

GAO

Report to the Chairman and Ranking
Member, Committee on Foreign
Relations, U.S. Senate

April 2010

VIETNAM
EDUCATION
FOUNDATION

Recent Improvements
Made in Internal
Controls, but
Weaknesses Persist



GAO

Accountability * Integrity * Reliability



VIETNAM EDUCATION FOUNDATION

Recent Improvements Made in Internal Controls, but Weaknesses Persist

Highlights of [GAO-10-442](#), a report to the Chairman and Ranking Member, Committee on Foreign Relations, U.S. Senate

Why GAO Did This Study

The Vietnam Education Foundation (VEF) Act of 2000 established VEF as an independent agency of the executive branch. A 13-member board of directors provides primary oversight. VEF also receives guidance from other entities in carrying out its mission to further bilateral relations between the United States and Vietnam through educational exchanges in science, technology, and other fields. In light of challenges identified in managing VEF's operations, GAO was asked to examine the extent to which VEF has implemented a framework for internal control. To address this objective, GAO analyzed VEF's financial statements, audits, board meeting minutes, and policies and procedures, and conducted interviews with past and current board members, as well as VEF management and staff. GAO's *Standards for Internal Control* were used to assess this information.

What GAO Recommends

GAO recommends that the VEF Board direct the Executive Director to take steps to implement actions across all five standards of internal control, including identifying and addressing gaps in the control environment, and assessing and managing risks. GAO also recommends that the VEF Board monitor and oversee VEF management's actions. VEF agreed with our recommendations.

View [GAO-10-442](#) or key components. For more information, contact Jess T. Ford at (202) 512-4268 or fordj@gao.gov.

What GAO Found

Since 2003, VEF has implemented some elements of internal control, but still lacks a comprehensive risk-based internal control framework. At its inception, VEF's board and management were responsible for creating programs as well as internal control; they focused on the former to start up a fellowship program and build ties with Vietnamese institutions. VEF then implemented some elements of internal control in response to external auditor findings, and since May 2009 has enhanced or adopted additional control activities, such as approving a Hanoi office manual. However, key gaps still exist in the five internal control standards:

- A supportive attitude toward internal control and conscientious management is the foundation for all other standards, but the control environment at VEF has been inadequate and reactive. GAO found that VEF is not fully aware of its internal control responsibilities and has not clearly articulated a performance-based compensation framework.
- Management needs to comprehensively identify risks, but VEF officials have conducted individual assessments of particular risks, such as creating budget forecasts, and not a comprehensive assessment.
- Control activities are the policies and procedures that enforce management's directives, but GAO identified several areas in which VEF lacks clear control activities, such as lack of an office manual documenting policies for its Washington staff.
- An agency should have relevant, reliable, and timely communications relating to internal as well as external events, but GAO determined that VEF management has not always communicated critical information effectively with either VEF's board or staff.
- Ongoing monitoring of internal control should occur in the course of normal operations, but GAO found instances where VEF did not engage in ongoing monitoring, such as whether it continued to meet the requirements for exceptions to the Fly America Act.

Existence of Selected Control Activities at VEF

	2003	2004	2005	2006	2007	2008	2009	None exist
Hanoi office manual		Ⓟ						
Washington office manual								○
Performance-based compensation criteria – Washington								○
Performance-based compensation criteria – Hanoi					Ⓟ			
VEF-wide contracting procedures								○
VEF-wide monthly expenditure tracking				Ⓟ				

Ⓟ Start date Ⓧ In development ▶ Continuing activity ○ None exist

Source: GAO analysis of VEF documents.

Contents

Letter		1
	Background	3
	VEF Has Developed Some Aspects of Internal Control, but Still Lacks a Comprehensive Internal Control Framework	13
	Conclusions	28
	Recommendations for Executive Action	29
	Agency Comments	30
Appendix I	Objectives, Scope, and Methodology	32
Appendix II	Structural Elements of Similar Graduate Fellowship Programs	35
Appendix III	Comments from the Vietnam Education Foundation	40
Appendix IV	GAO Contact and Staff Acknowledgments	48
Table		
	Table 1: Select Aspects of Structure for VEF and Similarly-Scaled Fellowship Programs	36
Figures		
	Figure 1: VEF Organizational Chart, 2009	5
	Figure 2: Entities That Provide Guidance or Assistance to VEF	7
	Figure 3: VEF Obligations and Unobligated Balances, Fiscal Years 2002 to 2009	10
	Figure 4: VEF Planned Program and Indirect Costs, FY 2010	11
	Figure 5: Existence of Selected Control Activities at VEF	15

Abbreviations

AED	Academy for Educational Development
COSO	Committee of Sponsoring Organizations of the Treadway Commission
FAR	Federal Acquisition Regulation
GSA	General Services Administration
IAF	Inter-American Foundation
IAWG	Interagency Working Group on U.S. Government-Sponsored International Education and Training
IIE	Institute of International Education
IREX	International Research and Exchanges Board
MDC	Manpower Development Company
NAS	National Academy of Sciences
OMB	Office of Management and Budget
OPM	Office of Personnel Management
TFL	Training Future Leaders
USAID	U.S. Agency for International Development
VEF	Vietnam Education Foundation
WLTIE	Women's Leadership Training in Economics

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States Government Accountability Office
Washington, DC 20548

April 7, 2010

The Honorable John Kerry
Chairman
The Honorable Richard Lugar
Ranking Member
Committee on Foreign Relations
United States Senate

The United States formally reestablished diplomatic relations with the Socialist Republic of Vietnam in 1995. To help improve the U.S.-Vietnamese relationship, Congress passed the Vietnam Education Foundation (VEF) Act of 2000.¹ The act created an independent agency in the executive branch, the VEF, intended to further the process of reconciliation between the two countries, and, more specifically, establish an international science, technology, medicine, and mathematics fellowship program that would allow selected Vietnamese nationals to engage in graduate studies in the United States, and U.S. citizens to teach at Vietnamese universities.

VEF, which is governed by a board of directors composed of public- and private-sector representatives, began operations in 2003.² As of fall 2009, it has provided fellowships to over 300 Vietnamese students, as well as provided grants for more than 20 post-doctoral scholars at Vietnamese universities to participate in professional development activities in the United States, and 7 U.S. professors to teach at Vietnamese universities. VEF receives \$5 million annually in debt repayments from Vietnam to the United States to conduct its operations; as of fiscal year 2010, VEF had received \$45 million under this arrangement and is scheduled to receive another \$40 million by the time its legislated mandate expires in fiscal year 2018.

Due to the management challenges VEF faces as a small independent agency operating an international fellowship program, we examined the extent to which VEF has implemented an internal control framework for operations and financial management. In addition, we are providing information on how other selected small-scale, federal international educational exchanges are structured, because of Congress's interest in

¹P.L. 106-554, sec. 1(a)(4) (reprinted as a note to 22 U.S.C. 2452).

²Four of the board members are Members of Congress.

VEF as a potential model for promoting similar educational exchanges and development programs with other countries.

To address our objective on internal control, we applied GAO's internal control standards³ to VEF operations, and reviewed VEF's financial statements, policies and procedures, and board meeting minutes. We also conducted semi-structured interviews on internal control with VEF officials in the United States and Vietnam, including past and current board chairs, and with officials at the Departments of Education, State (State), and the Treasury. We also reviewed VEF's authorizing legislation, annual reports, and budgets, and interviewed officials from the General Services Administration (GSA) and the Office of Management and Budget (OMB). During site visits to Hanoi and Ho Chi Minh City, Vietnam, we interviewed officials at the U.S. embassy, in the Government of Vietnam, and at Vietnamese universities that participate in VEF's exchange programs. To provide information on how other small-scale educational exchange programs are structured, we identified five federally-funded exchange programs that are similar to VEF on the basis of receiving less than \$9 million in annual funding and supporting international graduate fellowships. We reviewed agreements and interviewed officials from the agencies that manage these programs, as well as officials from organizations that administer these programs. Detailed information about our methodology can be found in appendix I.

We conducted this performance audit from May 2009 to March 2010, 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.

³GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1990).

Background

VEF was established by the Vietnam Education Foundation Act of 2000 as an independent agency of the executive branch, and receives oversight from a 13-member board of directors and guidance or assistance from OMB, GSA and an external auditor, in carrying out its mission of furthering bilateral relations between the United States and Vietnam through educational exchanges.

Authorizing Legislation

The VEF Act of 2000 established VEF as an independent agency within the executive branch. Under the act, VEF is subject to most general federal government management law. For instance, it is subject to requirements on budget execution and funds control,⁴ internal control and accounting systems,⁵ and standards of conduct.⁶

In addition, the VEF Act allows certain exceptions from general government management law and has certain additional requirements for VEF. Exceptions include exempting VEF from many personnel compensation provisions in title 5 of the U.S. Code, so long as compensation does not exceed a certain ceiling, set at \$155,500 as of January 2010.⁷ The VEF Act also allows other exceptions such as the ability to bypass GSA and directly rent office space around the District of Columbia. Additional requirements include a requirement that VEF's board of directors submit an annual report on its operations and financial condition to the President and Congress. Further, the act requires VEF board members to follow the same travel regulations as State employees. As of February 2010, the House of Representatives has passed and the Senate is considering legislation that would transfer all functions and assets of VEF to the Bureau of Educational and Cultural Affairs in State.⁸

⁴See, e.g., the Purpose Statute (codified at 31 U.S.C. 1301(a)) and the Antideficiency Act (31 U.S.C. 1341 and 31 U.S.C. 1517(a)).

⁵The Federal Managers' Financial Integrity Act of 1982 (Pub. L. 97-255, as amended).

⁶The Ethics in Government Act of 1978. For more information on governance, accountability, and transparency-related requirements and statutes to which federally created entities are subject, see GAO, *Federally Created Entities: An Overview of Key Attributes*, GAO-10-97 (Washington, D.C.: October 2009).

⁷The ceiling is level IV of the Executive Schedule.

⁸H.R. 2410. Sec. 226.

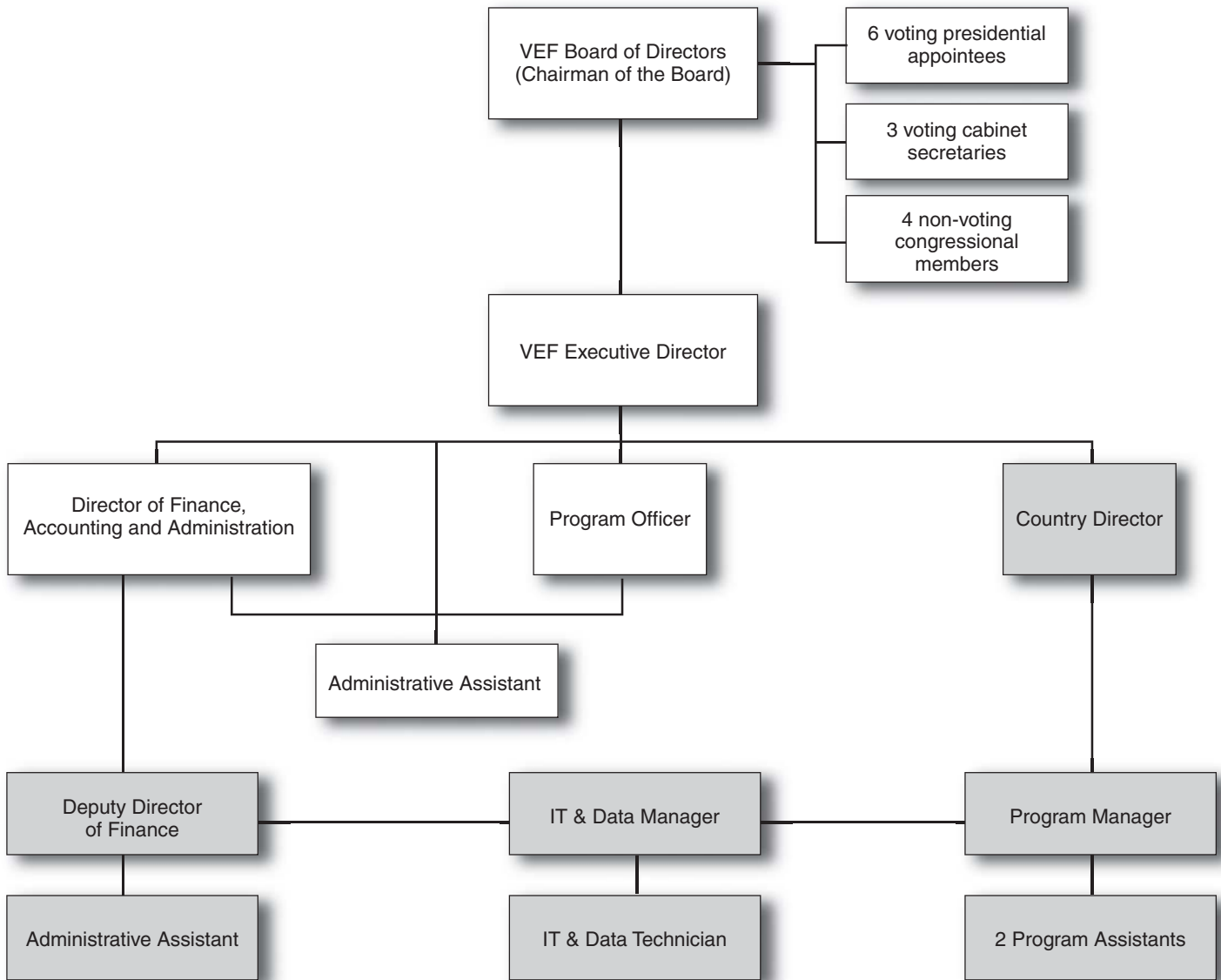
Organizational Structure

VEF is governed by a 13-member board of directors and has a staff of 12 employees, including contract employees. The board of directors consists of nine voting members: six private-sector members appointed by the President, and the Secretaries of Education, State, and the Treasury. The board also has four non-voting congressional members, two from the House of Representatives and two from the Senate.⁹ In practice, the cabinet secretaries send designated representatives to the board meetings, which are required to occur twice per year and typically have occurred three to four times per year. The board also has a finance committee that provides oversight of VEF's budget development. VEF has had four board chairs and one acting chair; the most recent board chair began his tenure in January 2009.

Early on, VEF's board of directors made broad decisions about how to structure the VEF fellowship and discussed generally how to run VEF. VEF's operations began after the board hired the first executive director in March 2003. The executive director is responsible for carrying out all functions for VEF and reports to the board for supervision and direction. In 2002 and early 2003, the board met to establish by-laws to govern board procedures, interview candidates for the executive director position, and determine options for developing a fellowship program. In 2003, VEF opened offices in the Washington, D.C., area, and Hanoi, Vietnam, and began hiring staff, such as a finance director for Washington. VEF has had three executive directors in its history, as well as four finance directors. VEF's staff consist of four federal employees based in Washington, and eight contract employees in Hanoi. VEF has a contract with a Vietnamese company, Manpower Development Company (MDC), to hire and pay its Vietnam-based employees, who are technically employees of MDC. The staff in the Hanoi office complete the majority of duties related to VEF's programs under the management of the Washington staff, who also manage the finances and internal operations of VEF, and oversee all immigration activities. Figure 1 shows the organizational structure of VEF in Washington and Hanoi.

⁹As of February 2010, the congressional members are Representatives Earl Blumenauer and Joseph Pitts, and Senators David Vitter and Jim Webb.

Figure 1: VEF Organizational Chart, 2009



Contract staff in Hanoi office

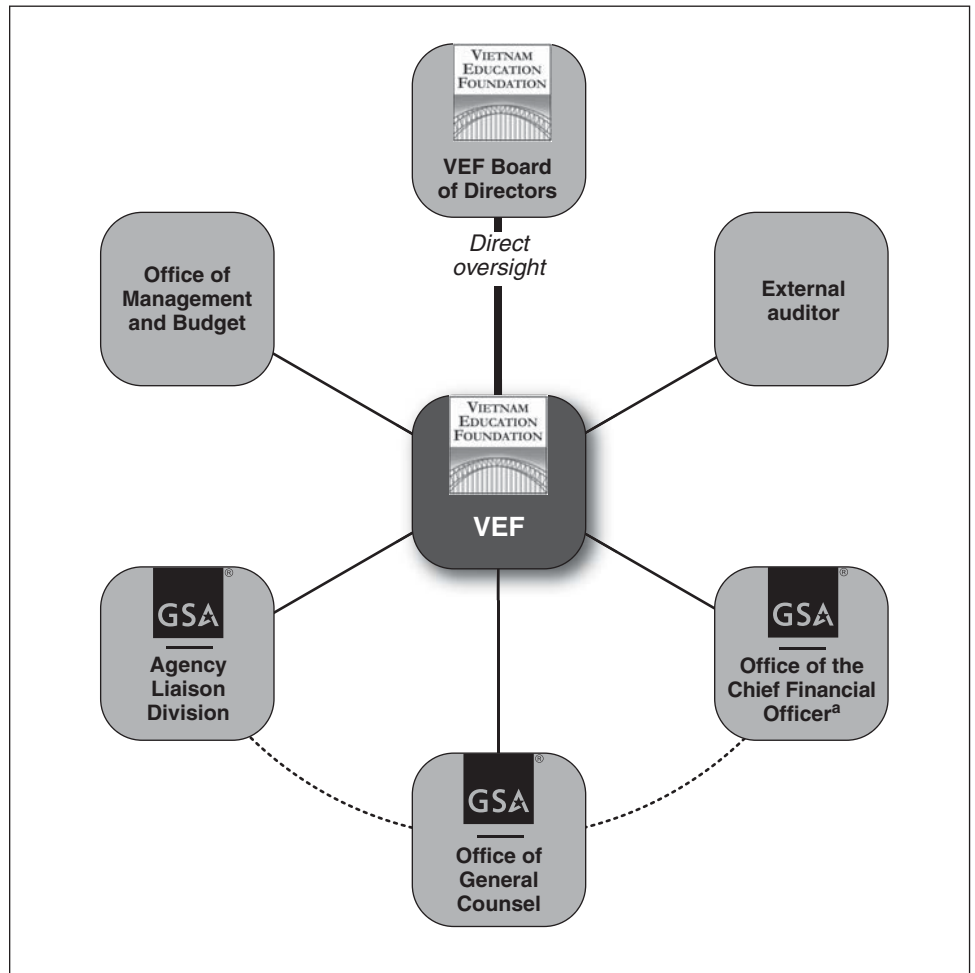
Source: GAO based on VEF data.

Other Entities That Provide Guidance or Assistance

While the VEF board is the main oversight body, other entities also provide guidance or assistance to VEF. Figure 2 shows these entities. OMB oversees the management and budgets of all executive branch agencies, including VEF. VEF also has an agreement with GSA to provide guidance on financial, payroll, legal, and other human capital services, and has agreed to adopt GSA guidelines for most aspects of its internal operations. VEF uses GSA for a variety of activities, including making payments on invoices and keeping track of obligations; consulting legal counsel from GSA for guidance on operating as a federal agency as well as reviewing agreements with universities; and processing employee benefits such as cash awards. Finally, VEF's financial statements are subject to independent audit by its external auditor.¹⁰

¹⁰The Accountability of Tax Dollars Act of 2002 requires the annual preparation and audit of organizationwide financial statements for VEF and other agencies that were previously not required to conduct these audits. VEF's financial statements are audited under U.S. generally accepted government auditing standards issued by the Comptroller General of the United States and OMB.

Figure 2: Entities That Provide Guidance or Assistance to VEF



Source: GAO analysis of VEF data.

^aUnder the Office of the Chief Financial Officer, VEF works with the External Services Branch and the National Payroll Branch.

Agency Mission and Activities

As part of its mission to deepen the bilateral relationship between the United States and Vietnam, VEF staff administer three exchange programs with Vietnam, targeting Vietnamese graduate students, Vietnamese post-doctoral scholars, and U.S. professors, and conduct various capacity building activities. The agency's flagship program, the Fellowship Program, brings approximately 40 new graduate students from Vietnam

each year to the United States for graduate-level study in science and technology, among other fields, typically for a doctorate degree.¹¹ From 2003 to 2009, under this program, VEF has brought 306 graduate students to the United States, 83 of whom have graduated, and the remainder of whom are continuing in their graduate studies. While VEF requires Vietnamese nationals to return to Vietnam after completing their degree programs, they have the option under their visas to remain in the United States temporarily for further training. Of the students who have graduated, some have returned to Vietnam, while others remained in study or post-graduate training in the United States.

In addition to the graduate student program, VEF has two programs for professors. The Visiting Scholar Program, begun in 2007, brings post-doctoral scholars from Vietnamese universities to the United States for a maximum of 1 year for self-designed professional development activities, which typically include field research or formal coursework. As of fall 2009, 26 scholars participated in this program. The U.S. Faculty Scholar Grants Program provides grants to U.S. professors to teach at Vietnamese universities, either in person or remotely, for a minimum of 1 semester and up to a year. This is VEF's most recent program addition, begun in 2008 with a participation of seven professors as of fall 2009.¹² VEF has also run a number of other activities, such as providing servers and content for free online courses called the Vietnam Open Courseware program.

VEF has contracted with the National Academy of Sciences (NAS) since 2003 to assist in the selection of students and professors for its three exchange programs.¹³ NAS has invited U.S. professors with expertise in science, technology, and other fields to travel to Vietnam to interview students for the VEF fellowship program, write letters of recommendation for those students nominated for the fellowship, and, once students are selected, NAS assists VEF in identifying appropriate universities to which students should apply. The professors' recommendations are then

¹¹VEF's fellowship program supports study in the natural, physical and environmental sciences; engineering; mathematics; medicine and public health; and technology, including information technology.

¹²VEF previously sent U.S. professors to Vietnam to teach short-term courses.

¹³NAS was created by the federal government to be an adviser on scientific and technological matters, and is a private organization. NAS's services may be obtained by an agency of the executive branch on a noncompetitive basis if the agency determines it is the only source that can provide the expertise, independence, objectivity, and audience acceptance needed to meet the agency's program requirements.

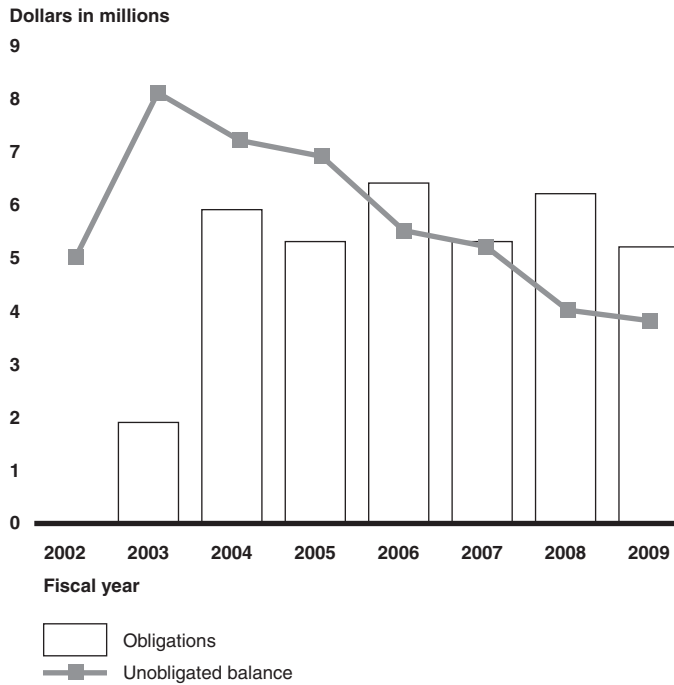
provided to the VEF board, which makes the final selection. VEF has pointed to its rigorous application and selection process as a means of grooming students who will contribute to scientific and technological progress in Vietnam as well as to VEF's mission. Appendix II provides in greater detail certain features of VEF's flagship fellowship program, as well as other federal fellowship programs that are similar in size to VEF's fellowship program.

Funding and Obligation Levels

VEF's funds come from a portion of the debt repayments that Vietnam makes to the United States.¹⁴ The VEF Act established the Vietnam Debt Repayment Fund as a separate account in the Treasury and directed that all debt repayments made by Vietnam under the agreement should be deposited into the fund, with VEF receiving a portion of those funds. VEF began receiving \$5 million annually from the fund in fiscal year 2002, and, under the VEF Act, will continue to receive these funds through fiscal year 2018, for a total of \$85 million in direct spending. The transfers from the Vietnam Debt Repayment Fund are no-year funds. Because the funds are not subject to a time limitation on their availability, and because VEF did not officially begin its operations until the middle of fiscal year 2003, it accumulated funds and, as a result, was able to obligate more than \$5 million annually from fiscal year 2004 to fiscal year 2009, as shown in figure 3.

¹⁴On April 7, 1997, the United States and Vietnam signed an agreement in which Vietnam agreed to pay the roughly \$145 million in debt, plus interest, the former Republic of Vietnam incurred from 1960 to 1975 to support the development of economic infrastructure and to finance the importation of agricultural and other commodities.

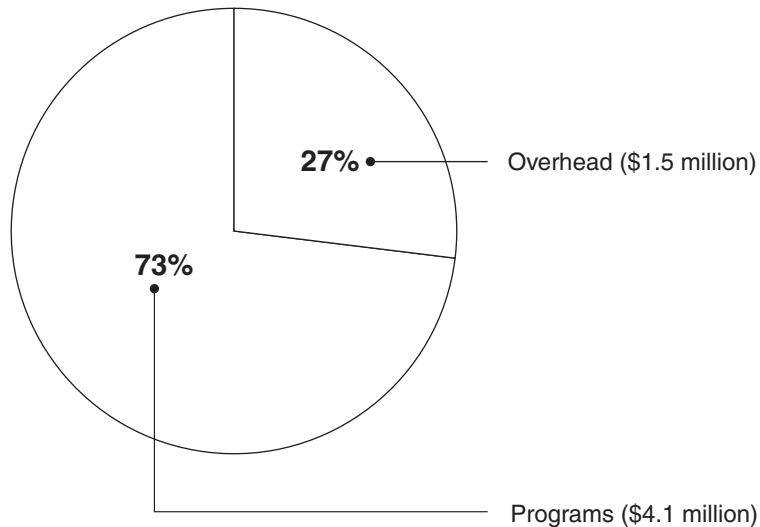
Figure 3: VEF Obligations and Unobligated Balances, Fiscal Years 2002 to 2009



Source: GAO analysis of VEF data.

For fiscal year 2010, VEF planned expenditures of \$5.6 million for running its programs and managing internal operations. Of that, VEF anticipated spending approximately 73 percent on programs and 27 percent on overhead, including items such as salaries, rent, and supplies. (See fig. 4 for the breakdown of planned program and overhead costs for fiscal year 2010.) VEF's program costs include payments to universities; professional development grants; travel costs for students, professors, and staff; costs to select students, post-doctoral scholars, and U.S. professors; and related training and orientation.

Figure 4: VEF Planned Program and Indirect Costs, FY 2010



Source: GAO analysis of VEF data.

Framework for Internal Control

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Internal control standards of the federal government provide the overall framework for establishing and maintaining internal control and establish the minimum level of quality acceptable for internal control in government.¹⁵ The five standards of internal control—control environment, risk assessment, control activities, information and communications, and monitoring—generally apply to all aspects of an agency's operations:

- **Control Environment:** Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious

¹⁵Federal internal control standards recognize that an entity's management is responsible for designing and implementing appropriate internal controls to achieve objectives related to (1) the effectiveness and efficiency of operations, including the use of resources; (2) the reliability of internal and external financial reporting; and (3) compliance with applicable laws and regulations. An entity's management is also responsible for monitoring and evaluating the effectiveness of the internal control. See [GAO/AIMD-00-21.3.1](#).

management. A positive control environment is a foundation for all other standards. It provides the discipline and structure as well as the climate which influences the quality of an organization's internal control. Management's philosophy and operating style also affect the environment, including management's philosophy toward performance-based management.

- **Risk Assessment:** After establishing clear, consistent agency objectives, management should conduct an assessment of the risks the agency faces from both external and internal sources. Risk assessment is the identification of risks associated with achieving the agency's control objectives and analysis of the potential effects of the risk. Because governmental, economic, regulatory, and operating conditions continually change, mechanisms should be provided to identify and appropriately deal with additional risks resulting from such changes.
- **Control Activities:** Control activities—policies and procedures that help management carry out its directives—help to ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results. The control activities should be effective and efficient in accomplishing the agency's control objectives.
- **Information and Communications:** Key information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.
- **Monitoring:** Management should assess the quality of internal control performance over time and ensure that the findings of audits and other reviews are promptly resolved.

VEF Has Developed Some Aspects of Internal Control, but Still Lacks a Comprehensive Internal Control Framework

Almost 7 years into its operations, VEF has implemented a number of aspects of internal control, but still lacks a comprehensive risk-based internal control framework. Although VEF was focused more at its inception on programmatic issues than implementing internal control over operations, VEF management did implement some key aspects of internal control in its initial years of operation, including some risk identification and control activities. These control-related policies were generally adopted in response to concerns raised by external audits, the VEF board, and other sources. Since May 2009, when we began our review, VEF management has adopted additional control activities and enhanced some other aspects of its internal control framework. However, while VEF management has taken action to implement some internal control, VEF lacks a sound risk-based internal control framework, based on GAO's internal control standards.¹⁶ For example, in the absence of clear guidance for performance-based compensation and documentation for contracting and allowable expenditures, among other issues, VEF management cannot reasonably assure that it is achieving the objectives of internal control, namely effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

Almost Seven Years into Operation, VEF Management Has Implemented Some Key Aspects of Internal Control

Internal control is a major part of managing an organization. Upon establishing VEF and beginning operations, VEF's management initially focused their efforts more on programmatic issues and establishing basic operations, such as renting office space and hiring employees, than on operational and administrative internal controls. Nevertheless, in response to concerns raised by external auditors and other entities, such as OMB, VEF's management had implemented significant internal control activities by the beginning of 2009, and further enhanced its internal control during the course of our review in 2009 and 2010.

VEF Had Implemented Some Control Activities and Risk Assessment by the Beginning of 2009

At its inception, VEF's board and management became responsible for creating programs as well as related control objectives and activities, and they focused more on the former. For example, when operations began in 2003, management and the board discussed the need to start up the flagship fellowship program and build ties with Vietnamese institutions, according to board meeting minutes. VEF board and management also devoted attention to establishing operations. For instance, the first executive director took steps to establish offices in the United States and

¹⁶ [GAO/AIMD-00-21.3.1](#).

Vietnam and regularly informed the board of broad operational developments at board meetings, such as the rental of different office spaces in Vietnam as well as the need to hire staff. However, while issues of internal control relating to the operations being developed were sometimes discussed, few policies were formally adopted prior to 2006. A former board chair told us that the board only addressed internal control issues when such issues were raised by others. Figure 5 shows, over time, the existence of selected control activities at VEF; very few activities existed prior to 2006.





Figure 5: Existence of Selected Control Activities at VEF

	2002	2003	2004	2005	2006	2007	2008	2009	None exist
Financial management									
Board approval of budget			Ⓟ						
Annual expenditure tracking against budget categories								Ⓟ	
Monthly expenditure tracking				Ⓟ					
Tracking receipt of money from Vietnam Debt Repayment Fund				Ⓟ					
VEF-wide contracting procedures									○
Credit card payment processing–Washington ^a				Ⓟ					
Card Holder Agreement–Hanoi ^b							Ⓟ		
Card Holder Agreement–Washington									○
Cash advance–Hanoi ^c								Ⓟ	
Expenditure approval process–Hanoi						Ⓟ			
Expenditure approval process–Washington				Ⓟ					
Personnel									
Hanoi office manual			Ⓟ						
Washington office manual									○
Performance evaluations ^d				Ⓟ					
Performance-based compensation criteria–Hanoi						Ⓟ			
Performance-based compensation criteria–Washington									○
Earning and using compensatory time					Ⓟ				
Ethics								Ⓟ	

(Figure 5 continued on next page.)

Figure 5: Existence of Selected Control Activities at VEF (continued)

Other	2002	2003	2004	2005	2006	2007	2008	2009	None exist
Restrictions on who can receive fellowship							Start date	Continuing activity	
Board by-laws	Start date	Continuing activity	Continuing activity	Continuing activity	Continuing activity	Continuing activity	Continuing activity	Continuing activity	
Chief of Mission Authority							Start date	Continuing activity	

-  Start date
-  Continuing activity
-  In development
-  None exist

Source: GAO analysis of VEF documents.

Note: This table represents select control activities GAO found during the course of our review and is not a comprehensive list of control activities. According to GAO’s Standards for Internal Control, management is responsible for conducting a risk assessment and then implementing any necessary control activities to address risks.

^aVEF’s finance director, who is based in the Washington office, manages all credit card payments.

^bVEF staff receive credit cards for travel and making office-related purchases. The card holder agreement lists allowable expenses to be charged to the card and provides other guidance on usage.

^cVEF’s Washington staff do not receive cash advances. Hanoi staff receive them in order to make payments to some Vietnamese vendors who require cash payments.

^dVEF uses a 360 degree performance evaluation system where staff evaluate themselves and also receive evaluations from peers and their supervisor. VEF management told us they primarily use these evaluations for professional development purposes.

Although VEF’s board and management were primarily focused on creating programs, VEF management developed some important internal control activities in response to concerns raised by external auditors and others. VEF’s first independent audit, which reviewed fiscal years 2004 and 2005, found material weaknesses in the agency’s internal control over financial reporting, which continued in the fiscal year 2006 audit.¹⁷ These weaknesses included lack of an effective financial management structure and monitoring process and lack of adequate accounting records, among others. Since the 2006 audit, VEF management has implemented internal control activities for managing its financial transactions. For example, as shown in figure 5, VEF developed written guidance on procedures for

¹⁷The first independent audit of VEF conducted in accordance with United States generally accepted government auditing standards and OMB audit guidance was completed for the fiscal year ending on September 30, 2005, and that audit report included a comparison year of fiscal year 2004, which was audited as part of the initial audit engagement.

making credit card payments and a system for documenting, tracking, and reconciling its monthly expenditures. These policies, adopted in 2006, continue to be used by VEF management. In 2006, VEF's board also formally adopted GSA's policies and procedures for all activities, including financial management, with the exception of overseas travel.¹⁸ As a result, from fiscal years 2007 to 2009, VEF's external audits found that prior weaknesses were corrected and that there were no new weaknesses related to financial management. The responsiveness of VEF's board and management to the audit findings demonstrates that some elements of monitoring—one of the five internal control standards—are in place.

Over time, VEF's board has also improved the implementation of certain risk assessment measures through increased oversight of budgeting and expenditure tracking. In the area of budgeting, according to board meeting minutes from April 2007, VEF management presented a 5-year budget projection to the board that showed that if VEF continued to create budgets in excess of its \$5 million annual funding, it would begin operating in a deficit in 2009, and thus could not be assured of continuing all its existing programs. This practice arose because VEF began accumulating money from the Vietnam Debt Repayment Fund in fiscal year 2002, but did not initiate operations until the middle of fiscal year 2003 and, therefore, was able to carryover its unspent funds from fiscal year 2002, as shown earlier in figure 3. This led to VEF beginning its operations in fiscal year 2003 with a surplus that it has been spending down by creating budgets exceeding the annual funding it receives from the debt repayment fund. One VEF board member told us that, beginning in 2007, the board engaged in efforts during the budget planning process to reduce VEF's planned expenditures closer to the \$5 million level to account for its future obligations and its shrinking surplus. As a result, in fiscal year 2010, VEF adopted a budget of \$5.6 million, considerably less than the budgets ranging from \$6.4 to \$8.1 million during the 6 preceding years.

In 2009, the board also identified potential risks in how VEF tracks expenditures, and oversaw the implementation of budget-related control activities to help manage these risks. According to board meeting minutes, the board discussed efforts to improve VEF's expenditure tracking, and VEF officials and board members told us that VEF's board requested in

¹⁸In 2006, VEF's board formally adopted all written guidelines, policies, procedures and practices of GSA except for overseas travel, overseas assignments, and overseas relocation, where it adopted the policies of State.

January 2009 that VEF change how it tracks expenditures to match them to budget categories, in order to enable better management of program and operational costs. According to VEF finance committee minutes and a VEF official, VEF boards had not previously asked for this information. Our analysis of VEF budget and expenditure data shows that VEF had been tracking actual expenditures in categories that did not match the budgeted categories and, therefore, could not provide information on how actual expenditures compared to those budgeted. A VEF official stated that she worked with GSA to develop a new system to enable them to compare actual to budgeted expenditures and that this system began to be implemented at the beginning of fiscal year 2010. According to this official, this new system should enable VEF to reliably manage and plan for program and operational expenditures for the first time.

VEF management has also designed and implemented various other control activities and related policies to minimize risks associated with having contract staff in its Hanoi office. For example, Hanoi staff we spoke with told us that Washington staff generally review important communications before Hanoi staff send them to external sources. Further, VEF management has placed restrictions on credit cards and travel cards used by Hanoi staff to ensure Hanoi staff are using the cards for appropriate expenditures. Hanoi staff told us they also took the initiative to implement additional control activities for their office. For example, staff developed internal standard operating procedures for managing Hanoi office finances and programs, and also created travel reports, attached to travel vouchers, to provide additional justification for domestic and overseas travel.

Other entities that provide oversight or guidance have also prompted VEF management to implement risk assessment and control activities for financial management. For example, OMB worked with VEF to reduce the risk of abuse of its credit cards by limiting the types of stores in which the cards can be used, according to OMB officials. Also, a VEF official told us that, when they informed a Treasury official that VEF was keeping about \$8,000 in cash in a safe at its Hanoi office to pay for expenses there, the Treasury official told them that they should not keep cash on the premises, and VEF moved quickly to halt this practice.

VEF management had also adopted some other control activities, as shown in figure 5. For example, VEF developed written guidance on conducting annual employee performance evaluations in 2005, and adopted State guidance on international travel in 2006. VEF also has some operating practices, such as on hiring staff for the Washington office, that,

VEF Management Further
Enhanced Its Internal Control
Framework during 2009

while not documented and formally approved as policies, were generally clear to VEF staff, according to our interviews.

During the course of our review in 2009, and under new board membership, VEF management took steps to further enhance its internal control framework, implementing some additional risk assessment and control activities, primarily in response to external questions.

- In August 2009, VEF recognized a potential risk regarding its relationship with other federal agencies, and, in response to our questions, responded to the risk. The VEF board acknowledged, for the first time, that its operations in Vietnam are subject to the authority of the U.S. ambassador to Vietnam. The ambassador has authority over most executive branch activities and operations in Vietnam, and executive branch entities, including VEF, must inform the ambassador about all their activities in Hanoi, and obtain country clearance prior to traveling to Vietnam on business.¹⁹ State officials told us that they tried earlier to convey the requirements for VEF to work with the embassy, and board meeting minutes from 2005 show that the board discussed VEF's status with regard to the embassy, but VEF officials told us that although they met regularly with embassy officials, they were not informed of the ambassador's authority over VEF prior to 2008. In 2008, the incoming U.S. ambassador sent VEF a letter informing them that they were under chief of mission authority. However, on the informal advice of their legal counsel from GSA, the VEF board considered that its status as an independent entity in the executive branch meant that it was exempt from the ambassador's authority, and they did not formally acknowledge either the ambassador's responsibility for coordinating VEF staff or VEF's responsibility for informing the ambassador of their activities. In 2009, when we asked about the ambassador's authority over VEF, the newly-elected board chair of VEF re-examined the issue and concluded that VEF was subject to the ambassador's authority. As a result, VEF began to communicate with the embassy to obtain country clearance, and VEF and embassy officials told us that they will work together to further implement the ambassador's authority over VEF.
- In October 2009, VEF management improved control activities for its Hanoi office. VEF officials finalized a staff manual for its Hanoi office that

¹⁹See 22 U.S.C. 3927 (stating that under the direction of the President, the Chief of Mission to a foreign country shall have full responsibility for the direction, coordination, and supervision of all executive branch employees in that country).

had been in development since 2004. The manual provides information on the staff recruitment and selection process, and conditions of employment including leave, travel, training, and other issues. Prior to finalizing the manual, staff with questions about these issues only received oral information about the policies, according to a VEF official.

- In November 2009, VEF management implemented control activities to ensure compliance with the Fly America Act, in response to our questions. VEF management initiated efforts to update its travel arrangements to ensure they were in compliance with the act, which in most circumstances requires that anyone whose travel is financed by the U.S. government must use a U.S. airline.²⁰ Prior to this, a VEF official told us that, based on VEF's interpretation of a 2005 opinion by their legal counsel from GSA, their air travel to Vietnam was consistent with rules governing an exception to the act, although they had not reviewed the opinion after it was issued in 2005, nor did they review whether changes in flight schedules since 2005 had precluded VEF from utilizing the exceptions to the Fly America Act's general rule that travel occur on U.S. airlines.
- In November 2009, VEF management took steps to enhance its control environment. VEF officials told us that, in response to a question from the White House about who the ethics officer was, they realized that they needed to appoint an ethics officer and conduct ethics training for all staff. VEF formally appointed the Director of Finance, Administration, and Accounting as its ethics officer in November 2009, and, at VEF's request, the Office of Government Ethics conducted ethics training for board and staff members in January 2010, according to VEF officials. Prior to this, VEF did not have an ethics officer or conduct ethics training.

Despite Improvements, Key Gaps in VEF's Internal Control Framework Remain

Despite taking certain actions for internal control, we determined that VEF still lacks a comprehensive risk-based internal control framework. Based on GAO's standards for internal control,²¹ we found that VEF lacks a strong control environment, has not conducted an agencywide risk assessment, is lacking certain important control activities, engages in

²⁰See 49 U.S.C. 40118. State has established regulations necessary to implement the act that include provisions defining when it is permissible to use a foreign airline. See 14 F.A.M. 583. Among the exceptions to the Fly America Act are those where use of a U.S. airline would (1) increase the number of aircraft changes made outside the United States by two, (2) extend travel time by at least 6 hours, or (3) require a connecting time of 4 hours or more at an exchange point abroad.

²¹[GAO/AIMD-00-21.3.1.](#)

Lacks a Strong Control Environment

unclear communications between board and staff, and has incomplete monitoring.

A positive control environment—a supportive attitude toward internal control and conscientious management—is the foundation for all other standards, but the control environment at VEF has been inadequate and reactive. While VEF’s board and management respond to issues when others raise them, as noted above, they are not fully aware of their responsibilities for internal control.

The board has historically not followed through on its responsibility to oversee management’s internal control-related activities. For instance, according to VEF board meeting minutes, the VEF board requested in 2004 that the legal counsel from GSA provide a list of applicable laws and regulations, but neither VEF officials nor the legal counsel could recall whether such a list was ever provided either to VEF board or management, and the board did not follow up on this request. In addition, two former board chairs told us that they relied on their trust of VEF’s management in order to determine whether VEF’s operations were running smoothly. These board chairs told us that the board assumed that VEF staff knew how to follow the rules and processes of the federal government. However, the board did not have a way of verifying this. According to one former board chair, the board wanted to focus on VEF’s programs, and was frustrated by efforts to focus on policies and procedures. Although current board members told us that policies and procedures were important to VEF, several board members told us that they assumed that VEF already had policies and procedures in place and that VEF had already addressed these issues.

VEF management also is not fully aware of its responsibilities for internal control. For instance, a VEF management official told us that VEF did not have a list of which controls to put in place to ensure compliance with laws, such as determining which laws and regulations VEF was subject to, but rather relied on their external auditor to identify compliance issues. However, with respect to internal control, the scope of VEF’s external financial audits is limited to reporting on internal control related to the reliability of financial reporting and compliance with related laws and regulations, and does not include an examination and reporting on internal

control related to effectiveness and efficiency of operations.²² In another example, VEF management took 5 years to approve the Hanoi office staff manual. The manual was first drafted in November 2004, but not finalized until October 2009 during the course of our review—despite a Hanoi staff member’s specific request in 2008 that senior management review and approve it. A VEF staff member in the Hanoi office told us that the delay was due to lack of attention and responsiveness from VEF management, while VEF management stated that they needed this time to include relevant Vietnamese law, incorporate reviews by all staff, compare the manual with the U.S. Embassy staff manual, and incorporate a review by legal counsel. They also told us that review was delayed at various points due to staff turnover.

In addition, VEF management has not clearly articulated its approach to a performance-based compensation framework, causing confusion among VEF staff. Although VEF’s system for performance evaluations was developed by the first Executive Director in 2005, it still does not have specific, written criteria that clearly lay out how raises and cash awards occur for its Washington staff, nor does it have criteria that link evaluations to cash awards for the Washington staff. For instance, in two cases, VEF Washington staff received a raise of approximately 9 to 11 percent of base pay, and then in the same year also received a cash award of 14 to 15 percent of base pay.²³ Also, cash awards for some VEF employees have ranged between 10 and 15 percent of base pay annually. VEF officials told us that in 2008 and 2009, awards for Washington staff were based on a qualitative assessment of employee achievements rather than a quantitative ranking, and that the performance evaluations VEF conducts are used for professional development and training purposes, not for raises and cash awards. While we found that VEF does have

²²United States generally accepted government auditing standards limit the scope of reporting on internal control during a financial statement audit to reporting on the reliability of financial reporting and compliance with applicable laws and regulations. A financial audit of a federal agency does not include examination and reporting on the broader control objectives in the Federal Managers Financial Integrity Act of 1982, which includes effectiveness and efficiency of operations.

²³VEF processes raises twice per year. According to VEF’s finance director, one raise is called the “President’s raise” and is given in January of each year to employees of the executive branch in order to make their salaries comparable to private-sector workers. VEF also provides a raise to employees, based on performance, on the anniversary of their hiring date. This raise is based on the General Schedule step increase. According to the finance director, VEF typically awards its employees the maximum step increase in any given year.

written criteria linking evaluations to cash awards for its Hanoi staff, Hanoi staff told us that they were not informed about how evaluations were tied to cash awards.

Moreover, we found some irregularities with how VEF made cash awards. VEF did not properly notify the Office of Personnel Management (OPM) of at least two cash awards exceeding \$10,000, and GSA did not provide VEF with proper guidance. In two instances, VEF requested that GSA process a \$20,000 award for VEF's executive or acting executive director, and although the board chair of VEF wrote a memo justifying the awards, neither VEF nor GSA officials provided the prior justification to OPM, as required by law.²⁴ According to its agreement with VEF, GSA is supposed to provide guidance on the regulatory sufficiency of all personnel actions and specifically provide coordination with OPM. Moreover, GSA officials were aware that awards over \$10,000 must be notified to OPM, according to an internal document. Instead, in one instance GSA officials split the award into two \$10,000 awards, and in the other instance, they did not advise VEF to notify OPM. In addition, we found four instances from 2007 to 2009 where VEF employees received, on the same day or consecutive days, two awards that together totaled more than \$10,000, notwithstanding a statutory requirement that awards for superior accomplishments must be paid in a lump sum.²⁵

No Comprehensive Risk Assessment

Management needs to comprehensively identify risks and should consider all external risks entailing significant interactions between the agency and other parties, as well as internal risks, but VEF officials have conducted individual assessments of particular risk.²⁶ VEF management and the board have taken steps to manage risks as they arise, but have not completed a comprehensive risk assessment. As a result, they cannot be assured that risks to the organization have been identified. For example, VEF has responded to recommendations for improvements from its external auditors, created forecasts for its budget, and considered the

²⁴VEF is subject to 5 U.S.C. 4502(b) which requires that, for any award greater than \$10,000, the agency provide a certification to OPM regarding the justification for the award.

²⁵5 U.S.C. 4505a.

²⁶Examples of risks include risks posed by new legislation, changing expectations of Congress, interactions with other federal entities and parties outside the government, heavy reliance on contractors, and an inability to provide succession planning and retain key personnel who can affect the ability of the agency to function effectively, among other risks. See GAO *Internal Control Management and Evaluation Tool*, [GAO-01-1008G](#) (Washington, D.C.: August 2001).

effects of former and pending legislation that would change its status as an independent agency. However, VEF management and the board have not conducted these risk identification and assessment activities within the context of a comprehensive risk assessment, despite existing risks.

One area where VEF is exposed to risks to its programs and internal operations is related to its difficulty with retaining key personnel in the U.S. and Vietnam. High staff turnover is an additional reason for having current, accurate and complete operating policies and procedures. VEF officials told us that issues relating to staff turnover were generally the responsibility of the Executive Director, but were the responsibility of the board if turnover became frequent. However, board meeting minutes we reviewed indicate that management's communication to the board about staffing issues was limited. For example, while management notified the board of the departure of key employees, their reasons for departure or the implications of their departure were not generally communicated. In addition, in interviews in the United States and Vietnam, employees who had left VEF told us they did not always feel empowered by VEF management to perform their job duties and therefore left for reasons relating to VEF leadership. In some instances, staff told us that they communicated their concerns about management to the board, but stated that the board did not take action.

Moreover, VEF has not clearly identified which individuals are responsible for controlling risks at the agency. For example, in response to a question about who was responsible for identifying and controlling risks related to compliance with laws, VEF's executive director and finance director told us that they were responsible, but five VEF board members told us that the board and the executive director were responsible, with two board members stating that, additionally, the legal counsel from GSA was responsible.

While VEF management and board told us that they rely on their legal counsel from GSA, OMB, and their external auditor to alert them to risks as they arise, officials at these entities viewed their role in a more limited manner. For instance, the GSA legal counsel told us that her role was to respond to VEF when VEF had a question, and not to identify which internal control issues they should address. According to OMB guidance,²⁷ an agency's management has the responsibility to develop and maintain

²⁷OMB Circular No. A-123, Management's Responsibility for Internal Control.

effective internal control, and OMB officials told us that OMB provides comments regarding the agency's reporting on compliance with internal control with respect to financial management,²⁸ but VEF officials told us that OMB has not provided specific comments or direction for internal control outside of financial management. As reported by VEF's external auditor, its annual audit of VEF's financial statements considers internal control over financial reporting and compliance in order to plan and perform the audit, and not to express an opinion on internal control over financial reporting and compliance or on VEF management's assertion about the effectiveness of internal control.

In addition, VEF did not fully take advantage of a tool from its auditor—the fraud risk checklist—that would have helped it consider the risk of fraud. The fraud risk checklist covers issues such as assessing and managing fraud risks, and implementing processes to promote ethical behavior such as a code of conduct. VEF's finance director told us that she used the checklist as part of an informal measure to ensure that VEF is in compliance with basic federal rules and financial requirements, but we found that there was no written documentation providing evidence that the checklist was used or providing guidance.

Certain Control Activities Lacking

Control activities are the policies and procedures that enforce management's directives. They help ensure that actions are taken to address risks. We identified several areas in which VEF lacks clear control activities, as shown previously in figure 5:

- VEF's policies are not clearly documented. For instance, VEF does not have an office manual for its Washington office that summarizes policies and procedures, such as conditions of employment, leave, and travel policies. As a consequence, U.S. employees are not aware of all of VEF's policies.
- VEF does not have written policies on setting pay, providing raises, and providing cash awards, and does not have criteria to relate performance evaluations to pay increases, for staff in its Washington office. VEF officials told us that they use OPM's system of grades and steps as guidance in setting initial salary ranges and finalizing an individual's salary.

²⁸OMB officials told us that guidance is provided through OMB Circulars A-123 and A-11 and that circular A-11, section 150 and appendix H, specifically address administrative control of funds.

-
- While VEF has a written policy for contracting for its Hanoi office, it lacks an agency-wide written policy for contracting. VEF officials told us that their current policy is to solicit three bids on contracts. However, according to these officials, their largest contract in Vietnam, with MDC, was not bid competitively and does not have an end date. VEF expended \$1.5 million under this contract from fiscal year 2005 through fiscal year 2009. VEF officials told us that they have determined that the Federal Acquisition Regulation (FAR) applies to their contracting but that when the MDC contract was bid in fiscal year 2005, they did not follow the FAR. These officials stated that they are taking steps to implement the FAR for MDC and other contracts.
 - VEF lacks a process for checking to see whether policies and procedures need to be updated on a regular basis. As a result, we found instances where significant guidance had not been appropriately updated. For instance, VEF officials had assumed that an opinion from their legal counsel from GSA in 2005, stating that flights to Vietnam met the requirements for exceptions to the Fly America Act, was still in effect. Until we raised a question about VEF's compliance with the act in November 2009, officials did not review whether changes in flight schedules since 2005 had precluded VEF from utilizing the exceptions to the act's general rules that travel occur on U.S. airlines. In addition, in 2006, VEF formally adopted State guidelines for international travel. Based on these guidelines, VEF staff generally traveled business class for international flights greater than 14 hours, including flights to Vietnam. However, in 2008, State revised business class travel guidance to be more restrictive. VEF did not update its policies to reflect the new guidelines, and officials told us they assumed that the State representative to the VEF board was supposed to keep them informed of changes to the guidelines.
 - VEF does not have documentation about whether certain expenditures are allowable or not, and we found some unusual expenditures. For instance, in December 2007, VEF paid \$570 for three staff to fly from Hanoi to Ho Chi Minh City to attend the funeral of a VEF staff member's parent. VEF officials told us that this was a custom in Vietnam, but they agreed that this was not an appropriate expenditure. VEF management also told staff on at least one occasion in 2007 that VEF funds could not be used for paying for flowers for a funeral. VEF also paid \$1,296 for city tours of Ho Chi Minh City and Hanoi in August 2008 for U.S. scientists involved in selecting students for the VEF fellowship; according to a VEF official, the tours were provided to help scientists understand Vietnamese culture and as an acknowledgement of the scientists' assistance in student selection, because the scientists do not receive compensation from VEF for their time. VEF officials told us they no longer provide city tours for the

scientists. We also found that during the annual VEF staff retreats in 2005, 2007, 2008, and 2009, VEF planned 1 work day during which VEF staff take tours, but still receive per diem and lodging costs. VEF officials told us that the tours helped to promote team-building, and one official stated that the tours also provided relaxation time for VEF staff in recognition of their hard work during the student selection process. However, this official also acknowledged that staff receive compensatory time off for any extra hours they work during the student selection process. There was no documentation or written justification for why these expenditures were allowable.

Unclear Communications

For an entity to run and control its operations, it must have relevant, reliable, and timely communications relating to internal as well as external events. We determined that VEF management has not always communicated critical information effectively with either VEF's board or staff.

We found some instances of information that should have been communicated to the board but was not. For instance, a VEF official stated that the board was likely not aware of the lack of a Washington office manual, and of the 5-year time frame to develop the Hanoi office manual. Board members we spoke with agreed that they were not aware of the issues with the office manuals and believed management should have communicated these issues to them. Further, VEF management did not communicate to the board that cash was being used for expenditures in the Hanoi office, a practice that was ended in 2008. One board member we spoke with stated that VEF management should have alerted the board to this practice. A VEF official told us that that she considered internal policies and procedures as part of day-to-day operations, which are not brought to the attention of the board members unless they ask a question.

VEF staff and management disagree on how some policies and procedures are communicated. For instance, staff in VEF's Washington office told us that they were unaware of the full details of VEF's policies on use of travel cards and purchase cards, and that information on compensation and raises was unclear. In Hanoi, VEF staff told us that they did not understand how their performance evaluations were tied to raises or incentive awards. In both cases, management told us that they had orally communicated this information, such as specific uses of VEF travel and purchase cards, to staff.

According to VEF's board meeting minutes, while management raised issues about internal control over operations at board meetings from 2003 to 2006, we were not able to determine whether they did so from 2007 to

2009. From 2003 to 2004, the board meeting minutes show that management's discussion of internal control over operations focused on establishing operations in Washington and Hanoi, such as hiring staff and renting office space. During 2005 and 2006, VEF management communicated that it was developing policies and procedures for its internal operations, including a written manual, although current VEF officials told us this manual was never developed for the Washington office. However, beginning in 2007, the board meeting minutes do not reflect any such discussions, although VEF officials told us that there was some discussion of internal control during this period.

Incomplete Monitoring

Internal control should generally be designed to ensure that ongoing monitoring occurs in the course of normal operations. To accomplish this, monitoring of the operating effectiveness of internal controls should generally be performed regularly and ingrained in an agency's operation; in addition, separate control evaluations can be useful by focusing directly on the effectiveness of internal control at a specific point in time. Monitoring of internal control should also include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. While, as discussed previously, we found that VEF's board and management took actions to address control weaknesses identified by its external auditor, we also found that VEF's monitoring of internal control is incomplete, and specifically we found instances where VEF did not engage in ongoing monitoring. For example, VEF management did not monitor State guidelines on international travel for updates, nor did they monitor whether they continued to meet the requirements for exceptions to the Fly America Act.

Conclusions

Since VEF began operations as an independent executive branch agency seven years ago, it has established three exchange programs that support over 300 students and professors, and several other smaller initiatives, as well as some policies and procedures to govern internal operations, particularly in the areas of financial management and Hanoi office operations. However, despite recent improvements, management has not developed a comprehensive internal control framework to help it cope with changing environments and evolving demands, priorities, and risks. Over its history, VEF's board and management have focused more on implementing VEF programs and less on internal control over operational and administrative activities. In particular, VEF's management has not taken adequate steps to undertake risk assessment, and the board has done little to encourage management to pay attention to internal control. While VEF's status as a small, independent federal agency presents unique

management challenges, VEF's management nonetheless has the responsibility to establish a positive internal control environment and sound risk assessment process, institute appropriate risk-related internal controls, develop and communicate relevant information to those who need it, and monitor internal control performance. Without such an internal control framework in place, VEF management cannot reasonably assure that it achieves some of the fundamental objectives of internal control, such as compliance with laws and efficient and effective operations, including the proper use of VEF resources.

Recommendations for Executive Action

To strengthen and enhance the internal control framework at VEF and help provide management, the board, and the public with reasonable assurance that the agency control objectives of effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations are being achieved, the VEF board should direct VEF's Executive Director to take steps to implement the following five actions:

- Conduct periodic reviews of VEF's control environment to identify and address significant gaps and shortcomings, including the need to clarify responsibilities for management and oversight of VEF's internal control framework, compliance with applicable laws and regulations, and performance based-compensation practices. In doing so, VEF may wish to review and utilize applicable portions of various publicly available tools for evaluating the control environment component of an integrated framework (such as GAO's *Internal Control Management and Evaluation Tool*²⁹ or the applicable Evaluation Tool section of COSO's *Internal Control—Integrated Framework*³⁰).
- Establish and document a systematic process for assessing risks to internal control, putting policies in place to manage those risks, monitoring and responding to changes in risk, and seeking the board's review of management's assessment.
- Develop and implement all appropriate written internal control activities, policies and procedures, consistent with the size and mission of VEF, to

²⁹[GAO-01-1008G](#).

³⁰*Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992.

address the risk of not achieving operational and control objectives, including control activities applicable to:

- the operation of the U.S.-based VEF office;
 - cash awards and raises for federal and contract employees;
 - prior notification to OPM of lump sum cash awards exceeding \$10,000;
 - contracting, including procedures that are consistent with all applicable requirements; and
 - expenses for meals and travel, especially during VEF staff retreats and in the Hanoi office.
- Implement mechanisms to define and communicate appropriate information on program, financial, and administrative activities and related internal controls to those who need it to effectively manage and oversee VEF's operations.
 - Strengthen monitoring by developing and implementing reasonable processes and procedures to regularly monitor the performance of key internal controls.

In addition, the VEF Board should monitor and oversee VEF management's actions to implement these recommendations, as well as VEF's ongoing management of its internal control framework.

Agency Comments

We provided a draft of this report to VEF; GSA; and the Departments of Education, State, and the Treasury. VEF provided written comments, which are reprinted in appendix III. The other agencies did not provide formal comments. We further provided relevant sections to VEF's external auditors and to OMB, the U.S. Agency for International Development, and the Inter-American Foundation for technical comment, which we incorporated as appropriate, along with technical comments from State.

VEF agreed with the overall recommendations made in this report and stated that it will take all necessary and appropriate action to make improvements upon its internal control framework. For example, VEF stated that its Executive Director is developing a VEF Policies, Procedures, and Internal Controls manual. VEF also provided us with technical comments to the draft report, which we have incorporated as

appropriate. Further, VEF made some observations, based on its experience starting up its operations, for use by new federal agencies.

As arranged with your offices, unless you publicly announce 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 of this report to interested congressional committees, the Chairman of the Board of Directors and the Executive Director of VEF; the Administrator of General Services; and the Secretaries of Education, State, and the Treasury. In addition, this report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-4268 or fordj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

A handwritten signature in black ink that reads "Jess T. Ford". The signature is written in a cursive style with a large, looping initial "J".

Jess T. Ford
Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

To describe how the Vietnam Education Foundation (VEF) was established, how it is structured, and its mission, and to understand VEF's organization within the federal government and the oversight and guidance provided to it by other federal agencies, we reviewed VEF's founding legislation,¹ and interviewed officials from VEF, the General Services Administration (GSA), and the Office of Management and Budget (OMB). We also reviewed VEF's contracts with GSA's Agency Liaison Division and its Office of the Chief Financial Officer to obtain information on the breadth of legal, financial, human resources, and accounting services GSA provides to VEF. To further examine the structure of VEF, we reviewed VEF's organizational chart, job descriptions, and other documents. We also observed a VEF Board meeting to understand the oversight role of the board in managing VEF, and conducted interviews with VEF board members to understand their role. Further, we interviewed current and former VEF management and staff and conducted file reviews at VEF headquarters and the Hanoi office to understand the division of responsibilities and resources between the two offices. We obtained information on VEF's mission through a review of its annual reports and interviews with VEF management and the board. We also met with students who had received a VEF fellowship and university administrators from the University of California, Berkeley, and the University of California, Davis, to gain knowledge about how VEF's mission is implemented through its flagship fellowship program. During site visits to Hanoi and Ho Chi Minh City, Vietnam, we interviewed officials at the U.S. embassy, in the Government of Vietnam, and at Vietnamese universities that participate in VEF's exchange programs.

To determine the extent to which VEF has implemented internal control over its program and financial management, we assessed VEF's existing policies and procedures against GAO's five standards for internal control in the federal government:² (1) the control environment, (2) risk assessment, (3) control activities, (4) information and communications, and (5) monitoring. In the area of program management, we reviewed documentation on internal operations at VEF, including VEF's human capital and travel practices, as well as board meeting minutes, to gauge how operational issues were discussed by the board. In the area of financial management, we reviewed VEF budgets, obligations reports, and external audits from fiscal years 2004 to 2009. To obtain further

¹P.L. 106-554, sec. 1(a)(4) (reprinted as a note to 22 U.S.C. 2452).

²[GAO/AIMD-00-21.3.1](#).

information on VEF's financial management system and controls in place, we met with VEF's external auditors and reviewed additional documentation they provided to support the audit findings. We also conducted a file review at VEF headquarters in which we examined VEF's monthly accounting reports, prepared by GSA, for all of 2008 and for January through September of 2009. For selected transactions from these reports, we verified VEF's bookkeeping by reconciling the amount paid by VEF, as listed on the accounting reports, against the amount billed to VEF by vendors. In addition, we examined VEF's purchase card transactions to understand how VEF kept track of billing receipts. We conducted a similar file review in VEF's Hanoi office, focusing on cash expenditures. In addition to document reviews, we conducted semi-structured interviews on internal control with current and former officials at VEF's offices in Washington and Hanoi, including chairs of the VEF board of directors from 2007 onward, and with officials at the Departments of Education, State, and the Treasury.

In addition to the audit objective in our report, we provided information about how other federal fellowship programs are structured to contextualize VEF among other similarly-scaled programs. To identify similarly-scaled programs, we developed criteria based on the VEF fellowship program's structure and a prior GAO report.³ The programs identified met three criteria: (1) they receive annual funding of less than \$9 million a year; (2) they sponsor students for graduate education; and (3) they have an international focus. In order to identify programs that met these criteria, we corresponded with officials at State and the U.S. Agency for International Development (USAID). We also reviewed a fiscal year 2008 annual report by the Interagency Working Group on U.S. Government-Sponsored International Education and Training (IAWG), and conducted Internet research on independent agencies in the IAWG report with an international focus to determine whether they sponsored programs that met our criteria.⁴ Using these criteria, we identified five federal fellowship programs similar in scale to VEF. We then conducted semi-structured interviews with those officials responsible for administering the programs to obtain information about their structure. Based on the information obtained during interviews with program officials, we focused on four structural themes: (1) how the program is

³GAO, *Higher Education: Approaches to Attract and Fund International Students in the United States and Abroad*, GAO-09-379 (Washington, D.C.: Apr. 30, 2009).

⁴IAWG, *FY2008 Annual Report*, <http://www.iawg.gov/reports/annual/>

administered, (2) how students are selected, (3) what benefits students receive, and (4) whether there is an overseas presence to help facilitate any aspect of the fellowship program. We also reviewed contracts for each of the programs to obtain further information.

We conducted this performance audit from May 2009 to March 2010, 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: Structural Elements of Similar Graduate Fellowship Programs

VEF has pointed to its rigorous selection process for its flagship fellowship program, and the overall structure of the program, as uniquely contributing to the agency's mission. In order to shed light on VEF's fellowship program, we examined the structures of other similarly scaled and scoped graduate fellowship programs run by the federal government and explored some structural similarities and differences between them and VEF's program.

Similar Graduate Fellowship Programs

We identified five federal fellowship programs similar to VEF in terms of the amount of funding they receive and their sponsorship of international, graduate-level education.¹ Our criteria for identifying fellowship programs similar in size and scope to VEF were: (1) annual funding for the fellowship program totaling less than \$9 million; (2) fellowship programs that sponsor graduate education; and (3) fellowship programs that are international. Using these criteria, we identified five similarly scaled and scoped graduate fellowship programs run by the Inter-American Foundation (IAF),² State, and USAID. We limited our discussion of structure to four elements: (1) how program administration is managed; (2) how students are selected; (3) what benefits are awarded; and (4) whether the program has an overseas presence. Table 1 describes these structural features across the five programs. The programs are:

- **VEF Fellowship Program:** funds Vietnamese nationals for graduate study in U.S. universities in various fields of science and technology.³
- **IAF Program of Grassroots Development Fellowships Supporting Doctoral Dissertation Research:** funds U.S., Latin American, and Caribbean students who have advanced to candidacy for a Ph.D. in U.S. universities for fellowships that cover up to 12 months of in-country field research. Fellows must have an affiliation with an institution in the country of their research.
- **USAID Forecast Egypt:** supports 2-year scholarships for employees of the Egyptian Ministry of Health to attend Master of Business Administration programs in the United States.

¹See appendix I for more information on GAO's methodology for identifying programs.

²IAF is an independent foreign assistance agency established in 1969. It provides grants for grassroots development in Latin America and the Caribbean.

³VEF's fellowship program supports study in the natural, physical and environmental sciences; engineering; mathematics; medicine and public health; and technology, including information technology.

Appendix II: Structural Elements of Similar Graduate Fellowship Programs

- **USAID Training Future Leaders (TFL):** supports participants from Asia and the Near East to pursue master degrees in areas such as economic growth, democracy and governance, and environment, among other subjects, with an emphasis on producing technical competence and leadership for addressing development issues.
- **USAID Women’s Leadership Training in Economics (WLTIE):** supports women from Angola, Ecuador, Nepal, Pakistan, Sierra Leone, Tanzania, and Vietnam to pursue master degrees in economics in the United States.
- **State Edmund S. Muskie Graduate Fellowship Program:** supports graduate students and professionals from Eurasia enrolled in U.S. graduate degree, certificate and non-degree programs lasting 1 to 2 academic years in the fields of business administration, economics, education, environmental management, international affairs, journalism and mass communication, law, library and information science, public administration, public health, and public policy.

Table 1: Select Aspects of Structure for VEF and Similarly-Scaled Fellowship Programs

	VEF	IAF/Grassroots Development	USAID/Forecast Egypt	USAID/TFL	USAID/WLTIE	State/Muskie
FY2008 Agency Appropriation (in millions)	\$5 ^a	\$28	\$10,388	\$10,388	\$10,388	\$30,758
Fellowship Program Budget FY2008 (in millions)	\$4.5 ^b	\$0.4 ^c	\$2	\$2.4 ^d	\$2.8 ^e	\$8.5
Number of students supported for academic year 2008-2009	78	12	14	13	11 ^f	243
Average financial support per year per student	\$34,922 ^g	Not Applicable ^h	\$43,000	\$40,000 to \$45,000	\$40,000 to \$45,000	\$48,000
Use of third-party contractor for program administration	No	Institute of International Education	World Learning	Academy for Educational Development	Academy for Educational Development	International Research and Exchanges Board

Source: GAO analysis based on agency interviews.

^aThe VEF Act of 2000 allows VEF to carry over unspent funds from year to year. As a result, VEF has historically been able to create budgets that exceed its \$5 million annual funding. For example, VEF’s budget for fiscal year 2008 was \$7.7 million.

^bThis figure represents direct costs of fellows and VEF’s contract with the National Academy of Sciences. It does not include labor costs or VEF staff travel costs.

^eThis figure was allocated to cover the 11 fellows expected to begin conducting their research on individually determined dates between June 1, 2007, and May 31, 2008. Several were still conducting their research for months after May 31, 2008, and one began in May, and therefore received payment into calendar year 2009.

^fThis amount reflects the program's total budget for about 4 years, from October 2007 to May 2011. The Academy for Educational Development creates budgets for the life of a task order, not per year.

^gThis amount reflects the program's total budget for about 2 years, from March 2009 to May 2011. The Academy for Educational Development creates budgets for the life of a task order, not per year.

^hThis figure represents students supported in fall 2009.

ⁱThis figure represents annual costs for the first 2 years of a 5-year VEF fellowship. The figure cited is for support received during year 1 or year 2 of a fellowship, not years 3 through 5.

^jThe maximum level of support an IAF fellow can receive is roughly \$23,000, based on a fellowship lasting up to 12 months.

Structural Elements

We found that VEF's graduate fellowship program has one key structural difference from all the other programs we reviewed and has other structural similarities and differences with the other programs. VEF staff internally administer the fellowship program, while the other programs we reviewed contract with international educational exchange specialists to run their small-scale graduate fellowships. In other respects, such as student selection, the financial and non-financial support given to students, and an overseas presence, VEF is similar to some of the programs we reviewed and different from others.

Program Administration

A key structural difference between the VEF graduate fellowship program and the other programs we reviewed is VEF's approach to program administration. Specifically, VEF does not use a third party contractor to administer its fellowship program, while the other agencies do. VEF staff help fellowship candidates prepare their university applications and obtain and monitor U.S. visas; plan a pre-departure orientation for new fellows; track payments to universities and fellows; manage fellows' travel; and maintain communication with fellows once they are in school, among other responsibilities. VEF's management oversees the staff's administration of the fellowship program, but is also jointly involved in administration. For example, VEF staff in Hanoi prepare payment rosters for fellows and the universities they will attend and then communicate this information to the universities, following up as necessary. VEF's Director of Finance, Accounting and Administration also routinely communicates with universities and works to ensure that payments are being processed correctly through its financial management and reporting contractor. By contrast, the other agencies we reviewed that sponsor similarly-scaled graduate programs contract out program administration responsibilities to outside organizations. For example, officials at State told us that they use the International Research and Exchanges Board (IREX) for program administration, with all aspects of

the program conducted in close consultations with the State program office. Additionally, State's involvement includes determining program design, program policy, and contract oversight, including reviewing the contractor's financial and programmatic performance. Officials at IAF told us that while IAF employees structure all aspects of the fellowship program and make all policy decisions, IAF's contractor, the Institute of International Education (IIE), administers the fellowship program. For example, IIE disburses funds to the fellows in accordance with the fellowship agreement drafted by IAF officials.

Student Selection

The student selection process at VEF, like the IAF and State's Muskie program, includes subject matter experts and other specialists. The other programs in our review rely on contractors, other countries' governments, and their representatives from their overseas offices for student selection:

- **VEF Fellowship Program:**⁴ After an initial screening of applications by VEF staff in Hanoi, the applications are sent to the National Academy of Sciences (NAS), which narrows down the applicant pool and convenes panels of subject matter experts to conduct oral exams of fellowship candidates in Hanoi and Ho Chi Minh City. Recommendations are then provided to the VEF board, which makes the final selection. VEF staff work with fellowship recipients to prepare university applications and to gain admittance to a U.S. university.
- **IAF Program of Grassroots Development Fellowships Supporting Doctoral Dissertation Research:** IIE works with IAF to convene an academic review committee of six scholars, including one IAF representative and at least one former fellow. The committee reviews the applications for the relevant year and recommends finalists to IAF's president, who makes final decisions on awarding fellowships.
- **USAID Forecast Egypt:** The Egyptian Ministry of Health selects candidates to participate in the program. USAID's contractor, World Learning, helps fellowship recipients prepare applications and gain admission to a university.
- **USAID TFL:** USAID's contractor, the Academy for Educational Development (AED), in conjunction with the USAID missions and USAID

⁴This process reflects VEF's Process A candidates. VEF has a secondary process for acceptance to the fellowship program where the applicant gains admission to a leading U.S. graduate program on his or her personal initiative and applies online at the VEF Web site.

Washington, reviews student applications and conducts in-country interviews with applicants to make final selections. AED then helps selected fellowship recipients prepare applications and gain admission to a university.

- **USAID WLTIE:** USAID missions recruit students, review applications, and conduct interviews. AED helps selected fellowship recipients prepare applications and gain admission to a university.
- **State Muskie Fellowship:** All eligible applications are first reviewed by teams of readers consisting of a U.S. national and a local Muskie alumnus. These readers' scores are returned to State's contractor for Muskie, who compiles a semi-finalist list. Chosen semi-finalists are then interviewed in their home country by a binational selection committee of U.S. academic specialists or education administrators, program alumni, and U.S. embassy representatives. This committee rank orders the semi-finalists to be recommended for standardized testing. Depending on the test results, the final rank order is adjusted by State's contractor for Muskie in consultation with State and U.S. embassies.

Support for Students

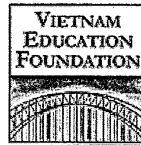
VEF and the other programs in our review provide varying levels of financial and non-financial support. For example, while VEF's annual financial support is less than the financial support provided by State, VEF provides non-financial benefits similar to State. Specifically, during VEF's annual conference, fellows participate in community building and networking exercises. State's Muskie program provides similar benefits, including an in-country pre-departure orientation, internship and community service opportunities, and a 4-day-long orientation for students in Washington.

Overseas Presence

Like some of the agencies in our review, VEF maintains an overseas presence that helps it facilitate various aspects of its fellowship program. For example, World Learning, which is USAID's contractor for Forecast Egypt and is responsible for all activities in the United States, including monitoring participants and processing monthly stipend and other expense payments, uses a subcontractor to maintain an overseas presence for work related to Forecast Egypt. This subcontractor provides assistance to fellowship recipients to obtain medical examinations, acquire visas, and prepare university applications, among other duties. By contrast, IAF does not have an overseas presence for the purposes of its fellowship program and does not rely on IIE's overseas offices for facilitating the fellowship program.

Appendix III: Comments from the Vietnam Education Foundation

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



2111 Wilson Boulevard, Suite 700, Arlington, VA 22201 • www.vef.gov • Phone 703-351-5053 • Fax 703-351-1423

Lynne A. McNamara, Ph.D.
Executive Director

Board of Directors

Stephen F. Maxner, Ph.D.
Chairman
Director, Vietnam Center
Texas Tech University

Earl Blumenauer
U.S. Congressman

Hillary Rodham Clinton
U.S. Secretary of State

Viet D. Dinh
Professor of Law
Georgetown University Law Center

Elizabeth Dugan
Chair - VEF Finance Committee

Arne Duncan
U.S. Secretary of Education

Christopher J. Fussner
Owner, Founder
Trans Technology Pte Ltd.

Timothy F. Geithner
U.S. Secretary of Treasury

Joseph R. Pitts
U.S. Congressman

David Vitter
U.S. Senator

Jim Webb
U.S. Senator

March 19, 2010

Mr. Jess T. Ford
Director, International Affairs and Trade
United States Government Accountability Office

Dear Mr. Ford:

As requested in your email, VEF (the Board of Directors and management at VEF) has reviewed the Draft GAO Report (*Vietnam Education Foundation: Recent Improvements Made in Internal Controls, But Weaknesses Persist*) as has Lesly Wilson, General Services Administration (GSA) Legal Counsel to VEF. Below are VEF's written comments as requested.

First, we would like to convey that the VEF Board appreciates the hard work and dedication of the GAO audit team as well as their recommendations and guidance to improve the management and efficiency of VEF. We are grateful for the recognition given to VEF's successes, as especially indicated on pages 16 - 21 of the GAO report. The VEF Board agrees with the overall recommendations made in the GAO audit report and will take all necessary and appropriate action to make improvements upon VEF's Internal Controls. The VEF Executive Director is already developing a VEF Policies, Procedures, and Internal Controls Manual that will include documented processes to "implement actions across all five standards of internal control, including identifying and addressing gaps in the control environment, and assessing and managing risks."

The Board also recognizes that improvements in overall management have already occurred as a result of the recommendations and guidance of present Board Members and VEF staff. All of the current Presidential appointees on the Board of Directors started their official duties as of January 2009 and, together with Departmental and Congressional Board members, the Board has worked together diligently to address and correct numerous issues. The new Executive Director has also played an important role in this. Also, significant improvements in financial controls as well as incorporating compliance with certain U.S. Federal laws, regulations, policies and procedures have occurred since the

appointment of the present Director of Finance, Accounting, and Administration (DFAA) in 2007.

We also offer the following information for clarification. Where indicated, the comments below refer to specific information on pages within the GAO Report.

Now on p. 26.

See comment 1.

Control Activities for Contracting Procedures (GAO Report p. 27). VEF has a policy that all staff (both in the United States and in Hanoi) must receive applications/estimates from at least three vendors before the contract is awarded. This policy was sent to the Hanoi staff by the Director of Finance, Accounting, and Administration, who oversees all contractual arrangements. Since the DFAA is the only person in the VEF organization who engages in the final preparation and execution of contracts, there is no written policy beyond that – that all contracts must have at least three competitive bids and that all VEF contracts must be prepared and managed by the DFAA for final execution. In addition, before any contract is signed, it is reviewed by VEF's GSA attorney so that VEF is assured that the contract meets the Federal rules/regulations. These VEF policies will be codified in the VEF Policies, Procedures, and Internal Controls Manual currently under development.

Now on p. 8.

See comment 2.

Fields of VEF Fellows (GAO Report p. 7). The VEF Fellowship program encompasses the following fields: sciences (natural, physical, and environmental), engineering, mathematics, medicine (including public health), and technology (including information technology). VEF accepts applications for these broader fields and not just the fields of "science and technology" or the "STEM fields" (science, technology, engineering, and mathematics).

See comment 3.

Activities and titles of VEF Visiting Scholars (GAO Report pp. 1, 8). VEF Visiting Scholars are not awarded VEF grants to teach at U.S. Universities, but rather to undertake a self-designed program of up to one year in length, which may include formal courses, workshops, seminars, laboratory or field research, or other types of professional development activities. While they are considered post-docs, they are not all professors at Vietnamese universities; some may have the title of Lecturer. Indeed, some Visiting Scholars may be administrators.

See comment 4.

VEF US Faculty Scholar Program (GAO Report p. 1, 8). VEF provides grants to U.S. professors to teach in English at Vietnamese universities for one or two full academic terms. Teaching may take place either in Vietnam via face-to-face teaching or by interactive, real-time video-conferencing from the United States. In the latter case, the Faculty Scholar must go to Vietnam at the beginning and at the end of the course(s) for at least one week. Thus, the U.S. Faculty Scholar program encompasses teaching from the United States as well as teaching in Vietnam.

See comment 5.

Professional Development Grants (GAO Report p. 10). VEF Fellows receive an annual professional development grant of \$1000. The VEF Visiting Scholars also receive a professional development grant of up to \$3600, based on the number of months of their professional development program, pro-rated at \$300 per month. The Visiting Scholars

receive a larger amount because they typically do not have access to a U.S. university's grants as do VEF's Fellows, who are graduate students.

Purpose of the VEF Finance Committee (GAO Report p. 4). The Finance Committee of the VEF Board of Directors works closely with the VEF Director of Finance, Accounting, and Administration and VEF Executive Director to provide specific guidance and recommendations to the Board of Directors regarding all aspects of VEF fiscal management. This includes advice on funding priorities for VEF programs, creative solutions for fund raising and budget management, suggestions for necessary budget cuts, and recommendations that promote overall fiduciary responsibility through the efficient use of VEF financial resources, compliance with federal guidelines and regulations, and sound fiscal policies. Some specific examples of this activity includes but is not limited to analysis and review of yearly budgets before requesting Board approval; review and development of new accounting procedures and systems that allow for better fiscal analysis and management; review and discussion of the yearly audit and recommendations for addressing any issues raised in the annual audit reports; and review and discussion of VEF expenditures before being presented to the Board for final approval.

See comment 6.

VEF Organizational Chart, 2009 (GAO Report p. 5). The chart should depict that the Administrative Assistant in the U.S. office reports to the Executive Director and that the Administrative Assistant/Assistant to the Country Director in the Hanoi Field office reports to her immediate supervisor, the Deputy Director of Finance, Accounting, and Administration, while being ultimately responsible to the Country Director. As part of their responsibilities, these Administrative Assistants provide support to all other staff members.

See comment 7.

VEF Hanoi office responsibilities (GAO Report p. 18). The VEF Hanoi Field office provides logistical support for all activities in Vietnam. In addition, the Hanoi staff provides significant support to the management in the U.S. office, which oversees and manages all VEF activities. The Hanoi staff act under directives of the U.S. staff, and do not act independently. The VEF management team in the U.S., not the Hanoi staff, initiated the directive to develop standard operating procedures for the Hanoi office. Nonetheless, the U.S. management team highly encourages new ideas, creative solutions, and implementation of efficient systems, and welcomes all such input for final decision before enacting.

VEF Legal Counsel from GSA (GAO Report p. 6). The GSA Legal Counsel has assisted VEF by reviewing and revising contracts with vendors and providing guidance on operating as a federal agency. However, she has provided much more assistance beyond these tasks, including review of the following: Memorandums of Understanding (MOU) and agreements with U.S. universities; job descriptions; job contracts for the Hanoi staff; questionable expenditures; sensitive issues, situations, and communications; grant letters/agreements for Fellows, Visiting Scholars, and U.S. Faculty Scholars; VEF official documents; and processing of employee personnel actions.

See comment 8.

National Academy of Sciences (NAS) (GAO Report p. 8). The National Academies (NA) refers to four organizations that work together: the National Academy of Sciences (NAS), the National Academy of Engineering (NAE), the Institute of Medicine (IOM), and the National Research Council (NRC). For legal, tax, and contracting purposes, the NA is collectively represented as the NAS. The scope of work for VEF is executed by the Fellowships Office of the NRC. In their work, the Fellowships Office engages the resources of the other three organizations within the NA. Thus, VEF refers to its relationship with the National Academies, and not the National Academy of Sciences, since all entities within the NA are engaged.

See comment 9.

While the U.S. professors critically review the choice of U.S. universities of the Fellowship interviewees, the applicants have already specified in their initial application the top five U.S. universities to which they will apply. Once the nominees (those nominated by the U.S. professors as potential Fellowship recipients) have received university admissions, the NA together with VEF finalize which university the Fellow will attend, based on the Fellow's priority choice and the appropriate fit for the Fellow.

Now on pp. 22, 23.

The U.S. professors, invited as interview panelists by the NA, provide recommendations on finalists for Fellowships. Upon completion of reviews of the recommendations together with the NA, the VEF staff, and not the U.S. professors, present the final recommendations to the VEF Board of Directors and the VEF Board of Directors discusses these prospective fellows with the VEF staff at the April Board meeting before voting and making the final decisions.

See comment 10.

U.S. Office (GAO Report pp. 23, 24, 27). Regarding VEF U.S. staff salary increases, VEF management follows guidance and rules from GSA and Office of Personnel Management (OPM) for issuing the salary increases each January, which are issued by the President of the United States to Federal Government employees. GSA contacts the Director of Finance, Accounting, and Administration to have the spreadsheet completed with the Presidential increases to be processed by the effective date set by the President. The second part of the pay raise comes from the regulations listed in the OPM website regarding issuing step increases to all non-SES Federal Government Employees on their yearly anniversary of their current position.

With regard to the cash award issue raised in the GAO Report (pages 23-24), VEF took the action indicated based solely on the guidance of GSA's Agency Liaison Division (ALD). VEF submitted letters recommending the awards in question and providing justification for them and GSA completed the necessary paperwork executing the awards. At no time was VEF made aware of any other requirements to report or request such awards to OPM. VEF has made note of the discrepancies between GSA's guidance and actions and the information recently provided from GAO and VEF will submit all appropriate documentation and ensure complete federal regulatory compliance for any and all future cash awards provided to VEF staff.

Regarding personnel issues and regulations more broadly, VEF management has always sought and followed the guidance provided by GSA ALD, GSA Legal Counsel,

and OPM, along with what it understood of U.S. Federal Government laws and regulations as they apply to VEF's employees. VEF will seek further clarifications on the issues raised in the GAO Report and will incorporate all relevant information and correct procedures in the VEF Policies, Procedures, and Internal Controls Manual currently under development.

Regarding communications with U.S. universities, mostly the Program Officer and/or Executive Director communicate with U.S. universities. The Director of Finance, Accounting, and Administration only communicates occasionally with individuals at the university, who are inquiring about financial payments.

Fraud Checklist (GAO Report p. 26). In response to the management letter and exit briefing resulting from the fiscal year 2007 audit, VEF management completed a Fraud Risk Checkup that is a self-assessment tool developed by the Association of Certified Fraud Examiners that was provided as a template by VEF's independent auditors. VEF provided the auditors with a written update on VEF's progress addressing management letter items on October 1, 2008, as they were conducting planning activities for the FY 2008 audit. A copy of the completed Fraud Risk Checkup was provided to VEF's auditors at that time. While a checklist was not completed in writing for FY 2009, the auditing firm reviewed fraud risk factors verbally with VEF management.

Reporting of Internal Operations to the Board of Directors (GAO Report p. 25). The new Executive Director instituted a specific section in the Board meeting agenda, as of July 2009, to report on Internal Affairs, which includes personnel issues and updates on specific activities as well as areas of concern.

Additional Comments and Recommendations from VEF

VEF accepts full responsibility for our current deficiencies and for addressing all such issues raised in the GAO Report. We also note, however, that the present VEF Board of Directors, Executive Director, and Director of Finance, Accounting, and Administration were not aware, nor were they ever made aware by previous Board members, Executive Director, or by anyone in any other government agency, of any specific Standards for Internal Control requirements outside of those which VEF developed internally. As such, we think it is important to state that we believe the current VEF Board of Directors and staff have always acted in good faith to ensure the most efficient use of VEF resources, full compliance with federal laws and regulations, as well as appropriate risk assessments regarding VEF activities. Examples of this attitude and commitment include our development of a more accurate and detailed accounting system that is better informing VEF financial management; consistent preemptive consultation with GSA Legal Counsel to ascertain legal issues regarding VEF programs, policies, and activities; arranging VEF travel to minimize expense while maximizing impact on VEF programs; the refusal of VEF Board members to receive Executive Schedule Compensation for their time spent on VEF business per the VEF founding legislation; and numerous other activities.

Now on p. 25.

See comment 11.

Now on pp. 27-28.

While VEF will be taking all appropriate and necessary steps to ensure more thorough compliance with the guidelines and recommendations provided in this report as well as a more detailed and comprehensive transition for future Board members and staff, it would be helpful if such information and guidance also is provided to new federal organizations at their inception and to new Board Members at the time of their appointment. VEF also recommends that new chairs of federal agency boards and new executive directors of such organizations be provided an orientation by the U.S. Federal Government at the beginning of their tenure that outlines all requirements for federal agencies, including access to individuals who can provide continued guidance on fulfilling any and all federal requirements. VEF further recommends that all legislation for new federal government agencies incorporate references to the specific federal laws, regulations, guidelines, and requirements that the agency must follow regarding internal controls, financial accounting and reporting, operations, standard operating policies and procedures, and overall management.

Sincerely,



Stephen F. Maxner, Ph.D.
Chairman, Board of Directors

The following are GAO's comments to the Vietnam Education Foundation's letter dated March 19, 2010.

GAO Comments

1. While VEF has a policy to solicit three bids before a contract is awarded, this policy is not documented for the whole agency. As we note in our report recommendations, having documentation for policies and procedures helps minimize risks to achieving agency objectives. Further, VEF management stated that it takes steps to assure contracts meet federal rules and regulations. However, VEF management previously told us that VEF's largest contract in Hanoi was not bid competitively, does not have an end date, and does not follow the Federal Acquisition Regulation. We support any steps VEF management will take to develop written guidance on policies and procedures and to clarify its processes for assuring it is meeting federal rules and regulations.
2. We expanded the list of fields in which VEF offers fellowships.
3. We modified our report to indicate that, under the VEF Visiting Scholar program, post-doctoral scholars are awarded grants to undertake professional self-development activities.
4. We modified our report to clarify that U.S. professors participating in the U.S. Faculty Scholar program can teach at Vietnamese universities, which includes in person or remotely.
5. We have amended our report to indicate that professional development grants are not limited to students.
6. We modified the organizational chart to show that the Administrative Assistant in the Washington office reports directly to the Executive Director.
7. VEF staff in Hanoi told us that they initiated steps to implement additional control activities for their office. We have clarified our statement to include this attribution. During the course of our engagement, we did not find evidence to support VEF management's statement that the management team in the Washington office initiated the directive to develop standard operating procedures for the Hanoi office.
8. Although VEF stated that it refers to its relationship with the National Academies and not the National Academy of Sciences (NAS), the

contract VEF management provided to GAO, for the period between June 1, 2008, and May 31, 2011, is between VEF and the NAS. As such, we have referred to VEF's contractual relationship with the NAS and not other organizations within the National Academies.

9. We have amended our report to state that recommendations for VEF Fellowship recipients are provided to the Board, which makes the final decision on who is awarded a fellowship.
10. Although VEF is exempt from many personnel compensation provisions in Title 5 of the U.S. Code, including adherence to the General Schedule and its step increases, VEF management states that they follow guidance from the Office of Personnel Management (OPM) by issuing step increases on an annual basis. However, VEF's practice is inconsistent with OPM's guidance, which does not guarantee step increases on an annual basis, but rather requires that employees complete a required waiting period ranging from 1 to 3 years before advancing to the next step. The lack of clarity at VEF about raises based on step increases supports our finding that VEF management has not clearly articulated its approach to a performance-based compensation framework.
11. Throughout the course of our audit, VEF did not provide any documents to corroborate management's statement that it completed Fraud Risk Checkups in fiscal years 2007 and 2008 and submitted them to its external auditor, despite our request for a copy of the completed fraud risk checklist. In response to our request for examples of policies and procedures established at VEF, VEF's external auditor provided us with a blank copy of the Fraud Risk Checkup.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Jess T. Ford (202) 512-4268 or fordj@gao.gov

Staff Acknowledgments

Other key contributors to this report were Anthony Moran, Assistant Director, Diahanna Post, Chhandasi Pandya, David Dornisch, Mark Dowling, John Reilly, Jr., George Scott, and Bill Woods. Technical assistance was provided by Diana Blumenfeld, Joe Carney, Candace Carpenter, Jacob Davis, Etana Finkler, Thais Hernandez, Gilbert Kim, Melissa Kornblau, and Armetha Liles.

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 Web site (www.gao.gov). Each weekday afternoon, GAO posts on its Web site newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to 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 Web site, <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.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Ralph Dawn, Managing Director, dawnr@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

