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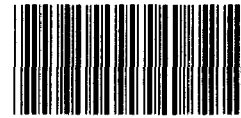
STATEMENT OF  
JOAN M. McCABE  
U.S. GENERAL ACCOUNTING OFFICE  
BEFORE THE  
COMMITTEE ON FOREIGN AFFAIRS  
SUBCOMMITTEE ON INTERNATIONAL OPERATIONS  
HOUSE OF REPRESENTATIVES  
ON  
THE NATIONAL ENDOWMENT FOR DEMOCRACY'S  
ADMINISTRATION OF ITS GRANTS PROGRAM

Mr. Chairman, Members of the Subcommittee:

I am pleased to be here today to discuss our work regarding the National Endowment for Democracy's administration of its grants program. Based on your request, we reviewed the Endowment's procedures to select, monitor, and evaluate its overseas grants. This morning I would like to summarize the information in our draft report, which has been provided to you and which is currently with the Endowment, the U.S. Information Agency, and the Department of State for their review and comment.

Overall, we found that during its first 2 years of operation, the Endowment generally relied on its grantees to select, monitor, and evaluate their own programs. This was

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particularly true for the four main--or so-called core--grantees, which represent labor, business, and the two major political parties. Together the core grantees accounted for 88 percent of the Endowment's fiscal year 1984 and 1985 funds.

Specifically, we found that the Endowment's selection process consisted essentially of funding projects submitted by the core grantees without reference to an overall plan. As for monitoring, the Endowment did very little independent verification of financial and other program information, choosing instead to rely primarily on information provided by grantees. And there was a minimal amount of evaluation of projects during the initial 2 years of operation--although in large measure this was because many projects had not yet been completed. As a rule, the Endowment spent more time monitoring the relatively small non-core (or discretionary) grantees, which accounted for less than one-tenth of the Endowment funds, than it did on its large core grantees.

Apparently, the Endowment's limited involvement in core grantee activities stemmed from its unique relationship with these grantees. The sectors they represent--labor, business, and the two political parties--played leading roles in establishing the Endowment, were specifically mentioned in the act as key private sector groups, and operated programs considered central to the Endowment's purposes. One strongly held view within the Endowment was that its function was to serve primarily as a funding conduit for the four core grantees, which would design and implement their own programs. This perception, and congressional earmarking of the bulk of the Endowment's

funds for the labor and business grantees, appear to have affected the manner and degree of Endowment oversight of core grantee activities.

The situation is changing at the Endowment. As you know, by late 1985, some aspects of the Endowment's operation had been significantly altered--most importantly funding earmarks to the labor and business grantees have been eliminated, and a 25-percent limit has been imposed on grant awards to any one grantee. The latter is very important because in its first 2 years, 68 percent of the Endowment's funds went to a single grantee--labor. In addition, the Congress affirmed USIA's auditing responsibility, placed the Endowment under the Freedom of Information Act, and required the Endowment to coordinate its grant programs with the Department of State.

These changes and other events have prompted the Endowment to move towards a more active role in selecting, monitoring, and evaluating its grant program. In March 1986, the Endowment Board approved a policy statement intended to clarify the Endowment's relationship with its grantees. This statement recognizes the Endowment's unique relationship to its grantees, but also cites the Endowment's responsibility as a recipient of congressionally appropriated funds to "ensure that funds are spent wisely, efficiently, and in accordance with all relevant regulations." The next step needed is the preparation and implementation of procedures to put the policy statement into practice. As is, the statement does not spell out how the responsibilities will be carried out, and the Board provided no guidance to the staff on implementing this policy vis-a-vis the

core grantees. This is especially important given the Endowment's history of treating core grantees differently from discretionary grantees.

We believe that planning and project selection, verification of grantee information, and evaluation of completed projects are areas requiring particular attention. For the remainder of my statement, I will be discussing each of these areas in detail, as well as our suggestions as to how the Endowment could strengthen its oversight of grantee activities.

#### PLANNING AND SELECTION

The Endowment did not develop a comprehensive planning process during its first 2 years. The Endowment's Board generally defined the types of projects it wished to foster, but it did not establish priorities or target specific countries or regions. The core grantees made their own decisions regarding regional allocations and submitted their proposals to the Endowment board for approval.

We reviewed core and discretionary grantee proposals that had been approved during fiscal years 1984 and 1985. Regarding the proposals submitted by core grantees, we found that some were not sufficiently detailed to determine what the projects were intended to accomplish. The lack of specific information in some proposals approved by the Endowment was apparently linked to the grantee's view that, due to the sensitivity of some grants, public disclosure of certain information could harm or embarrass some recipients.

In contrast to the core grantee proposals, the approved discretionary grantee proposals that we reviewed generally appeared to contain adequate amounts of data concerning project activities to be undertaken.

Recent changes in the Endowment's legislative guidance will change the way the Endowment operates its planning and selection process. Specifically, the elimination of legislatively mandated earmarks and the 25-percent limit on awards to any one grantee will cause a major shift in the amounts grantees will receive, resulting in a much more widely dispersed program. For example, the labor sector will receive less than one third of the amount it was granted for 1985, and a three-fold increase in funds will be allocated to discretionary grantees in fiscal year 1986. This indicates that the Endowment will necessarily be making an increased number of decisions regarding the allocation of funds to specific projects. As less of its program is managed by the relatively experienced labor sector, the Endowment will need to be more involved in program planning, including setting program priorities and making resource allocation decisions.

The Endowment has recognized its responsibility to improve its planning and selection process. For example, its recently approved policy statement specifically identified setting program priorities as an Endowment responsibility. Also, in December 1985, it asked the core grantees to provide more specific information in their proposals, comparable to that required of discretionaries. Our review of some fiscal year

1986 core grantee proposals indicated that the proposals were generally more detailed and descriptive than those submitted in prior years.

We believe the Endowment should take the additional step of providing specific guidance on program priorities and geographical targets for grantees to use in developing their projects.

#### MONITORING

Turning now to monitoring. The Endowment's procedures state its program monitoring practices should ensure that planned activities are being implemented, funds are being properly spent, progress of grant activities is being tracked, and problem areas are identified in a timely manner for immediate action and resolution.

We identified some problems and limitations concerning the Endowment's monitoring efforts, as follows.

- Endowment staff spent relatively little time monitoring core grantee activities.
- Some core grantee quarterly reports contained little information on progress and did not always identify problems we observed during our fieldwork.
- One core grantee's quarterly reports were chronically late, ranging from 3 weeks to as much as 5 months in one case.

However, our greatest concern about the Endowment's monitoring stems from the fact that it generally did not verify the information being provided by its grantees, particularly the core grantees. Endowment staff rarely conducted field visits.

During fiscal years 1984 and 1985, the Endowment conducted no audits to determine whether grantees were complying with the terms of their grants. The required audits on grantee financial statements were not intended to test grantee financial transactions to establish that Endowment funds were ultimately expended for the intended purposes. The potential impact of this lack of Endowment verification was compounded by the fact that, in many cases, grantee reports were based on unverified information obtained from subgrantees.

In late 1985, the Endowment began to require compliance audits for new discretionary grantees to ensure that grant terms are met. However, transactions below the grantee level will not necessarily be tested, and as of April 1986, this requirement had not been extended to core grantees.

We are suggesting that the Endowment establish procedures and assign responsibility to selectively and independently audit or, by other means, verify the information submitted by grantees to ensure compliance with grant terms and objectives. These audits or verification could be accomplished through the use of the Endowment staff or internal auditors, or, in some cases, by expanding the scope of currently required audits. The amount of verification needed would depend on such factors as the reliability and experience of the grantees, amount of supervision they exercised, and level of sensitivity of the projects.

#### EVALUATION

According to Endowment procedures, grantees are expected to evaluate their own programs to ensure that objectives are met

and that funds are being used wisely. They are required to include self-evaluation plans in their program proposals and submit a project evaluation as part of their final report.

In practice, however, we found that these procedures were not being strictly followed. We found that during 1984 and 1985, Endowment-approved grantees' project proposals were often vague or silent regarding evaluation plans. The Endowment staff considered the usefulness of such plans to be very limited and preferred to evaluate discretionary projects themselves.

However, the Endowment does not have a methodology or procedure to guide its own staff's evaluation of discretionary project results. We were told that the staff therefore evaluated discretionary projects on an individual basis in terms of their particular goals and circumstances, and only if the grantees had requested that the projects be renewed.

In its March 1986 policy statement, the Endowment Board listed as an Endowment responsibility project evaluations prior to a grantee or a project being funded again. However, the policy statement did not spell out how these responsibilities would be carried out and the Board provided no guidance to the staff on implementing the policy. Also, the policy appears to be inconsistent with current Endowment procedures, which call for self-evaluation by grantees. Since, as discussed previously, the Endowment will be getting more involved in planning and project selection, project evaluation will become increasingly important in providing information on what type of projects have been successful in the past. We are suggesting, therefore, that the apparent inconsistency between the



Endowment's procedures and its recent policy statement be clarified concerning responsibilities for evaluating completed projects.

COORDINATION WITH THE  
DEPARTMENT OF STATE

I would like to discuss one last issue--that is, the Endowment's coordination with the State Department. The act originally did not require the Endowment to coordinate its programs with State headquarters or with U.S. embassies abroad. Nevertheless, some coordination took place--both in Washington and in the field. The latter mostly involved coordination by labor grantees, in large measure because labor had a field structure in place, and had long-established relationships with U.S. embassies.

Among the State Department and embassy personnel we contacted, we found no consensus regarding the degree of coordination needed. State and embassy spokesmen expressed varying degrees of satisfaction concerning coordination, and differed as to how much involvement in, or information on, projects was desirable.

As you know, the fiscal year 1986 authorization legislation required the Endowment to consult with the Department before initiating any overseas projects using fiscal year 1986 funds. By January 1986, Endowment and Department officials had agreed that copies of all proposals going to the Endowment Board would be forwarded to the Deputy to the Under Secretary of State for Political Affairs. In April, the Deputy to the Under Secretary informed us that he was generally satisfied with the initial

implementation of this agreement, although he would reserve final judgment until the process had been repeated several times. We understand that the Deputy to the Under Secretary will be discussing these matters later this morning.

This concludes my statement. I would be happy to answer any questions that you may have.