United States Government Accountability Office

Report to Congressional Committees

February 2015

# ENTERPRISE FUNDS

## Egypt and Tunisia Funds Are Established; Additional Steps Would Strengthen Compliance with USAID Grant Agreements and Other Requirements

GAO-15-196

# GAO Highlights

Highlights of GAO-15-196, a report to congressional committees

February 2015

# ENTERPRISE FUNDS

## Egypt and Tunisia Funds Are Established; Additional Steps Would Strengthen Compliance with USAID Grant Agreements and Other Requirements

## Why GAO Did This Study

In the wake of the economic and political transitions associated with the “Arab Spring,” Congress authorized the creation of enterprise funds for Egypt and Tunisia in 2011. EAEF and TAEF aim to develop the private sectors in these countries, particularly SMEs, through instruments such as loans, equity investments, and technical assistance. USAID signed grant agreements with both Funds in 2013 and has thus far obligated $120 million to EAEF and $60 million to TAEF. In this report, GAO examines (1) the status of the Funds’ investments, (2) the Funds’ progress in establishing key management structures to support their missions and operations, and (3) the extent to which the Funds have complied with requirements in the grant agreements. To address these objectives, GAO reviewed USAID and Fund documents, such as EAEF and TAEF grant agreements, policies and procedures, and the Funds’ boards of directors meeting minutes. GAO also interviewed USAID and Fund officials.

## What GAO Recommends

GAO recommends that USAID take steps to further enhance its oversight of the Funds’ compliance with the grant agreements and other requirements by establishing a process to better manage cash advances to the Funds; ensuring that the Funds comply with the grant agreement requirements related to performance monitoring and public communications; and ensuring that the Funds’ corporate policies include vetting requirements. USAID concurred with our recommendations.

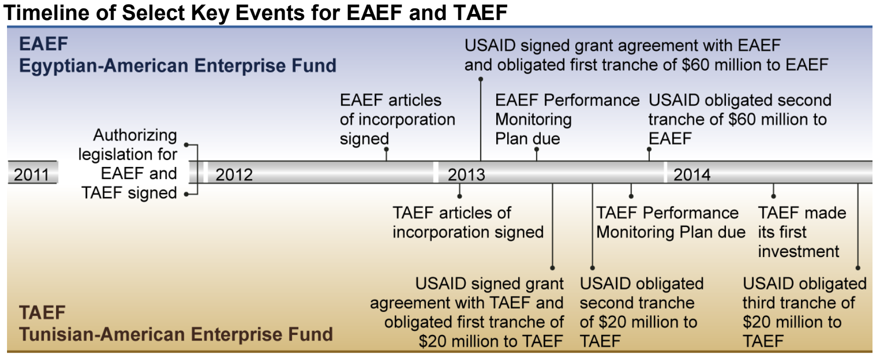
View GAO-15-196. For more information, contact David Gootnick at (202) 512-3149 or at gootnickd@gao.gov.

## What GAO Found

The Egyptian-American Enterprise Fund (EAEF) has not yet made any investments in Egypt, and the Tunisian-American Enterprise Fund (TAEF) has made an over $2.4 million investment in Tunisia. EAEF has not made any investments in Egypt as its initial investment did not proceed as planned. EAEF’s attempt to purchase a bank in Egypt that would lend money to small and medium-sized enterprises (SME) was rejected by the Egyptian Central Bank. EAEF is now considering other options, such as investments in the food and beverage sector. TAEF’s investment strategy is to invest in four different areas: (1) a private equity fund investing in SMEs, (2) direct investments in SMEs smaller than those targeted by the private equity fund, (3) microfinance institutions, and (4) start-ups. In June 2014, TAEF made an over $2.4 million investment in a private equity fund that invests in and finances Tunisian SMEs.

EAEF and TAEF (the Funds) have made progress in establishing key management structures to support their mission and operations, with additional actions under way. In terms of administrative structures, both Funds have hired initial staff. Regarding their corporate governance, EAEF and TAEF both have boards of directors that have met regularly, adopted by-laws, and developed corporate policies and procedures. Both Funds plan to develop and implement additional management structures in the future, such as audits of their 2013 and 2014 financial statements.

**Timeline of Select Key Events for EAEF and TAEF**




Source: GAO analysis of USAID, EAEF, and TAEF information. | GAO-15-196

While TAEF and EAEF have generally fulfilled the requirements of the grant agreements, GAO found three gaps in the Funds’ implementation and one gap in the U.S. Agency for International Development’s (USAID) implementation. First, the Funds have not yet submitted their performance monitoring plans as required by the grant agreements. Second, EAEF has not implemented the provisions in its grant agreement related to public communications, such as development of its own logo. Third, the Funds’ corporate policies do not include procedures to implement vetting requirements designed to prevent illicit use of the funds, the presence of which was expected by USAID. USAID has also not tracked the Funds’ use of cash in a way that allows the agency to monitor whether EAEF and TAEF are spending it in a timely manner. Collectively, these gaps in implementation pose challenges for USAID’s oversight of the Funds.

# Contents

## Abbreviations

| | |
|---|---|
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| EAEF | Egyptian-American Enterprise Fund |
| SME | small and medium-sized enterprises |
| TAEF | Tunisian-American Enterprise Fund |
| USAID | U.S. Agency for International Development |

441 G St. N.W.
Washington, DC 20548

February 2, 2015

Congressional Committees

In 2011, in response to the political and economic transitions in the Middle East known as the Arab Spring, Congress authorized the establishment of enterprise funds to develop the private sector in Egypt, Jordan, and Tunisia.[1] In 2013, the U.S. Agency for International Development (USAID) signed grant agreements with the Egyptian-American Enterprise Fund (EAEF) and the Tunisian-American Enterprise Fund (TAEF) (the Funds).[2] The purpose of the Funds is to promote the development of Egyptian and Tunisian private sectors through activities such as investments in small and medium-sized enterprises (SME). USAID has awarded $120 million for EAEF and $60 million for TAEF to date. USAID grant agreements with EAEF and TAEF, as well as the authorizing legislation, require the Funds to fulfill several requirements related to financial management and public reporting, among other things. Each Fund has an independent board of directors, led by a chairman. USAID is responsible for monitoring the Funds' activities.

Conferees of the fiscal year 2012 Consolidated Appropriations Act, Public Law 112-74, requested that we examine the management and oversight of the Funds.[3] In this report, we examine (1) the status of EAEF's and TAEF's investments, (2) EAEF's and TAEF's progress in establishing key management structures to support their missions and operations, and (3) the extent to which EAEF and TAEF have complied with the requirements of the USAID grant agreements.

To examine the status of the Funds' investments, we reviewed the Funds' strategic planning documents and interviewed the EAEF and TAEF Chairmen and senior management. To examine EAEF's and TAEF's progress in establishing key management structures to support their missions and operations, we reviewed Fund documents, such as their statements of corporate policies and procedures (corporate policies),

[1]Consolidated Appropriations Act, 2012, Pub. L. No. 112-74, Div. I, § 7041(b).

[2]USAID, in consultation with the Jordanian government, decided not to establish an enterprise fund in that country, according to USAID officials.

[3]H. Rept. No. 112-331.

reports to external parties, boards of directors meeting minutes, financial and personnel information, and organizational charts. We used an internal control evaluation tool developed in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as a framework for obtaining and analyzing information on the Funds' progress in establishing key management structures.[4] Although our analysis included gaining an understanding of EAEF's and TAEF's actions related to establishing internal control mechanisms, we did not evaluate the implementation of internal control at the Funds. To assess the extent of Fund compliance with certain grant agreement requirements, we identified 22 requirements established by the agreements and then determined the extent to which the Funds had met those requirements by reviewing relevant documentation, such as the Funds' corporate policies.

We conducted this performance audit from March 2014 to February 2015 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. Appendix I provides a detailed explanation of our objectives, scope, and methodology.

# Background

## Enterprise Funds: Definition and History

A U.S. government–funded enterprise fund is an organization that is designed to promote the expansion of the private sector in developing and transitioning countries by providing financing and technical assistance to locally owned small and medium-sized enterprises. The U.S. government provides initial capital to an enterprise fund through a grant; the fund may then seek additional capital from the private sector to invest alongside the enterprise fund. Enterprise funds are modeled on investment management in the venture capital industry, in which venture

[4] COSO is a joint initiative of five private sector organizations that develops frameworks and provides guidance on enterprise risk management, internal control, and fraud deterrence. COSO's internal control framework has been recognized by regulatory standard setters and others as a comprehensive framework for evaluating private sector organizations' systems of internal control.

capital is invested primarily in small companies during early stages of their development with the investors monitoring, advising, and following up on operational results. It is expected that some investments will fail, but successful ventures are intended to offset the losses over the long term.[5]

The U.S. government initially funded enterprise funds in the early 1990s to promote the development of the private sector in Eastern and Central European countries following the breakup of the former Soviet Union in December 1991. USAID invested $1.2 billion to establish 10 enterprise funds, covering 19 countries in Central and Eastern Europe and the former Soviet Union. In September 2013, USAID issued a lessons-learned report that documented the successes and challenges faced by the Eastern and Central European enterprise funds.[6] The report concluded that while enterprise funds have demonstrated that they can be a successful tool in achieving positive financial returns and developmental objectives, results to date have been mixed, based upon the economic and political environment in which they operate along with the overall investment strategy and the specific investment decisions made by each fund's board and management team. The report also stated that, in many cases, the enterprise funds in Europe and Eurasia took up to 2 years before they were ready to make their first investments.

## EAEF and TAEF: Establishment, Purpose, and Requirements

In early 2011, the events characterized as the Arab Spring renewed interest in the potential use of the enterprise fund model in the Middle East region as well as in other countries undergoing economic and political transition. EAEF and TAEF were thus modeled after the enterprise funds in Eastern and Central Europe. EAEF was incorporated in October 2012 and funded in March 2013, when the grant agreement between USAID and EAEF was signed. TAEF was incorporated in February 2013 and funded in July 2013, when the grant agreement between USAID and TAEF was signed.

[5]GAO, *Foreign Assistance: Enterprise Funds' Contributions to Private Sector Development Vary,* GAO/NSIAD-99-221 (Washington, D.C.: Sept. 14, 1999).

[6]USAID, *The Enterprise Funds in Europe and Eurasia: Successes and Lessons Learned*, Washington, D.C., Sept. 12, 2013.

The Funds' authorizing legislation allows them to achieve their goals through the use of loans, microloans, equity investments, insurance, guarantees, grants, feasibility studies, technical assistance, training for businesses receiving investment capital, and other measures. The Funds have a dual mandate, or "double bottom line," in that they are intended to achieve a positive return on investment while also achieving a positive development effect. The authority of the Funds to provide assistance expires on December 31, 2025.

## EAEF and TAEF: Organizational Structures

The Funds are established as nonprofit corporations that do not have shareholders and do not distribute dividends. The authorizing legislation states that each Fund shall have a board of directors that is composed of six private U.S. citizens and three private host-country citizens. The authorizing legislation further requires that board members have international business careers and demonstrated expertise in international and emerging markets investment activities.[7] According to a September 2013 lessons-learned report by USAID on past enterprise funds, identifying and recruiting the most experienced individuals to serve on the fund's board of directors is the single most important element in achieving the fund's long-term development goals and financial profitability.[8]

U.S. board members serve on a volunteer basis, while the Egyptian and Tunisian citizen board members are permitted to receive compensation for their time and services.[9] The Funds' boards are responsible for establishing their own operating and investment policies and directing their corporate affairs in accordance with applicable law and the grant agreements.

[7]The 2012 legislation authorizing enterprise funds in Egypt and Tunisia outlines other requirements for the Funds to fulfill. For example, not more than 5 percent of the Funds' annual budgets shall be available for administrative expenses, and each Fund is required to submit an annual report to the U.S. Congressional Committees on Appropriations detailing the administrative expenses of each Fund. In addition, each Fund is required to make available to the public on an Internet website administrated by the Fund, a detailed report on the Fund's activities during the previous year.

[8]USAID, *Enterprise Funds in Europe and Eurasia.*

[9]According to EAEF and TAEF officials, neither Fund is currently compensating its host country board members.

# EAEF Has Not Made Any Investments in Egypt While TAEF Has Invested $2.4 Million in Tunisia

## EAEF Has Not Made Any Investments in Egypt as Its Initial Investment Did Not Proceed as Planned

EAEF has not made any investments in Egypt, as its first investment, to purchase an Egyptian bank, did not come to fruition. EAEF's investment strategy had been to purchase a bank that would lend money to small and medium-sized enterprises in Egypt. According to the EAEF Chairman, EAEF envisioned that it would have a greater impact on the Egyptian economy by making one large investment rather than a series of smaller investments. In August 2013, EAEF made plans to purchase a small bank in Egypt and subsequently conducted due diligence on the bank by hiring a large U.S. accounting firm to review the bank's financial situation, among other things. In June 2014, the EAEF Board of Directors approved a decision to acquire the bank. However, according to the EAEF Chairman, the Egyptian Central Bank rejected EAEF's application to purchase the bank.

As of December 2014, EAEF was considering other investment options. According to EAEF officials, the Fund is now conducting due diligence on potential investments in the food and beverage, healthcare, and consumer finance sectors. The Chairman stated that he anticipates investing $60 million to $90 million in these three areas. Additionally, the EAEF Chairman told us that EAEF plans to consider investments in firms varying in size from SMEs to larger firms.

USAID has obligated $120 million to EAEF, of which approximately $588,000 has been disbursed.[10] Costs associated with performing the due diligence review constituted the majority of EAEF's expenditures through 2014. Specific categories of EAEF's expenditures include professional (e.g., legal) fees and travel expenses. Thus far, EAEF has spent less on administrative expenses than the approximately $3 million estimated for the first year in its preliminary budget.[11]

## TAEF Has Made a $2.4 Million Investment in Tunisia

USAID has obligated $60 million to TAEF, of which TAEF has disbursed approximately $1.6 million, for administrative expenses and investments.[12] TAEF plans to promote private sector development in Tunisia by investing in (1) a private equity fund that supports SMEs, (2) direct investments in SMEs smaller than those targeted by the private equity fund, (3) microfinance institutions, and (4) start-ups.[13] In 2013, TAEF established a subsidiary company in Tunisia—the TAEF Advisory Company—that directly oversees TAEF's efforts in these four areas.

[10]EAEF obligations were drawn from amounts appropriated to the Economic Support Fund for fiscal years 2012 and 2013. The Consolidated Appropriations Act, 2012 (Pub. L. No. 112-74) made available up to $60 million to establish and operate an enterprise fund for Egypt. Section 7075(b) of that act required that funds made available for enterprise funds shall be expended at the minimum rate necessary to make timely payment for projects and activities. Title VII of the Full Year Continuing Appropriations Act, 2013 (Pub. L. No. 113-6, Div. F) carried forward these provisions. The Consolidated Appropriations Act, 2014 (Pub. L. No. 113-76) authorizes the use of the Economic Support Fund to operate enterprise funds, but does not set a ceiling on the amount that may be made available for this purpose. USAID has not yet obligated funds from the 2014 appropriation to support EAEF.

[11]The EAEF grant agreement includes a preliminary 3-year budget that anticipates a total allocation of $180 million to the Fund.

[12]TAEF obligations were drawn from amounts appropriated to the Economic Support Fund designated for Overseas Contingency Operations/Global War on Terrorism by Title VIII of Div. I of the Consolidated Appropriations Act, 2012 (Pub. L. No. 112-74). The Consolidated Appropriations Act, 2012 made available up to $20 million of funds appropriated to the Economic Support Fund by that act or by prior acts to establish and operate an enterprise fund in Tunisia. Title VII of the Full Year Continuing Appropriations Act, 2013 (Pub. L. No. 113-6, Div. F) carried forward this provision. The Consolidated Appropriations Act, 2014 (Pub. L. No. 113-76) authorizes the use of the Economic Support Fund to operate enterprise funds, but does not set a ceiling on the amount that may be made available for this purpose.

[13]Microfinance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services.

In June 2014, TAEF committed to its first investment of over $2.4 million in a private equity fund that invests in SMEs in a variety of industries, such as telecommunications, agribusiness, and renewable energy.[14] TAEF is one of several investors in the private equity fund; other investors include foreign donors. According to the TAEF Chairman, aggregate investments in the Fund from all sources total approximately $20 million. TAEF officials told us that the Fund will have representation on the equity fund's advisory committee.

According to TAEF officials, the Fund has not yet made any investments in the remaining areas of direct investments in SMEs smaller than those targeted by the private equity fund, microfinance institutions, and start-ups. According to the TAEF Chairman, TAEF is in the process of conducting due diligence on two microfinance entities. Thus far, TAEF has spent less on administrative expenses than the approximately $900,000 estimated for the first year in its preliminary budget.[15]

## EAEF and TAEF Have Established Key Management Structures, with Additional Actions Under Way

Since their inception, EAEF and TAEF have made progress in establishing key administrative infrastructures necessary to support their investment operations. The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) 2013 internal control evaluation tool establishes a framework for assessing management structures.[16] As shown in table 1, EAEF and TAEF have made progress in establishing structures for administrative infrastructure, corporate governance, internal control, and human capital management in line with key elements of the COSO framework.

[14]TAEF has invested a first tranche of approximately $1 million in the private equity fund, with subsequent tranches to follow.

[15]The TAEF grant agreement includes a preliminary 5-year budget that anticipates a total allocation of $100 million to the Fund.

[16]As noted earlier, COSO is a joint initiative of five private sector organizations that develops frameworks and provides guidance on enterprise risk management, internal control, and fraud deterrence. COSO's internal control framework has been recognized by regulatory standards setters and others as a comprehensive framework for evaluating private sector organizations' systems of internal control.

**Table 1: EAEF's and TAEF's Progress on Key Management Structures**

| Key management structures | Selected actions completed | Actions under way or planned |
|---|---|---|
| **Administrative infrastructure**<br>*Basic infrastructure needed to support program operations.* | • EAEF and TAEF acquired office space in New York, New York and Washington, D.C., respectively.<br>• The Funds hired initial staff. | • The Funds plan to hire additional staff (e.g., investment officers). |
| **Corporate governance**<br>*Collective policies and mechanisms used by the board to effectively oversee management efforts to establish and maintain a sustainable and accountable organization.* | • The Funds adopted bylaws.<br>• The Funds established USAID-approved statements of corporate policies and procedures.<br>• The Funds' boards of directors have met regularly. | • EAEF and TAEF each have yet to fill two vacant board positions. |
| **Internal control**<br>*Integral component of organization management that provides reasonable assurance that key objectives—efficiency and effectiveness of operations, reliability of financial reporting, and compliance with applicable laws and regulations—are being achieved.* | • *Control environment* – The Funds established directives on ethical business practices and detailed conflict of interest policies.<br>• *Risk assessment:* The Funds conducted due diligence on their first potential investments.<br>• *Control activities:* The Funds established several financial and cash management–related controls.<br>• *Information:* The Funds' policies state that they will maintain investment databases that list all of the Funds' investments.<br>• *Communication:* The Funds met with several U.S. and foreign organizations to discuss their missions and activities.<br>• *Monitoring:* The Funds reported their administrative activities to Congress, their financial information to USAID, and summaries of their activities on their public websites. | • *Monitoring:* EAEF and TAEF performance monitoring plans have been overdue for approximately19 months and 15 months, respectively. According to the Funds, they are in the process of developing them.<br>• *Monitoring:* According to USAID officials, the Funds plan to have independent auditing firms express opinions on their 2013 and 2014 financial statements. |
| **Human capital management**<br>*Leadership, strategic human capital planning, developing and retaining talent, and results-oriented culture are the cornerstones of strategic human capital management.* | • The Funds created job descriptions for their management positions.<br>• The Funds established guidelines for providing compensation to their employees. EAEF hired companies to do an executive compensation study and to administer its human capital policies, including terms of recruitment, hiring, and employee benefits. | • EAEF is considering a decision to enter into an agreement with a firm to manage its investments. |

Legend: EAEF = Egyptian-American Enterprise Fund; TAEF= Tunisian-American Enterprise Fund; USAID = U.S. Agency for International Development.

Source: GAO analysis of EAEF and TAEF documents and interviews. | GAO-15-196

## Administrative Infrastructures

> **Administrative infrastructure**
> Administrative infrastructure refers to the basic systems and resources needed to set up and support organizations' operations—which also contribute to developing a culture of accountability and control.
> Source: GAO. | GAO-15-196

Since being funded in 2013, EAEF and TAEF have focused on establishing essential administrative infrastructures. EAEF set up its headquarters in New York City, New York. In July 2014, EAEF hired its first employee to occupy the position of Chief of Staff and Director of Policy Planning. According to the EAEF Chairman, EAEF plans to hire an investment manager and a chief financial officer in the future.

TAEF has a U.S. office located in Washington, D.C., and a Tunisian office located in Tunis, Tunisia, both of which are led by a managing director. TAEF plans to hire two investment officers in the future. EAEF and TAEF administrative expenses thus far have mostly consisted of professional fees (e.g., expenses for legal and consulting services), travel expenses, and so forth.[17]

## Corporate Governance

> **Corporate governance**
> Corporate governance can be viewed as the formation and execution of collective policies and oversight mechanisms to establish and maintain a sustainable and accountable organization while achieving its mission and demonstrating stewardship over its resources. Generally, an organization's board of directors has a key role in corporate governance through its oversight of executive management; corporate strategies; and risk management, audit, and assurance processes.
> Source: GAO. | GAO-15-196

The Funds have established bylaws and other rules for corporate governance. The bylaws cover the purpose of the Funds, voting rules, and the duties and responsibilities of corporate officers. The boards of both Funds have met regularly since their inceptions. In addition, the Funds have established corporate policies and procedures, which USAID has approved. In November 2014, the EAEF Board of Directors established several committees, including an investment committee, a governance and nominating committee, an external relations committee, and an audit committee. EAEF and TAEF each have to fill two vacant board member positions, one for a U.S. citizen and the other for a host country citizen. EAEF and TAEF are currently considering potential candidates to fill the vacant positions.

[17]Administrative expenses also include payments for rent/lease, furniture, operating expenses, and salaries.

## Internal Controls

**Internal control**

Internal control provides reasonable assurance that key management objectives—efficiency and effectiveness of operations, reliability of financial reporting, and compliance with applicable laws and regulations—are being achieved. Areas of internal control include control environment, risk assessment, control activities, information and communication, and monitoring.

Source: GAO. | GAO-15-328

EAEF and TAEF have established a variety of internal controls in the areas of control environment, risk assessment, control activities, information and communication, and monitoring, with additional actions under way.

- *Control environment.* The Funds have established directives on ethical business practices and detailed conflict-of-interest policies. In addition, each Fund has a policy on disciplinary sanctions that states that any violation of the Fund's laws or ethical guidelines could subject an individual to potential disciplinary sanctions, such as probation or reduction in pay.

- *Risk assessment.* EAEF conducted a due diligence review for its first potential investment, the purchase of a bank. Among other things, EAEF hired a large accounting firm to review a sample of the bank's loans. TAEF established due diligence procedures in which it examined the governance, financial, operations, and legal status of its first investment. Before funding its first investment, TAEF carried out its due diligence procedures and determined that there were no significant issues (e.g., financial or legal issues) that would impede TAEF from making the investment. The meeting minutes of the board investment committee indicate that the board discussed the results of the due diligence assessment, including the extent of risk involved, and that the board unanimously approved the fund's first investment.

- *Control activities.* EAEF and TAEF have established several financial and cash management–related controls, including the following:
  - Financial statements will be prepared on a quarterly basis and sent to the audit committees of the board of directors to review the performance of the Funds on a timely basis.
  - Each Fund will, to the extent practicable, prepare an annual budget detailing its estimated operational requirements. The budget will be approved by the president and audit committee of the board of directors before the beginning of the Fund's fiscal year (January 1).[18] Quarterly, the board of directors will receive financial reports that compare the actual results to the budgeted amounts.

[18]The Funds' bylaws allow for the board of directors to elect a president. According to the TAEF Chairman, TAEF plans to establish an audit committee in the future.

    - Expenses in excess of a certain amount must be approved in advance by the Chairman of the Board or the President (or their designees) and one other Director.
    - All available periodic financial statements and (if prepared) audits for all entities in which the Fund has invested shall also be maintained for audit review and project monitoring.

- *Information and communication.* EAEF and TAEF corporate policies state that each Fund will maintain an investment database that lists all of its investments and will include information such as company name, amount of investment, and industry. The Funds have met with several external organizations to discuss their mission and activities, including U.S. government agencies, foreign governments, international organizations, and host country businesses.

- *Monitoring.* EAEF and TAEF have reported to external parties, including Congress, USAID, and the public, on their use of resources, with additional accountability actions under way. For example, both Funds submitted reports to Congress that detailed their administrative expenses for 2013, and both Funds have submitted quarterly financial reports to USAID for its review. With regard to performance planning and reporting, EAEF officials said that the Fund is in the process of developing its required performance monitoring plan. In November 2014, TAEF developed a solicitation for firms based in Tunisia to develop its performance monitoring plan. In terms of audits, the Funds are responsible for appointing independent certified or licensed public accountants, approved by USAID, to complete annual audits of the Fund's financial statements. According to the grant agreements, the audits will be conducted within the scope of U.S. generally accepted auditing standards. According to USAID officials, the Funds plan to have their 2013 and 2014 financial statements audited.

## Human Capital Management

**Human capital management**

Cornerstones of human capital management include leadership; acquiring, developing, and retaining talent; and building a results-oriented culture.

Source: GAO. | GAO-15-196

The Funds are meeting their initial human capital needs through hiring of a limited number of personnel to occupy key positions, such as a managing director. According to the EAEF and TAEF Chairmen, they envision their organizations as having a small number of personnel. Accordingly, both Funds have recruited a limited number of employees to support their administrative operations and initial investment planning. Specifically, EAEF has hired one employee as its Chief of Staff and Director of Policy Planning. TAEF has hired three employees to include a Managing Director based in Washington, D.C.; a Chief Operating Officer and Managing Director based in Tunis, Tunisia; and an Executive Assistant based in Tunis. The Funds took steps to recruit and hire their initial staff, such as by interviewing potential candidates and reviewing their resumes. The Funds have generally outsourced their accounting and legal functions. Both Funds have created job descriptions for their employees.

To build a results-oriented culture, the Funds have established guidelines for providing compensation to their employees. For example, contingent upon USAID approval of a compensation framework, the Funds may enter into bonus or incentive compensation arrangements with their employees. The EAEF and TAEF grant agreements state that the salaries and other compensation of any of the directors, officers, and employees of the Funds shall be set at reasonable levels consistent with the nonprofit and public interest nature of the Funds. EAEF hired companies to do an executive compensation study and to administer its human capital policies, including terms of recruitment, hiring, and employee benefits.

# EAEF and TAEF Have Generally Met Grant Agreement Requirements but Some Gaps Remain

While the Funds have generally met their obligations under the grant agreements, neither Fund has submitted the performance monitoring plans required under the grant agreements. USAID has also not tracked the Funds' use of cash in a way that allows the agency to monitor whether EAEF and TAEF are spending it in a timely manner. Further, EAEF has not implemented those provisions under the grant agreement related to marking and public communications.[19] Last, the Funds'

[19]Marking of foreign assistance refers to using methods such as applying graphic identities or logos to program materials or project signage to visibly acknowledge contributors and identify organizations supporting the work.

corporate policies do not include key vetting procedures to prevent the illicit use of funds, the presence of which was expected by USAID.

## EAEF and TAEF Have Generally Met the Requirements in the Grant Agreements

EAEF and TAEF have to date generally complied with the requirements in the grant agreements. The grant agreements contain 22 discrete requirements with which each of the Funds must comply, such as submission of quarterly financial reports to USAID and annual reports to Congress on administrative expenses.[20] As of December 2014, TAEF had fully complied with 21 of the 22 requirements, and EAEF had fully complied with 17 of the 22, as shown in table 2.[21] For example, the Funds submitted the required annual reports on administrative expenses. Additionally, both Funds submitted the required quarterly financial statements.

**Table 2: Assessment of EAEF and TAEF Compliance with USAID Grant Agreement Requirements, as of December 2014**

| Requirements | EAEF | TAEF |
|---|---|---|
| (1) The Fund will develop a performance monitoring plan to include a goal statement. | ◒ | ◒ |
| (2) The grantee will request payment for anticipated expenditures no more than 90 days in advance. Absent an approved justification indicating otherwise, unexpended cash on hand should be counted against current payment requests. | ● | ● |
| (3) The grantee agrees to develop and use a unique identity logo and brandmark for the Fund to identify all program or communications materials. | ○ | ● |
| (4) The grantee must use the USAID logo and brandmark in any of its program or communications materials unless otherwise approved by USAID. | ○ | ● |
| (5) Press releases or other public notices should include a statement substantially as follows: “The U.S. Agency for International Development administers the U.S. foreign assistance program providing economic and humanitarian assistance in more than 100 countries worldwide.” | ○ | ● |

[20]We excluded those requirements that have not yet come due as a result of timing or circumstance. For example, we did not assess compliance with the provision of the grant agreements requiring the Funds to require recipients of technical assistance to keep separate accounts with respect to such assistance.

[21]USAID policy requires grant agreements with nonprofit organizations to include a standard set of provisions. However, the EAEF and TAEF grant agreements do not address standard provisions relating to “limitations on construction activities” and a “drug-free work place.” A USAID official told us in August 2014 that the agency would either incorporate the two missing standard provisions when it next amended the grant agreements or that it would seek approval to waive those provisions. However, when USAID amended the TAEF grant agreement in November 2014, it did not include the two provisions.

| Requirements | EAEF | TAEF |
|---|---|---|
| (6) The grantee shall include a disclaimer in any "public communication" in which the content has not been approved by USAID. | ○ | ● |
| (7) The Fund has been established in the United States as a not-for-profit corporation. | ● | ● |
| (8) The Fund has adopted environmental management principles, as part of its corporate policies. | ● | ● |
| (9) The Fund has established investment selection and diligence procedures reasonably designed to ensure consideration of the following factors when making investments: internationally recognized worker rights, gender, environmental factors, U.S. economic and employment effects, and the likelihood of commercial viability of the activity receiving assistance from the Fund. | ● | ● |
| (10) By December 23, 2013 and annually thereafter, the Funds shall submit to U.S. congressional committees a report detailing the administrative expenses of each Fund. | ● | ● |
| (11) As part of USAID's oversight of the grant activities, the grantee agrees to provide information to USAID, such as its rate of commitment and utilization of grant funds, and the status of the investment portfolio. | ● | ● |
| (12) The grantee shall have annual audits of the Fund performed in accordance with U.S. generally accepted audit standards by independent auditors who are approved by USAID.[a] | ● | ● |
| (13) The grantee will establish audit requirements for each investee. | ● | ● |
| (14) In order to obtain initial advance of funding, the grantee must request an advance for the initial 90-day period of projected cash disbursement needs immediately upon signing the agreement. | ● | ● |
| (15) When advances are provided under this award, the grantee must deposit such funds in a U.S. federally insured bank and be able to account for the receipt and expenditure of funds. | ● | ● |
| (16) The grantee shall submit an initial quarterly financial report to USAID and shall provide subsequent financial reports at quarterly intervals thereafter. | ● | ● |
| (17) The grantee will include in its due diligence procedures the requirement to collect information to determine whether a potential investment or activity by the grantee is likely to result in activities that are inconsistent with Section 7028 of the authorizing legislation.[b] | ● | ● |
| (18) The grantee shall include in its due diligence procedures the requirement that each investee certify that such funds or other assistance will not be utilized for any prohibited purposes. | ● | ● |
| (19) The grantee has established as part of its corporate policies, and shall maintain investment procedures that are designed to prevent the contribution of grant funding to: (1) any political parties or organizations which are not committed to respect for the democratic process; (2) the defense or security forces of any country; or (3) other prohibited transactions, such as those resulting in grant funds being used for the manufacture of abortion equipment or activities that significantly degrade national parks or similar protected areas. | ● | ● |
| (20) The grantee shall produce an annual report, on a public website, which shall include a description of the Fund's operations, activities, financial condition, and accomplishments. | ● | ● |
| (21) The grantee shall use best efforts to promptly obtain tax exempt status under Section 501(c)(3) of the U.S. Code. | ● | ● |

| Requirements | EAEF | TAEF |
|---|---|---|
| (22) The grantee shall provide USAID with two copies of its program and communications materials. | ● | ● |
| **Total 22** | **17** | **21** |

Legend: ● =fully addressed; ◒ = partially addressed; ○=not addressed

EAEF = Egyptian-American Enterprise Fund; TAEF= Tunisian-American Enterprise Fund

Source: GAO analysis of grant agreements and USAID, TAEF, and EAEF data. | GAO-15-196

Notes

[a]While the EAEF and TAEF grant agreements state that the audits will be conducted in accordance with U.S. generally accepted audit standards, the Funds' corporate policies state that their audits will be conducted in accordance with U.S. generally accepted government auditing standards.

[b]Pub. L. No. 112-74, Div. I, §7028 states that funds appropriated pursuant to Titles III through VI, including Economic Support Funds, may not be obligated or expended to provide any financial incentive to a business currently located in the United States for the purpose of inducing the enterprise to relocate outside of the United States or to provide assistance for any program that contributes to the violation of internationally recognized workers rights.

## EAEF and TAEF Have Not Submitted Performance Monitoring Plans Required by the Grants

EAEF and TAEF have not yet submitted performance monitoring plans as required by the grant agreements. Specifically, the grant agreements require the Funds to develop performance monitoring plans in consultation with USAID within 120 days after the grant agreement enters into force.[22] However, as of February 2015, EAEF and TAEF performance monitoring plans were approximately 19 months and 15 months overdue, respectively.

The performance monitoring plans are intended to allow external stakeholders and, for the purposes of oversight, USAID to monitor the Funds' progress toward meeting their goals. The grant agreements also require that the performance monitoring plans include performance indicators, which must include return on investment for U.S. capital invested in Egypt and Tunisia through the Funds and the number of SMEs in Egypt and Tunisia benefitting from Fund activities. USAID and the Funds are to review the performance monitoring plans and associated indicators during the semiannual meetings with USAID to assess progress. Without performance monitoring plans, USAID and other

[22]The performance monitoring plans were due on July 11, 2013 and November 6, 2013, for EAEF and TAEF, respectively.

stakeholders cannot assess progress toward agreed-upon goals and indicators during the semiannual reviews.[23]

USAID referred the Funds to monitoring and evaluation experts to assist the Funds in developing their performance monitoring plans, according to USAID officials. The EAEF and TAEF Chairmen told us that it would have been premature to submit a performance monitoring plan before finalizing investment strategies. TAEF and EAEF officials told us that they are currently seeking contractors to develop and implement performance monitoring plans. In November 2014, TAEF issued a scope of work that envisioned a performance monitoring plan being presented to USAID 60 days after the Fund had selected and engaged a contractor. According to EAEF officials, EAEF plans to submit a performance monitoring plan to USAID in early 2015.

## USAID's Financial Management Office Has Not Been Tracking Funds' Cash Management Practices

USAID's grant agreements with EAEF and TAEF state that they may request funds for anticipated expenditures for up to a 90-day period from the date of the request.[24] In addition, USAID guidance on advance payments states that, generally, advance payments or any portion of an advance payment not liquidated within 150 days is considered delinquent.[25] Any exception to this general rule must be supported by a documented rationale from the agreement officer and approved by USAID's financial management office. EAEF and TAEF have not liquidated some of their advances within 150 days of payment, and the advances were therefore delinquent. After we shared our preliminary findings with USAID, program officials sought and obtained the necessary approvals. As of November 2014, EAEF had an outstanding balance of

[23]USAID and the Funds also use the semiannual meetings to review financial information such as rate of commitment and utilization of grant funds.

[24]Should a fund have unexpended cash on hand carried over from a previous advance request, it must provide a brief justification to the USAID program representative for why such cash on hand should not be counted against subsequent advance payment requests.

[25]USAID's Automated Directives System Chapter 636, "Program Funded Advances," outlines policy directives regarding advances made to program-funded contracts and assistance awards. A mandatory reference to Chapter 636 entitled "Advance Payment, Liquidation/Reimbursement, and Reporting Assistance Agreements: A Mandatory Reference for ADS Chapter 636" states that exceptions to the general 150-day rule are approved by either the Controller for Missions or by the Chief of the Cash Managements and Payments Division with the USAID CFO's Bureau for Management.

approximately $247,000, and TAEF had an outstanding advance balance of approximately $477,000. The Funds reported their liquidation of their advance payments through quarterly financial reports that are sent only to the USAID program representative. However, USAID's financial management office is responsible for monitoring whether the Funds' advances are outstanding. Because USAID's financial management office was not receiving the quarterly financial reports, it was unable to ensure that the Funds were not maintaining USAID funds in excess of their immediate disbursement needs. In commenting on a draft of this report, USAID stated that although not strictly required by agency policy, the program representative is now sharing all quarterly financial information with the financial management office to facilitate oversight.

## EAEF Has Not Implemented Provisions Related to Marking and Public Communications

EAEF has not implemented the provisions in its grant agreement related to marking and public communications. Those provisions require the Fund to develop a logo in addition to using the USAID logo, to acknowledge USAID's role in the provision of foreign assistance, and to use a general disclaimer in those instances where it is unable to obtain USAID's approval in advance of a public communication. We have reported in the past that marking can raise awareness about the source of assistance with individuals who come into contact with the assistance sites or materials.[26] According to USAID and EAEF officials, the two organizations are working together to see that the Fund implements these provisions.

## EAEF and TAEF Corporate Policies Do Not Include Key Vetting Procedures to Prevent Illicit Use of Funds

The grant agreements aim to prevent the contribution of U.S. funds (1) to certain individuals (e.g., individuals and organizations associated with terrorism) by conducting appropriate vetting, (2) for certain purposes (e.g., funds may not be used toward the purchase of gambling equipment), (3) to political organizations not committed to democracy, and (4) to the military of another government.[27] Internal control standards direct organizations to establish control activities such as policies and procedures that enforce management directives and help ensure that

[26]GAO, *Foreign Assistance: Actions Needed to Better Assess the Impact of Agencies' Marking and Publicizing Efforts,* GAO-07-277 (Washington, D.C.: Mar. 12, 2007).

[27]The guidelines entail procedures for the selection of investments, the conduct of due diligence and the monitoring of investments once they are made.

actions are taken to address risks. We found that the Funds have accounted in their corporate policies for three out of the four prohibitions related to preventing the contribution of EAEF or TAEF funds to illicit transactions or purposes. While USAID grant agreements with the funds establish procedures designed to prevent transactions with individuals and organizations associated with terrorism, and the Chairmen of both Funds have committed to mitigate any risk of illicit use of U.S. funds, neither Funds' corporate policies contain specific vetting provisions. Specifically, they lack provisions related to vetting potential investees and the requirement that any investee planning to lend U.S. funds in excess of $25,000 onward to another business or invest in another entity certify to the Funds that it will conduct certain due diligence activities to prevent their illicit use. While USAID approved the Funds' corporate policies, USAID officials subsequently indicated that they expected this prohibition related to vetting potential investees and onward lending to be included in the Funds' corporate policies.

Since the Funds have made only one investment to date—TAEF's $2.4 million investment—there has been only one instance where vetting was necessary. In commenting on a draft of this report, the TAEF Chairman emphasized that the Fund carried out all required due diligence with respect to vetting and assured itself of the appropriateness of the investee's procedures. For example, TAEF provided us with documentation of TAEF's efforts to screen the investee's primary officials against the required vetting lists as well as the investee's policy for verifying the credentials of individuals and firms. In addition, in November 2014, TAEF signed a side letter with the investee in which the investee agreed to screen all future recipients against lists of proscribed parties.

## Conclusions

Since their inception in 2013, EAEF and TAEF have been awarded $180 million by USAID and have made progress in establishing their administrative infrastructures, internal controls, corporate governance mechanisms, and investment strategies. To date, the Funds have disbursed approximately $2 million of the $180 million awarded to them and thus have a significant amount of U.S. funding available for future investments. The Funds have generally complied with the requirements in their grant agreements with USAID. For example, the Funds have submitted required financial reports to USAID and Congress. In addition, USAID and the Funds continue to take steps to improve oversight and compliance with the grant agreements. However, they have not yet completed actions to further strengthen oversight and compliance in several areas. In the area of cash management, USAID is exploring ways to ensure that it has all necessary financial information from the Funds, but it has not yet ensured that the Funds liquidate cash advances in a timely manner. In addition, while both Funds are hiring contractors to develop performance monitoring plans—for which both Funds required an extension of the original submission deadline—neither Fund has completed its performance monitoring plan. Further, EAEF has not yet complied with the provisions in the grant agreement related to public communications, such as those requiring EAEF to acknowledge the U.S. government's financial contribution. While both Funds have demonstrated their commitment to ensuring that U.S. funds are not used for prohibited purposes, neither Fund has incorporated vetting requirements for individuals and organizations into its corporate policies. Taking steps to address these remaining items would strengthen USAID oversight and the Funds' compliance with the grant agreements, which will be particularly important as the Funds' investments grow in number and size.

## Recommendations for Executive Action

To further enhance USAID's oversight of the Funds and to ensure the Funds fully implement the grant agreements, we recommend that the Administrator of USAID take the following four steps:

1. establish a process to better manage cash advances to the Funds,
2. make certain that the Funds comply with grant agreement requirements related to performance monitoring,
3. ensure that the Funds comply with grant agreement requirements related to public communications, and
4. ensure that the Funds' corporate policies reflect grant agreement provisions regarding vetting requirements designed to prevent transactions with prohibited individuals and organizations.

## Agency Comments and Our Evaluation

We provided a draft of this report to USAID, the Department of State (State), EAEF, and TAEF for review and comment. USAID and TAEF provided written comments, which we have reprinted in appendixes II and III, respectively. State provided technical comments, which we incorporated as appropriate. In its written comments, reprinted in appendix II, USAID concurred with our four recommendations and indicated the steps it was taking to implement each of them. Specifically, regarding our recommendation to establish a process to better manage cash advances, USAID stated that going forward the program representative would share Fund quarterly financial reports with the office of the Chief Financial Officer. In response to our recommendation pertaining to performance monitoring, USAID stated that it would work with each Fund to meet a revised deadline of the first quarter of 2015 to submit a completed performance monitoring plan. With regard to our recommendation pertaining to public communications, EAEF confirmed to USAID that it would meet all related requirements going forward, including proposing a logo in the first quarter of 2015. Lastly, the Chairmen of both Funds confirmed to USAID that they would propose amendments to their corporate policies to include the vetting procedures to their respective Boards.

In its written comments, reprinted in appendix III, TAEF agreed with our findings and provided some additional information. For example, TAEF stated that the delay it requested to implement its performance monitoring plan would result in more timely and better program evaluation going forward.

We are sending copies of this report to the appropriate congressional committees, State, USAID, and EAEF and TAEF. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact David Gootnick 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 members who made key contributions to this report are listed in appendix IV.

David Gootnick
Director, International Affairs and Trade

*List of Congressional Committees*

The Honorable Lindsey Graham
Chairman
The Honorable Patrick J. Leahy
Ranking Member
Subcommittee on State, Foreign Operations, and Related Programs
Committee on Appropriations
United States Senate

The Honorable Kay Granger
Chairwoman
The Honorable Nita Lowey
Ranking Member
Subcommittee on State, Foreign Operations, and Related Programs
Committee on Appropriations
House of Representatives

# Appendix I: Objectives, Scope, and Methodology

Conferees for the bill that would become the Consolidated Appropriations Act, 2012 (Pub.L. No. 112-74) requested that we examine the management and oversight of the Egyptian-American Enterprise Fund (EAEF) and the Tunisian-American Enterprise Fund (TAEF) (the Funds) to determine if appropriate and sufficient safeguards exist against financial misconduct.[1] In this report, we examined (1) the status of EAEF's and TAEF's investments, (2) EAEF's and TAEF's progress in establishing key management structures to support their missions and operations, and (3) the extent to which EAEF and TAEF have complied with certain requirements of the USAID grant agreements.

To assess the extent to which the Funds have made investments, we reviewed the Funds' strategic planning documents and their due diligence reports. We obtained budget data from the U.S. Agency for International Development (USAID) on its obligations and disbursements to the Funds from fiscal years 2013 to 2014. We conducted an assessment of the reliability of the data by reviewing USAID's responses to a set of data reliability questions and by interviewing USAID budget officials. We found the data to be sufficiently reliable for our purposes. In addition, we interviewed the Chairmen and senior management of EAEF and TAEF to discuss their investment strategies, plans, and investment efforts thus far.

To examine what progress the Funds have made in establishing key management structures, we reviewed EAEF and TAEF documents, including the Funds' statements of corporate policies and procedures, bylaws, employee job descriptions, organization charts, financial and annual reports, and board of director meeting minutes. We used the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control – 2013 Integrated Framework evaluation tool as a framework for gathering information on the Funds' management structures and assessing the extent to which they had established such structures.[2] Although our analysis included gaining an understanding of EAEF's and TAEF's actions related to establishing internal control mechanisms, we did not evaluate the implementation of internal control at

[1]H. Rept . No. 112-331.

[2]COSO is a joint initiative of five private sector organizations that develops frameworks and provides guidance on enterprise risk management, internal control, and fraud deterrence. COSO's internal control framework has been recognized by regulatory standard setters and others as a comprehensive framework for evaluating private sector organizations' systems of internal control.

the Funds. We also interviewed EAEF and TAEF Chairmen and senior management to obtain information on the management structures the Funds had already established or planned to establish.

To assess the extent of Fund compliance with certain grant agreement requirements, we used the EAEF and TAEF grant agreements as our primary criteria for identifying the requirements to which the Funds are subject. We identified 22 requirements that the Funds are subject to and then determined whether the Funds had met these requirements by collecting relevant USAID and Fund documentation, such as the Funds' reports to Congress on administrative expenses. We also reviewed the Funds' statement of corporate policies and procedures and documentation related to the Funds' efforts to develop performance monitoring plans. In addition, we interviewed the EAEF and TAEF Chairmen and senior management about their efforts to comply with the terms and conditions of the grant agreements as well as USAID officials regarding their efforts to oversee the Funds' compliance with the grant agreements. We also examined the process that USAID used to develop the EAEF and TAEF grant agreements, which entailed reviewing its agency policies, procedures for deviating from those policies, and the grant agreements themselves.

We conducted this performance audit from March 2014 to February 2015 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.

# Appendix II: Comments from USAID

USAID
FROM THE AMERICAN PEOPLE

David Gootnick
Director, International Affairs and Trade
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Gootnick:

I am pleased to provide USAID's formal response to the Government Accountability Office (GAO) draft report entitled: Enterprise Funds Egypt and Tunisia Funds Are Established; Additional Steps Would Strengthen Compliance with USAID Grant Agreements and Other Requirements (GAO-15-196).

This letter, together with the enclosed USAID comments, is provided for incorporation as an appendix to the final report.

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 audit review.

Sincerely,

Angelique M. Crumbly
Assistant Administrator
Bureau for Management
U.S. Agency for International Development

Enclosure: a/s

1

**USAID COMMENTS ON GAO DRAFT REPORT**
**No. GAO-15-196**

**Recommendation 1:** Establish a process to better manage cash advances to the Funds.

**USAID Response**: USAID concurs with this recommendation. Consistent with Automated Directives System (ADS) 636, the USAID Agreement Officer's Representative (AOR) for each grant agreement has submitted a justification to USAID's Bureau of Management, Office of the Chief Financial Officer (M/CFO) covering advance payments that have currently been outstanding for more than 150 days. In the future, the Agreement Officer or the AOR will provide a similar justification to M/CFO for any advance payment to a Fund that is not liquidated within 150 days. In addition, to ensure CFO has the necessary information for cash management, the AOR for each fund will share Fund quarterly reports with USAID's CFO. USAID notes that the Funds have complied with the financial reporting and cash management requirements in the grant agreements to date.

**Recommendation 2**: Make certain that the Funds comply with grant agreement requirements related to performance monitoring.

**USAID Response**: USAID concurs with this recommendation. Both Funds have committed to providing USAID with a completed Performance Monitoring Plan (PMP) by the end of the first quarter of 2015. USAID will work with the Funds to ensure this timeline is met. USAID emphasizes that the reason for the delay in each Fund's preparation of a PMP was to enable the Fund to develop an investment strategy prior to a PMP. This allows the Fund to prepare a meaningful PMP – one that measures progress against the Fund's strategy. Each Fund requested a delay, and USAID granted each Fund's request.

**Recommendation 3**: Ensure that the Funds comply with grant agreement requirements related to public communications.

**USAID Response**: USAID concurs with this recommendation. The Chairman of the Board of the Egyptian-American Enterprise Fund (EAEF) has confirmed that the EAEF will meet all public communications requirements going forward. This includes proposing a logo for USAID approval in the first quarter of 2015, and meeting all other marking and public communications requirements of the grant agreement, General Provisions, section 19.

**Recommendation 4**: Ensure that the Funds' corporate policies reflect grant agreement provisions regarding vetting requirements designed to prevent transactions with prohibited individuals and organizations.

**USAID Response**: USAID concurs with this recommendation. The Chairman of the Board of each Fund has confirmed to USAID that at its next board meeting it will request that the Board of Directors vote to amend its corporate policies to include vetting procedures as required by the grant agreements, General Provisions, Section 11.

2

# Appendix III: Comments from TAEF

Tunisian
American
Enterprise
Fund

IMPULSION AU DEVELOPPEMENT

January 14, 2015

David Gootnick
GAO
gootnickd@gao.gov

Re: Enterprise Funds: Egypt and Tunisia Funds Are Established; Additional Steps Would Strengthen Compliance with USAID Grant Agreement and Other Requirements. DRAFT January 2015. GAO-15-196

Dear David,

Thank you for the chance to review your draft findings on your audit of TAEF and EAEF. My brief comments focused on TAEF are outlined below.

The report focuses on four areas where it suggests ways of improving our approach. Three of those relate to the TAEF. I will comment on those.

#1: EAEF and TAEF Have Not Submitted Performance Monitoring Plans Required by the Grants

I have no disagreement with the report's comments but want to add that the TAEF specifically requested a delay in implementing our M&E responsibilities because we did not believe our strategy was sufficiently well formed to enable us to have a constructive discussion. USAID granted this request. Subsequently, we have completed a strategy, requested proposals for the development of an M&E process based on the strategy and selected a firm. I believe that our request for a delay was responsible and appropriate and that the actual evaluations will be better and more timely because of how we have approached this. I would not want any implication that the TAEF, or I, as chair, do not take seriously our commitment to undertake a careful external evaluation.

#2: USAID's Financial Management Office Has Not Been Tracking Funds' Cash Management Practices

I understand that this issue relates to USAID's processes and is not a comment on TAEF processes or practices. We follow a rigorous process in which we request funds on the basis of our operating budget and anticipated investments. We have designed and maintained strong financial controls. I should also note that AID has been extremely rigorous in its day to day relations with the TAEF.

TAEF – US OFFICE
1200 18th Street, NW – Suite 839
Washington, DC 20036 USA | Tel: +202.765.2383 | Cell: +202.441.8913
www.taefund.org

USAID FROM THE AMERICAN PEOPLE

Tunisian
American
Enterprise
Fund

IMPULSION AU DEVELOPPEMENT

#3: EAEF and TAEF Corporate Policies Do Not Include Key Vetting Procedures to Prevent Illicit Use of Funds. (Specifically, they lack provisions related to vetting potential investees and the requirement that any investee planning to lend U.S. funds in excess of $25,000 onward to another business or invest in another entity certify to the Funds that it will conduct certain due diligence activities to prevent their illicit use.)

I concur with the GAO's comments but not with what might be its implications. I will propose to the TAEF Board at the January Board meeting that we add the specific provisions mentioned in the GAO report to our corporate policies and procedures. But I wish to be explicit on two matters. First, it has been our assumption that we are committed to observe all of the provisions of the original USAID grant agreement, and that there was no need to enumerate each provision separately. Second, and more importantly as a matter of actual policy and practice the TAEF's due diligence processes specifically include in writing all required compliance matters; and in our first investment we carried out all required due diligence with respect to these matters, assured ourselves that the investee firm also carried out appropriate compliance processes, and obtained a letter from the investee firm committing to continuing to carry out these processes. I would hope the GAO report acknowledges this; I would not want any misunderstanding regarding our commitment to fulfill these important compliance requirements.

It is my hope that the GAO would make revisions in this draft report to take into account my comments.

Thank you for this opportunity to comment.

Regards,

W. Bowman Cutter

TAEF – US OFFICE
1200 18th Street, NW – Suite 839
Washington, DC 20036 USA | Tel: +202.765.2383 | Cell: +202.441.8913
www.taefund.org

USAID
FROM THE AMERICAN PEOPLE

# Appendix IV: GAO Contact and Staff Acknowledgments

## GAO Contact

David Gootnick, (202) 512-3149 or GootnickD@gao.gov

## Staff Acknowledgments

In addition to the contact named above, Jason Bair (Assistant Director), R. Gifford Howland (Analyst-in-Charge), Debbie Chung, Emily Gupta, and Jeffrey Isaacs made key contributions to this report. Mark Dowling, Etana Finkler, Paul Kinney, and Steven Putansu provided additional support.

## GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (http://www.gao.gov). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to http://www.gao.gov and select "E-mail Updates."

### Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, http://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

## Connect with GAO

Connect with GAO on Facebook, Flickr, Twitter, and YouTube. Subscribe to our RSS Feeds or E-mail Updates. Listen to our Podcasts. Visit GAO on the web at www.gao.gov.

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: http://www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

## Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

## Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548