OFFICE OF INSPECTOR GENERAL

AUDIT OF THE MANAGEMENT OF GRANTS AWARDED BY USAID'S OFFICE OF AMERICAN SCHOOLS AND HOSPITALS ABROAD

AUDIT REPORT NO. 9-000-12-002-P
MARCH 19, 2012

WASHINGTON, D.C.

Office of Inspector General

March 19, 2012

MEMORANDUM

TO: DCHA/ASHA, Director, Tamra Halmrast-Sanchez

FROM: IG/A/PA, Director, Steven Ramonas /s/

SUBJECT: Audit of the Management of Grants Awarded by USAID's Office of American
Schools and Hospitals Abroad (Report No. 9-000-12-002-P)

This memorandum transmits our final report on the subject audit. In finalizing the audit report,
we considered your comments on the draft report and have included those comments in their
entirety in Appendix II of this report.

This report contains seven recommendations to strengthen the ability of the Office of American
Schools and Hospitals Abroad to manage its grants. On the basis of information provided by
your response to the draft report, we determined that final action has been taken on four
recommendations—2, 3, 6, and 7, while management decisions have been reached on the
remaining three recommendations—1, 4, and 5. Please provide the Audit Performance and
Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action
to close the three open recommendations.

Thank you for the cooperation and courtesy extended to the audit staff during this audit.

CONTENTS

Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
AOTR	agreement officer's technical representative
ASHA	American Schools and Hospitals Abroad
CFO	Chief Financial Officer
CIGIE	Council of Inspectors General on Integrity and Efficiency
GAO	Government Accountability Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
RFA	request for applications
TEC	technical evaluation committee

SUMMARY OF RESULTS

The American Schools and Hospitals Abroad (ASHA) program provides grants to competitively selected private, nonprofit universities and secondary schools, libraries, and medical facilities outside the United States. The ASHA program currently manages an annual budget of $20 million and awards approximately 35 to 45 grants every year under Section 214 of the Foreign Assistance Act, codified at 22 U.S.C. 2174. Since the inception of the program, ASHA has provided more than $800 million to approximately 200 institutions in more than 60 countries.

Although most USAID programs focus on development assistance and humanitarian aid objectives, Congress created ASHA for different purposes. In fact, the ASHA program was founded in 1959, predating the creation of USAID by 2 years. As explained in House Report No. 92-380, July 26, 1971, page 15:

> The primary purpose of Section 214 … was not to help take care of the educational and health needs of foreign countries but to demonstrate to their people, on a selected basis, American ideas, practices, and advances in the fields of education and medicine.

USAID has attempted to accommodate these different purposes through a policy decision to exempt ASHA from some USAID regulations. In the absence of clear, written exclusions and exemptions from various policies, procedures, and regulations, the audit team applied industry best practices as the primary criteria to evaluate the ASHA program. Specifically, the audit team used key grants management principles published by the Government Accountability Office (GAO) and the Council of Inspectors General on Integrity and Efficiency (CIGIE). The Office of Inspector General (OIG) conducted this audit to determine whether USAID's ASHA office managed its grants portfolio in accordance with industry best practices.

The audit concluded that the ASHA office did not manage its grants portfolio in accordance with industry best practices. The ASHA program had several significant deficiencies in internal control, specifically in its control environment, policies and procedures, information management, and monitoring practices. Deficiencies included the following:

- The control environment did not promote sound grants management (page 4). Reporting lines and staff responsibilities were poorly defined.

- Grants management policies and procedures were outdated (page 5). The office's manual of policies and procedures was 19 years old and conflicted with best practices.

- The grants information management system was error-prone (page 9). Data entered was not validated periodically, and the system did not alert managers to deadlines and other urgent information.

- Guidance on grant monitoring was limited (page 10). The frequency with which site visits are conducted, the method for selecting which grantee sites to visit, and the

assignment of responsibility for monitoring grants should have been established in guidance and were not.

So that it can manage its grants efficiently, effectively, and responsibly, we recommend that the ASHA office:

1. Review its control environment and present the Bureau for Democracy, Conflict and Humanitarian Assistance (in which the ASHA office resides) with a plan for successfully managing the program's grant portfolio and achieving its program objectives (page 4).

2. Clearly define grants management authorities and responsibilities and formally delegate them to appropriate staff to serve as agreement officer's technical representatives (AOTRs) (page 4).

3. Determine, in conjunction with the Office of General Counsel, which federal regulations and Agency directives apply to the ASHA program and document any exclusions or exemptions (page 9).

4. Develop and implement policies and procedures that are consistent with applicable federal regulations, Agency directives, and best practices to promote adequate grants management (page 9).

5. Implement a grants information management system that will enable the office to capture accurate, timely, and useful information to facilitate proper grants management (page 10).

6. Develop and implement a plan to validate the data in its grants information management system periodically for completeness and accuracy (page 10).

7. Develop and implement a monitoring plan that (1) clearly outlines who can be designated as an AOTR and defines the roles and responsibilities of the AOTRs, (2) systematically identifies the most appropriate grantees for site visits using programmatic and financial risk factors, and (3) actively solicits help from overseas missions to monitor and evaluate grantee performance through site visits and liaison with the recipients (page 11).

Detailed findings follow. The audit scope and methodology are described in Appendix I, and USAID's comments appear in Appendix II of the final report. Our evaluation of management comments is on page 13 of the report.

AUDIT FINDINGS

The Federal Mangers' Financial Integrity Act of 1982[1] requires GAO to issue standards for internal control in government. This act, along with other laws, prompted GAO's *Standards for Internal Control in the Federal Government*. GAO states that "internal control is a major part of managing an organization. It . . . helps government program managers achieve desired results through effective stewardship of public resources." According to GAO, internal control consists of several components including an organization's control environment, policies and procedures, information and communications, and monitoring. The importance of internal controls and their application to effective grants management are also discussed in "Managing Grants for Success," an article published by CIGIE[2] in the Fall/Winter 2008/2009 issue of the *Journal of Public Inquiry.*

The standards and best practices outlined by GAO and CIGIE, as well as USAID's policies and procedures and federal regulations, were the criteria used to evaluate ASHA's grants management practices throughout the stages of the grant life cycle, as depicted below. Using these standards and best practices, the audit identified several weaknesses in ASHA's internal control, specifically in its control environment, policies and procedures, information management, and monitoring practices.

Grant Life Cycle
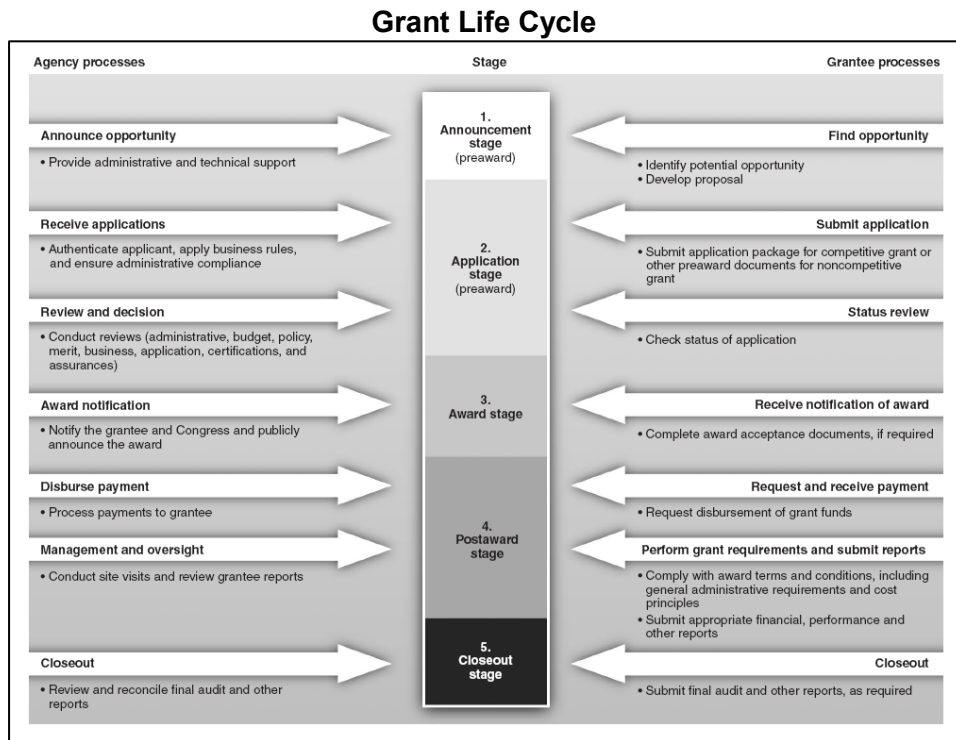
Source: GAO, "Grants Management: Additional Actions Needed to Streamline and Simplify Processes," April 18, 2005.

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[1] Federal Managers' Financial Integrity Act of 1982, Public Law No: 97-255., codified at 31 U.S.C. 3512 note, Section 102(b)(3).
[2] CIGIE is an independent government entity established to address integrity, economy, and effectiveness issues that transcend individual government agencies.

Control Environment Did Not Promote Sound Grants Management

"Managing Grants for Success" states: "The core of any entity or operation is its people and the environment in which they operate." This statement is supported by GAO's assertion that

> A good internal control environment requires that the agency's organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting. The control environment is also affected by the manner in which the agency delegates authority and responsibility throughout the organization.

Contrary to industry best practices, the ASHA program did not establish a control environment that fostered sound grants management. Staff responsibilities and reporting lines (reporting relationships) were often poorly defined. No single staff member was assigned to oversee the entire grants management process. Sometimes the responsibilities of ASHA contactors stretched beyond their defined boundaries, as contractors provided verbal or written approvals to grantees without first consulting direct-hire staff.

Outside the ASHA office, USAID espouses assigning AOTRs[3] to assist in the technical monitoring or administration of an award. AOTRs perform a variety of duties, including working as part of a team with the agreement officer—who for ASHA was the director—to ensure that USAID manages its assistance funds prudently. The ASHA office did not formally assign AOTRs to manage its grants.

As outlined in "Managing Grants for Success," the control environment is the foundation of a sound grants management program. Without a strong control environment, the ASHA office may not be able to manage its 200 active grants prudently while concurrently analyzing and awarding new grants. Therefore, we make the following recommendations to strengthen the ASHA control environment and to formally assign grants management responsibilities.

> *Recommendation 1. We recommend that the Office of American Schools and Hospitals Abroad review its control environment and present the Bureau for Democracy, Conflict and Humanitarian Assistance with a plan for successfully managing the program's grant portfolio and achieving its program objectives.*

> *Recommendation 2. We recommend that the Office of American Schools and Hospitals Abroad clearly define grants management authorities and responsibilities and formally delegate them to appropriate staff to serve as agreement officer's technical representatives.*

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[3] As of January 1, 2012, USAID replaced the term "AOTR" with "AOR" (agreement officer's representative) to align with changes to the Federal Acquisition Regulation.

Policies and Procedures Were
Outdated and Conflicted With
Best Practices

According to GAO, "internal control activities help ensure that management's directives are carried out." These control activities are defined by the policies and procedures of an organization, such as USAID's Automated Directives System (ADS). The CIGIE journal article "Managing Grants for Success" advises:

> Written policies and procedures must be established and executed to help ensure that actions identified by management (or by law) as necessary to address risks are effectively carried out.

The unique nature of the ASHA program, with its various exceptions and exclusions, made it difficult to determine which federal regulations and USAID policies and procedures applied to the program. USAID's General Counsel in June 1982 issued a memorandum stating that ASHA grants are not governed by Office of Management and Budget (OMB) Circular A-110[4] since the grant funds only pass through the U.S.-based sponsoring organizations, with foreign universities and hospitals being the ultimate recipients of the grants. At that time, OMB Circular A-110 did not apply to foreign organization recipients.

Lacking appropriate Agency and federal guidance, in 1993 the ASHA office developed its own policies and procedures manual. The manual set forth the management and administrative practices to be adopted by the ASHA office to manage the grant program appropriately. With changes in Agency standard procedures and applicable laws over nearly 20 years, many of the procedures drafted by ASHA are now contrary to best practices in grants management. As a result, the ASHA office has not been operating according to sound grants management policies and procedures. Deviations occurred in the following practices associated with prudent grants management:

- *Annual announcement of grant requests.* The ASHA procedures manual states that "ASHA does not issue invitations for applications to the program or provide any type of public notice routinely on the intent to make grants." This guidance differs greatly from current requirements outlined in ADS 303.3.5, "Public Notice and Advertising." That section states that "USAID has a responsibility to notify the public of its funding priorities in assistance programs. The Agency generally fulfills this responsibility by announcing assistance programs in the Catalog of Federal Domestic Assistance and at Grants.Gov." USAID uses a request for applications (RFA) process to solicit and provide assistance and RFAs are issued according to an established format described in ADS 303.3.5.2, "Request for Applications."

  Although not required to comply with the format prescribed in ADS, ASHA did incorporate a majority of the RFA format outlined in the Agency guidance. Still, the audit team compared ASHA's published announcement with guidance found in ADS 303.3.5.2 and determined that 8 of the 27 RFA provisions (listed in Appendix III)

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[4] OMB Circular A-110 establishes uniform administrative requirements for federal grants and agreements awarded to institutions of higher education, hospitals, and other nonprofit organizations.

were absent from the ASHA annual announcements. Additionally, the ASHA office never used the federal Web site Grants.gov to announce the availability of grants.

By not announcing ASHA grants effectively, the program may deny qualified applicants the opportunity to apply for a grant because they are unaware of the availability of the grants. Additionally, if an RFA does not include all grant requirements and evaluation criteria, potential applicants (1) may not know precisely what is required of them and will not have the requisite information to judge whether it is in their best interest to incur the costs associated with applying for a grant, or (2) may incur the costs, but provide insufficient information in their applications.

During the audit, OIG communicated these deficiencies to the ASHA office. As a result, on July 18, 2011, the office announced a new process for advertising its RFAs, which will now be announced on Grants.gov. Future RFAs will include all the provisions required by ADS.

- *Grant review and selection procedures.* OMB Memorandum M-09-26 discusses federal agencies use of private sector contractors to deliver important services to citizens. The memorandum states:

> Agency management practices must recognize the proper role of each sector's labor force and draw on their respective skills to help the government operate at its best. Current policies and practices must be improved so that agencies consistently identify the proper role of each sector and achieve the best mix of public and private labor resources to serve the American people.

To this end, Agency policy in ADS 303.3.6.4, "Reviewing and Evaluating Applications," states that USAID direct-hire and contract employees must make up a majority of the members on the technical evaluation committee (TEC), the committee that evaluates the applications. According to this ADS chapter, USAID should impartially review and evaluate all grant applications to make objective recommendations for grant awards. The procedures followed by the ASHA office deviate from these requirements. The 1993 ASHA procedures manual, Section 2-2.3(d), specifies that the office will seek input from four to six recognized, professional, external reviewers of grant proposals. The ASHA program did not include any USAID employees on its review committee. The entire group was composed of external reviewers selected by the contractor.

Furthermore, ADS 303.3.6.4.d states that USAID officers "must take steps to ensure that members of the TEC, both USAID staff and outside evaluators, do not have conflicts of interest with the organizations whose applications are being reviewed." ASHA's procedures manual omitted this important requirement. As a result, beyond requiring reviewers to sign a statement that they did not have a conflict of interest with any of the applicants, the ASHA program did not adequately verify the reviewers' independence.

Without requiring that TEC members include USAID employees and verifying that the reviewers had no potential conflicts of interest that could bias their evaluation, the ASHA office introduced the risk that applications may not have been evaluated adequately and fairly. Moreover, without sufficient controls to provide fair and open

competition for the grant funds, the office significantly increased the risk of fraud, waste, and abuse related to the ASHA program.

- *Preaward survey.* ADS 303.3.9.1.b states that a preaward survey "examines the applicant's internal systems to determine whether the prospective recipient has the necessary organization, experience, accounting and operational controls, and technical skills—or the ability to obtain them—to achieve the objectives of the program."

  The ASHA procedures manual, Section 2-3.1(d), describes the preaward survey but does not outline the specific contents of the survey process. However, USAID guidance describes in detail the standards to be applied in preaward surveys. ADS 303.3.9.1.c states that the preaward survey should be conducted by a team of experts.

  A consultant, hired under a subcontract, created and conducted ASHA's preaward survey process. The ASHA office did not provide specific guidance and criteria for the subcontractor to follow, nor were specific preaward survey requirements and evaluation standards included in the contract and subcontract. The standards used by the consultant to evaluate applicants' ability to manage a grant were derived from the consultant's own professional knowledge and not from the ADS standards.

  Without providing contractors clear guidance on preaward survey criteria, the ASHA office risks overlooking critical aspects of prospective recipients' organization. Furthermore, not providing specific guidance may create inconsistencies in the quality, applicable standards, and thoroughness of evaluations should a new consultant conduct the pre-award survey.

- *Memorandum of negotiation.* As stated in ASHA procedures manual 2-3.2(a), once the preaward requirements have been satisfied, the office records its findings regarding project feasibility, technical and management capability, reasonableness of estimated costs, the financial plan, and any other relevant issues and justifies them in the negotiation memorandum. The memorandum of negotiation documents the basis for certain terms and conditions of the grant.

  ASHA staff stated that the practice of issuing memorandums of negotiation for new grants stopped in the early to mid-1990s, only to start again in fiscal year 2010. By not producing a memorandum of negotiation, USAID cannot adequately address potential problems—related to applicants' financial resources, ability to meet award conditions, and record of performance—before making the award, thereby incurring risk.

- *Annual audits.* In accordance with OMB Circular A-133, U.S.-based organizations that expend $500,000 or more in federal funding during their fiscal year must have a single or program-specific audit conducted for that year. However, A-133 audits were not being conducted on schedule, resulting in 14 past-due required A-133 audits. ASHA staff members were not enforcing the requirement to perform A-133 audits. Even for those grants that had completed A-133 audits, ASHA staff members did not use the audit findings to make improvements to grants management, nor did they use the audit results in making subsequent grant decisions.

Without an annual A-133 audit, there is no independent opinion as to whether the grantees complied with laws, regulations, and the provisions of contracts or grant agreements—information that could have a direct and material effect on each major program. Moreover, without these audits, program funds are at increased risk of fraud, waste, and abuse.

- *Closeout procedures.* The Code of Federal Regulations (22 CFR 226.71, a subpart of "Administration of Assistance Awards to U.S. Non-governmental Organizations") states that "recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award." This regulation is reiterated in ASHA's procedures manual as well as in supplemental ADS guidance: "Guidance on Closeout Procedures for A&A [Acquisition and Assistance] Awards—An Additional Help Document for ADS Chapters 302 and 303."

  Despite such guidance, the ASHA program was not performing grant closeout procedures on schedule, as evidenced by a large number of expired grants still awaiting final closeout. As of May 17, 2011, 64 of 378 completed grants (17 percent) had not been properly closed out, and approximately $6 million in ASHA grant funds sat idle awaiting deobligation. Moreover, according to USAID's Phoenix accounting system, ASHA grants awaiting closeout date back as far as 1996.

  Without proper closeout procedures, AHSA has put federal funds at risk. The Agency cannot confirm that the recipient complied with all applicable terms and conditions of the grant award—including the delivery of all required reports and the proper disposition of any government property—and that the AOTR has no objection to the closeout of the award file. Without exercising prudent and punctual financial management, unused program funds cannot be identified, recouped through deobligation, and used to support other potential requirements.

The reason for the numerous gaps in ASHA's grants management process was the lack of clear, up-to-date policies and procedures that were communicated to and adopted by the ASHA staff. As discussed, the most recent ASHA policies and procedures manual was drafted in 1993 and has not been revised to include new regulations, procedures, systems, and technologies. As a result, ASHA staff members were reluctant to reference and adhere to the outdated information and instead opted to create and follow their own operating procedures, leading to gaps and inconsistencies in the management of grants.

Without clear, up-to-date policies and procedures, the ASHA office is exposed to several risks in its grants management life cycle. ASHA will not be able to ensure that grantees are using the funds properly and achieving the purpose of the grant award. The lack of proper internal controls in the announcement and selection stages of the grant process reduces full and open competition and limits the ability of some organizations to receive grants. This effect is illustrated in a pattern of repeated awards to the same recipients. The ASHA program has approximately 200 active grants under management per year but has assisted only 237 institutions throughout its 52-year history. Had the office limited grant awards to new applicants, the ASHA program could have assisted hundreds of other institutions.

Recommendation 3. We recommend that the Office of American Schools and Hospitals Abroad, in conjunction with the Office of General Counsel, clearly determine which federal regulations and Agency directives apply to the American Schools and Hospitals Abroad program and document any exclusions or exemptions.

Recommendation 4. We recommend that the Office of American Schools and Hospitals Abroad develop and implement policies and procedures that are consistent with applicable federal regulations, Agency directives, and best practices to promote adequate grants management.

Grants Information Management System Was Error-Prone

According to the CIGIE journal article "Managing Grants for Success":

> Information and communications systems enable the grantor agency and grantees to capture and exchange the information needed to manage the grant program. In order to determine if a grant is achieving what is intended, those responsible for the grant program must have the right information at the right time, and it must be reliable.

The Chief Financial Officer's (CFO) Act of 1990 discusses the importance of accurate financial information. A key purpose of the CFO Act is to "provide for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the Government and the Congress in the financing, management, and evaluation of Federal programs." The CFO Act also provides for the improvement of "systems of accounting, financial management, and internal controls to assure the issuance of reliable financial information to deter fraud, waste, and abuse of Government resources."[5]

Contrary to best practices for grants management and the CFO Act, ASHA has not maintained accurate information and has not implemented systems that enable the office to capture and exchange the information needed to manage program grants properly. ASHA's internal grants management system was error-prone, containing not only inaccurate data, but also invalid entries that were never detected and corrected. In fact, contractor personnel who maintained ASHA's grants management information system estimated that the system was only 80 percent accurate. In addition to inaccurate data, the audit also noted the following deficiencies in ASHA's grants management system:

- The naming convention for grant recipients was inconsistent and caused duplication of records, mismatched information, and improper filing.

- Routine data verification was not performed to ensure the integrity and reliability of the information in its systems.

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[5] Chief Financial Officers (CFO) Act of 1990, Public Law 101-576, codified at 31 U.S.C. 501 note, Section 102(b)(3).

- The grants management system did not have an effective means of alerting ASHA officers about issues that required updates or attention.

- There was no methodology or system to communicate that financial reports were overdue or to notify staff that administrative action was required.

Several factors contributed to ASHA's poor maintenance of information. First, ASHA's grants information management system was antiquated and included data errors that had accumulated through the years. The ASHA office recognized shortcomings with its grants information management system and obtained a software license for a new system. Although the license started in 2008, implementation of the system had not been fully implemented at the time of our audit. Second, the ASHA grants information management system was not being consistently used by all program employees. For example, the off-site contract engineer could not access ASHA's central grants management system and thus maintained an independent system at his office in Florida. This independent recording system did not interact with ASHA's grants management system, and changes to either system had to be made manually.

As a result of poor maintenance of information the ASHA office could not accurately track grant funds. Auditors detected a discrepancy of nearly $9 million in grant balances as of March 31, 2011, between ASHA's system and the records of 60 grantees we contacted. By making grant decisions with inaccurate information, ASHA risks awarding grants to undeserving or unqualified applicants. Furthermore, with inaccurate data, opportunities for fraud, waste, and abuse increase.

> ***Recommendation 5****. We recommend that the Office of American Schools and Hospitals Abroad implement a grants information management system that will enable the office to capture accurate, timely, and useful information to facilitate proper grants management.*

> ***Recommendation 6****. We recommend that the Office of American Schools and Hospitals Abroad develop and implement a plan for periodically validating the data in its grants information management system for completeness and accuracy.*

Guidance on Grant Monitoring Was Limited

According to the CIGIE journal article, "Managing Grants for Success," an effective grants management program must

> monitor the entire process to determine if the controls are working as intended. . . . Since grant funds are spent by entities outside the federal government, appropriate and clear agency guidance, monitoring, and oversight of grantees are key to providing both financial and performance accountability.

The office's monitoring plan should evaluate "the items that comprise the essential framework for grants management," including people, policies, procedures, and risk assessment.

According to ADS 303.2.f, after an award the AOTR

> is the person designated in writing by the AO [agreement officer] who will administer certain aspects of the assistance instrument. The AOTR . . . makes the achievement of program objectives easier by monitoring and evaluating the recipient and its performance during the award.
>
> The AOTR will:
>
> - Maintain contact, including through site visits and liaison, with the recipient.
>
> - Review and analyze reports and monitor reporting requirements.
>
> - Verify timely performance.
>
> - Ensure compliance with the terms and conditions of the award. . . .
>
> - Monitor the recipient's financial reports to ensure that the recipient makes progress toward meeting the required cost sharing, when applicable.

Despite USAID's guidance, the ASHA office has not established clear guidance on monitoring and oversight of grants. For example, site visits are not being conducted in a consistent and systematic manner. The majority of the grants are being monitored from Washington, D.C., through correspondence with the grantees. Of the 200 grants the ASHA manages every year, the office conducts only a limited number of site visits, approximately five per year. Furthermore, the ASHA office lacks a methodology to evaluate grantee risk and systematically identify grantees for site visits. Certain sites apparently were selected because of the favorability of the location and not because of the risk associated with the grant.

ASHA's limited financial and human resources are the major reasons for the lack of grant monitoring. The ASHA program funds activities all across the globe, sometimes in countries where USAID does not have local missions, such as China, Italy, and Greece. The task of monitoring ASHA's portfolio of active grants in various locations is a challenge for an office with only six full-time employees. The ASHA office should consider soliciting assistance from local or regional USAID missions or even the Department of State. This could significantly increase the amount of contact with the recipients; provide additional observational evidence regarding compliance with the terms of the grant; and strengthen the overall purpose of the ASHA program, which is to foster interchange, mutual understanding, and favorable relations with the United States.

Sound monitoring practices are necessary to determine whether programs are working as intended and achieving their desired results. Without proper monitoring, the ASHA program may be unable to provide financial and performance accountability, creating opportunities for fraud, waste, and abuse.

> **Recommendation 7**. *We recommend that the Office of American Schools and Hospitals Abroad develop and implement a monitoring plan that (1) clearly outlines who can be designated as an agreement officer's technical*

representative and defines the roles and responsibilities of the representatives, (2) systematically identifies the most appropriate grantees for site visits using programmatic and financial risk factors, and (3) actively solicits help from overseas missions to monitor and evaluate grantee performance through site visits and liaison with the recipients.

EVALUATION OF MANAGEMENT COMMENTS

The Office of Inspector General has reviewed ASHA's response to the draft report and determined that final action has been taken on four of the seven recommendations—2, 3, 6, and 7—while management decisions have been reached on the remaining three recommendations—1, 4, and 5. Our evaluation of comments on the seven recommendations is shown below.

Recommendation 1. ASHA officials agreed to review the program's control environment and present the Bureau for Democracy, Conflict and Humanitarian Assistance with a plan for successfully managing the program's grant portfolio and achieving its program objectives. The ASHA office has reviewed and is adjusting its structure and is realigning duties to meet program needs. Furthermore, ASHA is working with the bureau's senior leadership to secure additional resources for the office. ASHA's organizational review and restructuring are expected to be completed by July 31, 2012. We conclude that a management decision has been reached on this recommendation.

Recommendation 2. ASHA officials agreed to clearly define grants management authorities and responsibilities and formally delegate them to appropriate staff to serve as AOTRs. To that end, ASHA reorganized its grants management responsibilities and authorities and assigned two staff members to be AOTRs through signed delegation letters. We conclude that final action has been taken on this recommendation.

Recommendation 3. ASHA officials agreed with the recommendation and determined, in conjunction with the Office of General Council, which federal regulations and agency directives apply to their program and document any exclusions or exemptions. The ASHA office will incorporate these regulations in its revised ASHA procedures and policy handbook. We conclude that final action has been taken on this recommendation.

Recommendation 4. ASHA officials agreed to develop and implement policies and procedures that are consistent with applicable federal regulations, Agency directives, and best practices to promote adequate grants management. The office anticipates updating policies and procedures by June 30, 2012. Furthermore, ASHA developed a plan to complete required audits and surveys by July 30, 2012, and to close out expired grants and deobligate any excess funds by September 30, 2012. We conclude that a management decision has been reached on this recommendation.

Recommendation 5. ASHA officials agreed to implement a grants management system that will enable the office to capture accurate, timely, and useful information to facilitate proper grants management. The new data management system is to be reviewed and corrections made by June 30, 2011. We conclude that a management decision has been reached on this recommendation.

Recommendation 6. ASHA officials agreed to develop and implement a plan to validate the completeness and accuracy of information in the program's grants management system periodically. As a result, ASHA developed and implemented

protocols for entering information and validating the information in the system monthly. We conclude that final action has been taken on this recommendation.

Recommendation 7. ASHA officials agreed to develop and implement a monitoring plan that clearly (1) outlines who can be designated as an AOTR and their roles and responsibilities, (2) systematically identifies the most appropriate grantees for site visits using programmatic and financial risk factors, and (3) actively solicits help from overseas missions to monitor and evaluate grantee performance through site visits and liaison with the recipients.

To address the recommendation, ASHA has, among other things, designated AOTRs; held meetings with appropriate staff on roles and responsibilities; developed a process for identifying grant projects requiring monitoring visits based on various risk factors; and has begun seeking assistance from other USAID bureaus, overseas missions, and other U.S. Government entities to provide additional monitoring. We conclude that final action has been taken on this recommendation.

SCOPE AND METHODOLOGY

Scope

OIG conducted this performance audit 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 in accordance with our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions. As of May 18, 2011, USAID records showed that there were 473 ASHA grant awards in the Agency's Phoenix financial system with total obligations of $317 million and disbursements totaling $274 million.

The objective of the audit was to determine whether USAID's ASHA office managed its grants portfolio in accordance with industry best practices. In planning and performing the audit, we assessed the office's management controls related to its program. The controls included the performance management plan, data quality assessments, site visit reports, program progress reports, and e-mails and memos documenting decisions reached between ASHA staff and the contractor and between ASHA staff and grantees.

OIG conducted the audit in Washington, D.C., from June 7, 2011, to January 17, 2012. Our audit focused on grants awarded during fiscal years 2007 through 2010 and activities performed by both USAID and the grants management contractor.

Methodology

To answer the audit objective, the audit team conducted interviews with USAID's ASHA personnel, contractor employees, and subcontractors. The audit team also conducted two off-site staff interviews, one with the contractor's president at the company's headquarters in Maryland and the other with a consulting engineer in Florida.

To obtain an understanding of the regulations that governed the ASHA program, the team reviewed criteria, including Section 214 of the Foreign Assistance Act of 1961 and OMB Circular A-110, as well as legal decisions by USAID's General Counsel. To review management control standards, the audit reviewed:

- The American Schools and Hospitals Abroad Procedures Manual.

- Elliot Lewis, "Managing Grants for Success," *Journal of Public Inquiry*, Fall-Winter 2008-2009.

- GAO, *Standards for Internal Control in the Federal Government*, November 1999.

- ADS Chapter 303, "Grants and Cooperative Agreements to Non-Governmental Organizations."

- The Chief Financial Officers Act of 1990.

The audit team gained an understanding of the procedures for soliciting applications and for reviewing, selecting, and monitoring grants. In addition, we reviewed ASHA's procedures for obligating funds and processing benefit payments.

To determine the accuracy of ASHA's financial information, the team compared records in ASHA's grants management system with those in USAID's Phoenix system. The audit team also compared ASHA's financial data with records from grantees by independently asking grant recipients to provide grant amounts, total expenditures, and balances as of March 31, 2011.

MANAGEMENT COMMENTS

February 29, 2012

MEMORANDUM

TO: Steven Ramonas, IG/A/PA Director

FROM: Tamra Halmrast-Sanchez, DCHA/ASHA Director /s/

SUBJECT: Management Comments to Draft Audit Report No. 9-000-12-00X-P

Thank you for affording the Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA) the opportunity to respond to the draft audit of USAID's American Schools and Hospitals (DCHA/ASHA) program. DCHA concurs with the audit findings and recommendations and we are working diligently to address the weakness identified in the report. Specifically we have responded to the seven recommendations outlined in the draft OIG audit report dated February 15, 2012, by taking the following action or actions:

RECOMMENDATIONS AND ACTIONS:

1. RECOMMENDATION: That the Office of American Schools and Hospitals Abroad review its control environment and present the Bureau for Democracy, Conflict and Humanitarian Assistance with a plan for successfully managing the program's grant portfolio and achieving its program objectives.

   - RESPONSE: DCHA/ASHA has reviewed its structure; including technical support provided through its current institutional contract and is adjusting the structure and realigning duties to meet current program needs. ASHA is working with DCHA senior leadership to attempt to secure additional resources to assist in the management of its grant portfolio.

   - Completion date for the ASHA organizational review and restructuring is July 31, 2012.

2. RECOMMENDATION: That the Office of American Schools and Hospitals Abroad clearly define grants management authorities and responsibilities and formally delegate them to appropriate staff to serve as agreement officer's technical representatives.

   - DCHA/ASHA has taken its first step in reorganizing the office to meet the requirements of a large grant portfolio. Instead of several staff members assigned to oversee

individual parts of the grants portfolio; the office has assigned two staff members as Agreement Officer's Technical Representatives (AOTRs) and split the portfolio by regions. The AOTRs are now responsible for ASHA grants from opening/award to close-out, which should eliminate confusion as to whom has responsibility over a particular grant, thus improving grant management, oversight, and pipeline administration.

- AOTR delegation letters for all active grants were signed by the AOTRs and the Agreement Officer (AO) by December 15, 2011.

3. RECOMMENDATION: That the Office of American Schools and Hospitals Abroad, in conjunction with the Office of General Counsel, clearly determine which federal regulations and agency directives are applicable to the American Schools and Hospitals Abroad program and document any exclusions or exemptions.

- RESPONSE: DCHA/ASHA has been working with the GC to clearly determine which federal regulations and agency directives are applicable to the American Schools and Hospitals Abroad program and document any exclusions or exemptions. These regulations will be included in the revised ASHA procedures and policy handbook.

- The GC has provided DCHA/ASHA with an updated list of applicable federal regulations and agency directives that we are using for FY2012 grant cycle.

4. RECOMMENDATION: That the Office of American Schools and Hospitals Abroad develop and implement policies and procedures that are consistent with applicable federal regulations, Agency directives, and best practices to promote adequate grants management.

- RESPONSE: DCHA/ASHA has undertaken a major review and re-write of its policies and procedures in close coordination with GC and in conjunction with ADS 303 and 201. We anticipate the updated procedures, which will incorporate updated policies, to be completed by June 30, 2012. This will allow us to include "lessons learned" from the current grant cycle.

- DCHA/ASHA will continue to utilize the Grants.gov website as the means to solicit applications.

- For the review of FY2012 grant applications, the majority of the reviewers on the technical review committees were USAID direct-hire staff, in accordance with ADS 303.3, and DCHA/ASHA reviewed all proposed committee members to ensure they were qualified to perform the review function. The new procedure manual will reflect this change.

- DCHA/ASHA, in accordance with ADS 303.3, has started to conduct a systemized approach to the pre-award survey. We are developing a list of grantees and determining which have had a pre-award, A-133 and post award survey. As part of the FY2012 application review, we will include a review of the A-133 as part of their past-

performance and as a factor for future selections. Our goal is to complete the matrix of grantees and the determination of completion of pre-award, A-133 audits and post award surveys by July 30, 2012.

- All FY2011 grants include a memorandum of negotiation (Neg Memos) in their files. DCHA/ASHA received samples of Neg Memos from M/OAA as a guide as we continue to refine our Neg Memos for the FY2012 cycle. This will be incorporated into the procedures manual as a normal business process.

- The close-out of grants is a high priority for the office; the AOTRs, the Grants Management Specialist and the ASHA Director have developed a plan of action for addressing this issue. Our goal is to have all grants that have officially ended closed-out and deobligated by September 30, 2012. We are also in the process of retiring 26 boxes of completed grants, this will also alleviate some of the confusion (and provided needed space) caused by having the files remain in active status.

5. RECOMMENDATION: That the Office of American Schools and Hospitals Abroad implement a grants management system that will enable the office to capture accurate, timely and useful information to facilitate proper grants management.

- RESPONSE: DCHA/ASHA and its support contractor are reviewing the data management systems currently in use to capture information useful in grant administration. The support contractor is updating the data management system to accurately record and report on grant financial and programmatic data. Our goal is to have the data in the new data management system to be reviewed and corrected by June 30, 2011.

6. RECOMMENDATION: That the Office of American Schools and Hospitals Abroad develop and implement a plan to periodically validate the information in its grants management system for completeness and accuracy.

- RESPONSE: DCHA/ASHA and its support institutional contractor have had a series of meetings focused on reviewing the process of entering data and the various systems employed by USAID and the types of information captured. The goal was to identify areas of duplication and gaps in the ASHA's system and develop a plan to address the findings. We also developed protocols for entering information, i.e., who would enter what information and how, and how and when would the data be validated. It was also agreed that the AOTR would validate the information in the system on a monthly basis, as would the Director, starting immediately.

7. RECOMMENDATION: That the Office of American Schools and Hospitals Abroad develop and implement a monitoring plan that (1) clearly outline who can be designated as an agreement officer's technical representative and the roles and responsibilities of the representatives; (2) systematically identify the most appropriate grantees for site visits using programmatic and financial risk factors; and (3) actively solicit overseas missions to help

monitor and evaluate grantee performance, including site visits and liaison, with the recipients.

- RESPONSE: DCHA/ASHA has designated AOTRs and has held follow-on meetings with the institutional support contractor on the roles and responsibilities that are included in that designation. The grantees have also received written documentation on who is their AOTR and at the upcoming DCHA/ASHA conference March 20-22, 2012 we will train and inform our partners on the new operating procedures being implemented by ASHA.

- DCHA/ASHA management has reviewed the list of active grants, identifying grants that have recently been visited, grants that are experiencing problems and grants that are programmatic and financial risks. A tentative list for monitoring visits has been approved and site visits will be set according to needs for FY2012. This will be on-going process.

- DCHA/ASHA has reached out to the regional bureaus and missions requesting support on monitoring of activities. For construction grants, EGAT has agreed to provide monitoring support. A site visit form has also been developed and shared with the regional bureaus, affected Missions and EGAT. We will continue to look for ways to work with other parts of the USG to ensure monitoring of our grants.

- DCHA/ASHA has reached out to PPL/LER to update the current methods in which programs are monitored and evaluated. DCHA/ASHA has also invited PPL/LER to conduct a session on Monitoring and Evaluation at its 2012 Annual Conference and Workshop for program grantees and prospective grantees.

Based on the above, we believe that the actions taken by DCHA and ASHA have adequately addressed the seven audit recommendations and show DCHA's and ASHA's commitment to implement corrective measures towards the identified weaknesses. We hope that these actions are sufficient to achieve final action on the recommendations.

ANALYSIS OF REQUESTS FOR APPLICATIONS

Did RFAs contain the required provisions?

Provision	Section	No	Yes
	Section I: Funding Opportunity Description		
1	A general description of the proposed program		x
2	A statement identifying the authorizing legislation		x
3	Program eligibility requirements		x
4	Explanation of how the award will be administered		x
	Section II: Award Information		
5	An estimate of funds available		x
6	Anticipated start dates and performance periods of the programs		x
7	Indication of whether the award will be a grant or a cooperative agreement		x
	Section III: Eligibility Information		
8	Types of entities that may apply when there are eligibility restrictions		x
9	A statement that USAID encourages applications from potential new partners		x
10	Description of the cost-sharing element, if applicable		x
11	Other minimum qualification requirements		x
	Section IV: Application and Submission Information		
12	Information for a point of contact		x
13	A statement directing the applicant to submit the application using the Standard Form-424 series	x	
14	The required certifications in ADS 303.3.8.	x	
15	The required format for the application		x
16	The deadline for submission of an application, how USAID makes the determination that an application has been received in time, and consequences of late submission	x	
17	Any funding restrictions		x
18	A statement regarding whether the award will or will not allow the reimbursement of preaward costs	x	
19	Other submission requirements		X
	Section V: Application Review Information		
20	The criteria that USAID will use to evaluate applications, including an indication of their relative importance	x	
21	A clear statement of how USAID evaluates cost sharing as part of the review process		x
22	A description of the review and selection process		x
	Section VI: Award and Administration Information		
23	Indication of what a successful applicant can expect to receive following selection	x	
24	A statement identifying the standard provision and the deviation	x	
25	General information on all reporting requirements		x
	Section VII: Agency Contacts		
26	Point(s) of contact for questions while the funding opportunity is open		x

Provision	Section	No	Yes
	Section VIII: Other Information		
27	A statement that USAID reserves the right to fund any or none of the applications submitted	x	

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