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United States Department of State

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Management Assistance Report: Statutorily Required Audits of the National Endowment for Democracy

MANAGEMENT ASSISTANCE REPORT

CONTENTS

Summary of Review

Pursuant to a congressional request, the Office of Inspector General (OIG) conducted research into the U.S. Department of State's (Department) oversight of funds awarded to the National Endowment for Democracy (NED). NED is a private, nonprofit corporation—not an agency or establishment of the U.S. government—that supports democratic institutions, individual rights, electoral processes, and civil society around the world. From FY 2017 to FY 2025, Congress appropriated more than $2 billion in funding to NED.

Congress created and authorized appropriations for NED in 1983 through the National Endowment for Democracy Act (NED Act). The NED Act requires that NED comply with various requirements in order to receive its annual grant, including engaging an independent third party to perform an annual audit of NED's accounts and submitting to a Department audit of NED's financial transactions for each fiscal year.

During OIG's research, OIG found that the Department was not conducting audits of NED financial transactions as required by law and as recommended in a 2015 OIG report. Therefore, OIG is again highlighting the need for the Department to conduct statutorily required oversight of NED funding.

OIG made one recommendation to the Bureau of Global Acquisitions (GA) to address the noncompliance identified in this report. GA agreed with the recommendation, and the Bureau's formal response to a draft of this report is reprinted in its entirety in the appendix. OIG considers the recommendation resolved, pending further action.

BACKGROUND

About NED

Congress created and authorized appropriations for NED in 1983 through the NED Act.[1] NED is a private, nonprofit corporation that supports democratic institutions, individual rights, electoral processes, and civil society around the world.[2] Each year, Congress provides funding to NED through a designated line item in the Department's annual budget appropriations, which the

[1] National Endowment for Democracy Act, Pub. L. No. 98-164, tit. V, §§ 501–504, 97 Statutes at Large (Stat. L.) 1017, 1039–42 (1983) (codified as amended at 22 United States Code (U.S.C.) §§ 4411–4416).

[2] The U.S. Code lists six purposes for NED: (1) encouraging free and democratic institutions throughout the world through private-sector initiatives; (2) facilitating exchanges between U.S. private-sector groups and democratic groups abroad; (3) promoting U.S. nongovernmental participation in democratic training programs and democratic institution-building abroad; (4) strengthening democratic electoral processes abroad through cooperation with indigenous democratic forces; (5) supporting the participation of the two major U.S. political parties, labor, business, and other U.S. private-sector groups in fostering cooperation with those abroad dedicated to the cultural values, institutions, and organizations of democratic pluralism; and (6) encouraging democratic development consistent with U.S. interests and the specific requirements of democratic groups in other countries receiving assistance from programs funded by NED. 22 U.S.C. § 4411(b).

Department disburses to NED through an annual grant. From FY 2017 to FY 2025,[3] Congress appropriated nearly $2.4 billion in funding to NED. A significant portion of NED's funds go to four nonprofit "core" grantees,[4] which award subgrants to projects that are consistent with NED's purposes.

Table 1: Amounts Appropriated to NED from FY 2017 to FY 2025

Fiscal Year	Amount
2017	$170,000,000
2018	$170,000,000
2019	$180,000,000
2020	$300,000,000
2021	$300,000,000
2022	$315,000,000
2023	$315,000,000
2024	$315,000,000
2025	$315,000,000
Total	**$2,380,000,000**

Source: Data derived from annual appropriations acts.

Department Oversight of Annual Grants to NED

NED received its annual grant from the United States Information Agency (USIA) until 1999, when Congress abolished USIA and transferred some of its functions to the Department.[5] The NED Act gives NED near-total discretion over the projects NED chooses to fund,[6] but makes the Department responsible for oversight of all funds (public and private) provided to NED.[7] The NED Act directs that NED comply with various requirements in order to receive its annual grant, including engaging an independent third party to prepare an annual audit of NED's accounts and submitting to a Department audit of NED's financial transactions for each fiscal year.[8]

[3] This represents the timeframe since the last OIG audit of NED's financial transactions, which included transactions made through FY 2016. OIG, *Audit of the National Endowment for Democracy and Its Core Institutes' Use of Grant Funds During FYs 2015 and 2016* (AUD-FM-18-24, January 2018).

[4] The four core grantees are: (1) the Solidarity Center; (2) the Center for International Private Enterprise; (3) the International Republican Institute; and (4) the National Democratic Institute for International Affairs.

[5] 22 U.S.C. § 6532(a). Throughout this report, OIG acknowledges that the functions have transferred to the Department and the Department is the intended agency referenced in the NED Act, although the language in the Act remains "United States Information Agency."

[6] The NED Board of Directors determines what activities the Endowment will fund. 22 U.S.C. § 4412(a).

[7] The Comptroller General determined that USIA was responsible for overseeing not just the activities it financed, but all activities of NED and its compliance with the NED Act. *See Matter of Nat'l Endowment for Democracy*, B-248111, 1992 U.S. Comp. Gen. LEXIS 1112 (Comp. Gen. Sep. 9, 1992).

[8] 22 U.S.C. § 4413(a), (e), (g).

From FY 2006 until 2025, the Bureau of Administration was responsible for management and oversight of grants to NED.[9] After the Department's reorganization in 2025, the Bureau of Global Acquisitions (GA) assumed these responsibilities. The grants officer (GO) for the NED grant is an employee in GA's Federal Assistance Management Directorate, Federal Assistance Operations Division.[10] The grants officer's representative (GOR) is an employee in the Bureau of Democracy, Human Rights, and Labor (DRL).[11]

Prior OIG Work Related to the Department's Oversight of NED

In 2015, OIG issued a Management Assistance Report highlighting deficiencies in the Department's oversight and monitoring of NED grants.[12] Specifically, OIG found that: (1) the Department did not perform audits of NED financial transactions for each fiscal year as required by the NED Act;[13] (2) the GO and GOR did not sufficiently monitor NED's activities as required by Department grants policies, were unaware of the audit requirement, and incorrectly believed the NED Act limited their oversight responsibilities for NED; and (3) the Department's grant agreement with NED lacked language about both the statutorily required audits and the Department's responsibility to conduct them.[14]

In 2016, the Bureau of Administration and OIG entered into a memorandum of agreement (MOA) to address the Department's statutory audit responsibilities. Under the MOA, the Bureau of Administration (specifically the GO for the NED Grant) may annually request audit services from OIG to fulfill the NED Act's financial transaction audit requirement. The MOA stated the Department must make the request in writing, the audits would be conducted by an external audit firm under contract with OIG, and OIG would oversee the external auditor's work. The MOA also required the Bureau of Administration to reimburse OIG for audit-related costs. OIG conducted one audit pursuant to the MOA, covering FYs 2015 and 2016, but the Department has not requested another audit under the MOA since then.[15]

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[9] From 1999 to 2005, various offices in the Department were responsible for grants to NED.

[10] The GO has legal responsibility for specific actions on assistance awards under the GO's direction. Only the GO may represent the U.S. government in negotiating award terms and conditions; committing to provide funds to a recipient to carry out the award purpose; and entering into, amending, or terminating an award. 4 FAM 617.

[11] The GOR has managerial responsibilities for the overall monitoring of all aspects of an award and is required to exercise prudent management and oversight through monitoring and evaluating the recipient's performance. Ibid.

[12] OIG, *Management Assistance Report: Oversight of Grants to the National Endowment for Democracy* (AUD-SI-15-34, June 2015).

[13] While OIG periodically conducted audits of NED's financial transactions, these audits did not satisfy the NED Act's audit requirement, nor did they relieve the Department of its statutory duty to conduct them. Ibid, page 4.

[14] Ibid. OIG reviewed NED grant agreements covering FYs 2020–2025, and all included the following provision within the terms and conditions: "[The Department] will audit the financial transactions of [NED], for all active agreements with core funding beginning with fiscal year 2016 and for each following fiscal year as stated in the National Endowment for Democracy Act. At [the Department's] discretion [the Department] may conduct an audit covering multiple fiscal years."

[15] AUD-FM-18-24.

RESULTS

The Department Is Not Auditing NED's Financial Transactions Despite a Statutory Requirement To Do So

In the 2015 report, OIG found that the Department was not complying with the requirement in the NED Act that the Department conduct audits of NED's financial transactions.[16] Subsection 4413(g) of Title 22 is not discretionary: "The financial transactions of the Endowment for each fiscal year *shall* be audited by [the Department]. . . ."[17] As stated above, the Department acknowledged this requirement in 2016 by formalizing an MOA with OIG that, upon the Department's request, OIG would conduct such audits on the Department's behalf. However, the Department only requested OIG conduct one such audit in 2018, which covered NED's FY 2015 and 2016 financial transactions. Because the Department has not conducted an audit of NED's financial transactions since the 2018 OIG audit, the Department is not in compliance with this requirement.

OIG's 2015 report also recommended that the Department include language in the terms and conditions of the grant agreement with NED that the Department will audit NED's financial transactions beginning in FY 2015 and for each following fiscal year, as required by the NED Act.[18] In reviewing the NED grant agreements for FY 2020 to FY 2025, OIG found that the agreements contain language alerting NED to this audit requirement.

A 2025 Department reorganization transferred functions and reduced staff. Responsibility for fiscal oversight of the NED grant shifted from the Bureau of Administration to GA. Although the GO, who had managed NED's grant since at least early 2024, remained the same, institutional knowledge may have been lost. Relatedly in 2025, most staff in DRL who worked closely with NED on a programmatic level were separated from the Department through a reduction-in-force, and the NED portfolio moved to a new GOR in December 2025.

The GO told OIG he was not aware of the recommendation from the 2015 OIG report regarding the need for Department audits of NED's financial transactions. He is in regular contact with NED officials and reviews NED's monthly obligation reporting, which he described as a "desk audit." He told OIG that when he has questions regarding the reporting, he engages with NED and in doing so, has found no questioned costs. The GO said that due to lack of staff and funding restrictions for international travel, GA has not conducted site visits of NED grantee locations. The GO noted that through a site visit, staff could confirm whether programming and financial decisions align with the grant agreement. While these are acceptable grants management oversight practices, these actions do not supplant the Department's statutory requirement to audit NED's financial transactions.

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[16] AUD-SI-15-34.

[17] 22 U.S.C. § 4413(g) (emphasis added).

[18] AUD-SI-15-34, page 8.

NED undergoes an annual audit by an independent auditor in accordance with the Single Audit Act and related guidance[19] and a separate requirement in the NED Act.[20] The Single Audit Act requires nonfederal entities that spend $1 million or more in federal awards in a year to undergo an audit of the entity's financial statements and federal awards and submit the results to the Federal Audit Clearinghouse (FAC).[21] The requirement for NED to undergo an annual audit by an independent auditor predated the addition of subsection 4413(g)'s requirement that USIA, now the Department, conduct an audit of NED's financial transactions for each fiscal year. While seemingly duplicative, the statute does contemplate both oversight mechanisms.[22]

The GO told OIG he reviews NED's annual Single Audit Act report, which OIG also receives, and would question costs identified in the report if necessary.[23] However, the Department was unable to provide OIG with documentation evidencing that the Department conducted its own financial transaction audits for FYs 2020 through 2025.[24] If GA determines that the GO's review of the Single Audit Act reports adequately fulfills the Department's requirement to conduct the financial transaction audits under subsection 4413(g), the Department should memorialize that determination and maintain it with the grant files. However, GA was unable to demonstrate the Department's compliance with the statutory requirement to audit NED's financial transactions.

CONCLUSION

The Department has not fulfilled its statutory obligation under 22 U.S.C. § 4413(g) to conduct audits of NED's financial transactions for each fiscal year, despite clear legal requirements and a prior OIG report highlighting this deficiency. Although some oversight activities occur, such as reviews of Single Audit Act reports, these actions do not satisfy the Department's mandated audit responsibilities. Additionally, while subsection 4413(g) may be duplicative of aspects of other NED audits, financial transaction audits presently remain a statutory requirement.

This report was drafted in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Federal Offices of Inspector General*, which require

[19] 31 U.S.C. §§ 7501–7506; 2 Code of Federal Regulations (C.F.R.) §§ 200.500–.521.

[20] 22 U.S.C. § 4413(e).

[21] NED's Single Audit Act reports are publicly available on the FAC website at www.fac.gov or on NED's website.

[22] The Single Audit Act was enacted in October 1984. Single Audit Act of 1984, Public Law 98-502, 98 Stat. L. 2327. The NED Act was amended in August 1985 to, among other changes, add subsection 4413(g). At the time, subsection 4413(g) gave USIA the discretion to audit NED's financial transactions. Foreign Relations Authorization Act, Fiscal Years 1986 and 1987, Public Law 99-93, tit. II, § 210(b) 99 Stat. L. 405, 432 (1985). In October 1991, Congress amended subsection 4413(g) to make the financial transaction audits mandatory. Foreign Relations Authorization Act, Fiscal Years 1992 and 1993, Public Law 102-138, tit. II, pt. A, § 211(d), 105 Stat. L. 647, 695 (1991).

[23] OIG's role regarding Single Audit Act reports is to confirm the quality of the reports and ensure the Department is taking steps to address any findings in those reports. *See* 4 FAM 693.4.

[24] OIG requested any reports of site visits, audits of NED's accounts, or other post-award reviews the Department conducted from FYs 2020–2026. In response to this query, GA provided NED's Single Audit Act Reports for FY 2020 through FY 2025.

adherence to professional standards of independence, due professional care, and quality assurance, including procedures to ensure the accuracy of the information presented.

RECOMMENDATION

OIG made one recommendation to the Bureau of Global Acquisitions to address the noncompliance identified in this report. The Bureau concurred with the recommendation. Therefore, OIG considers the recommendation resolved, pending further action. The Bureau's full response to a draft of this report is reprinted in the appendix.

Recommendation 1: The Bureau of Global Acquisitions, in coordination with other relevant stakeholders within the U.S. Department of State (Department), should ensure compliance with 22 U.S.C. § 4413(g) by auditing the National Endowment for Democracy's financial transactions for each fiscal year or otherwise documenting how the Department's current oversight practices satisfy subsection 4413(g).

Management Response: In its July 8, 2026, response to a draft of this report, the Bureau of Global Acquisitions agreed with the recommendation and offered planned actions to ensure compliance.

OIG Reply: Based on the Bureau's concurrence with the recommendation and planned actions, OIG considers this recommendation resolved, pending further action. OIG will close this recommendation when the Bureau of Global Acquisitions provides documentation demonstrating compliance with 22 U.S.C. § 4413(g).

APPENDIX: BUREAU OF GLOBAL ACQUISITIONS RESPONSE

United States Department of State

Washington, D.C. 20520

UNCLASSIFIED

July 08, 2026

MEMORANDUM

TO: OIG – Jeffrey McDermott

FROM: GA/FAM – Jay Thompson

Jay B Thompson

Digitally signed by Jay B Thompson
Date: 2026.07.08 10:50:57 -04'00'

SUBJECT: GA Management Response to Draft Management Assistance Report: *Statutorily Required Audits of the National Endowment for Democracy*

Thank you for the opportunity to provide a response to the subject report. The point of contact for this report is the GA Front Office

Recommendation 1: The Bureau of Global Acquisitions, in coordination with other relevant stakeholders within the Department of State, should ensure compliance with 22 U.S.C. § 4413(g) by auditing the National Endowment for Democracy's financial transactions for each fiscal year or otherwise documenting how its current oversight practices satisfy subsection 4413(g).

Management Response (07/08/26): The Bureau of Global Acquisitions concurs with Recommendation 1. GA will review whether the threshold in 4413(g) is met by recent updates to federal regulatory requirements for federal assistance. If necessary, GA, in collaboration with L and CGFS, will develop procedures to ensure compliance with 22 U.S.C. § 4413(g).

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