED), Section C.4.

[75] "To be allowable under an award, a cost must meet the following general criteria: [b]e reasonable for the performance of the award and be allocable thereto under these principles." OMB Circular A-122 §2.a.

[76] "In determining the reasonableness of a given cost, consideration shall be given to: [w]hether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award." OMB Circular A-122 § 3.

Testing of Core Institutes Compliance With General Provisions of Federal Requirements

In addition to testing specific transactions for compliance with requirements, Kearney also determined whether NDI, CIPE, IRI, and SC complied with Federal requirements for annual audits[77] as well as with NICRA and Indirect Cost Rate review requirements.[78] Kearney confirmed that NDI, SC, CIPE, and IRI underwent the required audits, that their indirect cost rates were reviewed during FYs 2015 and 2016, as required,[79] and that the proposed indirect cost rates were accepted.

Core Institutes' Control Environments

As noted, selected transactions from NDI, CIPE, IRI, and SC substantially complied with key requirements in Federal laws and regulations, and the core institutes complied with general Federal grant requirements. These situations occurred because the core institutes generally had effective systems of internal controls over financial reporting in place and had established controls over document retention. For example, Kearney noted that all of the core institutes were able to provide adequate supporting documentation for each sampled transaction and transactions were appropriately approved as needed. Effective internal controls are also evidenced by NDI's, CIPE's, IRI's, and SC's, unmodified opinions[80] on internal controls over financial reporting and on compliance and other matters during FYs 2015[81] and 2016.[82]

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[77] "A non-Federal entity that expends $750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provision of this part." 2 CFR § 200.501(a).

[78] "The negotiated [indirect] rates must be accepted by all Federal awarding agencies." 2 CFR § 200.414(c)(1).

[79] Although the Department is the cognizant agency for CIPE and SC, the Department requested that the Department of the Interior's Interior Business Center perform the indirect cost rate review on its behalf. The cognizant agency for NDI and IRI is the U.S. Agency for International Development.

[80] An auditor issues an unmodified opinion on internal control if the auditor concludes that the client's internal control is designed and operating effectively in all material respects.

[81] "National Democratic Institute for International Affairs Financial Statements, Supplemental Information, Schedule of Expenditures of Federal Awards, and Reports Required by *Government Auditing Standards* and OMB Circular A-133 For the Years Ended September 30, 2015 and 2014," BDO USA, LLP (March 3, 2016); "Center for International Private Enterprise, Inc. Audit Report Financial and Federal Award Compliance Examination For the Year Ended September 30, 2015," Gelman, Rosenberg & Freedman (March 29, 2016); "International Republican Institute OMB Circular A-133 Supplementary Financial Report For the Year Ended September 30, 2015," RSM US, LLP (March 25, 2016); and "American Institute for International Labor Solidarity Consolidated Financial Statements and Reports Required by the Uniform Guidance For the Year Ended December 31, 2015," Calibre CPA Group (July 15, 2016).

[82] "National Democratic Institute for International Affairs Financial Statements, Supplemental Information, Schedule of Expenditures of Federal Awards, and Independent Auditor's Reports Required by *Government Auditing Standards* and the Uniform Guidance For the Years Ended September 30, 2016 and 2015," BDO USA, LLP (February 10, 2017); "Center for International Private Enterprise, Inc. Audit Report Financial and Federal Award Compliance Examination For the Year Ended September 30, 2016 - DRAFT," Gelman, Rosenberg & Freedman (March 13, 2017); and "International Republican Institute Uniform Guidance Supplementary Financial Report For the Year Ended September 30, 2016," RSM US, LLP (February 28, 2017). As of the end of fieldwork, SC's 2016 financial report had not been issued.

The single identified exception occurred, in part, because the field office's Contract Accountant[83] was unaware of cost principle requirements. The SC Project Accountant[84] responsible for monitoring the field office informed the field office's Contract Accountant that SC should only make payments that go fully toward rent. Kearney reviewed payment vouchers from the field office for 3 additional months and noted that all rent payments were consistent with the lease agreement. SC's Project Accountant did not inform NED of the situation; therefore, NED was unable to provide guidance to SC on how to handle costs that were determined to be inappropriate.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether the questioned costs of $718 identified related to August 2015 rent payments for the Zimbabwe Field Office under Solidarity Center's FO-544-Zimbabwe NED 15 Project were allowable and (b) recover any costs determined to be unallowable.

Management Response: AQM concurred with this recommendation, stating that it will take the actions described in the recommendation.

OIG Reply: On the basis of AQM's concurrence with the recommendation and planned actions, OIG considers this recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that AQM determined whether the questioned costs were allowable and recovered any unallowable costs.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) instruct the National Endowment for Democracy (NED) to develop and implement procedures requiring core institutes to report questioned costs identified subsequent to expensing by the core institute to NED for review and action and (b) verify that the procedures were implemented.

Management Response: AQM concurred with this recommendation, stating that it will take the actions described in the recommendation.

OIG Reply: On the basis of AQM's concurrence with the recommendation and planned actions, OIG considers this recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that AQM (a) instructed NED to develop and implement procedures requiring core institutes to report questioned costs identified subsequent to expensing by the core institute to NED for review and action and (b) verified that the procedures were implemented.

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[83] Contract Accountants are responsible for all aspects of contract management relating to projects under their purview.

[84] Project Accountants are responsible for all aspects of the accounting related to project expenses of their assigned projects or region.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (AQM), (a) require the National Endowment for Democracy (NED) to follow up with one of its discretionary grantees to obtain the required support regarding a missing 2016 quarter one invoice, (b) require NED to determine the disposition of the $52,000 provided to the grantee and report its conclusion to AQM, and (c) recover any costs determined to be unsupported.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, instruct the National Endowment for Democracy to review its "Compliance Policies and Procedures" to identify outdated procedures and update the policy document, as appropriate, as well as verify that the policies have been updated. At a minimum, the sections on the Risk Matrix and Invoice Verification should be updated.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether the questioned costs of $718 identified related to August 2015 rent payments for the Zimbabwe Field Office under Solidarity Center's FO-544-Zimbabwe NED 15 Project were allowable and (b) recover any costs determined to be unallowable.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) instruct the National Endowment for Democracy (NED) to develop and implement procedures requiring core institutes to report questioned costs identified subsequent to expensing by the core institute to NED for review and action and (b) verify that the procedures were implemented.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The objective of this audit was to determine whether the National Endowment for Democracy's (NED) financial transactions and operations, as well as those of its four core institutes, complied with the NED Act,[1] applicable Federal regulations, and grant agreements for FYs 2015 and 2016. Acting on behalf of OIG, an external audit firm, Kearney & Company, P.C. (Kearney), performed this audit.

Kearney conducted fieldwork for this performance audit from January to May 2017 in the Washington, DC, metropolitan area. Kearney limited its audit to expenditures by NED and its grant recipients in FYs 2015 and 2016.[2] The audit was conducted in accordance with the Government Accountability Office's *Government Auditing Standards*, 2011 revision. Those standards require that Kearney plan and perform the audit to obtain sufficient, appropriate audit evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit evidence.

To obtain background information, Kearney researched and reviewed Title 2 of the Code of Federal Regulations, Part 200 (2 CFR 200), which consolidated eight Office of Management and Budget (OMB) Circulars into one authoritative document relating to grants management. Kearney also researched and reviewed the NED Act, the Department of State's (Department) Standard Terms and Conditions for U.S. Based Organizations, and the FYs 2015 and 2016 grant agreements between NED and the Department and between NED and its core institutes. Those core institutes are the National Democratic Institute for International Affairs (NDI); Center for International Private Enterprise (CIPE); International Republican Institute (IRI); and American Center for International Labor Solidarity, known as the Solidarity Center (SC).

Additionally, Kearney met with personnel from NED and its core institutes to gain an understanding of the operations related to their Federal awards, including financial processes associated with expenditures. Kearney obtained a complete listing of awards and expenditures during the scope period with the assistance of NED and core institute officials. Kearney also obtained and reviewed supporting documentation provided by NED, core institutes, or discretionary grantees to determine whether expenses were allowable, allocable, reasonable, and supported and were made in accordance with the terms and conditions of the grant agreement as well as to determine whether internal controls were operating effectively.

[1] Pub. L. 98-164, 97 Stat. 1039 (November 22, 1983) (codified, as amended, at 22 U.S.C. § 4411-4416).

[2] The fiscal year for NED and three of the four core institutes ends on September 30. The fiscal year for SC, however, ends on December 31. For this audit, the fiscal year for SC was treated as October 1 to September 30 so that the same period of time was reviewed.

Prior Year Audit Reports

OIG conducted an audit[3] to determine whether NED's use of annual grant funds provided by the Department from FY 2006 to FY 2014 complied with applicable laws and regulations. OIG reported that NED was in compliance for the projects tested. In addition, NED files adhered to the NED Act as a result of policies and procedures that were implemented to help ensure compliance, including detailed guidance provided to its grantees. NED also conducted annual reviews of the core institutes.

Work Related to Internal Controls

Based on the information obtained during preliminary audit procedures, Kearney performed a risk assessment that identified audit risks related to the audit objectives. Kearney conducted meetings and documented processes to identify controls established to address those risks. To perform its internal control testing, Kearney selected a sample of 45 NED discretionary grant recipients.[4] Certain controls were not applicable to each award. (For example, if the grant agreement did not require a product, the control related to reviewing the grantee product in accordance with the grant agreement would not be applicable.) Table A.1 documents each control tested as well as the number of applicable recipients. Kearney designed procedures that would enable it to obtain sufficient and appropriate evidence to reach a conclusion on the audit objective. Weaknesses in internal controls are identified in the Audit Results section of this report.

Table A.1: Internal Controls Tested and Number of Applicable Recipients

Internal Control Tested	Recipients Tested
NED verified and documented searches of the Specially Designated Nationals and Blocked Persons list prior to awarding the grant.	45 of 45
NED verified and documented searches of the Excluded Parties list prior to awarding the grant.	45 of 45
Financial questionnaire was submitted to NED, reviewed, and filed in the grant file.	45 of 45
Recipient was classified at the appropriate risk rating based on NED's review of the financial questionnaire and preparation of the Audit Risk Assessment.	45 of 45
NED monitored the recipient's compliance with special conditions (if special conditions were identified in the grant agreement).	11 of 45
NED followed up on deficiencies identified during previous monitoring activities.	7 of 45
Financial Reports were submitted to NED in accordance with the reporting schedule of the grant agreement, reviewed, and filed in the grant file.	45 of 45
Narrative Reports were submitted to NED in accordance with the reporting schedule of the grant agreement, reviewed, and filed in the grant file.	45 of 45

[3] OIG, *Audit of the National Endowment for Democracy Use of Department of State FY 2006 – FY 2014 Annual Grant Funds* (AUD-SI-16-05, November 2015).

[4] See the Detailed Sampling Methodology section of this appendix for further details on the sample selection.

Internal Control Tested	Recipients Tested
NED monitored the recipient's compliance with grantee products (if submission of a grantee product was identified in the grant agreement).	13 of 45
NED monitored the recipient's compliance with cumulative assessment reports (if submission of a cumulative assessment report was identified in the grant agreement).	4 of 45
A signed copy of the grant agreement was maintained and filed in the grant file.	45 of 45
Award was appropriately closed-out and documentation was maintained (if award was closed out).	25 of 45
NED validated that the recipient had a separate bank account used only for receipt of NED funding.	45 of 45

Source: Prepared by Kearney.

Use of Computer-Processed Data

Throughout the audit, Kearney used computer-processed data from NED and the four core institutes consisting of general ledger details[5] from their individual financial systems.[6] During the audit, Kearney performed procedures to validate the completeness and accuracy of those general ledger details. Specifically, Kearney reconciled the general ledger detail of expenditures during the period of October 1, 2014, to September 30, 2016, to the audited financial statement for FY 2015 and FY 2016 for NED, NDI, CIPE, and IRI. For SC, Kearney obtained and reconciled the general ledger detail of expenditures during the period January 1, 2014, to December 31, 2015, to SC's audited financial statements for 2014 and 2015. Because SC's audited financial statements for 2016 were not available,[7] Kearney reconciled the general ledger detail of expenditures during the period January 1 to September 30, 2016, to the Quarterly Financial Reports submitted by SC to NED. In addition, Kearney reconciled all drawdowns of funds by the core institutes during FYs 2015 and 2016 to the payments made by NED according to NED's general ledger detail. On the basis of the reconciliations, Kearney determined that the general ledger details for NED and the core institutes were sufficiently reliable for the planned audit work.

Kearney also used daily transaction ledgers (DTL) submitted to NED from the financial systems of its discretionary grantees. This data was used to select a dual purpose sample[8] for 5 of the 45 discretionary grantees selected for testing. Kearney gained reasonable assurance of completeness and accuracy over the DTLs by confirming that they were reviewed by NED's internal auditors. Kearney also reconciled the DTLs to the quarterly "budget versus actual" submissions from the discretionary grantees.

[5] The general ledger detail is a listing of all accounting transactions occurring within an entity during a period of time.

[6] NED and each of the four core institutes use Deltek CostPoint® as their financial management system.

[7] The SC 2016 financial statement audit did not begin until May 2017, which was after fieldwork on this audit was completed.

[8] A dual purpose sample tests for the effectiveness of internal controls while also validating the dollar-value of the transaction.

Detailed Sampling Methodology

One of Kearney's sampling objectives was to select expenditures for FYs 2015 and 2016 to determine whether they were allowable, allocable, and supported in accordance with the NED Act, Federal regulations, and grant agreements. Another sampling objective was to select a sample of discretionary grantees for additional control testing. During the scope period, NED made payments to over 1,500 unique organizations. Due to the voluminous NED activities, Kearney elected to test funds provided to discretionary grantees separately from other NED and core institute expenditures.

Sample Design

For all samples selected during the audit, Kearney used non-statistical audit sampling techniques where applicable and appropriate. As guidance, Kearney used the American Institute of Certified Public Accountants Audit Guide, "Audit Sampling," which assists in applying audit sampling in accordance with auditing standards. With respect to the sampling methodology used, the *Government Auditing Standards* explains that either a statistical sample or a judgmental sample can yield sufficient and appropriate audit evidence. A statistical sample is generally preferable but may not always be practicable. This was such a case because each category of expenditure is different and an error in one category would not necessarily be representative of the entire population and because NED grant expenditures generally have a high volume of low dollar amount transactions. Consequently, Kearney used other types of sampling permitted by *Government Auditing Standards.* A non-statistical sample known as a "judgmental sample" was used for certain populations in which sampling for proportionality was not the main concern, and random sampling was used for certain populations in which transactions were similar in nature. A judgmental sample is selected by using discretionary criteria rather than criteria based on the laws of probability. A random sample is a technique used in which each transaction of a population has an equal chance of being selected. In this audit, Kearney has taken care in determining the criteria to use for each sample.

National Endowment for Democracy and Core Institute Expenditures (Excluding Discretionary Grantees)

To determine the number of sample items to select for testing, Kearney categorized NED expenditures by Democracy Promotional Activities, which are activities directly performed by NED to promote democracy, and NED supporting service costs, which are indirect costs incurred in support of Department grants by NED and by each of the four core institutes. Kearney excluded indirect costs paid by the four core institutes because those amounts were immaterial. Kearney also excluded expenditures related to NED's discretionary grantees (see the Discretionary Grantees section of this appendix for details). The total universe of the sampling population was 220,178 transactions totaling $137.2 million (107,374 transactions totaling $67.3 million for FY 2015 and 112,804 transactions totaling $69.9 million for FY 2016). Kearney

used IDEA Data Analysis Software's (IDEA)[9] monetary unit sample planning tool[10,11] to determine an appropriate sample size for testing expenditures. (Kearney did not, however, use IDEA to select and evaluate a statistical sample but rather to determine how many transactions to test.) IDEA estimated a sample size of 119 transactions. On the basis of the IDEA estimation, Kearney determined that a judgmental selection of 120 transactions would be appropriate to provide sufficient and appropriate audit evidence.

Kearney allocated the 120 transactions for NED and the core institutes to each category using the category's dollar amount in proportion to the total dollar amount of the population being tested. As shown in Table A.2., Kearney rounded up on the sample size for each category to ensure the minimum size was met, which resulted in an actual sample size of 121 items for NED and core institute expenditures.

Table A.2: Sample Selection by Category

Budget Line Items	FY 2015 Expenditures (in millions)	FY 2016 Expenditures (in millions)	Total Expenditures (in millions)	Percent Total Expenditures	Sample Size
Democracy Promotional Activities	$4.3	$5.0	$9.3	7	8
Supporting Service Costs	$22.9	$23.9	$46.8	34	41
NDI	$9.2	$10.2	$19.4	14	17
CIPE	$11.0	$11.5	$22.5	16	20
IRI	$10.1	$10.0	$20.1	15	18
SC	$9.9	$9.2	$19.2	14	17
Total	**$67.4**	**$69.8**	**$137.2**	**100**	**121**

Source: Prepared by Kearney based on an analysis of the general ledger detail.

[9] IDEA is a computer program used to analyze data and, based upon the parameters input by the user, determine a sample size.

[10] Monetary unit sampling is a statistical sampling technique used to select a sample based on the proportionate unit size of the sample to the overall population. For purposes of this audit, the unit is the dollar value of the transactions. This means that every dollar in the population has an equal chance of being selected. Monetary unit sampling determines the number of samples required to obtain the planned level of accuracy, precision, or confidence level, and determines the unit intervals necessary to generate the total number of samples needed for testing. This sampling technique is used when overstatements or low misstatements are expected in the population.

[11] In determining the sample size, Kearney used a 95 percent confidence level, with a tolerable error rate of 2.5 percent and no expected errors. A confidence level is the level of certainty to which an estimate can be trusted. The degree of certainty is expressed (usually in the form of a percentage) as the chance that a true value will be included within a specified range, called a confidence interval. The tolerable error is the rate of deviation set by the auditor in which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population. The expected error is the rate of error in the population that Kearney expected to find, based on various considerations researched prior to testing the sample.

Democracy Promotional Activities

NED supports four Democracy Promotional Activities that help to achieve its mission:

- The International Forum for Democracy Studies
- The World Movement for Democracy
- The Journal of Democracy
- The Center for International Media Assistance

Kearney selected a judgmental sample of eight expenditures, four from FY 2015 (totaling $17,869) and four from FY 2016 (totaling $215,894). These sample items represented 3 percent of this category of expenditures. To select the specific expenditures, Kearney further categorized the expenditures based on the cost category and determined the number of items to select in each category based on the amount in the category in proportion to the total dollar amount of the population, as shown in Table A.3. Salaries and benefits accounted for $6.2 million of the $9.2 million and received the largest sample selection. After determining the sample size for each category, Kearney used Microsoft's random number generator to randomly select eight expenditures.

Table A.3: Democracy Promotional Activities Cost Categories

Cost Category	FY 2015 Expenditures (in millions)	FY 2016 Expenditures (in millions)	Total Expenditures (in millions)	Percent of Total Expenditures	Sample Size
Salaries and Benefits	$3.1	$3.1	$6.2	68	4
Professional Fees	$0.7	$0.8	$1.5	16	1
Conferences and Meetings	$0.1	$0.1	$0.2*	2	1
Travel	$0.3	$0.7	$1.0	11	1
Other	$0.1	$0.2	$0.3	3	1
Total	**$4.3**	**$4.9**	**$9.2**	**100**	**8**

Source: Prepared by Kearney based on an analysis of the general ledger detail.

Supporting Service Costs

NED's supporting service costs totaled $22.9 million and $23.9 million for FY 2015 and FY 2016, respectively. These amounts were related to specific cost categories, such as salaries, benefits, and travel. Kearney selected a non-statistical sample of 41 supporting service cost expenditures, 17 from FY 2015 (totaling $61,068) and 24 from FY 2016 (totaling $95,551). These sample items represented less than 1 percent of this category of expenditures. Initially, Kearney planned to choose approximately the same number of items from each fiscal year because the amounts for each period were similar. However, Kearney found that NED "batched" salaries in its general ledger by pay period; that is, NED made one accounting entry for the entire amount of salaries for each pay period. Because of the volume of transactions included in each accounting transaction, Kearney elected to judgmentally select five pay periods for testing. Kearney chose

pay periods from the beginning and end of fiscal years and calendar years, as Kearney believed that higher risk activities occurred more frequently during those time frames.[12] To reach the sample size of 26 items for testing for the Salaries and Benefits category, Kearney selected five payments to individuals that were included in each pay period (plus one additional transaction in the last pay period). Table A.4 provides information on the items selected for testing by year and by category.

Table A.4: Supporting Service Cost Categories

Supporting Service Cost Categories	FY 2015 Expenditures (in millions)	Percent of Total FY 2015 Expenditures	Sample Size	FY 2016 Expenditures (in millions)	Percent of Total FY 2016 Expenditures	Sample Size
Salaries and Benefits	$15.5	68	10	$16.4	69	16
Occupancy and Equipment	4.8	21	4	5.0	21	4
Professional Fees	0.7	3	1	0.5	2	1
Travel and Transportation	0.9	4	1	0.9	4	0
Other *	1.0	4	1	1.1	5	3
Total	**$22.9**	**100**	**17**	**$23.9**	**100**	**24**

* Other expenses included conferences and meetings, communications, insurance, printing and publications, and office costs.

Source: Prepared by Kearney based on analysis of the general ledger detail.

For all categories except Salaries and Benefits, Kearney used Microsoft's random number generator to randomly select expenditures for testing. For Salaries and Benefits, Kearney judgmentally selected employees from various regions, offices, departments, and positions. Kearney chose different employees for each pay period to avoid duplicative testing.

Core Institutes

National Democratic Institute for International Affairs

Kearney selected a non-statistical sample of 17 expenditures[13] from NDI, totaling $218,780: 8 from FY 2015 (totaling $93,912) and 9 from FY 2016 (totaling $124,868). The sampled items represent 1 percent of NDI expenditures for the scope period. Kearney compiled all of the transactions for NDI's direct program costs for the scope period, excluding those related to sub-recipients, and used Microsoft's random number generator to randomly select 17 expenditures.

[12] Kearney selected pay periods ended January 15, 2015; September 30, 2015; December 31, 2015; January 31, 2016; and June 15, 2016. That is, two pay periods were selected from FY 2015, and three pay periods were selected from FY 2016.

[13] Kearney excluded expenditures where NDI awarded the sub-grant, or a portion of the sub-grant, to another organization. The total amount of these expenditures is immaterial overall. Specifically, of $20.3 million in direct program costs, $0.9 million related to funds that were provided to sub-recipients.

Center for International Private Enterprise

Kearney selected a non-statistical sample of 20 expenditures from CIPE totaling $176,107: 10 from FY 2015 (totaling $93,541) and 10 from FY 2016 (totaling $82,566). The sampled items represented 1 percent of CIPE expenditures for the scope period. Kearney compiled all of the transactions for CIPE's direct program costs for the scope period and used Microsoft's random number generator to randomly select 20 expenditures.

International Republican Institute

Kearney selected a non-statistical sample of 18 expenditures from IRI totaling $146,809: 9 from FY 2015 (totaling $73,480) and 9 from FY 2016 (totaling $73,329). The sampled items represented 1 percent of IRI expenditures for the scope period. Kearney compiled all of the transactions for IRI's direct program costs for the scope period and used Microsoft's random number generator to randomly select 18 expenditures.

American Center for International Labor Solidarity

Kearney selected a non-statistical sample of 17 expenditures from SC totaling $146,337[14]: 9 from FY 2015 (totaling $54,294) and 8 from FY 2016 (totaling $92,042). These sampled items represented 1 percent of SC expenditures for the scope period. Kearney compiled all of the transactions for SC's direct program costs and used Microsoft's random number generator to randomly select 17 expenditures.

National Endowment for Democracy Expenditures to Discretionary Grantees

NED expended $146.9 million to discretionary grantees during FYs 2015 and 2016. To perform testing of NED's controls over the discretionary grantees, Kearney selected a judgmental sample of 45 grantees,[15] with awards totaling $10.4 million, for testing. To make the selection, Kearney focused on grantees that had received large payments. Kearney found that 56 awards in FY 2015 exceeded $100,000 and that 62 awards in FY 2016 exceeded $100,000. Kearney selected 36 grantees that had received more than $100,000 in at least one of the 2 years in the scope period. However, because the size of the award affects NED's monitoring activities, Kearney also selected nine grantees that had received less than $100,000. When making the judgmental selection of grantees, one factor considered by Kearney was the risk level that NED assigned to each recipient.[16] Specifically, Kearney noted that of the payments made to discretionary grantees, 75 percent were ranked as low risk, 23 percent were ranked as medium risk, and 2 percent were ranked as high risk. Therefore, to gain sufficient coverage over each discretionary

[14] For its fiscal reporting, SC uses the calendar year (January 1 to December 31). Therefore, to select sample items from the scope period of the audit (that is, NED's FYs 2015 and 2016 expenditures, which covered October 1, 2014, to September 30, 2016), Kearney selected items that corresponded to the scope period from SC's fiscal reports.

[15] Based on the Government Accountability Office's *Financial Audit Manual* § 450.1, a sample size of 45 is required at a 90 percent confidence level with 0 acceptable deviations.

[16] Each discretionary grantee is required to prepare a financial questionnaire. NED reviews each financial questionnaire during the pre-award phase, and based on the contents, NED ranks the discretionary grantee as low, medium, or high risk. In general, the higher the risk, the more monitoring activities NED performs over the award.

risk ranking, Kearney selected 30 low-risk grantees, 10 medium-risk grantees, and 5 high-risk grantees. Kearney weighted the total amount of payments incurred in each year to determine the number of grantees that would be selected from each year, as shown in Table A.5.

Table A.5: Payments to Discretionary Grantees

Cost Category	Payments (in millions)	Percent of Total Payments	Sample Size
Payments made to Discretionary Grantees in FY 2015	$69.7	47	22
Payments made to Discretionary Grantees in FY 2016	$77.2	53	23
Total	**$146.9**	**100**	**45**

Source: Prepared by Kearney based on an analysis of the general ledger detail.

In addition to testing NED's controls for overseeing discretionary grantees, Kearney selected 25 transactions to determine whether the expenditures were supported. Kearney elected to test a small sample of these types of transactions because it had already performed numerous audit procedures over NED's internal controls as well as of NED's monitoring of discretionary grantees. Kearney selected a judgmental sample of 5 discretionary grantees from the 45 recipients previously sampled for internal control testing.[17] For each of the five selected discretionary grantees, Kearney requested general ledger details. Kearney compiled all of the transactions from the general ledger details and used Microsoft's random number generator to randomly select 5 expenditures per grantee.

[17] Kearney chose five discretionary grantees that had the largest expenditure amounts and were categorized as low risk and for which NED did not perform any invoice monitoring. Kearney excluded the 15 medium and high risk discretionary grantees, as NED already monitors invoices from recipients designated as such. Furthermore, NED also monitored invoices for some of the remaining low risk recipients and accordingly Kearney excluded these from the potential population for sampling.

APPENDIX B: BUREAU OF ADMINISTRATION, OFFICE OF LOGISTICS MANAGEMENT, OFFICE OF ACQUISITIONS MANAGEMENT, RESPONSE

United States Department of State

Washington, D.C. 20520

UNCLASSIFIED

January 11, 2018

MEMORANDUM

TO: OIG – Norman P. Brown

FROM: A/LM – Jennifer A. McIntyre

SUBJECT: Draft OIG Report *Audit of the National Endowment for Democracy and Its Core Institutes' Use of Grant Funds During FYs 2015 and 2016*

Thank you for the opportunity to provide our comments on the subject draft OIG report.

Recommendation 1: : OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (AQM), (a) require the National Endowment for Democracy (NED) to follow up with one of its discretionary grantees to obtain the required support regarding a missing 2016 quarter 1 invoice, (b) require NED to determine the disposition of the $52,000 provided to the grantee and reports its conclusion to AQM, and (c) recover any costs determined to be unallowable.

Management Response to Draft Report: The Office of Acquisitions Management (AQM) agrees with this recommendation and will require the National Endowment for Democracy (NED) to follow up with one of its discretionary grantees to obtain the required support regarding the missing 2016 quarter one invoice, (b) require NED to determine the disposition of the $52,000 provided to the grantee and report its conclusion to AQM, and (c) recover any costs determined to be unallowable.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, instruct the National Endowment for Democracy to review its "Compliance Policies and Procedures" to identify outdated procedures and update the policy document, as appropriate, as well as verify that the policies have been updated. At a minimum, the sections on the Risk Matrix and Invoice Verification should be updated.

Management Response to Draft Report: The Office of Acquisitions Management (AQM) agrees with this recommendation and will instruct the National Endowment for Democracy to review its "Compliance Policies and Procedures" to identify outdated procedures and update the policy document, as appropriate, as well as verify that the policies have been updated.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether the $718 in questioned costs identified related to August 2015 rent payments for the Zimbabwe Field Office under Solidarity Center's FO-544-Zimbabwe NED 15 Project is allowable and (b) recover any costs determined to be unallowable.

Management Response to Draft Report: The Office of Acquisitions Management (AQM) agrees with this recommendation and will (a) determine whether the $718 in questioned costs identified related to August 2015 rent payments for the Zimbabwe Field Office under Solidarity Center's FO-544-Zimbabwe NED 15 Project is allowable and (b) recover any costs determined to be unallowable.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) instruct the National Endowment for Democracy (NED) to develop and implement procedures requiring core institutes to report questioned costs identified subsequent to expensing by the core institute to NED for review and action and (b) verify the procedures were implemented.

Management Response to Draft Report: The Office of Acquisitions Management (AQM) agrees with this recommendation and will (a) instruct the National Endowment for Democracy (NED) to develop and implement procedures requiring core institutes to report questioned costs identified subsequent to expensing by the core institute to NED for review and action and (b) verify the procedures were implemented.

APPENDIX C: NATIONAL ENDOWMENT FOR DEMOCRACY RESPONSE

National Endowment for Democracy
Supporting freedom around the world

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www.ned.org

January 8, 2018

Mr. Norman P. Brown
Assistant Inspector General for Audits
U.S. Department of State
Office of Inspector General
1700 N. Moore St.
Arlington, VA 22209

Dear Mr. Brown,

We have reviewed the draft report *Audit of the National Endowment for Democracy and Its Core Institutes' Use of Grant Funds During FYs 2015 and 2016* and offer the comments enclosed.

We appreciate the effort and professionalism of the audit team as well as the positive comments on NED's handling of U.S. government funds. Please feel free to contact either myself or Georges Fauriol, Vice President, Grant Operations, if you have any questions concerning this response.

Sincerely,

Carl Gershman
President
National Endowment for Democracy

Encl.

cc: Bill Leonard
Georges Fauriol
Nancy Herzog
Laura Golightly
Adam Pantano (Kearney)
Karen Fjeld (AQM)

NED Comments to the Office of Inspector General's Draft Audit of the National Endowment for Democracy and Its Core Institutes' Use of Grant Funds During FYs 2015 and 2016
January 2018

Overview
NED has prepared comments to the OIG recommendations to the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (AQM) contained in the draft audit report. Each recommendation is repeated and followed by NED's comments.

NED Comments on Recommendations

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (AQM) (a) require the National Endowment for Democracy (NED) to follow up with a discretionary grantee to obtain the required support regarding the missing 2016 quarter one invoice, (b) require NED to determine the disposition of the $52,000 provided to the grantee and report its conclusion to AQM, and (c) recover any costs determined to be unallowable.

NED Comments:
NED received all required support from the grantee in June 2017 and the review resulted in $366 in unallowable costs incurred prior to the grant period. The grantee removed these charges from their grant costs and all issues were resolved in December 2017. NED followed protocol and withheld payments to the grantee until after resolution of all issues. NED will provide additional details to AQM upon request.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics, Management, Office of Acquisitions Management, instruct the National Endowment for Democracy to review its "Compliance Policies and Procedures" to identify outdated procedures and update the policy document, as appropriate, as well as verify that the policies have been updated. At a minimum, the sections on the Risk Matrix and Invoice Verification should be updated.

NED Comments:
NED concurs with the items identified in the report related to Compliance policies and procedures, and has made all recommended adjustments. NED will provide additional details to AQM upon request.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether the $718 in questioned costs identified related to August 2015 rent payments for the Zimbabwe Field Office under Solidarity Center's FO-544-Zimbabwe NED 15 Project is unallowable and (b) recover any costs determined to be unallowable.

NED Comments:
NED has reviewed the Solidarity Center's documentation regarding the $718 cost in question and determined that the cost was effectively a legitimate payment for office rent under the field office's lease agreement and considers the cost allowable. NED will cooperate with AQM to resolve this issue.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) instruct the National Endowment for Democracy (NED) to develop and implement procedures requiring core institutes to report questioned costs identified subsequent to expensing by the core institute to NED for review and action and (b) verify the procedures were implemented.

NED Comments:
NED practices strong oversight of core institute grants, with quarterly financial reports, semi-annual narrative reports, cumulative assessment reports, review of annual audits, annual on-site compliance reviews, and quarterly meetings to review compliance and administrative processes. NED will continue its monitoring activities of the core institutes and will cooperate with AQM to review and further strengthen its procedures. However, NED is wary of imposing new procedures on the core institutes based on a single questioned cost that is both immaterial in scale and would have been considered allowable if brought to NED for review and approval. NED will cooperate with AQM to resolve this issue.

ABBREVIATIONS

AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
CFR	Code of Federal Regulations
CIPE	Center for International Private Enterprise
DTL	daily transaction ledgers
IRI	International Republican Institute
NDI	National Democratic Institute for International Affairs
NED	National Endowment for Democracy
NICRA	Negotiated Indirect Cost Rate Agreement
OMB	Office of Management and Budget
SC	American Center for International Labor Solidarity

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