



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF INTER-AMERICAN FOUNDATION ACTIVITIES IN BRAZIL AND EL SALVADOR

AUDIT REPORT NO. 1-IAF-16-002-P  
NOVEMBER 9, 2015

SAN SALVADOR, EL SALVADOR



*Office of Inspector General*

November 9, 2015

Mr. Robert N. Kaplan  
President and CEO  
Inter-American Foundation  
1331 Pennsylvania Ave., NW  
Suite 1200 North  
Washington, DC 20004

Dear Mr. Kaplan,

This letter transmits our final report, *Audit of Inter-American Foundation Activities in Brazil and El Salvador*. In finalizing this report, we carefully considered your comments on the draft report and adjusted the final report text where appropriate. We have included your comments in their entirety in Appendix II.

The report contains five recommendations for your action. Having reviewed your comments, we acknowledge management decisions on all the recommendations. We ask that your audit committee notify us on completion of the proposed corrective actions.

I appreciate the cooperation and courtesy extended to my staff during this audit.

Sincerely,

Jon Chasson  
Regional Inspector General, San Salvador  
USAID Office of Inspector General

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<b>Abbreviations</b>	
The following abbreviations appear in this report:	
CASA	Centro de Apoio Sócio-Ambiental
CORDES	Asociación Fundacion para la Cooperación y el Desarrollo Comunal de El Salvador
FUPEC	Fundación para la Educación Social, Económico y Cultural
GAO	Government Accountability Office
IAB	Instituto Arcor Brasil
IAF	Inter-American Foundation
OIG	Office of Inspector General
OMB	Office of Management and Budget

# SUMMARY OF RESULTS

The Inter-American Foundation (IAF) is an independent government corporation established in 1969 by the U.S. Congress to assist the poor in Latin America and the Caribbean. As outlined in the Foreign Assistance Act, IAF's mission is to:

1. Strengthen the bonds of friendship and understanding among the peoples of this hemisphere.
2. Support self-help efforts for individual development.
3. Stimulate wider participation in the development process.
4. Encourage the establishment and growth of democratic institutions, both private and governmental.

To achieve its mission, IAF funds grassroots development in Latin America and the Caribbean through project grants. IAF selects proposals to fund based on various factors, such as whether a project presents an innovative approach, gives the community a voice in its project, and the extent to which the grantee contributes its own resources toward the project. Grants are usually valued at between \$25,000 and \$400,000 and last from 2 to 3 years, though they can be modified to add additional time and funds. According to IAF, community groups take the lead in designing, implementing, and sharing the costs of their projects, increasing the likelihood that project impacts will be sustainable. These grants are designed to provide both tangible benefits, such as increases in income and employment, and intangible benefits, such as improved self-esteem and attitude.

In fiscal year 2014, IAF had a portfolio of 268 grants valued at \$66 million<sup>1</sup> managed by 38 employees and supported by contractors in 20 assisted countries. Foundation representatives in IAF's Washington, D.C., office oversee country portfolios. Supporting each representative are three in-country or regional contractors: (1) a local liaison, (2) a data verifier, and (3) an auditor. These contractors are the "eyes and ears" for IAF in the country and support the foundation representative to help ensure that the grantees receive necessary support, the project is being monitored and data supported, and financial audits are performed.

This audit focused on six grants in Brazil and El Salvador. These grants, with a combined value of \$2.3 million, covered a diverse range of activities supported by IAF, including small grants for social development, environmental conservation, income-generating activities, and support for legal promoters in Brazil. Table 1 shows the projects audited.

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<sup>1</sup> This amount does not include \$98 million that grantees have committed to contribute to their grants.

**Table 1. Grantees in Brazil and El Salvador (Audited)**

Country	Grantee Name	Start/End Dates	Area	Grant Value*
Brazil	Centro de Apoio Sócio-Ambiental (CASA)	9/2009-3/2015	Environment	\$444,745
	Geledés Instituto da Mulher Negra (Geledés)	9/2012-3/2016	Legal assistance	\$161,500
	Instituto Arcor Brasil (IAB)	9/2012-9/2015	Corporate social investment	\$188,000
El Salvador	Fundación para la Educación Social, Económico y Cultural (FUPEC)	8/2011-2/2016	Income-generating subgrants	\$541,485
	Sociedad Cooperativa Marías Noventa y Tres (MARÍAS 93)	8/2008-2/2016	Coffee production	\$443,096
	Asociación Pro-Búsqueda de Niñas y Niños Desaparecidos (Pro-Búsqueda)	6/2010-12/2015	Food security/economic opportunities	\$504,715

\* This amount represents IAF's financial contribution to the projects.

The purpose of this audit was to determine whether selected IAF grantees in Brazil and El Salvador were meeting their individual objectives. Specifically, we sought to determine if they were on track to improve environmental conservation, social development, and increased employment, income, and food security—and were meeting their shared objective to improve self-esteem and attitude.

Four of the six selected grantees were generally on track:

- CASA was to issue about 40 small grants (less than \$5,000) to support social development and environmental conservation in Brazil. The project planned to facilitate participation by grassroots organizations in these areas. As of December 2014, it had awarded 45. Multiple grants went to the Kilombola, descendants of Afro-Brazilian slaves, to support productive activities that allowed them to stay in their communities instead of migrating to cities. Another grant went to Rejuma, a youth network; we met with members who received a small subgrant from CASA to attend an environmental conference in Rio de Janeiro.
- IAB was set up to support corporate philanthropy in Brazil by funding local development projects. We met with representatives of 2 of IAB's 11 projects, Teia and Fala Comunidade, which received funding from a network of corporations and IAF. Both projects were supporting community activities such as sports programs for children and lectures on topics such as early pregnancy and domestic violence. During site visits, members at Teia praised the project, noting that it had helped beneficiaries make and sell products to become self-sufficient.

- FUPEC has worked with Salvadoran communities in the United States to fund income-generating activities in El Salvador. As of November 2014, the project had awarded 13 subgrants, valued at \$282,000, including funds from IAF and FUPEC. The audit team met with representatives of three subgrantees that were supporting income-generating activities; two were primarily helping youth, and the third was helping women. These subgrants, valued at \$42,000, allowed the organizations to start and expand businesses selling wooden furniture, tomatoes, and shampoo.
- Pro-Búsqueda's main goal was to improve food security, economic opportunities, and the quality of life for young families in El Salvador. According to beneficiaries, Pro-Búsqueda had made progress. Beneficiaries appreciated the support they had received to grow crops for themselves and for sale, which improved their food security and income levels.

Two of the six organizations—Geledés and MARÍAS 93—had setbacks, but had taken steps to overcome them.

- For Geledés, the main goal of the IAF grant was to train 120 Afro-Brazilian women to educate marginalized communities about their legal rights, increase awareness of health and domestic violence issues, and improve capacity to pursue legal action. Geledés planned to train 60 women by September 30, 2014—2 years into the 3.5-year project. While 79 women enrolled, only 32 attended at least 81 percent of the training. Geledés officials said some women dropped out because the training was on Saturdays, and they had trouble finding childcare. Officials also attributed delays to challenges they had opening a bank account, finding appropriate space for training, and identifying targeted Afro-Brazilian women to train in northern São Paulo, an area Geledés had not worked in before. To address these delays, Geledés requested, and IAF approved, an extension, allowing Geledés additional time to meet the training goals.
- Although MARÍAS 93's primary goal was to increase incomes for coffee farmers in the cooperative, production and income levels declined because of coffee rust. A fungus that cuts off nutrients to the crop, coffee rust caused coffee production to plummet throughout Central America. To address the challenges with coffee rust, MARÍAS 93 tried to help members find alternative sources of income—for example, by using IAF funds to buy equipment to turn waste from coffee processing into organic fertilizer for use and resale; and by helping cooperative members grow other crops, such as cocoa and fruits. All of these steps have helped the cooperative offset the effects of coffee rust.

In general, all grantees selected produced positive intangible aspects. During site visits, project beneficiaries spoke positively about the support they received and talked about how IAF funding had improved their lives. For example, multiple beneficiaries of the Geledés project said they had a better understanding of their legal rights and felt a sense of belonging because of the training they received. Their comments reflect what we observed throughout visits in Brazil and El Salvador and illustrate that for the selected grantees, IAF's support has directly led to improvements in self-esteem in the targeted communities.

Despite the accomplishments noted above, the audit identified areas for improvement.

- Grantees' varying contributions posed sustainability risks (page 5). In the case of the two grantees audited, IAF was contributing the majority of resources to projects.

- El Salvador grantees had incomplete documentation to support reported results (page 7). In two cases, grantees provided partial documentation, while in one case the grantee did not provide any.
- Some IAF policies do not comply with federal requirements (page 8). Specifically, policies related to accounting for salary expense, internal controls, and compliance terms for subgrantees fall short of requirements.
- Some grantees' financial management systems did not meet requirements (page 9). Grantees did not understand requirements, and that led to noncompliance with accounting and procurement provisions.
- IAF did not report matters to USAID's Office of Inspector General (page 10). IAF did not have a clear policy requiring appropriate reporting of crimes (including fraud), waste, and abuse.

To address these issues, we recommend that IAF:

1. Assess and document how selected grantees in El Salvador could contribute greater resources to their grants to maximize chances for sustainability (page 7).
2. Train selected grantees on their responsibilities for properly reporting and retaining supporting documentation (page 7).
3. Assess the Office of Management and Budget requirements and incorporate all those that are cost-effective for grantees (page 9).
4. Train selected grantees in Brazil and El Salvador on compliance requirements (page 9).
5. Modify its internal policies to require appropriate reporting of crimes (including fraud), waste, and abuse to the USAID Office of Inspector General (page 10).

Detailed findings appear in the following section, and Appendix I describes the audit scope and methodology. Our evaluation of management comments appears on page 11, and the full text of management comments appears in Appendix II.

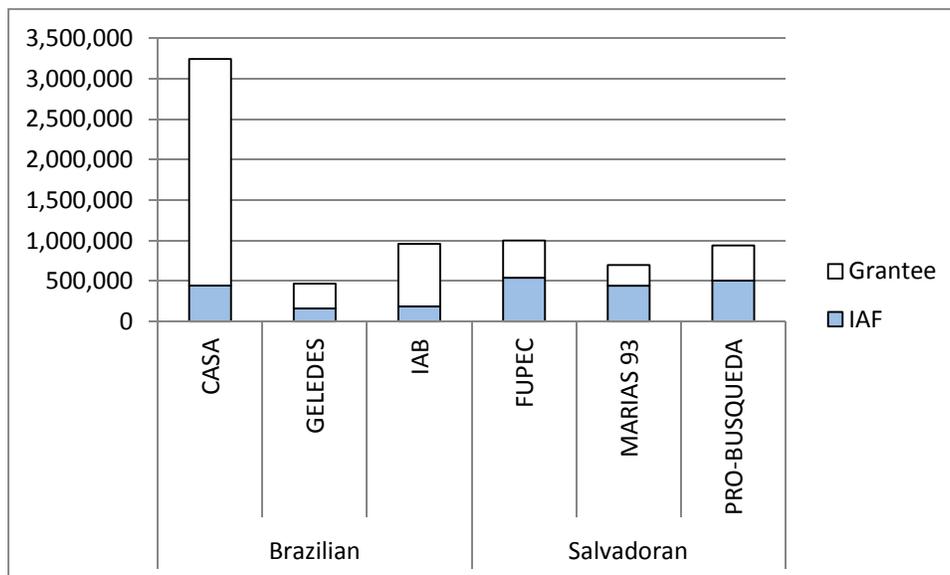
# AUDIT FINDINGS

## Grantees' Varying Contributions Posed Sustainability Risks

One of IAF's strategic goals relates to increasing awareness for, and drawing resources to, grassroots development. A performance metric for measuring this goal is the total amount, both cash and in-kind, contributed by grantees. According to IAF's Operations Manual, an important factor in deciding whether to fund a project relates to whether the grantee can "show major counterpart contributions." IAF's 2014 annual performance report notes that the foundation engages partners to "channel greater and more sustainable flows of financial support to strong projects throughout the region." Further, IAF officials said they have a role in encouraging their grantees to seek out additional support for their activities.

In fiscal year 2013, grantees committed \$16.6 million dollars to their projects, below the goal set by IAF. The average contribution for all IAF grantees was about \$1.30 for each \$1.00 of IAF funding they received. However, the amount varied by country. In Brazil, grantees on average contributed about \$2.00 for every \$1.00 from IAF, while in El Salvador the average amount was \$0.82. The figure below shows the contributions that the six grantees were expected to make toward their respective projects relative to the amounts they received from IAF.

**Contributions Expected From Grantees and IAF (Unaudited)**



\* The grantee amount includes contributions the grantee can attract from other sources.

As the figure demonstrates, the selected grantees in Brazil were going to contribute substantially more to their projects than IAF was, while the opposite was true in El Salvador. The difference in counterpart contributions between countries raises concerns about the long-term sustainability of the Salvadoran projects.

For example, in a February 2013 amendment to the Pro-Búsqueda grant, IAF added \$256,085 for the organization to expand its work to improve livelihoods in rural communities. As part of the amendment, IAF considered sustainability, noting that Pro-Búsqueda had been “introspective” and had “participated actively in IAF portfolio meetings and exchanges [about sustainability].” However, the audit found that sustainability risks persisted. Pro-Búsqueda planned to contribute 50 percent of the salary expenses for the grant and 60 percent of the fuel and maintenance expenses, but during a meeting with the audit team, officials at Pro-Búsqueda said they did not have a plan to cover recurring expenses at the conclusion of the IAF grant.

In the case of MARÍAS 93, IAF amended its grant in January 2014 to add \$130,000 and noted that the organization “recognizes that they can do more and need to improve project and financial administration skills.” However, MARÍAS 93 planned to contribute less than 40 percent of its own resources to its project, and the audit found that management at MARÍAS 93 was not knowledgeable about their accounting and procurement systems despite efforts to transfer this knowledge to the organization.

In addition to the six grants, auditors selected two completed grants in El Salvador to examine their sustainability (Table 2).

**Table 2. Selected Completed Grants in El Salvador (Audited)**

Grantee Name	Start and End Dates	Goal	Grant Value
Asociación Fundación para la Cooperación y el Desarrollo Comunal de El Salvador (CORDES)	9/2006-3/2010	To increase incomes of 500 milk producers through improved quality management, processing, and marketing	\$489,059
Asociación Local Mangle para la Prevención de Desastres y el Desarrollo en el Bajo Lempa-Bahía de Jiquilisco (Asociación Mangle)	9/2005-9/2010	To help 125 low-income families diversify their agriculture in order to increase their income and improve nutrition	\$510,250

While both projects continued after IAF funding ceased, one had trouble with sustainability.

- Some members of CORDES had left the dairy cooperative that the IAF grant project supported and sold their cows instead of producing milk. The cooperative had also sold an IAF-funded tractor to fund other operations. The cooperative members attributed problems to challenges selling milk in the competitive dairy markets in El Salvador.
- Many of Asociación Mangle’s agricultural production and nutrition activities were still functioning, such as a factory used to produce and sell cashews. In addition, agricultural techniques IAF had helped with—such as crop rotation, irrigation, and the application of organic fertilizer—were still in use.

While IAF has stated that they have a role in engaging their grantees to contribute greater resources to their respective projects, the audit found that IAF did not adequately assess ways to do this. In our opinion, inadequate grantee contributions during project implementation can

lead to sustainability problems after IAF support ends. To correct this situation, we make the following recommendation.

***Recommendation 1.*** We recommend that the Inter-American Foundation assess and document how selected grantees in El Salvador could contribute greater resources to their grants to maximize chances for sustainability.

## **El Salvador Grantees Had Incomplete Documentation**

The Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* discusses the importance of maintaining supporting documentation and keeping it readily available for examination.

Contrary to this standard, the three El Salvador grantees could not provide support for their reported results.

- Pro-Búsqueda officials said that because a fire destroyed project documentation, they were unable to provide support for income levels or jobs created.
- MARÍAS 93 officials had some documentation, but it was not organized, and they could not give auditors timely supporting schedules for income levels. Three months after its site visit, MARÍAS 93 provided documentation that partially supported reported results.
- FUPEC tracked the income of four beneficiaries. They filled out a form attesting to their income levels and explaining how the project had affected their income. However, for other beneficiaries, FUPEC could provide only partial support for the income levels it reported to IAF.

These problems occurred because IAF grantees are not required to adhere to the GAO standards. While IAF's data verifiers do provide training to grantees, they have not been trained to maintain supporting documentation that meets the GAO standards. IAF requires its in-country data verifier to visit grantees twice a year and check the accuracy of reported results. The data verifier said many of the beneficiaries did not have systems in place to maintain documentation to support changes in income levels.

With grantees not retaining complete, organized records to support results, IAF has limited assurance that grantees are building the necessary capacity to gather and report accurate data. Because GAO's standards are best practices that are appropriate for all recipients of U.S. Government funds, we make the following recommendation.

***Recommendation 2.*** We recommend that the Inter-American Foundation develop a plan to train selected grantees on their responsibilities for properly reporting and retaining supporting documentation for reported results.

# OTHER MATTERS

## Some Foundation Policies Do Not Comply With Federal Requirements

The Office of Management and Budget's (OMB's) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* details accounting and internal control requirements for recipients of U.S. Government grants. However, IAF developed a Financial Management Guide that included only some of these requirements. IAF's policies are substantially different from OMB's in three areas: (1) salary expenses, (2) internal controls, and (3) the "roll down" of grant provisions to subgrantees, described in detail below.

**Salary Expenses.** OMB requires that salary expenses be based on the actual time the employee spends on the activity, but IAF did not have such a requirement.

In response to our questions regarding the approach grantees used to calculate salary expenses, IAF officials stated, "While our in-country auditors have specific audit steps to determine the reasonableness of the amount of salary and benefits included in payrolls charged to grants, they are not uniformly verifying that the grantees maintain the type of timekeeping system described by [OMB Circular A-122]." The officials explained that requiring grantees to maintain such a system would not be cost-effective. However, without one, there is increased risk that grantees could charge IAF for salary expenses supporting activities outside the scope of the grant.

**Internal Controls.** Whereas IAF's guidance gives examples of best practices—maintaining supporting documentation for expenditures, performing cash account reconciliations, and having systems for supervisory review—OMB requires controls to ensure compliance with federal statutes, regulations, and GAO's *Standards for Internal Control in the Federal Government*. The latter outlines controls for safeguarding vulnerable assets, segregating duties, and monitoring performance. Had IAF grantees implemented these controls, many of the noncompliance findings could have been avoided. For example, the loss of project documentation at Pro-Búsqueda could have been avoided had the organization maintained electronic versions and put in place a disaster recovery system.

**Subgrants.** Finally, whereas IAF allows grantees to determine whether terms should apply or "roll down" to subgrantees, OMB requires grantees to include applicable provisions in subgrants, like those made by CASA, FUPEC, and IAB. Doing so ensures that subgrantees comply with all required provisions even if there is no direct relationship between them and IAF. In some cases, however, required provisions were not included in subgrants. In response to questions about this, IAF officials said it would not be cost-effective to require that all subgrants be subject to all the terms of the direct grant. However, this practice deviates from OMB requirements and adds risk. For example, subgrantees might not follow IAF's requirement that grantees maintain a separate bank account for IAF funds. If that happened, IAF funds might be comingled with those from other sources and used for unintended purposes.

To bridge the differences between IAF policies and OMB requirements, which provide accountability for U.S. funds, IAF needs to strengthen controls and procedures both internally and for grantees. We therefore make the following recommendation.

**Recommendation 3.** *We recommend that the Inter-American Foundation assess the Office of Management and Budget requirements and incorporate all those that are cost-effective for its grantees.*

## **Some Grantees' Financial Management Systems Did Not Meet Requirements**

IAF requires grantees to have systems to ensure proper accounting for costs and internal controls. These requirements are incorporated in the IAF grant agreements and are described in IAF's Financial Management Guide. Each grantee is subject to audits that test both internal controls and compliance with certain grant requirements.

These audits have disclosed multiple noncompliance findings for some of the selected grantees, especially early in their grants. The following are examples of noncompliance issues noted by the IAF auditors for the selected projects:

- Two grantees did not maintain accounting records or account for costs properly.
- One grantee borrowed \$15,000 from its IAF bank account to pay for another project's costs.
- Two grantees got fewer than three quotes before making a purchase.

Our audit found two other examples of noncompliance related to the purchase of vehicles at MARÍAS 93 and Pro-Búsqueda.

- Officials with MARÍAS 93 said they got only two quotes instead of three, as required by IAF's Financial Management Guide. Asked why, MARÍAS 93 officials said the two quotes they received were "the best," and they did not seek a third.
- Pro-Búsqueda officials said they could not provide us supporting documentation for the procurement of their vehicle because the documentation was destroyed in a fire.<sup>2</sup>

While most of these noncompliance issues were eventually resolved, in one case it took years. In other cases, subsequent reports highlighted additional weaknesses. These examples show that, in some cases, IAF's grantees did not have the capacity to comply with, nor did they have a complete understanding of, the requirements. IAF officials noted that to inform the grantees of their compliance requirements, they perform an orientation visit along with the three in-country contractors. However, as the examples of noncompliance above demonstrate, this orientation visit is not sufficient for some of the grantees, and IAF needs to do more to ensure grantees can manage the requirements of using U.S. funds.

Unless IAF takes action, grantees may continue to expend funds without ensuring full competition or maintaining adequate records to support the expenses. Besides increasing the risks of mismanagement of funds, grantees may not build their financial and managerial capacity and attract funding from other donors. To help grantees comply with their IAF grants, we make the following recommendation.

**Recommendation 4.** *We recommend that the Inter-American Foundation train selected grantees in Brazil and El Salvador on compliance requirements.*

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<sup>2</sup> For Pro-Búsqueda, IAF officials provided documentation from the in-country auditor supporting the purchase of the vehicle.

## Foundation Did Not Report Matters to USAID's Office of Inspector General

USAID's Office of Inspector General (OIG) has statutory authority to audit and investigate IAF programs and operations worldwide. In 1999, Congress amended the Inspector General Act to give OIG oversight authority over IAF. The amendment gave OIG the responsibility to "supervise, direct, and control audit and investigative activities relating to programs and operations within the [IAF]." Further, as outlined in U.S. statute<sup>3</sup> and to facilitate the OIG's investigative responsibilities, IAF has a duty to report crimes of all kinds as well as fraud, waste, and abuse to the Department of Justice or the appropriate Inspector General.<sup>4</sup> Accordingly, IAF works with OIG to facilitate fraud prevention briefings for its grantees.

During the audit, IAF gave us a list of three grantees that had material findings referred to IAF's Grant Oversight Committee. IAF's auditors noted that one grantee could not support costs of about \$70,000 and another was not obtaining bids before making "major purchases." While these matters were referred to IAF's internal oversight committee to adjudicate, they should also have been reported to OIG.

In another example, we were notified of a suspected arson at Pro-Búsqueda in 2013 that resulted in damage to equipment purchased by IAF, loss of project documentation, and delays in implementation of the grant. IAF officials said they informed the U.S. Embassy in San Salvador and local law enforcement of the suspected arson. However, IAF did not report it to OIG. Pro-Búsqueda officials said no arrests had been made in the arson case.

According to IAF officials, while they publicize to staff and grantees the option of reporting fraud or misuse of funds to OIG, IAF did not have clear and specific guidance that required such reporting.

If IAF implemented a reporting policy, staff would know to bring crimes (including fraud), waste, and abuse to OIG's attention. Furthermore, if IAF increased cooperation with OIG concerning suspected fraud and misuse of funds, OIG could incorporate helpful, targeted examples in the fraud prevention training it gives IAF grantees. Therefore, we make the following recommendation.

***Recommendation 5.*** *We recommend that the Inter-American Foundation modify its internal policies to require appropriate reporting of crimes (including fraud), waste, and abuse to the USAID Office of Inspector General.*

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<sup>3</sup> "Investigation of crimes involving Government officers and employees; limitations," 28 U.S.C. 535.

<sup>4</sup> The Department of Justice has indicated a preference for reporting such matters directly to the respective inspectors general.

# EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, IAF officials partially agreed with Recommendation 1, disagreed with Recommendation 2, and agreed with Recommendations 3, 4 and 5. We acknowledge management decisions on all five recommendations. Our evaluation of management comments is below.

**Recommendation 1.** IAF officials disagreed that grantee contributions in El Salvador were low and that there is a relationship between counterpart contributions and the sustainability of projects. They agreed, however, to review El Salvador counterparts' contributions to see if current practices need to be changed. Officials planned to complete the review by August 23, 2016. We acknowledge IAF's management decision.

**Recommendation 2.** Citing OMB Circular A-110, IAF officials stated they did not consider GAO's *Standards for Internal Control in the Federal Government* applicable to their grantees. Nonetheless, they agreed to assess the applicability of records retention requirements from OMB Circular A-110 and incorporate applicable requirements into grant agreements. In subsequent correspondence, IAF officials said they planned to do this by September 30, 2016.

We note that A-110, Subpart C, Section 53(b) states: "Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years." Further, we note that the same section gives Inspectors General "the right of timely and unrestricted access to" documents and records as part of audits. Still, we changed the wording in the finding to clarify that GAO's standards are best practices that help ensure accountability by IAF grantees for U.S. Government funds. We acknowledge IAF's management decision.

**Recommendation 3.** IAF officials agreed to assess OMB requirements and incorporate those that are cost-effective for grantees. IAF officials planned to complete this assessment by March 1, 2016, and incorporate applicable requirements by September 30, 2016. We acknowledge IAF's management decision.

**Recommendation 4.** IAF officials agreed to train the selected grantees in Brazil and El Salvador on compliance requirements at the next all-grantee conferences in those countries, which IAF plans to hold by March 31, 2016. We acknowledge IAF's management decision.

**Recommendation 5.** IAF officials agreed to modify internal policies by March 1, 2016, to require appropriate reporting of crimes (including fraud), waste, and abuse to the USAID Office of Inspector General. We acknowledge IAF's management decision.

# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General/San Salvador conducted this performance audit in accordance with generally accepted government auditing standards. They 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 objective. We believe the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether selected IAF grantees in Brazil and El Salvador were meeting their objectives. Specifically, we sought to determine if they were on track to improve—environmental conservation, social development, and increased employment, income, and food security—and were meeting their shared objective to improve self-esteem and attitude. To make that determination, we reviewed eight grants in Brazil and El Salvador, six active, valued at \$2.3 million, and two that were completed, valued at \$1.0 million. IAF's grant portfolio worldwide in fiscal year 2014 was \$66 million. We chose Brazil and El Salvador for the focus of this audit because they were among the largest recipients of IAF funds: in fiscal year 2014, IAF's grant portfolio in Brazil was \$6.8 million, and in El Salvador, \$4.6 million. In addition, our office is in El Salvador, allowing for more efficient use of resources.

These eight grants covered various activities supported by IAF, including training legal promoters, supporting subgrants, and promoting income-generating activities such as coffee and milk production. The audit covered activities for the selected grants from their inception through December 2014. We reviewed applicable laws and regulations as well as IAF policies and procedures pertaining to the grants.

In planning and performing the audit, we assessed controls that IAF used to manage grants to determine whether IAF provided adequate oversight. We reviewed IAF's annual performance report, award documents and amendments for the eight grants audited, activity reports, prior financial audit reports, in-country contractor reports, and IAF trip reports.

We conducted fieldwork from November 24, 2014, through February 19, 2015, and conducted site visits in Brazil and El Salvador where activities supported by IAF grants were being implemented. We interviewed IAF staff, officials of the eight grantees, in-country contractors, and beneficiaries. In addition, we reviewed documentation maintained at IAF and grantees' offices in Brazil and El Salvador.

## Methodology

To answer the audit objective, we evaluated IAF's management and oversight of grants and in-country contractors, as well as the effectiveness of the activities. We reviewed program documentation, including the grant agreements and subawards, progress reports, and IAF trip reports, and corroborated information through site visits and interviews. We met with officials from IAF, contractors, and grantees.

To determine the progress made toward accomplishing the goals of the project, we relied in part on computer-processed data contained in progress reports prepared by the grantees. We

assessed the reliability of data by judgmentally selecting indicators that best measured progress toward the goals of the respective projects, such as changes in income levels, subgrants awarded, and the number of people trained. In addition to tracing the selected results to supporting documentation, we conducted interviews and site visits to gather support to answer the audit objective. Our review of system controls and the results of data tests showed an error rate that casts doubt on the data's validity. However, since we were able to corroborate these data with other evidence, we believe the opinions, conclusions, and recommendations in the report are valid.

Through these interviews and the review of program documentation, we obtained an understanding of (1) the project goals, (2) how baselines, indicators, and targets were established to measure progress, (3) how IAF verifies the quality of the data that grantees reported, (4) how IAF monitors activities, and (5) whether IAF staff were aware of any allegations of fraud or other potential illegal acts or noncompliance with laws, regulations, and agreement terms.

We reviewed and tested procedures to monitor and confirm the accuracy of the program's reported results.

Because many documents for IAF grantees in Brazil are in Portuguese, we hired an expert to translate documents to English. During site visits there, we hired an interpreter to assist with translation.

We judgmentally selected and visited eight grantees in Brazil and El Salvador. In Brazil, we chose São Paulo in order to visit the three grantees and allow the in-country liaison, data verifier, and auditor to meet us there. In El Salvador, we chose the grantees based on dollar amounts and geographic location; we also sought to include grants that were representative of IAF's activities in the country. We conducted these field visits to validate reported results to the extent possible. Because the testing and site selections were based on judgmental samples, the results and conclusions are limited to the items and areas tested. We believe our testing was sufficient to support the audit's findings.

# MANAGEMENT COMMENTS



Inter-American Foundation

An Independent Agency of the U.S. Government

Jon Chasson  
Regional Inspector General  
San Salvador  
USAID  
Office of Inspector General

August 24, 2015

Dear Mr. Chasson:

The IAF is pleased to submit its responses to the two findings and five recommendations of the performance audit of selected IAF activities in Brazil and El Salvador conducted by your office.

**Finding 1.** Low Grantee Contributions in El Salvador Put Sustainability at Risk.

**Recommendation 1.** We recommend that the Inter-American Foundation assess and document how selected grantees in El Salvador could contribute greater resources to their grants to maximize chances for sustainability.

Regarding the Finding. The IAF systematically incorporates project sustainability, including financial sustainability and counterpart commitment of resources, into its review and selection of grant proposals; its management and monitoring of projects; and its evaluation of the performance of those projects over time. The OIG Report recognizes that the IAF's grantee partners in El Salvador mobilize and commit almost \$1 of non-IAF funds to their projects for every \$1 from the IAF. Surprisingly, however, it then characterizes such contributions as "low," when in our experience it is actually much higher than the percentage expected by other international donors.

The OIG Report also asserts that this "low" rate of counterpart contributions by El Salvador grantee partners puts the sustainability of their projects "at risk." The IAF is not aware of any research, and the OIG Report cites none, establishing that counterpart commitments below a given level lead to a decrease in long term project sustainability, and it is certainly not possible to infer such a causal connection from the few anecdotes in the OIG Report. Indeed, many IAF grants are deliberately crafted to provide an initial injection of financial support to help the organization develop the capacities it needs to sustain the project after the grant; often grant-supported salaries are for short-term personnel who work themselves out of a job, leaving the community with the capacity to carry on without them. In these cases, the grantee partner will not need to sustain the salary expense after the grant, yet, according to the OIG Report, such

arrangements would put the long-term sustainability of the project at risk. In sum, this Finding is neither factually nor logically sound. In addition, it is incorrectly classified as a “Finding” because it does not represent a violation of any objective standard, law, regulation, or other applicable directive.

Regarding the Recommendation. The IAF partially concurs with this recommendation. The IAF agrees that it will review its experience with counterpart contributions in El Salvador within one year and consider whether any change in current practice is warranted.

**Finding 2.** El Salvador Grantees Had Incomplete Documentation.

**Recommendation 2.** We recommend that the Inter-American Foundation develop a plan to train selected grantees on their responsibilities for properly reporting and retaining supporting documentation for reported results.

Regarding the Finding. This issue relates to the documentation maintained by grantee partners to support their project results, which, as the OIG Report acknowledges, are independently verified twice per year during the Grant Period by data verifiers contracted by the IAF. Unfortunately, the OIG Report unfairly criticizes a human rights organization in El Salvador, Pro-Busqueda, for not being able to provide the requested records—despite the fact that Pro-Busqueda explained to OIG auditors that the records had been destroyed in a fire, which had been promptly reported as a suspected arson to local authorities and to the U.S. Embassy. The OIG Report also unfairly criticizes other grantee partners because the records they produced were “not organized” to the OIG’s satisfaction; because the records were provided to the OIG only after it conducted its visit; and because the records reflected a sample size that OIG apparently believed was too small. The IAF believes these are subjective and flawed judgments regarding what level of documentation is appropriate under the circumstances, and that this issue is incorrectly classified as a “Finding” because it does not represent a violation of any objective standard, law, regulation, or other applicable directive.

The OIG Report claims that these grantee partners failed to maintain records in accordance with the Government Accountability Office’s Standards for Internal Control in the Federal Government (the “Green Book”), which the OIG asserts apply “to all recipients of U.S. Government funds.” Yet, as the Green Book itself states, it establishes only “the standards for internal control in the federal government.” GAO-14-704G, Federal Internal Control Standards, at 7 (emphasis added). Although nonfederal entities “may” use it as a “framework,” *Green Book* at 7-8, whether they choose to do so is clearly optional. *See also Green Book* at 20 (non-profits “may” choose to adopt the framework).

In fact, contrary to the OIG’s claim that the IAF’s grantee partners must comply with the Green Book standards, Office of Management and Budget Circular A-110 Section 53 states: “This section sets forth requirements for record retention and access to records for awards to recipients. Federal awarding agencies shall not impose any other record retention or access requirements upon recipients.” OMB A-110 Section 53(a) (emphasis added).

Regarding the Recommendation. Although the IAF already adequately trains its grantee partners on their record retention responsibilities, it agrees to assess the applicability of any records

retention requirements from this OMB Circular and incorporate any applicable requirements into its Grant Agreements as part of the IAF's response to Recommendation 3.

**Recommendation 3.** We recommend that the Inter-American Foundation assess the Office of Management and Budget requirements and incorporate all those that are cost-effective for its grantees.

The IAF concurs. It will complete its assessment by March 1, 2016, and incorporate requirements, if applicable, by September 30, 2016.

**Recommendation 4.** We recommend that the Inter-American Foundation train selected grantees in Brazil and El Salvador on compliance requirements.

The IAF concurs and will provide training on compliance requirements during the next all-grantee conferences in Brazil and El Salvador.

**Recommendation 5.** We recommend that the Inter-American Foundation modify its internal policies to require appropriate reporting of crimes, fraud, waste, and abuse to the USAID Office of Inspector General.

The IAF concurs and will issue an amended policy by March 1, 2016.

Sincerely,

/Robert N. Kaplan/

Robert N. Kaplan  
President and CEO

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