

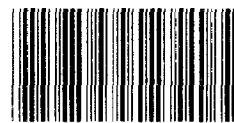
GAO

Report to Congressional Requesters

September 1986

PROMOTING DEMOCRACY

The National Endowment for Democracy's Management of Grants Overseas



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**National Security and
International Affairs Division****B-222998**

September 24, 1986

The Honorable Daniel A. Mica
Chairman, Subcommittee on International
Operations
Committee on Foreign Affairs
House of Representatives

The Honorable Olympia Snowe
Ranking Minority Member
Subcommittee on International
Operations
Committee on Foreign Affairs
House of Representatives

In response to your February 27, 1985, request, we reviewed the National Endowment for Democracy's procedures for selecting, monitoring, and evaluating its grantee programs. The results of our review are summarized below and discussed in more detail in the appendixes.

Endowment Operations

The Endowment was established in November 1983 as a private, non-profit organization to fund private sector programs aimed at strengthening democratic institutions throughout the world. The Endowment is funded by an annual grant from the United States Information Agency (USIA). The USIA-Endowment relationship was clarified by a Comptroller General decision¹ which supported USIA's assertion that the Endowment was not free of fiscal or administrative accountability to USIA for grant monies. The ruling concluded that USIA may require Endowment compliance with procedural mechanisms to see the grant funds are used for authorized purposes only. The grant agreement holds the Endowment responsible for planning, organizing, and administering a grant program to carry out the purposes of the authorizing legislation.

During its first 2 years of operation (fiscal years 1984 and 1985), the Endowment generally relied on its grantees to select, monitor, and evaluate their own programs. Specifically, we found that the Endowment

¹See the decision of the Comptroller General, United States Information Agency: National Endowment for Democracy Grant Administration (June 6, 1985, B-203681).

- did not implement a comprehensive planning process or develop an overall plan reflecting its priorities in terms of geographic areas or project types. As a result, the Endowment's selection process was limited, for the most part, to funding projects developed and submitted by its grantees.
- did little independent verification of financial and other program information, particularly for the major grantees, choosing instead to rely primarily on information provided by grantees to monitor project activity. In some cases, grantee reports were based on unverified information obtained from subgrantees.
- did little in the way of project evaluation during the first 2 years of operation, due largely to the fact that many projects had not yet been completed.

The Endowment's limited involvement in most grantee activities apparently stemmed from the Endowment's unique relationship with its four core grantees, which were granted about 88 percent of the Endowment's fiscal year 1984 and 1985 funds. These grantees represent sectors of U.S. society—labor, business, and the two major U.S. political parties—which played leading roles in establishing the Endowment and were specifically mentioned in the authorizing legislation. Accordingly, one strongly held view within the Endowment was that it was to serve primarily as a funding “conduit” for the four core grantees, which, based on their own initiative and expertise, would design and implement projects aimed at promoting democracy abroad. This perception, reinforced by the congressional earmarking of the bulk (80 percent) of the Endowment's fiscal year 1984 and 1985 funds for the labor and business core grantees, appears to have affected the manner and degree of Endowment oversight.

Toward the end of our review, some aspects of Endowment operations began to change. By late 1985, the Congress had eliminated the funding earmarks for the labor and business grantees, and at the suggestion of a congressional conference committee, the Endowment limited the total amount that any one grantee could receive to 25 percent of the fiscal year 1986 funds. These changes, and other events, prompted the Endowment to move towards a more active role in selecting, monitoring, and evaluating its grant program. In March 1986, the Endowment's Board approved a policy statement intended to clarify the Endowment's responsibilities for oversight of congressionally appropriated funds, and to define its relationship with grantees.

Conclusions and Recommendations

We believe the Endowment needs to be more directly involved in program planning and project selection, verification of grantee information, and evaluation of completed projects, particularly with reference to core grantees. The March 1986 policy statement is a positive step toward directing greater involvement of the Endowment in these processes, but it does not spell out how Endowment responsibilities will be carried out. Accordingly, we recommend that the Endowment prepare and implement procedures to put the statement into practice and provide specific guidance on program priorities and geographical targets for grantees to use in developing their projects.

Because the Endowment is responsible to USIA for compliance with procedures to ensure that grant funds are used for purposes intended by the enacting legislation, we recommend that USIA ensure that the Endowment's Board of Directors

- establish procedures and assign responsibility so that the Endowment can perform (or require to be performed) selective, independent auditing or other forms of verification of the information submitted by grantees to ensure compliance with grant terms and objectives, and
- clarify the Endowment's current procedures in terms of the Board's March 1986 policy statement, which identifies the Endowment's responsibility for evaluating projects.

Agency Comments

In commenting on a draft of this report, the Endowment agreed that it will be necessary to prepare and develop procedures to implement its March 1986 policy statement as a means of refining and improving its management practices, and said that our report will be helpful in this process. The Endowment agreed that it must strengthen its procedures for verifying grantee information.

The Endowment's primary concern was that our report did not make sufficiently clear that extensive procedures and controls are already in place for selecting, monitoring, and evaluating grantee programs. Our review focused on the Endowment's procedures and controls as they applied to the bulk of its grant funds (those awarded to core grantees) and was directed to areas where improvements were needed. Consequently, we did not elaborate on those being extensively applied to non-core or discretionary grants, which represented less than 10 percent of the total 1984 and 1985 fiscal year allocation of funds. But our report does recognize that the Endowment more closely monitored discretionary grants. Several sections of the report compare the procedures

and controls applied to discretionary and core grantees to acknowledge the Endowment's efforts.

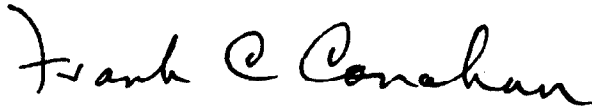
Regarding planning and setting priorities, the Endowment stated that as a grant-making agency it is necessarily dependent on the proposals it receives. The Endowment believes its December 1984 Statement of Principles and Objectives provides a framework to guide prospective grantees.

We agree that the Statement of Principles and Objectives sets out overall program areas to be addressed by the Endowment, but it does not clearly specify the relative priority of those areas. The Endowment, after 2 years of operations, should be influencing proposals so that they address the objectives and goals that the Endowment considers critical and most deserving of its financial support. Our recommendation does not seek to impose "rigid priorities" upon applicants, as the Endowment's comments suggest. Instead, we believe that the systematic formulation of more specific guidance to potential grantees will become increasingly important as the Endowment funds more discretionary grantees than it has in the past.

USIA stated in its comments on our draft report that the Endowment should implement procedures for verifying and evaluating programs on its own initiative. We agree with USIA that the primary responsibility for ensuring that program improvements are implemented is with the Endowment Board working through its staff. Our recommendations are directed to USIA in recognition of the Endowment's accountability to USIA.

We conducted our review in accordance with generally accepted government auditing standards from April 1985 to March 1986 at the National Endowment for Democracy and the headquarters of its major grantees. We obtained information from the Department of State and USIA, and visited U.S. embassies and grantee spokesmen in 10 Latin American and African countries. We generally did not interview foreign recipients because certain grantee officials were concerned that such contact would entail risks to individuals.

Unless you release its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time we will send copies to interested parties and make copies available to others upon request.



Frank C. Conahan
Assistant Comptroller General

Contents

Letter	1
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Appendix I	8	
The National	Overview of Fiscal Years 1984-85 Program	9
Endowment for	Recent Legislative Actions	11
Democracy's	The Endowment's Planning and Selection Process	12
Administration of Its	The Endowment's Program Monitoring	14
Grant Program	The Endowment's Evaluation Practices Are Inconsistent With Procedures	16
	Endowment Policy Revised to Clarify Its Responsibilities	17
	Conclusions and Recommendations	18
	Agency Comments	19

Appendix II	22	
The Endowment's Core	FTUI and the Regional Labor Institutes	22
Grantees	CIPE: The Business Core Grantee	23
	NRI and NDI: The National Parties' Core Grantees	24
	Core Grantees' Relationship With the Endowment Board	25
	Core Grantee Selection, Monitoring, and Evaluation of Endowment-Funded Programs	25

Appendix III	32
The National	
Endowment for	
Democracy Act	

Appendix IV	36
The Board of Directors	
of the National	
Endowment for	
Democracy	

Appendix V	37
Agency Comments	

Appendix VI		44
Request Letter		
Table	Table I.1: Fiscal Years Allocation by Grantees	13
Figures	Figure I.1: Allocation of Endowment Funds by Organization for Fiscal Years 1984 and 1985	10
	Figure I.2: Grants of Program Funds by Region for Fiscal Years 1984 and 1985	11

Abbreviations

AAFLI	Asian-American Free Labor Institute
AALC	African-American Labor Center
AFL-CIO	American Federation of Labor and Congress of Industrial Organizations
AID	Agency for International Development
AIFLD	American Institute for Free Labor Development
CIPE	Center for International Private Enterprise
FTUI	Free Trade Union Institute
NDI	National Democratic Institute for International Affairs
NRI	National Republican Institute for International Affairs
USIA	United States Information Agency

The National Endowment for Democracy's Administration of Its Grant Program

The Endowment was established as a private, nonprofit organization in November 1983.¹ Its six broadly stated goals generally involve supporting private sector programs aimed at strengthening democratic institutions around the world (see appendix III). Its 17-member Board of Directors represents organized labor, business, the two major political parties, and the Congress. (See appendix IV for a list of current Board members.)² The Endowment's bylaws require that the Board's composition reflect, at all times, the same general membership of the initial Board, namely, two individuals from each of these groups. Board members serve 3-year terms. Every year, the terms of one-third of the members of the Board expire. Vacancies are filled by a majority vote of Board members in office.

The Board appoints a president to manage the Endowment under the Board's policy direction, supervise the Endowment's staff, and see that all Board orders and resolutions are effected. During 1985, the Endowment's staff consisted of 12 people, including the president, an assistant to the president, a program director, a deputy program director, a comptroller, a public affairs director, and related support staff.

The National Endowment for Democracy Act (Public Law 98-164, title V, Nov. 22, 1983) authorized an annual grant to the Endowment, to be funded through the United States Information Agency (USIA). For fiscal years 1984 and 1985, USIA's appropriation included \$18 million and \$18.5 million, respectively, for Endowment activities. The Endowment's 1986 proposed grant budget of \$18 million was reduced to \$17.2 million in accordance with the Balanced Budget and Emergency Deficit Control Act.

USIA's grant agreement with the Endowment requires the Endowment to plan, organize, and administer its program to achieve authorized objectives. The agreement also requires the Endowment to furnish USIA with its procedures to monitor and assure compliance with the act by its grantees. USIA may audit the Endowment and require compliance with procedures intended to see that grant funds are used for authorized purposes, but it may not impose program requirements other than those specified in the act. For example, USIA could not force the Endowment to

¹For in-depth discussion of the Endowment's founding, see *Events Leading to the Establishment of the National Endowment for Democracy* (GAO/NSIAD-84-121, July 6, 1984).

²Since the Endowment's inception, the Board has had among its members several officials of its major grantee organizations. House Bill HR 3984, if enacted, would bar grants to organizations with officials on the Endowment's Board of Directors.

change a program's content unless it was contrary to the act's objectives. USIA's first audit of an Endowment-related activity began in April 1986, when it was requested to report to a congressional committee on the use of grant funds by an Endowment grantee. It currently has another effort underway, also a congressional request, to review certain costs charged to Endowment grant funds.

Overview of Fiscal Years 1984-85 Program

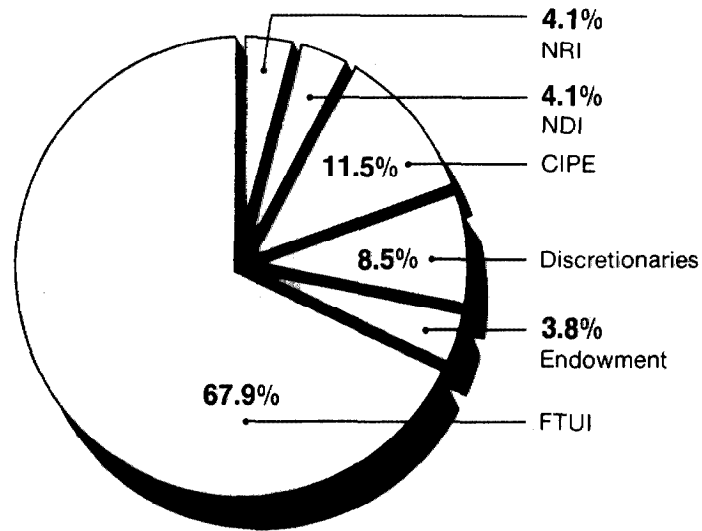
Under the National Endowment for Democracy Act, the Endowment cannot carry out grant programs on its own; it can only fund programs of private sector organizations. The Endowment's grantees can be separated into two categories—core and discretionary. Four grantees representing business, labor, and the two major political parties are called “core” because these sectors played leading roles in establishing the Endowment; were specifically mentioned in the act; and were considered important links to democratic groups and institutions abroad. To implement the act, the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) reactivated its Free Trade Union Institute (FTUI), the U.S. Chamber of Commerce set up the Center for International Private Enterprise (CIPE), and the two major U.S. political parties established the National Republican Institute for International Affairs (NRI) and the National Democratic Institute for International Affairs (NDI). Those core grantees and their relationships with the Endowment are discussed in more detail in appendix II.

All other 1984 and 1985 grantees were considered to be discretionary grantees. During fiscal years 1984 and 1985, the Endowment awarded 38 discretionary grants to a variety of grantees, such as Freedom House, Overseas Education Fund, and the National Council of Negro Women.

Of the \$36.5 million received in fiscal years 1984 and 1985, the Endowment distributed \$35 million to grantees. As shown in figure I.1, about 88 percent was provided to the four core grantees. As a result of congressional earmarking of grant funds, approximately 80 percent of the Endowment's funds was devoted to FTUI and CIPE programs. FTUI, with its AFL-CIO worldwide network, received the largest share (about 68 percent). NDI and NRI received about 4 percent each; 8 percent was awarded to discretionary grantees; and the remainder funded the Endowment's administration.

Appendix I
The National Endowment for Democracy's
Administration of Its Grant Program

Figure I.1: Allocation of Endowment Funds by Organization for Fiscal Years 1984 and 1985

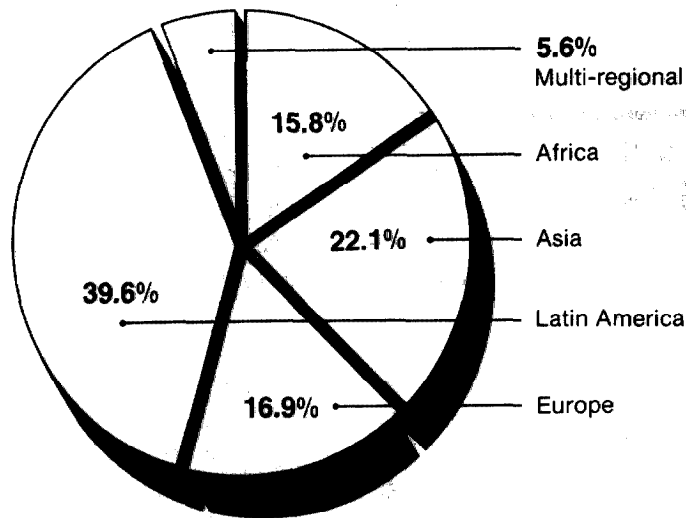


Source of Data: NED

Typical programs funded by the Endowment included assistance to democratic movements (including labor unions and business associations), get-out-the-vote efforts, conferences promoting democracy, and a range of training and educational activities focusing on democratic objectives.

Most of the funds were awarded in connection with Third World countries; some involved activities in or directed towards Western democracies and Soviet-bloc nations. Figure I.2 depicts the geographical distribution of program funds.

Figure I.2: Grants of Program Funds by
Region for Fiscal Years 1984 and 1985



Source of Data: NED

Recent Legislative Actions

The Endowment's funding legislation³ for fiscal year 1986 did not earmark funds for specific grantees, as had previously been the case. Rather, congressional guidance included in the appropriations conference committee report indicated that no grantee should receive more than 25 percent of the Endowment's funds.

Other recent legislative actions also affected the Endowment's operations. The fiscal year 1986 authorization legislation required the Endowment to consult with the Department of State before initiating projects overseas using fiscal year 1986 funds. Accordingly, by January 1986, the Endowment and Department officials had made arrangements for the Endowment staff to forward copies of all proposals submitted to the Endowment Board to the Deputy Under Secretary of State for Political Affairs. In April, the Deputy Under Secretary informed us that he was generally satisfied with the initial implementation of this agreement, although he said he would reserve final judgment until the process had been repeated several times more.

³The Foreign Relations Authorization Act, Fiscal Years 1986 and 1987 (Public Law 99-93, Aug. 16, 1985), and the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriation Act (Public Law 99-180, Dec. 13, 1985).

The fiscal year 1986 authorization legislation added requirements for USIA audits of the Endowment's financial records and for Endowment compliance with all provisions of the Freedom of Information Act.

The Endowment's Planning and Selection Process

During its first 2 years, the Endowment did not have a planning process that established program priorities or targeted specific countries or regions. The core grantees set their own priorities and made their own decisions regarding regional allocations before submitting their proposals to the Endowment Board for approval.

The Board adopted a principles and objectives statement that identified in general terms, various types and categories of projects that the Endowment wished to support. Also, the Endowment staff organized meetings for the Endowment Board and core grantees to obtain views of regional experts on the potential for Endowment-funded activities in certain countries and regions, and initiated a series of meetings with core grantee staffs to help coordinate program planning and execution. However, the Endowment Board did not regularly review and systematically set priorities for specific programs that it hoped to sponsor in a given fiscal year or other period of time, nor did it provide the Endowment staff with planning guidance targeting specific countries and types of programs for priority consideration.

The Endowment's procedures state that the Endowment's staff must review each proposal to assess its relative merit and to identify prohibited activities. To facilitate this review, the Endowment's Statement of General Procedures and Guidelines advises grantees of the required content of proposals. During fiscal years 1984 and 1985, most of the Endowment's staff efforts in this regard were devoted to reviewing discretionary grantees' proposals. This procedure apparently reflected a perception within the Endowment that core grantees should not be subjected to as stringent a review as discretionary grantees.

We reviewed all core and discretionary grantee proposals that had been approved during fiscal years 1984 and 1985 and found varying degrees of compliance with Endowment guidelines. Some core grantees' proposals were not sufficiently detailed to determine what the projects were intended to accomplish. For example, the lack of information in some FTUI proposals was attributed to the sensitivity of the project which, if publicly disclosed, could harm or embarrass the recipients. Also, FTUI staff told us that some recipients had initially been informed that details would not be made public. According to Endowment and

Appendix I
The National Endowment for Democracy's
Administration of Its Grant Program

grantee staff members, information was provided verbally to the Endowment by grantee personnel in such cases. Nonetheless, the Endowment's President informed us that he did not consider the Endowment's staff review of the 1984 and 1985 core grantee proposals to be adequate.

The approved discretionary grantee proposals that we reviewed generally contained adequate descriptive data concerning project activities to be undertaken. Staff members informed us that most of their proposal review efforts were devoted to the discretionary grant proposals which they discussed with potential applicants, knowledgeable individuals, and U.S. government officials.

As shown in table I.1, the Endowment's planned allocation of fiscal year 1986 funds represents a major shift in the grantees' division of the Endowment's funds.

Table I.1: Fiscal Years Allocation by Grantees

Fiscal Year in Percent		
Grantee	Fiscal year 1984-85 share	Fiscal year 1986 allocation
FTUI	68.0	25.0
CIPE	11.5	14.5
NDI	4.0	12.0
NRI	4.0	12.0
Discretionary	8.5	31.0

Since the Endowment staff's time for the first 2 years of operation was mainly devoted to discretionary grants, the three-fold increase in funds to be allocated to discretionary grantees in fiscal year 1986 will require some adjustments in, or reordering of, how Endowment business is conducted.

The Endowment has recognized that it needs to improve its planning and selection process. For example, it recently approved a policy statement which recognizes the Endowment's responsibility for setting program priorities. (This policy statement is discussed further on page 17.) In December 1985, the Endowment's Program Director informed CIPE, FTUI, NDI, and NRI that their proposals for fiscal year 1986 should be broken down on a project-by-project basis and be comparable in detail to discretionary proposals. Our review of some of the early fiscal year

1986 core grantee proposals indicated some improvements in the level of detail from those submitted in prior years.

The Endowment's Program Monitoring

The Endowment's procedures state that program monitoring should ensure that planned activities are being implemented, funds are being properly spent, progress of grant activities is being tracked, and problem areas are identified.

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

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

Most of the time the Endowment staff spent monitoring grantees was devoted to the discretionary grants, which involved less than one-tenth of the Endowment's funds. They spent relatively little time monitoring core grantee activities. The Endowment staff reviewed each grant's status during a monthly meeting devoted to project monitoring, but core grantee programs received a disproportionately small amount of attention during the meeting we attended. The Endowment Board and staff had frequent, direct access to core grantee representatives. Some members of the Endowment Board were also officials of core grantee organizations, and other core grantee spokesmen frequently attended Endowment Board meetings.

The Endowment's President told us that the staff's responsibilities for monitoring core grantee projects were not clearly defined. He attributed this ambiguity to the special relationship which the core grantees had within the Endowment. In our discussions with the Endowment President and staff, we were told that the congressionally mandated earmarkings of funds for the labor and business core grantees reinforced the view that the core grantees were to be treated differently from discretionary grantees.

For the most part, the Endowment's monitoring was accomplished through the staff's review of information submitted by the grantees,

such as quarterly reports, and by Endowment interaction with grantee representatives. Some quarterly reports contained little information on progress and did not always identify problems we observed during our fieldwork. For example, for one troubled project we visited, three successive quarterly reports filed by a core grantee showed little more than a change in the expected completion date. The later reports did not identify why the project had continued to fall behind the previous reports' revised timetables or what was being done to address the difficulties. Elsewhere, during our work overseas, we identified problems delaying another core grantee's efforts to increase participation in an African country's national election; the quarterly reports did not allude to these delays until several months after the elections. Perceived sensitivity of some projects was one reason given for the lack of more detailed information in some reports.

Another problem with the information received by the Endowment was that FTUI's quarterly reports were chronically late. Although the Endowment has generally required quarterly reports within 30 days of the end of the quarter, FTUI's reporting has extended beyond this period by as much as 5 months. To aggravate this situation, the report of financial expenditures from the field to the regional institutes and the processing of the field financial reports by the institutes aged the information by an additional 4 to 5 months.

The Endowment generally did not verify the information being provided by its grantees, particularly the core grantees. Endowment staff rarely conducted field visits. Annual independent public accountant audits rendered opinions on financial statements but were not intended to test grantee financial transactions to establish that funds were ultimately expended for grant purposes. During fiscal years 1984 and 1985, the Endowment conducted no audits to determine whether grantees were complying with the terms of their grants. The lack of Endowment verification was further compounded by the fact that, in many cases, grantee reports to the Endowment were based on unverified information obtained from subgrantees.

We found that grantees generally had set up records sufficient to disclose how funds were expended. Our limited test in several Latin American countries indicated that subgrantees also had records of expenditures. We noted, however, that FTUI did not have written grant agreements with several European recipients.

In late 1985, the Endowment revised the language of its grant agreements with discretionary grantees pertaining to the requirement for financial audits of grantee accounts by independent public accountants. Tests of transactions included in such audits are to be reviewed to determine whether the grantee has complied with grant terms. Compliance testing by the independent public accountants below the grantee level is not envisioned, according to the Endowment's Comptroller. In mid-1986 Endowment staff informed us that the requirement for compliance auditing had been included in fiscal year 1986 grant agreements with three core grantees and was being sought in discussions with the fourth.

FTUI has also acted to produce more timely reports. In January 1986, after the Endowment rejected FTUI's request to change from quarterly to semiannual reporting, FTUI increased its administrative staff. It subsequently submitted its next required quarterly report on time. In addition, FTUI has taken steps to secure grant agreements with its European recipients. In July 1986, FTUI's executive director informed us that FTUI had signed grant agreements with all but one such recipient.

The Endowment's Evaluation Practices Are Inconsistent With Procedures

According to its procedures, the Endowment "must be in a position to evaluate its own total program as well as the program and projects of its grantees." The grantees are also expected to evaluate their own programs to ensure that objectives are met and that funds are being used wisely. They are required to include self-evaluation plans in their program proposals and submit a project evaluation as part of their final reports.

In practice, however, the Endowment procedures are not being strictly followed. We found that during 1984 and 1985, the grantees' project proposals were either vague or silent regarding evaluation plans. The core grantees supplied limited information concerning their anticipated evaluation practices. For example, FTUI's initial proposals contained an overall statement that evaluation of ongoing programs would be done regularly by international labor specialists to measure success against preestablished goals, and included project-specific information in some but not all cases. FTUI subsequently informed the Endowment that it was developing an evaluation methodology, but did not describe it in any detail.

The core grantees have been providing some information on the success of their programs. The information was limited during 1984 and 1985,

largely because many projects had not yet been completed, but beginning in late 1985, the grantees were providing more information on the outcome of projects as programs progressed. For example, in March 1986, FTUI provided the Endowment with evaluations of 22 projects whose funding it wished to have renewed.

We found that Endowment personnel were not ensuring that discretionary grantees supplied the required self-evaluation plans with their proposals because they considered the usefulness of such plans to be very limited and because they preferred to evaluate such projects themselves. However, the Endowment does not have a consistent methodology or procedure to guide its staff's evaluation of discretionary project results. We were told that judgments on discretionary projects are made by comparing project goals to whatever information could be gathered during the monitoring process and on the grantees' final reports. Also, the projects are evaluated only if the grantees request that the projects be renewed. By April 1986, the Endowment's program staff had evaluated the results of 11 of the 26 completed 1984-85 discretionary grants.

Endowment Policy Revised to Clarify Its Responsibilities

On March 7, 1986, the Endowment Board unanimously approved a policy statement intended to clarify the Endowment's relationship with its grantees. The statement noted that the Endowment, as the recipient of congressionally appropriated funds, had a special responsibility to "ensure that funds are spent wisely, efficiently, and in accordance with all relevant regulations." Accordingly, the statement identified the Endowment's responsibility for setting program priorities, reviewing proposals (presented on a project-by-project basis), coordinating grantee activities to avoid duplication, negotiating grant agreements that ensure uniform accountability, monitoring financial and programmatic developments, and conducting ongoing or follow-up program evaluations before a grantee or program is funded again. The policy called on grantees to monitor programs, provide regular reports, inform the Endowment promptly of significant problems, and also conduct their own evaluations of programs. The statement recognized that the Endowment had a unique relationship with the core grantees. It stated that core grantees would be expected to monitor and evaluate their programs "in a manner that will minimize the need to devote Endowment resources for these purposes."

The statement did not spell out how these responsibilities would be carried out, and the Board provided no guidance to the staff on implementing the policy. For example, the statement did not specifically

require independent compliance audits or other means of verifying information provided by grantees.

The Board's discussion of the policy clearly indicated that some Board members continued to have misgivings about increased Endowment involvement in core grantee activities. During its 1986 meetings, much of the Board's deliberation on the issue of the Endowment's oversight of core grantee activities centered on discussions of how the Endowment was supposed to function. Some members held to the concept that, as originally envisioned, the Endowment was meant to function more as a funding mechanism for the core grantees than as a monitor or evaluator of their activities.

Conclusions and Recommendations

During the Endowment's first 2 years of operation there was an element of uncertainty within the Endowment Board as to how the Endowment was supposed to function. One strongly held view was that its function was to serve primarily as a conduit of funds for the four core grantees, which would design and implement their own projects. This perception was reinforced by the congressional earmarkings of the bulk (80 percent) of the Endowment's funds for expenditure by two specific grantees. Thus, the Endowment relied primarily on its grantees to plan and select projects, monitor and maintain controls over the federal funds to ensure they were used for intended purposes, and evaluate the outcome of the projects.

The elimination of legislatively mandated earmarks and the 25 percent limit on awards to any one grantee will change the way the Endowment operates its planning and selection process and exercises oversight and control of grant projects. The Endowment needs to be more directly involved in program planning and project selection, verification of grantee information, and evaluation of completed projects, particularly with reference to core grantees. The March 1986 policy statement is a positive step toward directing greater involvement in these processes, but it does not spell out how the Endowment responsibilities will be carried out.

We therefore recommend that the Endowment prepare and implement procedures to put the statement into practice, and provide specific guidance on program priorities and geographical targets for grantees to use in developing projects.

The Endowment is responsible to USIA for compliance with procedures to ensure grant funds are used for purposes intended by the enacting legislation. We recommend that USIA ensure that the Endowment's Board of Directors

- establish procedures and assign responsibility so that the Endowment can perform (or require to be performed) selective, independent auditing or other forms of verification of the information submitted by grantees to ensure compliance with grant terms and objectives; and
- clarify the Endowment's current procedures in terms of the Board's March 1986 policy statement, which identifies the Endowment's responsibility for evaluating projects.

Agency Comments

In commenting on a draft of this report, the Endowment stated that it would be helpful in the Endowment's review of procedures and staffing needs and in efforts to improve the Endowment's management process (see appendix V). Specifically, the Endowment noted that verification was an area where the Endowment needed to strengthen its procedures.

The Endowment also commented that we did not clearly state that the Endowment had "extensive procedures and controls in place for setting priorities, insuring proper planning and review, and monitoring and evaluating existing programs." The Endowment comments described several functions and activities undertaken by the staff to screen proposals, monitor ongoing programs, and evaluate completed projects.

Our review focused on the Endowment's procedures and controls as they applied to the bulk of its grant funds (that is, the funds provided to core grantees), and emphasized areas where improvements were needed. Consequently, we did not elaborate on those that were being extensively applied to only a small portion of the Endowment's grants (that is, its discretionary grants). The report, however, does recognize that the Endowment more closely monitored its discretionary grants. Several sections of the report compare procedures and controls applied to discretionary grantees in relation to core grantees to acknowledge the Endowment's efforts, even though they were directed to projects that accounted for only 8 percent of the Endowment's fiscal year 1984 and 1985 funding.

In its comments, the Endowment drew particular attention to its procedures for program planning and review. The Endowment's position was that as a grant-making organization that does not carry out programs, it

was necessarily dependent on proposals it received. Moreover, it added, the need to be responsive to the views and needs of foreign democratic forces precluded the imposition of rigid priorities upon potential grantees. The Endowment noted that it had adopted a statement of principles and objectives which defined priority program areas and which provided a framework to guide prospective grantees, and that it had held meetings with outside experts to discuss regions and countries of special concern.

In our opinion, the Endowment should not be completely dependent on the proposals that it receives. The Endowment, after 2 years of operations, should be influencing proposals so that they address the objectives and goals that the Endowment considers critical and most deserving of its financial support. Our recommendation does not seek to impose rigid priorities upon applicants. Instead, we believe that the systematic formulation of more specific guidance to potential grantees will become increasingly important as the Endowment funds more discretionary grantees than it has in the past.

The statement of principles and objectives to which the Endowment refers was considered in our draft, and we have clarified our reference to it (see pages 13 and 14). Although the statement, as a declaration of intentions and overall goals, represents an important planning element, it is not a plan in itself. It does not attempt to set priorities for specific Endowment program goals, rank order programs and projects, or target particular regions or countries considering specific Endowment resources and current foreign developments. We believe that the selection process should periodically develop an explicit set of geographical and functional priorities.

The intent of our recommendation is not to establish an inflexible set of criteria which must be observed by the Endowment but rather to encourage it to initiate a periodic planning process aimed at translating the precepts of its principles and objectives statement into a plan covering a given time span.

Regarding our recommendation that the Endowment clarify its evaluation procedures, the Endowment stated that the March 7, 1986, policy statement constituted a strengthening of the procedures, based upon 2 years of experience. It viewed evaluation as a collaborative effort between grantee and grantor. In cases involving the experienced core grantees, the Endowment would rely more heavily, although not exclusively, on self-evaluation.

Although the Endowment's comments provide some general clarification, they do not, in our view, adequately define its role in carrying out its policy statement-mandated responsibility to conduct ongoing or follow-up program evaluations before a grantee or project receives continued funding. For example, the Endowment has not generally performed evaluations of core grantee programs or enforced the requirement for self-evaluation. Under these circumstances, it is difficult to understand how collaborative evaluation is to be implemented, or what is intended by more heavily relying on self-evaluation. Potential problems could include how the staff would (1) assess the degree of experience possessed by a grantee, (2) determine the appropriate mix of self- and Endowment evaluation for each level of experience, or (3) select particular grantee projects for Endowment evaluation.

In commenting on our draft report, USIA stated that the implementing procedures for verifying and evaluating information on Endowment programs should be worked out within the Endowment at its own initiative. We agree that the primary responsibility for assuring that program improvements are implemented is with the Endowment Board working through its staff. Our recommendations are directed to USIA in recognition of the Endowment's accountability to USIA. In the Comptroller General's June 6, 1985, decision concerning the USIA-Endowment relationship, we supported, and continue to support, USIA's assertion that the Endowment was not free of fiscal or administrative accountability to USIA for grant monies, and concluded that USIA may require Endowment compliance with procedural mechanisms to see that grant funds are used only for authorized purposes.

The Endowment's Core Grantees

FTUI and the Regional Labor Institutes

FTUI, a private nonprofit organization, was established by the AFL-CIO in 1977 to develop programs and implement projects involving the AFL-CIO and European unions. It was relatively inactive, due to a lack of funds, until it became the Endowment's primary grantee in 1984. The AFL-CIO president serves as FTUI's president and is a member of its Board, which also includes the heads of several AFL-CIO unions and the director of the AFL-CIO's Department of International Affairs.

FTUI was awarded about 68 percent of the Endowment's fiscal year 1984 and 1985 funds. Its preeminence was the result of funding earmarked in the act, which directed the Endowment to award \$13.8 million annually to FTUI during fiscal years 1984 and 1985. In 1984, however, the Endowment awarded only \$11 million to FTUI. The Endowment argued that it was entitled to do so because the Congress had appropriated less than 60 percent of the funds authorized by the act. In response to a congressional inquiry, we determined that the Endowment had erred in its reasoning, and the Endowment granted FTUI the full \$13.8 million in fiscal year 1985.¹

According to the Endowment, FTUI used these funds to support 57 fiscal year 1984 programs and 64 fiscal year 1985 programs. These programs included efforts to develop union infrastructures abroad, training in union-related skills and political techniques, development projects intended to strengthen democratic trade unions, assistance to union confederations and individuals affected by repressive government actions, publication of pro-democratic literature, and support of international free trade union groups.

To administer these programs during 1984 and 1985, FTUI's staff was made up of an executive director, three professionals (including two who were assigned to Endowment-related matters on a part-time basis), and three support staff. In early 1986 FTUI enlarged its staff to include a full-time associate director, a full-time program officer, and a part-time bookkeeper. FTUI depends heavily on its close association with the AFL-CIO to carry out its responsibilities. The AFL-CIO's Paris office played a predominant role in FTUI's European programs, and its Third World programs were planned and executed by its largest subgrantees—three AFL-CIO regional labor institutes based in Washington, D.C. The three regional institutes—the Latin America-oriented American Institute for Free Labor Development (AIFLD), the African-American Labor Center (AALC), and the Asian-American Free Labor Institute (AAFLI)—were

¹See B-214585, Mar. 22, 1985, U.S. Comptroller General, Office of the General Counsel.

established during the 1960s to help strengthen free and democratic trade union movements in the Third World. Before the Endowment's establishment, they had been funded primarily by the U.S. Agency for International Development (AID).

The regional institutes are closely linked to the AFL-CIO. The AFL-CIO president serves as the president of each of the regional institutes and is a member of their boards, which are made up of the heads of several AFL-CIO unions. The director of the AFL-CIO's Department of International Affairs helps coordinate regional institute activities.

The regional institutes have separate staffs and procedures, although each has designated a single coordinator for all its Endowment-funded programs. The three institutes have Washington-based staffs and 39 overseas offices in Latin America, Africa, and Asia to administer their AID and Endowment-funded activities. An American country program director or representative is present at each of their offices.

CIPE: The Business Core Grantee

CIPE is a private, nonprofit affiliate of the U.S. Chamber of Commerce. It was established in 1983 to coordinate the involvement of American business in Endowment activities and to encourage the growth of voluntary business organizations and private enterprise systems abroad. Its Board of Directors includes representatives of major business organizations, corporations, research organizations, and the U.S. Chamber of Commerce.

CIPE's executive director divides his time between CIPE and Chamber duties. Other part-time staff include the director's executive assistant and three regional directors. CIPE's full-time staff consists of five professionals, including a grants administrator, and three support staff.

CIPE's programs generally involve strengthening business communities' organizational capabilities, sponsoring exchanges among business leaders, encouraging business participation in the political process, developing executive training, and establishing an international research clearinghouse on business organizations.

During fiscal years 1984 and 1985, CIPE was awarded 11.5 percent of the Endowment's funds. The act's earmarks directed that \$2.5 million be awarded annually during fiscal years 1984 and 1985 for CIPE's programs. The Endowment awarded only \$1.7 million in fiscal year 1984 but granted the full \$2.5 million to CIPE in fiscal year 1985.

NRI and NDI: The National Parties' Core Grantees

NRI and NDI were established by the Republican and Democratic parties in 1983 to carry out their Endowment-related international political development programs. In general, the objectives of NRI's programs include supporting multilateral political organizations; facilitating political exchanges; providing input to democratic processes; supplying grass-roots training and participation; and helping to provide approaches to political development. NDI programs involve joint planning, training, and exchanges with foreign groups to promote understanding of democratic ideas; provide technical assistance for free elections; contribute to civic education; provide expertise for democratic policy formulation; and encourage international party-to-party relationships. NDI and NRI each have a full-time staff of six, headed by an executive director.

Although the act did not earmark funds for these organizations, it alluded to their roles, and the Endowment considers them to be core grantees. Each received \$1.5 million from the Endowment in fiscal year 1984. In 1984, however, the Congress barred the Endowment from granting fiscal year 1985 funds to the party core grantees partly because of concerns about the wisdom of funding political party organizations. NDI and NRI subsequently modified their program plans and used their 1984 Endowment funds throughout 1984 and 1985. By September 1985, NDI and NRI had budgeted 46 and 34.5 percent, respectively, of their 1984 Endowment funds for their administrative needs. By December 1985, the administrative portions of their budgets had risen to 54 and 44 percent, respectively.

NDI informed us in May 1986 that an Endowment requirement to account for all salaries and benefits as an administrative expense affected its administrative budget. NDI operated all of its programs directly during 1984 and 1985, and estimated that two-thirds of its staff's time during 1986 will be spent on program-related activities. NDI commented that if the portion of its salaries and benefits directly related to program activities had been accounted for as a direct cost of its program, the September 1985 administrative expense ratio would have been 38 percent instead of 46 percent. NDI also stated that if one-time start-up costs had been separated, the percentage would have fallen to 23 percent.

During most of 1985 the funding outlook for the party core grantees was uncertain. However, in December 1985, the Congress allowed the Endowment to grant fiscal year 1986 funds to NDI and NRI if they fulfilled several conditions, including divesting their boards of individuals employed by, or on the boards of, the Democratic and Republican

national committees. NDI and NRI officials notified the Endowment in early 1986 that their organizations had divested their boards of such individuals.

Core Grantees' Relationship With the Endowment Board

Board members who are officers or directors of an organization seeking an Endowment grant must abstain from the Board's consideration of, and any vote on, that organization's proposed grant.

The Endowment Board continues to include individuals who are officers or directors of three of the four core grantees (by February 1986, the NRI officials were no longer on the Board). We observed that these Board members do not vote and they abstain from Board discussions on proposals by grantees with whom they are affiliated. They are, however, present during such discussions.

H.R. 3984, a bill introduced in the House of Representatives in December 1985, would prohibit the Endowment from awarding grants to organizations affiliated with Endowment Board members or with individuals who had served on the Board within the past 2 years. The latter ban would not apply to affiliations of individuals serving on the Board at the time of the bill's enactment until 26 months after the bill becomes effective.

Core Grantee Selection, Monitoring, and Evaluation of Endowment-Funded Programs

Because of the limited role played by the Endowment in selecting, monitoring, and evaluating core grantee programs and projects, we obtained information from the four core grantees concerning the manner in which they carried out these functions during fiscal years 1984 and 1985.

FTUI and the Labor Institutes

FTUI's operational role in administering most of its 1984-85 Endowment funds appears to have been generally limited to reviewing proposals and reports sent either from the regional institutes or through the AFL-CIO Paris office. It depended on the regional institutes to select, monitor, and evaluate their own projects, and like the Endowment, its verification of the programmatic information in institute documents was limited.

Although FTUI is technically the grantor of funds to the labor institutes, its role regarding these grantees appears to have been influenced by (1) the institutes' advantage in staff size and experience over FTUI and (2) the role of the AFL-CIO's Department of International Affairs in directing all four organizations. According to FTUI's Executive Director, FTUI and the regional institutes are all parts of a single AFL-CIO international program, and the close working relationship among them provides FTUI with much of the information it needs. For example, we were told that the proposals and reports formally submitted by the regional institutes to FTUI were prepared to meet the Endowment's needs, rather than FTUI's. The Director of the AFL-CIO's Department of International Affairs informed us that he believes FTUI's role, although limited, helps ensure that AFL-CIO international programs are well coordinated.

We found that FTUI depended on the regional institutes to plan and select its Third World programs. FTUI staff informed us that in their review of the proposals they generally deferred to the regional institutes' expertise. FTUI and institute staff officials also attributed the lack of detail in some proposals to concerns over project sensitivity and to FTUI's ready access to institute briefings.

FTUI's 1984 and 1985 European programs were generally selected by the Director of the International Affairs Department and the Paris office, based largely on his extensive experience with many of the proposed subgrantees.

FTUI's grant agreements require its grantees to provide detailed program and financial information on their Endowment-funded projects through quarterly and annual reports, based on the Endowment's standard reporting format. FTUI's efforts to verify data received from the institutes appear to have been limited. During 1984 and 1985 FTUI staff had visited only two institute field offices or project sites to observe and verify Third World project activities. FTUI's Executive Director told us that, in lieu of field visits, she conferred frequently with institute staff in Washington, D.C., discussed projects with field staff at annual institute meetings in Washington, and met with foreign recipients at international labor conferences. FTUI did not maintain separate files on each institute's projects to accumulate pertinent project information or obtain copies of agreements with foreign recipients.

On the other hand, FTUI had individual files on its European grants, but they did not always contain key documents. Initially, we found that FTUI had not consistently required its European subgrantees to submit formal

and detailed quarterly reports. Several of FTUI's European subgrantees, including its largest, apparently had not routinely submitted detailed information concerning their past programmatic activities. In one case involving a large grant to a European labor federation, FTUI had very little written material describing subgrantee progress in achieving program objectives. FTUI and AFL-CIO officials subsequently informed us that FTUI had moved towards obtaining more documentation from several European subgrantees.

Although the AFL-CIO office in Paris is not a FTUI subgrantee, we were told that it provides important assistance to FTUI in monitoring European subgrantees, particularly those considered to be sensitive by FTUI and the AFL-CIO. The Paris office director is directly responsible for contacts with most of these subgrantees. FTUI's Executive Director travelled to Europe to discuss Endowment-funded programs with several European subgrantees.

FTUI and AFL-CIO officials believe that their initial approach to monitoring these subgrantees was warranted by the sensitivities involved and by their original understanding of the Endowment concept. Therefore, we were told, written files were kept to a minimum, and "face-to-face" contacts or closely guarded recipient reports (which were not in FTUI's files) were used instead.

In late 1984, FTUI informed the Endowment that its projects could not yet be fully evaluated, and instead presented brief evaluative comments in the description of its activities. FTUI officials informed us in mid-1985 that extensive evaluations were planned after programs had been in operation for 1 year. In March 1986, FTUI provided the Endowment with information concerning 22 programs for which it was requesting additional funds. The information included an evaluation section on each of the 22 programs. Specific activities were described in some detail, and generally positive assessments of results were presented.

FTUI depends on the institutes to evaluate Third World projects. Institute staff indicated that they used various criteria to assess the effectiveness of their programs in strengthening foreign unions. These criteria included results of union elections, press coverage of union activities, responses from program participants, and improvements in the functioning of union management. In one case, the less tangible impact of a program on a union's capabilities or reputation was considered more significant than the actual results of the specific program. We were also

told that it is difficult to determine whether or not a specific project has actually contributed to the long-term goal of promoting democracy.

FTUI's Executive Director informed us in late 1985 that she would evaluate completed European projects with the assistance of the Paris office. The March 1986 evaluation submission to the Endowment included judgments based on criteria that appeared relevant to the type of projects being evaluated.

FTUI plans to develop a comprehensive evaluation plan for long-term use. In the interim, it has developed an evaluation format for grantees to use in identifying objectives, factors affecting possible attainment of objectives, activities proposed, and activities completed.

CIPE

Under CIPE's procedures, proposals are to be assessed at several levels, from its staff's preliminary review through final approval by the CIPE Board of Directors. During the staff's preliminary review stage, CIPE's grants administrator, regional directors, and program coordinator prepare initial comments on a proposal's merits. These officials collaborate on an evaluation and recommendation report on each proposal sent to the CIPE Board for review.

If approved by the Board, proposals are assembled into a quarterly submission to the Endowment. Until the Endowment began requiring detailed project-by-project proposals in December 1985, it had permitted CIPE to submit an overall proposal for one program area for blanket approval and funding. CIPE notified the Endowment when it began a specific project under the program.

CIPE procedures also require (1) final financial and program reports from all its grantees at the end of the grant term, (2) final audited financial reports prepared by a third party, and (3) quarterly reports—addressing progress, disbursements, and evaluative comments—for extended programs. During our review we examined three of CIPE's ongoing grants in Latin America and Africa. In one case, we noted that the grantee had supplied extensive amounts of data to CIPE. In another, however, a CIPE grantee's final report was several months late and contained erroneous financial data. CIPE informed us that it had repeatedly sought the report from the grantee and that it had detected the error and requested a correction.

CIPE's regional directors are responsible for monitoring projects and conferences. CIPE has no overseas staff, but Washington-based staff have visited project sites. Trip reports are submitted to the grants administrator, although not all monitoring efforts are documented.

CIPE did not have written evaluation procedures in place until February 1986. The procedures state that CIPE's evaluations will be based on grantee reports; self-evaluations; consultant reports, field visits; and, occasionally, independent evaluation, testing, and polling. CIPE's regional directors are to prepare final evaluations that assess (1) activities conducted against original plans, (2) project planning and management, (3) the quality of the project and its products, and (4) the project's conformance to CIPE's criteria for determining if objectives had been realized.

In previous proposals, CIPE had provided some specific information concerning its plans for evaluating completed CIPE projects. For example, it informed the Endowment in November 1985 that each project in its program for association and professional development would be evaluated to determine its role in strengthening participating organizations. In one such project, participants were to be tested on the materials used and asked to evaluate course content. CIPE's November 1985 annual report to the Endowment also contained specific examples of its program accomplishments.

NDI and NRI

Neither NDI nor NRI awards grants which assign program responsibility to other organizations. NDI and NRI administer their own programs directly, except NRI informed us that it uses grants for program support.

NDI works directly through cooperative agreements with foreign groups. These groups are not financial partners, and NDI funds all project expenses. NDI hopes to build up its programmatic and administrative experience and to exercise more control than it could through a grant process. NDI staff informed us that it will probably continue to depend on cooperative agreements.

NDI, according to its staff, prefers to work with foreign political party institutes, centers, and foundations willing to involve themselves in topics of interest to NDI. We were told that NDI uses its foreign political party contacts to help develop proposals. NDI informed us that it is trying to develop such requests by introducing foreign institutions to its capabilities, particularly in those foreign countries where NDI would like

to make a positive impact. NDI believes that conferences and workshops are an effective way of introducing additional groups abroad to NDI.

NDI procedures indicate that its project funding decisions are to be based on a post-request analysis of a recipient country's democratic history and overall political framework, potential impact of the project, the cooperating group's reputation as a serious and responsible organization, political and democratic significance, relationship to U.S. interests, and cost. A written staff analysis is to be prepared for discussion with one of several NDI advisory boards, which provides its recommendations to NDI's director. The director submits favorable proposals to the NDI Board for approval before submission to the Endowment for funding.

NDI's direct involvement in its own projects benefits the task of monitoring program progress. NDI's general evaluation methodology indicates that NDI will set conference and workshop objectives at the outset, and will measure achievements against them throughout the project and at its conclusion. NDI is also developing a questionnaire for all participants to help in the evaluation. A written staff assessment of the conference or workshop will be combined with questionnaire results for a final evaluation report.

In its annual report, NDI provided the Endowment with evaluative reports on the projects it had conducted. Our observations of one NDI conference in May 1985 were generally consistent with NDI's evaluation in the annual report.

NRI-run programs abroad generally involve foreign institutes or organizations that provide nonfinancial assistance to NRI. Most of NRI's program funds were allocated to NRI-run programs. About 46 percent of the funds was granted or contracted to other organizations. We were told that grants were employed to advance the progress of NRI-run programs and were usually less than 6 months in duration to maintain tighter control. In one case, NRI awarded a short-term contract to an American organization for a poll of a Third World country's citizen attitudes towards voting. NRI later presented the poll results to that country's political parties and institutes as part of NRI's program to encourage broad citizen participation in an upcoming national election.

NRI informed us that its principal program officials conduct on-site visits to evaluate prospective grantees. The officials' assessments are included in their trip reports. Proposals endorsed by these officials are submitted to the NRI board for approval before submission to the Endowment.

When grants are awarded, grant agreements require final reports of actual expenditures and program accomplishments. NRI monitors progress through site visits by NRI staff.

NRI has no formal evaluation procedures. In its original proposals to the Endowment, NRI briefly discussed how it would evaluate each proposed program. In some cases, little detail was provided regarding the means by which evaluation would be carried out. In others, NRI indicated that it would document completion of finite tasks—such as progress towards an action plan, production of studies, and holding of meetings—when feasible.

In its November 1985 annual report to the Endowment, NRI provided evaluations of its ongoing and completed projects. For its voter program in a Third World country, the evaluation noted that the local reaction to the poll indicated that an important need had been addressed, but added that quantifiable results of the program could not be easily or safely assessed.

The National Endowment for Democracy Act

PUBLIC LAW 98-164—NOV. 22, 1983

97 STAT. 1039

TITLE V—NATIONAL ENDOWMENT FOR DEMOCRACY

National
Endowment for
Democracy Act.

SHORT TITLE

SEC. 501. This title may be cited as the "National Endowment for Democracy Act".

22 USC 4411
note.

NATIONAL ENDOWMENT FOR DEMOCRACY

SEC. 502. (a) The Congress finds that there has been established in the District of Columbia a private, nonprofit corporation known as the National Endowment for Democracy (hereafter in this title referred to as the "Endowment") which is not an agency or establishment of the United States Government.

22 USC 4411.

(b) The purposes of the Endowment, as set forth in its articles of incorporation, are—

(1) to encourage free and democratic institutions throughout the world through private sector initiatives, including activities which promote the individual rights and freedoms (including internationally recognized human rights) which are essential to the functioning of democratic institutions;

(2) to facilitate exchanges between United States private sector groups (especially the two major American political parties, labor, and business) and democratic groups abroad;

(3) to promote United States nongovernmental participation (especially through the two major American political parties, labor, business, and other private sector groups) in democratic training programs and democratic institution-building abroad;

(4) to strengthen democratic electoral processes abroad through timely measures in cooperation with indigenous democratic forces;

(5) to support the participation of the two major American political parties, labor, business, and other United States private sector groups in fostering cooperation with those abroad dedicated to the cultural values, institutions, and organizations of democratic pluralism; and

(6) to encourage the establishment and growth of democratic development in a manner consistent both with the broad concerns of United States national interests and with the specific

requirements of the democratic groups in other countries which are aided by programs funded by the Endowment.

GRANTS TO THE ENDOWMENT

22 USC 4412.

SEC. 503. (a) The Director of the United States Information Agency shall make an annual grant to the Endowment to enable the Endowment to carry out its purposes as specified in section 502(b). Such grants shall be made with funds specifically appropriated for grants to the Endowment or with funds appropriated to the Agency for the "Salaries and Expenses" account. Such grants shall be made pursuant to a grant agreement between the Director and the Endowment which requires that grant funds will only be used for activities which the Board of Directors of the Endowment determines are consistent with the purposes described in section 502(b), that the Endowment will allocate funds in accordance with subsection (e) of this section, and that the Endowment will otherwise comply with the requirements of this title. The grant agreement may not require the Endowment to comply with requirements other than those specified in this title.

(b) Funds so granted may be used by the Endowment to carry out the purposes described in section 502(b), and otherwise applicable limitations on the purposes for which funds appropriated to the United States Information Agency may be used shall not apply to funds granted to the Endowment.

Restriction.

(c) Nothing in this title shall be construed to make the Endowment an agency or establishment of the United States Government or to make the members of the Board of Directors of the Endowment, or the officers or employees of the Endowment, officers or employees of the United States.

(d) The Endowment and its grantees shall be subject to the appropriate oversight procedures of the Congress.

(e) Of the amounts made available to the Endowment for each of the fiscal years 1984 and 1985 to carry out programs in furtherance of the purposes of this Act—

(1) not less than \$13,800,000 shall be for the Free Trade Union Institute; and

(2) not less than \$2,500,000 shall be to support private enterprise development programs of the National Chamber Foundation.

ELIGIBILITY OF THE ENDOWMENT FOR GRANTS

22 USC 4413.

SEC. 504. (a) Grants may be made to the Endowment under this title only if the Endowment agrees to comply with the requirements specified in this section and elsewhere in this title.

(b)(1) The Endowment may only provide funding for programs of private sector groups and may not carry out programs directly.

(2) The Endowment may provide funding only for programs which are consistent with the purposes set forth in section 502(b).

Salary or compensation.

(c)(1) Officers of the Endowment may not receive any salary or other compensation from any source, other than the Endowment, for services rendered during the period of their employment by the Endowment.

Travel expenses.

(2) If an individual who is an officer or employee of the United States Government serves as a member of the Board of Directors or as an officer or employee of the Endowment, that individual may

PUBLIC LAW 98-164—NOV. 22, 1983

97 STAT. 1041

not receive any compensation or travel expenses in connection with services performed for the Endowment.

(d)(1) The Endowment shall not issue any shares of stock or declare or pay any dividends.

Stock or dividends.

(2) No part of the assets of the Endowment shall inure to the benefit of any member of the Board, any officer or employee of the Endowment, or any other individual, except as salary or reasonable compensation for services.

(e)(1) The accounts of the Endowment shall be audited annually in accordance with generally accepted auditing standards by independent certified public accountants or independent licensed public accountants certified or licensed by a regulatory authority of a State or other political subdivision of the United States. The audits shall be conducted at the place or places where the accounts of the Endowment are normally kept. All books, accounts, financial records, reports, files, and all other papers, things, or property belonging to or in use by the Endowment and necessary to facilitate the audits shall be made available to the person or persons conducting the audits; and full facilities for verifying transactions with any assets held by depositories, fiscal agents, and custodians shall be afforded to such person or persons.

Audits.

(2) The report of each such independent audit shall be included in the annual report required by subsection (h). The audit report shall set forth the scope of the audit and include such statements as are necessary to present fairly the Endowment's assets and liabilities, surplus or deficit, with an analysis of the changes therein during the year, supplemented in reasonable detail by a statement of the Endowment's income and expenses during the year, and a statement of the application of funds, together with the independent auditor's opinion of those statements.

Report.

(f)(1) The financial transactions of the Endowment for each fiscal year may be audited by the General Accounting Office in accordance with such principles and procedures and under such rules and regulations as may be prescribed by the Comptroller General of the United States. Any such audit shall be conducted at the place or places where accounts of the Endowment are normally kept. The representatives of the General Accounting Office shall have access to all books, accounts, records, reports, files, and all other papers, things, or property belonging to or in use by the Endowment pertaining to its financial transactions and necessary to facilitate the audit; and they shall be afforded full facilities for verifying transactions with any assets held by depositories, fiscal agents, and custodians. All such books, accounts, records, reports, files, papers, and property of the Endowment shall remain in the possession and custody of the Endowment.

GAO audit.

(2) A report of each such audit shall be made by the Comptroller General to the Congress. The report to the Congress shall contain such comments and information as the Comptroller General may deem necessary to inform the Congress of the financial operations and condition of the Endowment, together with such recommendations with respect thereto as he may deem advisable. The report shall also show specifically any program, expenditure, or other financial transaction or undertaking observed in the course of the audit, which, in the opinion of the Comptroller General, has been carried on or made contrary to the requirements of this title. A copy of each report shall be furnished to the President and to the Endowment at the time submitted to the Congress.

Report to Congress.

Report to President.

Appendix III
The National Endowment for Democracy Act

97 STAT. 1042

PUBLIC LAW 98-164—NOV. 22, 1983

Recordkeeping.

(g)(1) The Endowment shall ensure that each recipient of assistance provided through the Endowment under this title keeps such records as may be reasonably necessary to fully disclose the amount and the disposition by such recipient of the proceeds of such assistance, the total cost of the project or undertaking in connection with which such assistance is given or used, and the amount and nature of that portion of the cost of the project or undertaking supplied by other sources, and such other records as will facilitate an effective audit.

Information
accessibility.

(2) The Endowment shall ensure that it, or any of its duly authorized representatives, shall have access for the purpose of audit and examination to any books, documents, papers, and records of the recipient that are pertinent to assistance provided through the Endowment under this title. The Comptroller General of the United States or any of his duly authorized representatives shall also have access thereto for such purpose.

Report to
President and
Congress.

(h) Not later than December 31 of each year, the Endowment shall submit an annual report for the preceding fiscal year to the President for transmittal to the Congress. The report shall include a comprehensive and detailed report of the Endowment's operations, activities, financial condition, and accomplishments under this title and may include such recommendations as the Endowment deems appropriate. The Board members and officers of the Endowment shall be available to testify before appropriate committees of the Congress with respect to such report, the report of any audit made by the Comptroller General pursuant to subsection (f), or any other matter which any such committee may determine.

The Board of Directors of the National Endowment for Democracy

John Richardson (Chairperson)

Polly Baca

William Brock

Legree Daniels

Frank Fahrenkopf

Dante Fascell

Orrin Hatch

Lane Kirkland

Henry Kissinger

Charles Manatt

Louis Martin

Walter Mondale

Olin Robison

Sally Shelton-Colby

Albert Shanker

Charles Smith

Jay Van Andel

Agency Comments

National Endowment for Democracy

June 6, 1986

Ms. Joan M. McCabe
 Associate Director
 U.S. General Accounting Office
 Washington, D.C. 20548

Dear Ms. McCabe:

On behalf of the National Endowment for Democracy, I am pleased to respond to the Draft Report of the U.S. General Accounting Office entitled "Promoting Democracy Overseas: The National Endowment for Democracy's Management of Grants." The Board of Directors welcomes the constructive approach taken in the report and appreciates GAO's efforts to identify "actions that should assist the Endowment ... to strengthen its oversight of grantee activities."

As the report notes, Endowment oversight procedures have already been strengthened in a number of respects: core grantees' proposals are "generally more detailed and descriptive than those submitted in prior years;" the Endowment has begun to require compliance testing, in addition to the independent audits previously required; quarterly reports are now being submitted on a more timely basis than before; and most importantly, a major policy statement has been approved which clarifies the Endowment's responsibilities with respect to its grantees (attached).

We also note that in testimony before the House Foreign Affairs Subcommittee on International Operations on May 20, 1986, the United States Information Agency expressed satisfaction with the Endowment's implementation of its new responsibilities under the Freedom of Information Act; and the

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Department of State warmly approved of the consultation procedures that have been established, both formal procedures that are called for in the new authorizing legislation and informal procedures that constitute an ongoing exchange of information between the Endowment and a wide array of desk officers, USIS officials, embassy personnel, and others in our government.

As the Endowment develops, it will naturally seek to refine and improve its management practices. And while this report will assist the process, in our view it did not make sufficiently clear that there are already extensive procedures and controls in place for setting priorities, insuring proper planning and review, and monitoring and evaluating existing programs.

Program planning and review is a case in point. It should be remembered that as a grantmaking agency that does not carry out its own programs, the Endowment is necessarily dependent on the proposals it receives. In addition, a fundamental premise of our operating philosophy is that we must seek to be responsive to the views and needs of democratic forces abroad, and this precludes the imposition of rigid priorities upon them.

Of course, the NED Board devoted considerable effort to formulating the Statement of Principles and Objectives it adopted in December 1984. This document defines Endowment priority program areas, provides a framework to guide prospective grantees, and is regularly referred to in proposal presentations to the Board.

Moreover, the Endowment has convened a series of meetings with government and independent specialists, NED and Institute staff, and Board members to discuss regions and countries of special concern (e.g. Eastern Europe and the Soviet Union, Latin America and Africa, with special meetings on Chile, Haiti, the Philippines and South Africa). The importance of focusing on key countries is implicit in

the Endowment's proposal review process and is reflected in the actual allocation of funds.

Obviously, if the Endowment receives an excellent proposal from a non-priority country, we seek to be as responsive as possible. Planning without flexibility and responsiveness can be as bad as random program selection.

The Endowment's review procedures also include evaluation of the prospective grantees' programmatic and financial capability, direct contact in Washington and often in-country with prospective grantees, review of proposals by government and nongovernmental specialists and formal consultation with the Department of State.

The monitoring and evaluation process includes staff review of quarterly reports, final reports which must include program evaluation, and annual reports by core grantees. In addition, status reports on program activities and expenditures are presented to the Board twice a year.

Furthermore, as a matter of routine, NED staff hold monthly monitoring meetings, consult regularly with grantees, as well as with governmental and nongovernmental experts, observe actual program product where possible (publications, major seminars or training sessions), review grantees' self-evaluations and have conducted selected, though admittedly limited, on-site visits.

The Endowment requires recordkeeping by grantees and subgrantees and has the right of access to grantee and subgrantee books and records. It requires an annual audit by an independent CPA, and of course, GAO and USIA also have audit rights.

This is not to say that there isn't room for improvement. GAO rightly points to verification as an area where the Endowment must strengthen its procedures. And we must also be in a position to make informed evaluations of all programs. Evaluation assumes a special importance during a period when,

inevitably, we will be making program decisions based upon the allocation of extremely limited resources.

Regarding the recommendation that the Endowment clarify "the apparent inconsistency" between evaluation procedures adopted in 1984 and the Board's policy statement of March 7, 1986, I wish to note that the latter statement simply constitutes a strengthening of established procedures based upon two years of experience. As the statement makes clear, we view evaluation as a collaborative effort involving both the grantee and grantor. Where the grantee has a very high degree of experience and expertise and has a close working relationship with the Endowment, as in the case of the core grantees, the Endowment will rely more heavily, though not exclusively, on self-evaluation.

In this context, we would like to emphasize the importance of the four core grantees -- the Free Trade Union Institute, the Center for International Private Enterprise, the National Democratic Institute for International Affairs and the National Republican Institute for International Affairs -- to the work of the Endowment. They are core grantees of the Endowment because they are associated with core institutions in American society and, therefore, are the groups best suited to strengthening parallel institutions of democratic pluralism abroad.

Of course, we recognize that the March 7 statement on grants policy requires implementation, and we are already in the process of reviewing our procedures and staffing needs in the light of this new policy. The GAO recommendations will be helpful in this process. In fact, the Board has just approved the addition to the Endowment's staff of an internal auditor who will help strengthen our verification procedures.

There are two additional matters raised in this report of which we would like to take note. First, in its overview of 1984 and 1985, GAO states that the Endowment allotted 88% of its funds to the core grantees. We feel it is important to point out that it was the will of Congress which dictated this

general distribution. As you will remember, the Board tried to reconcile the vastly different amounts contained in the authorizing legislation -- which stipulated \$13.8 million for the Free Trade Union Institute and \$2.5 million for the Center for International Private Enterprise out of an overall authorization of \$31.3 million -- and the appropriation of only \$18 million. In an attempt to satisfy the spirit of the law and, at the same time, fulfill the broad purposes of the NED Act, which envisioned support for a wide range of private U.S. groups, the Board allotted only \$11 million to FTUI and \$1.7 million to CIPE in the first year. The GAO reviewed this Board decision in 1985 and overturned it. While sympathetic to the Board's intentions, GAO ruled that if at all possible an agency must comply with the guidelines contained in authorizing legislation. Of course, the Board then complied with GAO's ruling.

Your report also cites the high ratio of administrative to program costs of the National Democratic and National Republican Institutes for International Affairs in 1984-85. As you note, NDI and NRI are core grantees of the Endowment. As such, they have received almost their entire budgets from NED resources. In fiscal year 1984, each received a total of \$1.5 million from the Endowment. When Congress prohibited any 1985 funding for these two institutes, each had to stretch an intended one-year budget across more than two fiscal years. Therefore, the high administrative costs cited by GAO reflect an abnormal situation. The administrative cost rate which has been budgeted by the National Democratic and the National Republican Institute for fiscal year 1986 is approximately one half the rate during the previous two years.

The Endowment is a new, boldly conceived and innovative institution that seeks to enlist private U.S. organizations in efforts to support democratic forces in some of the most difficult, complex and often dangerous political situations in the world. The Board of the Endowment welcomes this challenge with the understanding that success will be possible only if we

**Appendix V
Agency Comments**

establish a sound procedural as well as philosophical foundation for our work. We have made extraordinary progress toward that end during our short existence. We welcome the support and cooperation of Congress, specifically in the form of the present GAO report, as we seek to fulfill the great promise of the National Endowment for Democracy.

Sincerely,



John Richardson
Chairman of the Board

**United States
Information
Agency**

Washington, D.C. 20547

Office of the Director



June 6, 1986

Dear Mr. Conahan:

This letter is in response to Ms. Joan McCabe's letter of May 7 transmitting GAO's draft report on the National Endowment for Democracy for USIA review and comment.

On page 20 of GAO's letter to Congressman Mica and Congresswoman Snowe, two recommendations are outlined which would require USIA implementation. As you know, USIA oversight of NED programming and operations is limited. We believe that procedures for verifying and evaluating information on NED programs should be worked out by the Endowment staff itself and with its Board. As the report states, the situation at the Endowment is changing and we believe that the recent oversight hearings and your report will assist the Endowment in implementing this recommendation on its own initiative.

With best regards.

Sincerely,

Charles Z. Wick
Director

Mr. Frank Conahan
Director
National Security and International Affairs Division
United States General Accounting Office

Request Letter

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February 27, 1985


The Honorable Charles A. Bowsher
 Comptroller-General
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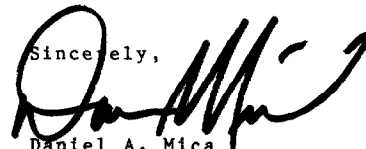
Dear Mr. Bowsher:

We are writing to request that the General Accounting Office begin a program audit of the National Endowment for Democracy (NED).

In light of several questions which have arisen surrounding certain Endowment-sponsored programs (notably in Guatemala, Chile, and Grenada), we feel that such an audit is necessary to provide a basis for congressional assessment of NED. We hope that an audit could be begun shortly which would follow up on several selected overseas grants as well as providing information about the Endowment concerning its financial controls and standards as well as NED's evaluation and monitoring of its grantees.

Members of our staff will be more than happy to meet with your auditors to discuss the parameters of the GAO investigation. They may contact either Susan Andross (225-3424) or Marion Chambers (225-5021) at their convenience.


 Olympia Snowe
 Ranking Minority Member
 Subcommittee on
 International Operations

Sincerely,

 Daniel A. Mica
 Chairman
 Subcommittee on
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