FOREIGN ASSISTANCE

Continued Efforts Needed to Strengthen USAID’s Oversight of U.S. Democracy Assistance for Cuba
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What GAO Found

Since 2006, USAID has taken a number of steps to address identified problems with the Cuba Program’s awards of democracy assistance and improve oversight of the assistance. For example, USAID has competitively awarded all Cuba Program grants since 2006, compared with 5 percent of grants awarded in 1995-2006; has hired more staff for the program office since January 2008; and contracted in April 2008 for financial services—such as reviews of grantee internal controls and procurement systems—to enhance oversight of grantees. USAID also has worked to strengthen program oversight by, for instance, ensuring preaward and follow-up reviews, improving grantee internal controls and implementation plans, and providing guidance and monitoring about permitted types of assistance and cost sharing. However, USAID has not staffed the Cuba Program at the level the agency has determined is needed for appropriate oversight; as of October 2008, the program office had five staff, compared with the 11 recommended in two USAID assessments. Further, because many of USAID’s actions to improve oversight were initiated recently, their impact on the risk of the program grantees misusing grant funds or failing to comply with U.S. laws and regulations is not yet evident. In June 2008, for example, USAID’s new financial services contractor found unsupported purchases at the organization with the program’s largest grant.

In response to the misuse of funds at organizations with the two largest Cuba Program grants, USAID suspended the two grantees in March and July 2008, pending the results of criminal investigations. To detect financial vulnerabilities at other grantees, USAID announced in mid-July 2008 that it would accelerate planned reviews of program grantees’ procurement systems and initiate audits of their incurred cost, and it partially suspended two additional grantees pending the results of the procurement reviews. The program’s other grants remained active pending the results of these reviews and audits. The procurement reviews—completed in August 2008 by the new financial services contractor—identified internal control, financial management, and procurement weaknesses at three grantees; USAID is working with the grantees to correct these weaknesses. The USAID Inspector General will oversee the incurred cost audits, which USAID expects to be completed by November 2008 under a separate contract with another firm.

What GAO Recommends

GAO recommends that USAID (1) ensure that the Cuba Program is staffed at the level needed to fully implement planned monitoring activities and (2) periodically assess the program’s overall efforts to reduce grantee risks.

Commenting on a draft of this report, USAID said that it was working to ensure the Cuba Program has adequate staffing for strong program oversight and that it would take steps to periodically assess the program’s overall efforts to address grantee risks.

To view the full product, including the scope and methodology, click on GAO-09-165. For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.
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Abbreviations

CFC  Center for a Free Cuba
GAD  Grupo de Apoyo a la Democracia
NGO  Nongovernmental organization
USAID  U.S. Agency for International Development
USINT  U.S. Interests Section in Havana

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November 24, 2008

The Honorable William D. Delahunt
Chairman
Subcommittee on International Organizations,
    Human Rights, and Oversight
Committee on Foreign Affairs
House of Representatives

Dear Mr. Chairman:

Working through the U.S. Agency for International Development (USAID) and the Department of State (State), the U.S. government provides assistance intended to support human rights and to promote nonviolent democratic change in Cuba through the development of Cuba's civil society.¹ From 1996 through 2008,² USAID’s Cuba Program³ awarded grants⁴ totaling about $83 million to nongovernmental organizations (NGO) and universities providing democracy assistance through a wide range of activities, such as the provision of humanitarian aid, human rights training, uncensored books and newsletters, and advocacy for human and workers’ rights. For 2009, the administration has requested $20 million for Cuba democracy assistance to be allocated between USAID and State.

In November 2006, we identified problems with USAID's management and oversight of its Cuba Program in 1996 through 2005.⁵ These problems included the extensive use of noncompetitive awards and grant modifications, as well as oversight weaknesses that increased the risk of

¹The Cuban Democracy Act of 1992 (Pub. L. No. 102-484) and the Cuban Liberty and Democratic Solidarity (LIBERTAD) Act of 1996 (Pub. L. No. 104-114) authorized the President to provide assistance and other support for individuals and independent NGOs to promote peaceful, nonviolent democratic change in Cuba through various types of democracy-building efforts.

²Unless otherwise noted, all years cited are fiscal years (Oct. 1-Sept. 30).

³This report is focused on democracy assistance provided by USAID's Cuba Program, under the agency's Bureau for Latin America and the Caribbean. Since 2007, USAID also has provided some Cuba democracy assistance through its Office of Transition Initiatives.

⁴In this correspondence, “grants” includes both grant and cooperative agreements.

grantees’ improper use of grant funds and noncompliance with U.S. laws and regulations. To help USAID address these problems, we made several recommendations related to USAID’s oversight of the assistance. In 2006 and 2007, USAID said that it was taking steps to address our recommendations and improve its management and monitoring of democracy assistance for Cuba. However, misuse of grant funds by employees of organizations with the two largest USAID Cuba Program grants was reported in 2008.

You requested that we assess (1) actions that USAID has taken since 2006, or plans to take, to improve its award and oversight of the Cuba Program’s grants and (2) actions that USAID has taken in response to the recently reported misuses of Cuba Program grant funds. To address these objectives, we analyzed agency records, including meeting agendas and minutes, draft and final changes to agency policy and guidance, and audit and financial reports, including audit reports issued by the State and USAID Inspectors General in July and September 2007, respectively. In addition, we conducted a limited follow-up review of financial and other records at 5 of 10 grantees we had analyzed in our 2006 report. We also observed two grantee monitoring visits conducted by USAID Cuba Program staff in June 2008. We interviewed agency officials, including the current and former Cuba Program directors, contracting officials, and auditors. We conducted this performance audit from May through July 2007 and from May through November 2008, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. (See app. I for additional details about our scope and methodology.)

6Although the scope of our November 2006 report comprised USAID’s and State’s support of democracy assistance for Cuba, the report’s findings and recommendations focused primarily on assistance provided by the Cuba Program within USAID’s Bureau for Latin America and the Caribbean. A classified version of the report was published in May 2007.

7Our follow-up review encompassed the 5 grantees that had active grants in June 2008. At that time, the grants for 4 of the 10 original grantees had expired and 1 grantee had been suspended.
Since 2006, USAID has taken a number of steps to address identified problems with its awards of democracy assistance for Cuba and to improve oversight of the assistance. However, USAID has not staffed the Cuba Program at the level the agency has determined is needed for appropriate oversight. Moreover, because many of USAID’s actions to improve oversight were initiated recently, the extent to which they will reduce the risk of the Cuba Program’s grantees misusing grant funds or failing to comply with U.S. laws and regulations is not yet evident.

• **Awards.** USAID’s Cuba Program has competitively awarded all $16 million of new democracy assistance since 2006, compared with only 5 percent (about $4 million) of assistance awarded in 1995-2005. In addition, USAID’s Cuba Program has discontinued its practice of modifying existing grants to increase funding and extend completion dates instead of awarding new ones and has implemented a policy to require grantees to submit interim program evaluations in conjunction with any future requests for additional funding. These changes in program grant award policy and practices occurred in the context of increased funding for U.S. democracy assistance for Cuba.

• **Oversight.** USAID recently has taken, or plans to take, a number of actions to strengthen management and oversight of the Cuba Program’s democracy assistance. To increase resources for grant management and oversight, in December 2006, USAID established a project committee comprising key USAID and State senior managers. Also, since January 2008, USAID has increased staffing for its Cuba Program office in Washington, D.C., from two to five persons; however, the number of staff falls short of the level that, according to USAID assessments, is needed to ensure appropriate oversight of the Cuba Program. In April 2008, to strengthen program oversight and better manage risk associated with grantees, USAID contracted with a firm to conduct financial and other reviews of grantees over 2 years. In addition, USAID plans to use contract services to train and build grantees’ capacity. To strengthen its oversight during grant preaward, award, implementation, and closeout, since 2006 USAID has issued agencywide executive guidance on conducting and following up on preaward audits, monitored audit lead time and follow-up,

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8In the grant preaward phase, potential grantees submit applications for agency review. In the award phase, the agency identifies successful applicants and awards funding. The implementation phase includes payment processing, agency monitoring, and grantee reporting, which may include financial and performance reporting. The closeout phase includes the preparation of final reports, final reconciliation, and any required accounting for property.
and included follow-up requirements in new grants. In 2007 and 2008, the Cuba Program took steps to educate grantees about internal controls and grant regulations, policies, and procedures and reviewed and approved grantee implementation plans. Also in 2007 and 2008, USAID provided agencywide guidance on permissible assistance and cost sharing and is monitoring Cuba Program grantee compliance with this guidance. Finally, the Cuba Program office has implemented a structured approach for monitoring and evaluating grant programs and plans to develop a process, using new staff resources, for analyzing the results of its monitoring.

Because many of USAID’s actions to improve management and oversight were taken in 2007 and 2008, any lessening of the risk of misuse of funds and noncompliance with laws and regulations as a result of these actions is not yet evident. For example, in June 2008, the USAID Cuba Program’s new financial contractor found that one of the first three grantees it was tasked to review, Grupo de Apoyo a la Democracia (GAD), lacked adequate support for some expenditures; later that month, our limited review of five grantees’ financial records confirmed this finding.

In response to the recent reports of misuse of funds at organizations with two of the Cuba Program’s largest grants, USAID suspended these grantees and initiated planned reviews of other grantees’ procurement systems and audits of their incurred cost. USAID suspended the two grantees—the Center for a Free Cuba (CFC) and GAD—in March 2008 and early July 2008, respectively, pending the results of criminal investigations. To detect financial vulnerabilities at other grantees, USAID announced in mid-July 2008 that it would accelerate planned reviews of most current program grantees’ procurement systems and initiate audits of their incurred cost, and it partially suspended two additional grantees pending the results of the procurement reviews. The program’s other grants remained active pending the results of the reviews and audits. The procurement reviews—completed in August 2008 under the financial services contract signed in April 2008—identified internal control, financial management, and procurement weaknesses at three grantees, including GAD; USAID is working with the grantees to correct these weaknesses. However, the procurement reviews have used nearly half of the funding set aside for the financial services contract signed in April 2008—a key element in the agency’s strategy for strengthening program oversight and better managing risk associated with grantees. USAID’s

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9 An incurred cost audit involves an examination of the accounting records and source documents that support submitted costs billed against the grant. The examination also includes an assessment of the grantee’s internal controls, timekeeping practices, and general operating policies.
Inspector General will oversee the incurred cost audits, which USAID expects will be completed by November 2008 under a separate contract with an auditing firm.

To strengthen oversight of the provision of democracy assistance for Cuba, we are recommending that the USAID Administrator (1) ensure that the Cuba Program office is staffed at the level needed to fully implement planned monitoring activities and (2) periodically assess the Cuba Program’s overall efforts to address grantee risks and ensure compliance with laws and regulations.

In written comments on a draft of this report, USAID said that it was working to ensure that the Cuba Program has adequate staff for strong program oversight and that it would take steps to periodically assess the Cuba Program’s overall efforts to address grantee risks. USAID also provided technical comments, which we incorporated where appropriate.

The strategic objective of USAID’s Cuba Program—part of the agency’s Bureau for Latin America and the Caribbean—is to help build civil society in Cuba by increasing the flow of accurate information on democracy, human rights, and free enterprise to, from, and within Cuba. The responsibilities of the Cuba Program office include cochairing an interagency working group, developing assistance strategies and programs, recommending Cuba democracy assistance awards, and monitoring the implementation of USAID grants. Because of the absence of diplomatic relations between the United States and Cuba, USAID does not have staff in Cuba and its Washington-based staff have been unable to obtain visas to visit the island since 2002. State’s U.S. Interests Section (USINT) in Havana plays a key role in implementing USAID’s Cuba democracy assistance.

From 1996 through 2005, USAID’s Cuba Program awarded about $67 million in democracy assistance grants to NGOs and universities to support numerous activities related to promoting democracy and developing Cuba’s civil society. In 2005, for example, Cuba Program

10USINT in Havana delivers some assistance to independent groups and individuals in Cuba, including assistance provided by USAID- and State-funded grantees.

11Grantees of USAID’s Cuba Program democracy assistance comprise three groups: NGOs with a Cuba-specific focus, NGOs with a regional or worldwide focus, and universities.
grantees reported providing humanitarian and material assistance, training for independent civil society groups, and uncensored information. Several grantees also worked to increase international awareness of the Cuban regime’s human rights record through activities such as sponsoring conferences and publishing studies, while one grantee focused primarily on planning for a democratic transition in Cuba. USAID records show that Cuba Program grantees provided this assistance to, among others, human rights activists, political dissidents, independent librarians, journalists, and political prisoners and their families. From 2006 through 2008, USAID’s Cuba Program awarded 10 new democracy assistance grants totaling about $16.3 million, bringing the total value of grants since the Cuba Program’s inception to about $83 million. As of October 2008, the Cuba program had 13 grants totaling about $32 million; these grants ranged in size from $500,000 to nearly $11 million.

Congress appropriated $45 million for U.S. democracy assistance for Cuba in 2008; USAID has been allocated about $30 million of the 2008 appropriation, with the remainder allocated to State. (Fig. 1 shows the funding for U.S. democracy assistance for Cuba for 1996-2008.) The administration has requested $20 million for 2009; agency allocations for these funds have not yet been established. Increased funding for democracy assistance was a recommendation of the interagency Commission for Assistance to a Free Cuba (CAFC). USAID’s Cuba Program plans other substantial awards over the next few years.

U.S. law generally prohibits direct assistance to the Cuban government and NGOs with links to the government or the Communist Party.

For more information about the assistance that USAID Cuba Program grantees reported providing in 2005, see GAO-07-147, p. 20.

The 2008 appropriation has been allocated among USAID’s Bureau for Latin America and the Caribbean ($22.7 million) and Office of Transition Initiatives ($7.6 million) and two State bureaus—Democracy, Human Rights, and Labor ($12.3 million) and Western Hemisphere Affairs ($2.8 million).

The President established CAFC in October 2003 to identify (1) ways in which the U.S. government could hasten the end of the Castro dictatorship and (2) U.S. programs to assist the Cuba people during a transition to democracy. The commission has issued two reports, in May 2004 and July 2006, respectively. The commission’s July 2006 report recommended providing $80 million over 2 years to increase support for Cuban civil society, disseminate uncensored information to Cuba, expand international awareness of conditions in Cuba, and help realize a democratic transition in Cuba. The report also recommended subsequent annual funding of at least $20 million until the end of the Castro regime.
The following summarizes our November 2006 report’s findings of problems with the USAID Cuba Program’s awards and oversight of its Cuba democracy assistance from 1996 through 2005.\(^\text{16}\)

- **Awards.** USAID’s Cuba Program relied on unsolicited proposals to award about 95 percent (about $62 million) of its democracy assistance, although agency policy generally encourages competition for such awards. USAID’s Cuba Program also frequently modified the amounts and length of existing grants, increasing the aggregate value of these initial agreements from about $6 million to about $50 million. In contrast, federal law and agency

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\(^{16}\)See GAO-07-147 for more details. Our report also discussed the USAID Cuba Program’s evaluation of the results of U.S. democracy assistance for Cuba and communication and coordination between the USAID Cuba Program, State, and USINT regarding implementation of this assistance.
policy generally favor a competitive process; moreover, closing grants and initiating new ones has recognized advantages.

- **Oversight.** Weaknesses in USAID’s oversight of its assistance grants during the preaward, award, implementation, and closeout phases increased the risk of grantees’ improper use of grant funds and noncompliance with applicable laws and regulations. Preaward audits of some grantees were not always completed before grant award, and USAID did not follow up adequately to correct deficiencies identified by these audits. Standardized language in grant agreements lacked the detail necessary to support program accountability and the correction of grantee deficiencies identified during preaward reviews. Moreover, the Cuba Program office did not adequately identify, prioritize, or manage at-risk grantees and did not have critical review or oversight procedures in place to monitor grantee activities or cost sharing. Additionally, USAID did not appear to routinely follow prescribed closeout processes to identify and recover inappropriate expenditures or unexpended funds. Our limited review of 10 grantees’ financial records identified questionable expenditures and significant internal control weaknesses, which USAID had not detected, at 3 of the grantees; we referred these problems to the USAID Office of Inspector General.

Figure 2 shows our 2006 recommendations to strengthen USAID’s oversight of the Cuba Program’s democracy grants. In 2006 and 2007, USAID said that it was taking steps to address our recommendations and improve its oversight of democracy assistance for Cuba.

**Figure 2: November 2006 GAO Recommendations to Improve USAID Oversight of the Cuba Program’s Democracy Assistance**

- Improve the timeliness of preaward reviews to ensure their completion prior to the awarding of funds, and improve the timeliness and scope of follow-up procedures to assist in tracking and resolving issues identified during preaward reviews.
- Require that grantees establish and maintain adequate internal control frameworks, including developing approved implementation plans for the grants.
- Provide grantees specific guidance on permitted types of humanitarian assistance and cost-sharing and ensure that USAID staff monitors grantee expenditures for these items.
- Develop and implement a formal and structured approach to conducting site visits and other grant monitoring activities, and utilize these activities to provide grantees with guidance and monitoring.

Source: GAO-07-147.
USAID Has Taken Steps to Improve Awards and Oversight of Cuba Democracy Assistance, but Staffing for Oversight Is Not Yet Complete

Since 2006, USAID has taken steps to improve the Cuba Program's award and oversight of democracy assistance. To address identified problems with awards, since 2006, the Cuba Program has competitively awarded all democracy assistance grants and discontinued its use of funded grant extensions. To improve its oversight of the grants, USAID has provided additional resources to manage and oversee the Cuba Program's aid and implemented specific improvements in grant oversight to address our recommendations. (See app. II, table 2, for a summary of our November 2006 findings and recommendations regarding the Cuba Program's awards and oversight of democracy assistance as well as USAID's proposed or reported corrective actions and the status of these actions.) However, as of November 2008, USAID had not yet achieved the staffing level it assessed as needed for appropriate oversight. Moreover, because many of USAID's actions to improve oversight were taken recently, their impact on the risk of Cuba Program grantees' misusing funds and failing to comply with U.S. laws and regulations is not yet evident.

USAID’s Cuba Program Has Awarded Grants More Competitively and Discontinued Its Use of Funded Grant Extensions

USAID’s Cuba Program has competitively awarded all $16 million (10 grants) of democracy assistance since 2006. In comparison, during its first 10 years, the Cuba Program competitively awarded only 5 percent (about $4 million, 5 grants) of its democracy assistance. The increased use of competition reflects the USAID Cuba Program’s implementation, in 2007 and 2008, of a policy of using competitive solicitation as the principal method for awarding its democracy assistance grants.

Further, since 2006, USAID’s Cuba Program has discontinued its practice of modifying existing grants to provide substantial additional funding rather than awarding new grants and has implemented a policy that requires grantees to submit interim evaluations in conjunction with any future requests for additional funding. In 2006-2008, the Cuba Program...

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17 USAID's Office of Transition Initiatives awarded a grant noncompetitively in September 2007 in response to an unsolicited proposal.

18 USAID’s Cuba Program implemented this competitive policy by issuing, in March 2007 and January 2008, annual program statements seeking grant applications. The Cuba Program made seven awards based on applications received and evaluated under the 2007 statement, which closed on September 30, 2007. Although the closing date for applications under the 2008 program statement is December 31, 2008, the Cuba Program evaluates applications and award grants throughout the year on a “rolling” basis. According to the Cuba Program Director, USAID may still consider, as appropriate, unsolicited proposals as permitted by agency regulations (Automated Directives System 303)—although the program director plans to award all 2008 grants competitively.
approved a limited number of no-cost grant extensions but did not consider funded modifications to expand the program. Additionally, in 2007, the Cuba Program notified grantees that they would be required to submit interim program evaluations when requesting significant increases in funding or extensions; as of November 2008, the Cuba Program had received no such requests.

Subsequent to these changes in the USAID Cuba Program’s practices and policy, the percentage of its grantees that are worldwide or regional NGOs increased while the percentage of grantees that are Cuba-specific NGOs declined (see fig. 3). According to the Cuba Program Director, the shift in grantee type reflects the more formal requirements for submitting a grant proposal contained in the Cuba Program’s 2007 and 2008 annual program statements, such as the requirement that proposals include a detailed implementation plan. In addition, the shift reflects a decision, starting with the 2008 program statement, to fund grants that incorporate capacity building for subgrantees as an important element of program activity. The Director noted that building subgrantee capacity supports the goal of improving grant oversight, as well as the program goal of developing civil society organizations that will be effective in assisting Cuba’s transition to democratic governance and a free market economy.

During this period, the program also approved administrative modifications such as revising grant agreements to reflect updated provisions regarding cost sharing or changes in key grantee personnel.
USAID Is Taking Actions to Improve Oversight of Cuba Program Democracy Assistance, but Staffing Remains Incomplete and Impact of USAID’s Actions Is Not Yet Evident

USAID has recently taken, or plans to take, actions to increase the Cuba Program’s resources for oversight. In addition, USAID has recently taken actions aimed at improving specific aspects of the Cuba Program’s grant oversight. However, staffing of the Cuba Program has not reached the level that USAID has determined is needed to ensure adequate oversight. In addition, in some cases the impact of these actions on the risk of Cuba Program grantees’ misusing funds and failing to comply with U.S. laws and regulations is not yet apparent.

USAID Is Increasing Resources for Cuba Program Grant Oversight

To increase resources aimed at improving the management and oversight of Cuba Program democracy assistance, USAID established a Cuba project committee comprising key USAID and State senior managers in December 2006; has hired more staff for the Cuba Program office since January 2008; and contracted for financial services—including reviews of grantee internal controls, procurement practices, and expenditures—to enhance oversight of grantees in April 2008. In addition, the USAID Cuba Program plans to use contract services to provide technical assistance and build the capacity of its grantees, particularly smaller organizations.
• **Cuba project committee.** USAID established a project committee in December 2006 to lead the agency’s efforts to improve its management and oversight of Cuba Program democracy assistance and provide greater attention from senior management. This committee consisted of senior officials from USAID’s Bureau of Management (which includes the Office of Acquisition and Assistance) and General Counsel and State’s Bureau of Western Hemisphere Affairs (including the Cuba Transition Coordinator), in addition to the USAID Cuba Program Director. The committee met at least quarterly to address Cuba assistance planning, preaward reviews, and grantee monitoring and evaluation. According to USAID records, topics of discussion have included (1) identifying high-risk grantees, including outstanding audit issues, the need for follow-on reviews, and review of grantees’ monitoring and implementation plans; (2) issuing a communication to reinforce USAID guidance on preaward reviews and stress the importance of timely follow-up to identified findings; (3) reviewing standard grant provisions to ensure that grantees were provided clear guidance on how to access referenced regulatory materials; (4) obtaining and approving updated and expanded implementation plans from certain grantees; and (5) obtaining detailed cost-share records from contributing grantees and submitting them to the Office of Acquisition and Assistance for review. In late 2007, USAID divided the project committee’s responsibilities between two new committees.  

• **Cuba Program staffing.** Since January 2008, to improve its implementation of Cuba democracy assistance, USAID has increased staffing in the program office from two to five persons; however, staffing remains short of the 11 persons recommended in USAID assessments. In December 2007, in response to concerns expressed in our November 2006 report and a recommendation in a September 2007 report by USAID’s Office of Inspector General, a formal USAID assessment recommended staffing the program office with a director and eight staff to ensure

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20The internal management committee—comprising USAID Cuba Program, contracting, audit, and legal officials, as well as appropriate others—meets at least quarterly to coordinate and provide assistance in the implementation of Cuba Program activities. The grantor coordination committee—comprising officials from USAID, State, and the National Endowment for Democracy—meets quarterly to share information and coordinate Cuba democracy assistance activities. This committee was established partly in response to GAO and USAID Inspector General recommendations to improve coordination of U.S. democracy assistance for Cuba.

successful implementation of the program as well as appropriate
monitoring and oversight of grantees and grant funds.\textsuperscript{22} Subsequently, a
more informal assessment by the USAID Cuba Program office identified
the need for two additional staff. Based on these assessments, the Cuba
Program has hired three new staff members since January 2008,\textsuperscript{23} bringing
the total staff to five persons as of October 2008. According to the Cuba
Program Director, the program plans to hire two more staff members by
January 2009 and a third by July 2009 at the earliest.

- **Financial services contract.** To strengthen grantee oversight and better
manage program risks, USAID’s Cuba Program contracted in April 2008
with a firm headquartered in Washington, D.C., to conduct 10 to 12
financial reviews annually over 2 years, at an estimated cost of $1 million.\textsuperscript{24}
USAID procured these services to strengthen program management and
provide grantees—particularly smaller, less experienced organizations—
needed guidance and technical support as recommended in our 2006
report.\textsuperscript{25} According to the contract statement of work and related
documents, the contractor will (1) conduct annual financial reviews of
grantees, including grantees’ internal controls, procurement practices, and
expenditures; (2) follow up on the findings and recommendations of
preaward reviews and other audits to advise whether grantees have
corrected any weaknesses that were identified; and (3) conduct other

\textsuperscript{22}USAID, Bureau for Latin America and the Caribbean, *USAID Cuba Program: Formal Assessment of Program Staffing Needs* (Washington, D.C.: Dec. 27, 2007). The assessment states: ”As identified in the [Nov. 2006] GAO report, [limited staffing in the Cuba Program contributes] to grantee internal control weaknesses, along with USAID monitoring and oversight deficiencies. Adequate staffing and [the] right staffing skills mix are critical to ensuring the successful implementation of the program together with the appropriate monitoring and oversight of grantees and grant funds ([including the] proper use of funds, compliance with applicable laws and regulations, [and] fulfilling program goals).” In early April 2008, based on the December 2007 formal assessment, the Cuba Program office recommended to the Assistant Administrator for Latin America and the Caribbean that he approve (1) establishing a separate Office of Cuban Affairs within the bureau reporting to the Deputy Assistant Administrator and (2) staffing that office consistent with the December 2007 staffing assessment. According to USAID officials, these recommendations remain under consideration.

\textsuperscript{23}Although the Cuba Program hired a fourth staff member based on the December 2007 USAID assessment, this person no longer works for the Cuba Program.

\textsuperscript{24}The Cuba Program will pay the contract costs. The contractor is listed in the accounting category on the General Services Administration’s Financial and Business Solutions schedule. The contract was competed and awarded as a small business set-aside.

\textsuperscript{25}For our 2006 assessment of the risk posed by smaller, less experienced grantees, see *GAO-07-147*, pp. 34 and 43.
special reviews as needed. The contracting officer and the Contract Audit Management Division within USAID’s Office of Acquisition and Assistance review and approve all work plans (including research design, data collection instruments, and analysis plans) and draft and final reports. In June 2008, the contractor began reviews of Cuba Program grantees’ procurement systems, starting with three Miami-based grantees.

- **Program to build grantee capacity.** To help improve the management and oversight of Cuba democracy assistance, USAID’s Cuba Program has taken initial steps to establish a means to provide essential training and additional oversight of smaller grants using a “grants under contract” mechanism. The decision to fund this program was based on USAID's assessment of grantee risk, particularly the risks posed by smaller, less experienced grantees. USAID expects to start implementing this program in 2009.

USAID has taken a number of actions specifically aimed at strengthening oversight by ensuring preaward reviews and follow-up; improving grantee internal controls and implementation plans; providing guidance and monitoring for assistance and cost sharing; and developing structured approaches for site visits and other monitoring.

- **Preaward reviews and follow-up.** USAID has taken several actions to ensure that preaward reviews are completed prior to grant awards. The agency also has taken several actions to improve follow-up on issues identified during preaward reviews. Since January 2007, the Cuba Program, working through the Cuba project and internal management committees, has worked to provide sufficient lead time for preaward reviews and tracked the resolution of preaward review issues. In March 2007, USAID’s Office of Acquisition and Assistance issued an agencywide bulletin that stressed the importance of (1) providing sufficient lead time for the completion of preaward reviews and (2) timely follow-up and

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26Special reviews could include reviews of financial and regulatory compliance; reviews to determine if costs billed by grantees and paid by USAID were incurred in accordance with the grantee’s policies, procedures, and instructions for the covered period; and reviews of cost sharing.

27USAID's Automated Directive System 302.3 defines a “grants under contract” as a contract that provides for a USAID contractor to execute grants with both nonprofit and for-profit NGOs.

28For our assessment of these risks, see GAO-07-147.
resolution of deficiencies identified in those reviews. In 2007, USAID also developed revised grant agreement language linking resolution of issues and findings of preaward reviews and follow-up reviews to the obligation of incremental grantee funding; to date, this language has been used in grant agreements as appropriate. According to the Chief of the Contract Audit Management Division within USAID’s Office of Acquisition and Assistance, the Cuba Program’s planned use of the new financial review services contract will help ensure timely follow-up on the results of preaward reviews. Previously, competing demands on the division for preaward and follow-up reviews by other USAID bureaus and offices had delayed reviews for some Cuba grantees.

- **Grantee internal controls and implementation plans.** USAID has taken several actions to require that grantees establish and maintain adequate internal control frameworks and develop approved grant implementation plans.

- **Internal controls.** The Cuba Program office provided grantees guidance for accessing reference materials to relevant policies and procedures on several occasions. This guidance included an addendum for grant agreements, linked to relevant policies and procedures, that USAID developed in March 2007 and that USAID records show was provided to all grantees at, for example, grantee quarterly coordination meetings and by e-mail. Grantees also were e-mailed a list of Internet links for all statutory, regulatory, and legal references in their USAID grant agreements. Additionally, in 2007, the Cuba Program office developed a briefing outline to be used in explaining internal control and other requirements to new grantees.

- **Implementation plans.** In January 2007, the Cuba project committee recommended that the Cuba Program (1) review grantees’ existing implementation plans to ensure that such plans were documented and adequate and (2) request that grantees with significant remaining grant funding update and expand their implementation plans. The Cuba Program completed its initial round of reviews in May 2007; follow-up on recommended changes was completed April 2008. The approved plans provide a monthly summary of anticipated activities to assist in monitoring grantees and are to be updated annually. Further, in 2007, the Cuba project committee recommended that the Cuba Program and

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the Office of Acquisition and Assistance develop and include a new provision in grant agreements to require that grantees submit written implementation, monitoring, and evaluation plans for approval within 30 days of the award’s start date. In 2008, USAID officials agreed on the grant provision, which has been included in agreements for new awards.30

- **Guidance and monitoring for assistance and cost sharing.** USAID has taken several steps to provide grantees specific guidance on permitted types of assistance and on cost sharing and to ensure monitoring of grantee expenditures for these items.

- **Permitted assistance.** To prevent the use of grant funds for inappropriate expenditures, as identified in our 2006 report,31 USAID has provided grantees clearer, more detailed guidance regarding items that may be provided as humanitarian or material assistance.32 In addition, in early 2007, the Cuba Program required existing grantees to include detailed lists of proposed items in their updated implementation plans and requires such lists in the implementation plans required to be submitted with new grant proposals. USAID reports that these lists enhance oversight and monitoring of grantee activities. In addition, the financial services contractor will verify whether grantee assistance costs were allowable.

Following is the new provision included in current Cuba Program award agreements:

“Implementation Plan: The Recipient shall develop a detailed written implementation plan for approval by the USAID Cognizant Technical Officer (CTO) within 30 days of award. The USAID CTO shall approve any revisions to the Plan which involve the use of USAID funds. No USAID funding may be used to provide financial assistance or financial compensation to any individual or organization in Cuba. In addition, the USAID CTO shall review and approve the evaluation of accomplishments, and must approve any changes in the program description contained in this Agreement. Recipients proposing to send humanitarian items to Cuba must also include within the Implementation Plan, a complete list of all items the recipient proposes to send to Cuba for prior approval.”

“Monitoring and Evaluation Plans: The Recipient shall develop a detailed monitoring and evaluation plan for approval by the USAID CTO within 30 days of award. The USAID CTO shall approve evaluation plans, and monitoring progress toward the achievement of program objectives during the course of the Cooperative Agreement.”

30See GAO-07-147, p. 37.

31See GAO-07-147, p. 20, for examples of the types of items that grantees reported providing as humanitarian and material assistance in 2005.
• **Cost sharing.** USAID has provided agencywide guidance on cost sharing and reviewed grantees’ cost-share contributions. In January 2007, as recommended by the Cuba project committee, USAID’s Office of Acquisition and Assistance issued an agencywide bulletin that reemphasized the restrictions and limits on cost sharing for grants and clarified that USAID does not permit funds obtained from the National Endowment for Democracy to be counted toward grantee cost-share requirements.\(^3^3\) The cost-share policy is reflected in Cuba democracy grant agreements. In January 2007, the Cuba project committee recommended that the Cuba Program obtain detailed cost-share records from grantees and submit these records to the Office of Acquisition and Assistance for review. As of mid-June 2008, USAID had completed its review of the cost-share records for all nine then-current grantees with cost-share obligations and had found that three grantees had not met a substantial share of their cost-share obligations. USAID reduced one grantee’s cost-share obligation from $1,065,860 to $523,450 and was following up with the other two grantees regarding their failure to meet their cost-share obligations.\(^3^4\) During two site (monitoring) visits that we observed in June 2008, USAID staff reviewed the types of cost sharing permitted and emphasized the importance of keeping adequate records to support cost-share claims. In addition, the new financial services contractor will review grantee support for cost-share claims.

• **Structured approach for site visits and other monitoring.** USAID has taken, or plans to take, several actions to develop and implement a more formal, structured approach for site visits and other grant monitoring activities. These actions taken included the following:

  • The USAID Cuba Program has developed and used a formal, structured approach for its quarterly site visits to grantees. To facilitate and ensure consistency in these visits, program staff use a form to describe grantee activities, evaluate grantee accomplishments, and assess

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\(^3^4\) According to USAID, the reduction in the grantee’s cost-share obligation reflected the agency’s clarification regarding funds obtained from the National Endowment for Democracy.
compliance with grant internal control and other requirements. During our observation of two site visits, we noted that USAID sent copies of these forms to grantees via e-mail in advance of the visits so that grantees could confirm the accuracy of basic data.

- USAID reports taking initial steps to use information gathered to identify at-risk grantees and prioritize monitoring. For example, in May 2007, after noting poor grantee record keeping during several site visits, the former program Director e-mailed grantees to emphasize the need to maintain adequate documentation in their offices of labor costs, rent expenses, and telephone costs, as well as other records needed to demonstrate that U.S. funds were being spent for the grants’ authorized purposes. USAID also has emphasized this requirement during quarterly grantee coordination meetings and site visits. The current Cuba Program Director told us that, using new staff resources, she plans to develop and implement a formal system for performing detailed analyses of the site visit results to identify at-risk grantees and prioritize monitoring. As a first step, the Cuba Program recently initiated quarterly reviews of the program’s portfolio of grantees to identify at-risk grantees and other issues. Because many of USAID’s actions to improve its oversight of the Cuba democracy grants were implemented recently, in 2007 and 2008, their impact on the risk of grantees’ misusing grant funds or failing to comply with U.S. laws and regulations is not yet evident. In mid-June 2008, USAID’s financial services contractor’s review of financial records for

Impact of USAID’s Actions to Improve Oversight Is Not Yet Evident

35The site visit form contains basic program and financial information about the grant and grantee (updated from USAID records prior to the visit) and instructions to review, among other things, work plan activities, whether grantees have appropriate licenses from the Department of the Treasury and the Department of Commerce, tax records, and detailed support for salaries, rent, utilities, and purchases of goods and services. The form instructs staff to compare the grantee’s budget and general ledger, verify labor contracts, examine employee time sheets, and obtain copies of a random sample of purchase receipts. The form also allows USAID staff to record needed follow-up actions or support for grantees. See the USAID Cuba Program 2007 Performance Report.

36The former Cuba Program Director told us that he was unable to perform detailed analyses of the site visit results after the unexpected departure of the program’s junior officer in January 2007.

37A July 2008 memo from USAID’s Deputy Administrator for Legislative and Public Affairs acknowledges this lack of clear impact. The memo states, “Many of these initiatives have only recently begun implementation and we believe that they will have a significant impact over time.”
three Cuba Program grants found that one of the grantees—GAD—lacked adequate support for some purchases. In late June 2008, we confirmed the USAID contractor’s finding during our limited review of financial and other records at 5 of the 10 grantees examined for our November 2006 report (see app. I for more information about this limited review). Specifically, we identified several cases where substantial charges to GAD’s credit card were not supported by receipts listing the items purchased.

In response to reports of fraud at organizations that had received the USAID Cuba Program’s two largest democracy aid grants—CFC and GAD—USAID suspended both grants pending the results of USAID Inspector General investigations. Additionally, in mid-July 2008, USAID decided to accelerate planned reviews of Cuba democracy grantees’ procurement systems under the April 2008 financial review services contract and to conduct audits of grantees’ incurred cost under the Inspector General; pending the results of those reviews and audits, USAID partially suspended two more grants. The procurement reviews, which were completed in August 2008, identified weaknesses at three grantees; USAID is working with the grantees to correct these weaknesses. USAID expects the incurred cost audits to be completed by November 2008 under a contract with another firm.

- **CFC.** In March 2008, USAID suspended its $7.2 million grant to CFC, awarded in 2005, after the CFC’s Executive Director informed USAID that the organization’s former Chief of Staff had misused USAID grant funds.\(^38\) CFC’s grant expired on June 30, 2008, while it was suspended. In July 2008, auditors from USAID’s Contract Audit Management Division within the Office of Acquisitions and Assistance confirmed CFC’s estimate of the amount of funds stolen\(^39\) and concluded that the grantees had taken action

\(^38\)The CFC grant was suspended on March 26, 2008, after CFC’s Executive Director reported the problem. According to a USAID memorandum, from late 2004 through January 2008, the former Chief of Staff used companies that he controlled to sell shortwave radios to CFC at inflated prices, pocketing the difference.

\(^39\)Auditors from USAID’s Contract Audit Management Division within the Office of Acquisitions and Assistance reported that CFC had placed $644,885 in escrow to be transferred to USAID; this amount included interest lost because of the alleged fraud. As of October 2008, USAID reported that it had recovered $578,810 in project funds and interest of $67,992, which will be returned to the Department of the Treasury.
to strengthen its system of internal control. On September 22, 2008, USAID reinstated the grant for 6 months.

- **GAD.** In July 2008, USAID suspended its $10.95 million grant to GAD, which was awarded in September 2000. On June 30, 2008, GAD’s Executive Director had informed USAID that, in following up on deficiencies that USAID’s financial services contractor and we had identified earlier that month, he had determined that one of GAD’s employees had used the organization’s credit card to make unauthorized purchases for his personal use; the employee had signed a statement admitting to these actions and had promised to repay the cost of these items and had been fired.\(^{40}\) USAID suspended the grant on July 2 and referred the matter to the USAID Inspector General for investigation; as of November 2008, the grant remained suspended, pending conclusion of the Inspector General’s investigation and the results of a financial system review by the financial review services contractor. The grant was scheduled to expire on September 30, 2008, but USAID extended the grant to March 31, 2009, to permit completion of the investigation and review.

On July 18, 2008, USAID announced that, to determine whether financial vulnerabilities exist at grantees and how best to address them, it would initiate reviews of the Cuba Program grantees’ procurement systems under the April 2008 contract and subsequently conduct audits of grantees’ incurred cost under the USAID Inspector General. In addition, USAID reported that it had partially suspended two smaller grants pending the outcomes of the procurement reviews.\(^{41}\) The program’s other grants

\(^{40}\)GAD has recovered from the employee $21,433, the amount it considers misappropriated. According to USAID, the financial services contractor will examine this estimate during its review of GAD’s incurred cost; USAID expects the review to be completed by November 2008. USAID’s Contract Audit Management Division within the Office of Acquisitions and Assistance will review and approve the contractor’s report.

\(^{41}\)On July 21, 2008, USAID wrote these grantees that “Until notified otherwise, your organization should not commence any new activities funded under the subject award. Additionally, only essential operating costs may be incurred. Costs that may be considered essential to the program include basic operating costs currently paid under the award such as the salary of limited core employees and recurrent monthly costs such as rent, utilities, scholarships for students currently in the midst of USAID funded studies, etc.”
remained active, based on USAID’s review of the grantees’ A-133 audits\textsuperscript{42} and other relevant information, but pending the results of the procurement reviews and incurred cost audits announced in July 2008.

- **Reviews of grantees’ procurement systems.** In July 2008, USAID instructed the financial services contractor hired in April 2008 to accelerate planned reviews of current grantees’ procurement systems. The procurement reviews, completed in August 2008, identified internal control, financial management, and procurement weaknesses at three grantees. On September 24, 2008, USAID lifted one of the two partial suspensions after the grantee agreed to take several corrective actions. USAID is assessing whether to lift the other partial suspension based on grantee corrective actions, a change in grantee management, and other factors. GAD, the third grantee where the review found weaknesses, remains suspended. As of October 2008, the acceleration of the procurement reviews had used nearly half (about $450,000) of the $1 million set aside for the 2-year financial services contract signed in April. Further, USAID had not committed the additional funds needed to continue the planned reviews of grantees’ internal controls, procurement practices, and expenditures—key elements of the program’s approach to reducing grantee risks—over the contract’s remaining 18 months.

- **Audits of grantees’ incurred cost.** The USAID Inspector General will oversee the audits of grantees’ incurred cost, to be conducted under a separate contract with another firm. Initial work on the first three of these audits began in mid-September 2008; the Inspector General expects to complete nine audits by November 2008.\textsuperscript{43} USAID officials said that they would take steps, as appropriate, to address weaknesses identified by these audits. USAID estimated the total cost of these audits at about $300,000 to $340,000.

Table 1 summarizes the status of USAID’s Cuba democracy grants as of October 2008.

\textsuperscript{42}Office of Management and Budget Circular No. A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, sets standards related to the Single Audit Act (31 U.S.C. 7501-7507), including a requirement for organizations that expend $500,000 or more in federal awards during the fiscal year to have a single or program-specific audit conducted for that year, including a review of internal controls. The Single Audit Act is intended to promote sound financial management, including effective internal controls, for federal awards administered by state and local governments and nonprofit organizations. See GAO-07-147, p. 30, note 38.

\textsuperscript{43}In addition, CFC and GAD are scheduled to receive incurred cost audits.
Table 1: Status of USAID Cuba Democracy Grants as of October 2008

<table>
<thead>
<tr>
<th>Grant status</th>
<th>Grantee, award period, and amount</th>
<th>Comments</th>
</tr>
</thead>
</table>
| Active       | Center for a Free Cuba (CFC)     | • Grant was suspended in March 2008 after the Executive Director reported employee fraud; the matter was referred to USAID Inspector General for investigation.  
• CFC placed $644,845—its estimate of the amount stolen, plus interest—in escrow.  
• Grant expired June 30, 2008.  
• Financial review by USAID’s Office of Acquisition and Assistance (July 2008) confirmed CFC’s estimate and found the grantee had taken action to strengthen internal controls.  
• Grant was reinstated and extended for 6 months in September 2008 after USAID Inspector General informed the agency that the investigation did not implicate CFC.  
• Incurred cost audit to be conducted now that grant is reinstated. |
| Active       | Grantee A August 2008-2010 $1.0 million | • New award.  
• Based on a review of prior audits and other factors, USAID decided not to include this grant in the procurement reviews or incurred cost audits. |
| Active       | Grantee B December 2007-2009 $0.5 million | • Procurement review (August 2008) questioned none of $116,149 billed from December 2007 through June 2008 and identified no internal control, financial management system, or procurement weaknesses.  
• Incurred cost audit to be completed by November 2008. |
| Active       | Grantee C March 2003-August 2010 $0.8 million | • Procurement review (completed August 2008) questioned none of $29,323 billed from July 2007 through June 2008 and identified no internal control, financial management system, or procurement weaknesses.  
• Incurred cost audit to be completed by November 2008. |
| Active       | Grantee D May 2008-April 2010 $3.1 million | • New award.  
• Based on a review of prior audits and other factors, USAID decided not to include this grant in the procurement reviews or incurred cost audits. |
| Active       | Grantee E August 2008-2010 $5.0 million | • New award.  
• Based on a review of prior audits and other factors, USAID decided not to include this grant in the procurement reviews or incurred cost audits. |
| Active       | Grantee F March 2008-2010 $1.1 million | • Procurement review (August 2008) questioned $167 (less than 0.06 percent) of $300,043 billed from September 2006 through June 2008 under current and prior grant but identified no internal control, financial management system, or procurement weaknesses.  
• Incurred cost audit to be completed by November 2008. |
| Active       | Grantee G February 2008-January 2010 $1.0 million | • Procurement review (August 2008) questioned none of $350,304 billed from October 2006 through June 2008 under two grants and identified no internal control, financial management system, or procurement weaknesses.  
• Incurred cost audit to be completed by November 2008. |
<table>
<thead>
<tr>
<th>Grant status</th>
<th>Grantee, award period, and amount</th>
<th>Comments</th>
</tr>
</thead>
</table>
| Active            | Grantee H                        | • Procurement review (August 2008) questioned none of $1,646,257 billed from October 2006 through June 2008 under three grants and identified no internal control, financial management system, or procurement weaknesses.  
• Incurred cost audit to be completed by November 2008.                                                                                                                                          |
|                   | September 2007-March 2009         | $2.7 million                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Active            | Grantee I                        | • Grant was partially suspended in July 2008.  
• Incurred cost audit by USAID’s Office of Acquisition and Assistance (July 2008) questioned $31,658 (2.6 percent) of $1,233,663 billed from December 2004 through December 2006 under a prior grant.  
• Procurement review (August 2008) questioned $17,900 (about 5.5 percent) of $325,846 billed from September 2007 through May 2008, identified no internal control weaknesses, but identified financial management system and procurement weaknesses.  
• Partial suspension was lifted in September 2008, after grantee resolved cost issues and agreed to take corrective actions.  
• Incurred cost audit to be conducted by November 2008.                                                                                                                                          |
|                   | September 2007-2009               | $1.1 million                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Active            | Grantee J                        | • New award. (Prior grant expired June 30, 2008.)  
• Incurred cost audit to be conducted by November 2008.                                                                                                                                                                                                                                                                                    |
|                   | Sept 2008-2009                   | $0.5 million                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Partially         | Grantee K                        | • Grant was partially suspended in July 2008.  
• Incurred cost audit by USAID’s Office of Acquisition and Assistance (July 2008) questioned $1,494,996 (66.8 percent) of $2,239,590 billed from April 1999 through December 2006.  
• Procurement review (August 2008) questioned $3,515 (2.1 percent) of $166,855 billed from April 2007 through May 2008 and identified internal control, financial management system, and procurement weaknesses.  
• USAID Office of Acquisition and Assistance and Cuba Program is assessing whether to lift partial suspension based on audit results, grantee corrective actions, change in grantee management, and other factors. (Cuba Program officials said that this grantee provides unique capabilities.)  
• Incurred cost audit to be completed by November 2008.                                                                                                                                          |
| suspended          | April 1999-November 2008          | $2.3 million                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Suspended         | Grupo de Apoyo a la Democracia (GAD) | • Grant was suspended in July 2008, after allegations of fraud, and referred to USAID IG for investigation.  
• Procurement review (August 2008) questioned $1,500,033 (about 57.9 percent) of $2,592,361 billed from January 2007 through May 2008 and identified internal control, financial management system, and procurement weaknesses.  
• Grant scheduled to end September 30, 2008, but extended to March 2009.  
• Financial system review to be completed by November 2008.                                                                                                                                          |
|                   | September 2000-March 2009         | $11.0 million                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

Source: GAO analysis of USAID records.

Notes:

The audits of grantee incurred cost overseen by the USIAD Inspector General also include a grantee with a grant funded and managed by USAID’s Office of Transition Initiatives. This grant was not included in procurement reviews funded by the Cuba Program under the Bureau for Latin America and the Caribbean. The incurred cost audit is to be completed by November 2008.
Conclusions

USAID has taken numerous actions since 2006 to improve the Cuba Program’s award processes and oversight of grantees. However, some planned actions have not yet been implemented. As recommended in our November 2006 report, USAID took steps to improve the timeliness of preaward reviews and resolve issues identified during those reviews and has provided more specific guidance on permitted types of humanitarian assistance and cost sharing. To provide resources and expertise, USAID also contracted with a financial review services firm to follow up on audit findings; review grantees’ internal controls, procurement practices, expenditures, and cost sharing; and provide grantees needed technical assistance. In addition, the Cuba Program now requires grantees to develop implementation plans and has developed a structured approach to monitoring grantees. However, staffing of the program office has not reached the level USAID determined is needed for effective grant oversight and, as a result, the office has taken only preliminary steps to implement a key part of its risk management approach—that is, to systematically analyze site visit and other grantee data to identify at-risk grantees and prioritize its monitoring.

Moreover, the impact of USAID’s actions to improve the Cuba Program’s risk management on grantee risk is uncertain because most of the actions were taken recently. This uncertainty is underscored by the recent findings—similar to those we reported in 2006—of grantees’ misusing funds and of weaknesses in grantees’ internal control, financial management, and procurement systems that have not yet been resolved. Until the current audits of individual grantees’ incurred cost are completed and the Cuba Program takes steps to address any known risks and prevent their recurrence, the program’s ability to ensure the appropriate use of grant funds remains in question.

Recommendations for Executive Action

To strengthen oversight of USAID’s Cuba Program grants and the program’s ability to ensure the appropriate use of grant funds, we recommend that the USAID Administrator take the following two actions:
- ensure that the Cuba Program office is staffed at the level that is needed to fully implement planned monitoring activities, such as the systematic analysis of grantee data to identify at-risk grantees, and that the agency has determined is necessary for effective oversight; and

- periodically assess the Cuba Program’s overall efforts to address and reduce grantee risks, particularly with regard to grantees’ internal controls, procurement practices, expenditures, and compliance with laws and regulations.

**Agency Comments and Our Evaluation**

USAID provided written comments on a draft of this report, which are reprinted in appendix III, as well as technical comments that we incorporated as appropriate.

In its written comments, USAID concurred with our recommendation to staff the Cuba Program at levels needed to implement planned monitoring activities. The agency said that it was working to ensure that the Cuba Program has adequate staffing for strong program oversight and noted that it had temporarily assigned three staff to the program while implementing plans to recruit and hire additional permanent staff. USAID also concurred with our recommendation to periodically assess the Cuba Program’s overall efforts to address and reduce grantee risk. The agency said that the Bureau for Latin America and the Caribbean would take specific steps to assess the risks associated with the Cuba Program’s grantee pool in its ongoing risk assessment work. USAID noted that the bureau’s assessment would incorporate results from grantee monitoring and site visits, reviews by the financial services contractor hired in April 2008, preaward reviews, and results from audits by the agency’s Inspector General.

We are sending copies of this report to the USAID Administrator, appropriate congressional committees, and other interested parties. The report also is available at no charge on the GAO Web site at http://www.gao.gov.
If you or your staff have any questions about this report, please contact me at (202) 512-3149 or gootnickd@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.

Sincerely yours,

David Gootnick, Director
International Affairs and Trade
Appendix I: Scope and Methodology

To review the actions that U.S. Agency for International Development (USAID) has taken since 2006 to improve its award and oversight of the Cuba Program’s grants as well as actions taken in response to the recently detected misuses of program grant funds, we analyzed USAID and Department of State (State) records, including agendas and minutes for meetings of USAID’s Cuba project committee, draft and final changes to agency policy and guidance, and audit and financial reports of grantee activities. We reviewed and analyzed USAID budget, staffing, and procurement records. With regard to staffing, for example, we analyzed agency staffing assessments and related records; with regard to USAID Cuba Program awards and modifications, we analyzed agency grant documents and related records. We verified our analysis of these records with agency officials. In June 2008, we observed two quarterly grantee monitoring visits and one orientation visit to a grantee with a new award conducted by Cuba Program office staff. In addition, we conducted limited follow-up reviews of financial and other records at 5 of the 10 grantees that we had analyzed in our November 2006 report.¹ In conducting these follow-up reviews, we employed the same methodology that we had used for our 2006 report.² We also reviewed audit reports issued by the State and USAID Inspectors General in July and September 2007, respectively. We interviewed agency officials, including the current and former Cuba Program Directors, contracting officials, and auditors, about the actions taken in response to our report and actions taken in response to reported misuse of grant funds at two grantees. Additionally, we interviewed officials from the DMP Group, to which USAID awarded a contract in April 2008 to conduct a range of financial reviews of its Cuba Program grantees, and we reviewed DMP’s work papers and draft and final reports. We did not examine USAID’s selection of this firm or the reasonableness of the contractor’s fees.

We conducted this performance audit from May through July 2007 and from May through November 2008, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit

¹Our follow-up review encompassed the 5 grantees that had active grants in June 2008. At that time, the grants for 4 of the 10 original grantees had expired, and 1 grantee had been suspended.

²GAO-07-147.
Appendix I: Scope and Methodology

objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
Appendix II: Status of USAID’s Proposed and Reported Actions to Improve Awards and Oversight for Cuba Democracy Assistance

Table 2 summarizes our November 2006 findings and recommendations regarding USAID’s awards and oversight of democracy assistance for Cuba as well as USAID’s proposed or reported corrective actions, as of September 2008, and our assessment of the status of these actions.

<table>
<thead>
<tr>
<th>GAO finding</th>
<th>GAO recommendation</th>
<th>USAID proposed or reported action</th>
<th>Status of USAID action</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Awards</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USAID relied extensively on unsolicited proposals in making awards.</td>
<td>None.</td>
<td>Utilize competitive evaluation and selection process for awards when possible.</td>
<td>In 2006-2008, USAID competitively awarded all new Cuba democracy grants ($16 million). USAID’s Cuba Program office posted annual program statements in 2007 and 2008 to solicit grant applications for Cuba democracy aid. USAID has made several awards based on applications received and evaluated under the 2007 and 2008 statements. USAID plans several additional grant awards under 2008 statement; closing date for applications is Dec. 31, 2008. USAID evaluates applications and awards grants on a “rolling” basis.</td>
</tr>
<tr>
<td>USAID often modified awards to increase funding and extend completion dates.</td>
<td>None.</td>
<td>Require grantees to submit interim evaluations when requesting significant modifications or extensions.</td>
<td>USAID now requires grantees to submit interim evaluations and has discontinued the use of funded extensions. In 2006-2008, USAID did not modify funding for any Cuba awards and approved a limited number of no cost grant extensions.</td>
</tr>
<tr>
<td><strong>Oversight</strong></td>
<td></td>
<td></td>
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<tr>
<td>Some preaward reviews were completed after grant award.</td>
<td>Improve the timeliness of preaward reviews.</td>
<td>Provide preaward review results in writing to agreement officer prior to grant awards.</td>
<td>Since 2006, USAID has completed one preaward review prior to award. In April 2008, USAID awarded a contract for financial services to support the Cuba Program; as required, contractor will follow up on the results of preaward reviews.</td>
</tr>
<tr>
<td>USAID did not adequately follow up preaward review findings.</td>
<td>Improve timeliness and scope of follow-up procedures.</td>
<td>Through Cuba project committee assistance planning: ensure that any preaward or follow-on reviews are timely and tracked until closure, and address implementation issues, including those identified in preaward reviews.</td>
<td>Cuba project committee has ensured timely reviews for one new grant and proposed to provide funding incrementally for an existing grant. The project committee (now the internal management committee) is tracking the resolution of audit issues and has made both the award and extension contingent on resolution of audit tissues.</td>
</tr>
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</table>

Table 2: GAO’s Findings and Recommendations and USAID’s Proposed or Reported Actions and the Status of These Actions
### Appendix II: Status of USAID’s Proposed and Reported Actions to Improve Awards and Oversight for Cuba Democracy Assistance

<table>
<thead>
<tr>
<th>GAO finding</th>
<th>GAO recommendation</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Revise grant agreement language, linking resolution of issues and findings of preaward reviews and follow-up reviews to obligation of incremental grantee funding.</td>
<td>USAID officials have agreed on a new grant provision and used it when appropriate.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issue agencywide communication by May 2007, reinforcing Automated Directive System guidance on preaward reviews to stress the importance of timely follow-up on review findings.</td>
<td>USAID Office of Acquisition and Assistance issued an agencywide bulletin in March 2007 that reinforced Automated Directive System guidance on preaward reviews. This bulletin stressed the importance of timely follow-up and resolution of deficiencies identified in preaward reviews (Procurement Executive’s Bulletin No. 2007-05).</td>
<td></td>
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</tr>
<tr>
<td>USAID’s Cuba Program office did not adequately monitor and oversee grant implementation.</td>
<td>Require grantees to establish and maintain adequate internal controls and develop approved implementation plans.</td>
<td>E-mail grantees Web links to relevant policies and procedures and provide guidance on how to access regulatory materials.</td>
<td>USAID Cuba Program office sent multiple e-mails to grantees in 2007 providing detailed guidance on how to access regulatory materials.</td>
</tr>
<tr>
<td>Review standard grant provisions by May 2007, to ensure grantees are provided clear guidance on how to access referenced regulatory materials.</td>
<td>Cuba project committee developed an addendum for grant agreements that provides links to relevant policies and procedures; the addendum has been provided to all grantees.</td>
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<tr>
<td>Develop briefing outline for use in future meetings with grantees reviewing new awards.</td>
<td>Cuba Program office developed a briefing outline, which we observed was used to brief new grantees.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review grantees existing implementation plans to ensure that such plans are documented and adequate; request that grantees with significant remaining grant funding update and expand their implementation plans.</td>
<td>In January 2007, the Cuba project committee recommended reviewing grantee implementation plans and requesting that grantees with significant remaining grant funding update and expand their implementation plans. The Cuba Program completed this action in May 2007; follow up on recommended changes was completed in April 2008.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Include a new provision in grant agreements to require that grantees submit written implementation, monitoring, and evaluation plans for approval within 30 days of the award’s start date.</td>
<td>USAID officials have agreed on a new grant provision, which has been included in new awards.</td>
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</table>
### Appendix II: Status of USAID’s Proposed and Reported Actions to Improve Awards and Oversight for Cuba Democracy Assistance

<table>
<thead>
<tr>
<th>GAO finding</th>
<th>GAO recommendation</th>
<th>USAID proposed or reported action</th>
<th>Status of USAID action</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Conduct audits of selected existing grantees to ensure they have established and maintained adequate internal controls.</strong></td>
<td>USAID Office of Acquisition and Assistance completed audits of two grantees, one of which identified significant weaknesses. USAID officials are working with the grantee to correct these weaknesses. In April 2008, USAID awarded a contract for financial services to support Cuba Program; contractor will conduct annual financial reviews of grantees. In July 2008, in response to reports of fraud at two of the program’s largest grantees, USAID decided to accelerate planned procurement reviews and initiate incurred cost audits of its Cuba democracy grantees.</td>
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<td></td>
<td><strong>Provide guidance on permitted types of humanitarian assistance and cost-sharing and ensure that USAID staff monitors grantee expenditures.</strong></td>
<td>Grantees submit lists of humanitarian aid destined for Cuba to the program office for approval and Office of Acquisition and Assistance concurrence. USAID reports that these lists enhance oversight and monitoring of grantee activities. USAID covered this topic during quarterly grantee site visits we observed (it is an item on the visit checklist the program now uses). USAID reviewed Department of the Treasury and Department of Commerce license issues with grantees during the quarterly site visits we observed (it is an item on the visit checklist the program now uses) USAID requires grantees to provide copies of their licenses.</td>
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<td></td>
<td><strong>Include a new provision in grant agreements to require that grantees include lists of humanitarian aid destined for Cuba as part of their implementation plans.</strong></td>
<td>USAID officials have agreed on a new grant provision and used where appropriate.</td>
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<td></td>
<td><strong>Obtain, and submit to the Office of Acquisition and Assistance for review, detailed cost-share records from grantees.</strong></td>
<td>As of mid-June 2008, USAID had completed its review of grantees’ cost-share contributions and had completed resolution of most grantees’ cost-share contributions.</td>
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<td><strong>Issue agencywide guidance on allowable cost sharing.</strong></td>
<td>USAID Office of Acquisition and Assistance issued an agencywide bulletin in January 2007 that reemphasized the restrictions and limits on cost sharing for grants and clarified NED’s status (<em>Procurement Executive’s Bulletin No. 2007-02</em>). USAID officials have provided similar information to agency implementing partners.</td>
<td></td>
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<tr>
<td>GAO finding</td>
<td>GAO recommendation</td>
<td>USAID proposed or reported action</td>
<td>Status of USAID action</td>
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<td>Develop and implement formal and structured approach for site visits and other grant monitoring activities and use these activities to provide grantees guidance and monitoring.</td>
<td>Develop and implement a formal and structured site visit document to capture information about grantee activities, accomplishments, and compliance with grant requirements.</td>
<td>Cuba Program office has developed and implemented a formal and structured site visit document to capture information about grantee activities, accomplishments, and compliance with grant requirements. USAID sends copies of these forms to grantees via e-mail in advance of monitoring visits so grantees can verify key project data.</td>
<td>USAID reports taking initial steps to use information gathered to identify at-risk grantees and prioritize monitoring; more robust effort dependent on increased staffing.</td>
</tr>
<tr>
<td>Use information gathered to identify at-risk grantees and prioritize monitoring.</td>
<td></td>
<td></td>
<td>USAID reports taking initial steps to use information gathered to identify at-risk grantees and prioritize monitoring; more robust effort dependent on increased staffing.</td>
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<tr>
<td>Hire two staff, one of them an auditor, to monitor grantee activities, accomplishments, and compliance with grant requirements.</td>
<td></td>
<td>In December 2007, USAID’s Bureau for Latin America and the Caribbean conducted a formal assessment of the USAID Cuba Program’s staffing requirements. This assessment concluded that the office should have a Director and eight staff. Subsequent to the December 2007 assessment, the Cuba Program office identified the need for two more staff. Since January 2008, USAID has increased Cuba Program office staffing from two to five people and plans to hire additional staff in 2009.</td>
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<td>Convene Cuba project committee in June 2007 to identify at-risk grantees and prioritize monitoring and consider grantee quarterly reports.</td>
<td></td>
<td>The project committee reviewed reports submitted by 16 grantees for the second quarter of 2007. It found 12 reports provided sufficient narrative detail and asked 4 grantees to resubmit more detailed reports. The project committee’s analysis was used for prioritizing oversight activities at the grantee quarterly meeting scheduled for Aug. 1, 2007.</td>
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<td>USAID guidance on closing out grants did not reflect current practices.</td>
<td>None.</td>
<td>Update agency policy on closeout procedures.</td>
<td>USAID has drafted updated agency guidance on closing out grants.</td>
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Appendix III: Comments from the U.S. Agency for International Development

David Gootnick, Director
International Affairs and Trade
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Gootnick:

I am pleased to provide the U.S. Agency for International Development’s (USAID) formal response on the draft GAO report entitled “FOREIGN ASSISTANCE: Continued Efforts Needed to Strengthen USAID’s Oversight of U.S. Democracy Assistance for Cuba” (GAO-09-165).

Thank you for acknowledging USAID’s actions taken since your initial report on the Cuba Program in November 2006. USAID has worked hard to address the recommendations and believes the actions have strengthened oversight of the Cuba Program.

We concur with your recommendation to staff the Cuba Program at levels needed to fully implement planned monitoring activities for strong program oversight. The LAC Bureau has been working to ensure appropriate staffing. Since 2007, we have added three full-time officers to bring the staff level from two to five. Another senior level GS position has been added and the employee will be on board in early December. We are currently recruiting for three additional positions, including two Foreign Service officers. Since October and November, we have had three officers working under temporary detail to the Cuba program. The actions taken thus far have helped us improve our program oversight, and we fully expect that additional staffing will further strengthen our ability to monitor the program.

USAID has initiated measures to strengthen risk management, and the impact of improved oversight is evident. To date, the steps we have taken (establishment of the Cuba project committee, adding staff, hiring a financial services contractor, conducting timely pre-award reviews and follow-up on recommendations, providing specific guidance to grantees on USG requirements, improving our site visit and monitoring activities) have all been focused at
managing the risk levels of the program. It is precisely because of these additional oversight actions that the cases of alleged fraud and questioned costs were detected.

USAID also concurs with the need to periodically assess the Cuba Program’s overall efforts to address and reduce grantee risk. Thus, the LAC Bureau will add specific steps to assess the risks associated with its Cuba program grantee pool in its ongoing risk assessment work. This assessment will incorporate results from grantee monitoring and site visits, reviews by the financial services contractor, pre-award reviews, and IG audits.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,

Sean R. Mulvaney
Assistant Administrator
Bureau for Management
Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

David Gootnick, 202-512-3149, or gootnickd@gao.gov

Staff Acknowledgments

In addition to the individual named above, Jeanette M. Franzel, Director, Financial Management and Assurance; Emil Friberg, Jr.; Michael Rohrback; Bonnie Derby; Todd M. Anderson; Sunny Chang; Lisa M. Galvan-Treviño; and Reid Lowe made key contributions to this report.
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