

# OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

## Cost Sharing: USAID's Asia Bureau Should Enhance Guidance and Training to Ensure Missions Verify Awardees' Contributions

Audit Report 5-000-22-002-P

November 26, 2021



Asia Regional Office



## OFFICE OF INSPECTOR GENERAL U.S. Agency for International Development

**DATE:** November 26, 2021

**TO:** USAID Bureau for Asia, Acting Assistant Administrator, Karen L. Freeman

**FROM:** Asia Regional Office Acting Audit Director, James C. Charlifue /s/

**SUBJECT:** Cost Sharing: USAID's Asia Bureau Should Enhance Guidance and Training to Ensure Missions Verify Awardees' Contributions (5-000-22-002-P)

This memorandum transmits the final report on our audit of USAID's management of cost sharing in Asia. Our audit objective was to determine to what extent USAID has monitored selected awards in Asia to ensure cost-sharing contributions meet Federal regulations and Agency directives. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in Appendix B.

The report contains three recommendations to improve guidance on monitoring cost sharing and provide training to mission staff and external auditors to ensure cost-sharing contributions meet Federal regulations and Agency directives. After reviewing information you provided in response to the draft report, we consider all three recommendations resolved but open pending completion of planned activities (recommendations 1, 2, and 3).

For recommendations 1, 2, and 3, please provide evidence of final action to the Audit Performance and Compliance Division.

We appreciate the assistance you and your staff provided to us during this audit.

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## Introduction

USAID identifies commitment from host governments, the private sector, and other partners as fundamental to enabling host-country ownership and sustaining gains made through the Agency's investments in international development. Cost sharing—a key tool that supports local commitment—is defined in USAID policy as an arrangement between USAID and a recipient in which the recipient contributes resources to activities undertaken under an award.<sup>1</sup> Cost sharing is significant in the Asia region, where it makes up over 10 percent of the total cost of all USAID awards. As of September 30, 2020, USAID's Asia region had 119 active awards with reported cost sharing of around \$213 million across 15 missions.<sup>2</sup>

We conducted this audit to build on prior OIG work that identified weaknesses in USAID's management of cost sharing.<sup>3</sup> Weaknesses associated with monitoring local contributions may affect the sustainability of USAID-funded programs. We identified ensuring the sustainability of foreign assistance investments as one of the top management challenges faced by USAID.<sup>4</sup> The objective of this audit was to determine to what extent USAID has monitored selected awards in Asia to ensure cost-sharing contributions meet Federal regulations and Agency directives. Our audit scope covered active awards with cost-sharing requirements as of September 30, 2020, from the following USAID missions in the Asia region: Bangladesh, Burma, Cambodia, Indonesia, Nepal, and Pakistan.

To conduct our work, we reviewed the Federal regulations and Agency directives that are significant to cost sharing and monitoring of cost sharing. We judgmentally selected 12 awards totaling \$87 million in reported cost sharing across the 6 missions, based on higher risk factors of noncompliance. For the sampled awards, we sent questionnaires to project managers;<sup>5</sup> reviewed and analyzed documents from the missions, recipients, third-party monitors, and external auditors; and interviewed USAID mission officials and staff, recipients, third-party monitors, and external auditors. Since our audit work was conducted using a judgmental sample of awards, results cannot be generalized to all awards. We conducted our work in accordance with generally accepted government auditing standards. Appendix A provides more detail on our scope and methodology.

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<sup>1</sup>Automated Directives System (ADS) Chapter 303.3.10, "Cost Share and Program Income" (2020) defines cost sharing. For the purpose of this report, grants, cooperative agreements, and activity agreements (government-to-government arrangements) are considered awards.

<sup>2</sup> These figures are based on data reported by missions. USAID does not have a central repository to track cost-sharing contributions.

<sup>3</sup> One example of a prior USAID OIG report on cost sharing is "[USAID/Azerbaijan, Belarus, Ukraine, and Other Offices Would Benefit From Additional Guidance and Training on Using Cost Sharing](#)" (8-000-16-002-P), July 5, 2016.

<sup>4</sup> USAID OIG, "[Top Management Challenges Facing USAID in Fiscal Year 2021](#)," November 13, 2020.

<sup>5</sup> In this report, project managers refer to both (1) agreement officer's representatives (AORs) who oversee assistance awards that are typically implemented by nongovernmental organizations (NGOs) and (2) government agreement technical representatives (GATRs) who oversee USAID-funded assistance awards implemented by host governments.

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## Summary

Not all selected missions in Asia fully ensured that cost-sharing contributions made by the recipients were verified, due to limited guidance and training on how to monitor cost sharing. Specifically, in two of the six missions (Burma and Cambodia), we did not find gaps in the missions' monitoring of cost sharing, but we identified gaps in the remaining four missions (Bangladesh, Indonesia, Nepal, and Pakistan). These gaps affected 6 of 12 selected awards, for which neither the missions nor external auditors verified whether recipients' reported cost-sharing contributions of around \$77 million complied with Federal regulations and Agency directives.

These gaps in USAID's oversight of cost sharing were caused by insufficient Agency guidance and training for staff on how to monitor to ensure compliance with Federal regulations and Agency directives. Specifically, mission staff in the six selected missions lacked clarity regarding how cost sharing should be monitored, including how to monitor coverage provided by external auditors who review cost sharing of certain awards. Therefore, more guidance and training would provide greater assurance that cost-sharing requirements are verified consistently among missions. Improving guidance and training would also benefit other missions in Asia by better ensuring that reported cost-sharing contributions are verified.

We made three recommendations for the Asia Bureau to determine the course of action regarding questioned cost-sharing contributions, improve guidance on monitoring cost sharing, and provide training to mission staff and external auditors to ensure cost-sharing contributions meet Federal regulations and Agency directives. The Asia Bureau agreed with all three recommendations.

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## Background

USAID uses cost sharing as a tool to strengthen and incentivize partners to bring about needed development changes in a country, mobilize additional financial resources, and increase the effectiveness of USAID's limited budget. The resources contributed are in cash or in-kind and can be made by the recipient or a third party. Typically, cost sharing includes contributions such as supplies, equipment, buildings, land donations, and salaries from non-U.S. government sources.<sup>6</sup>

According to Agency policy, "cost sharing becomes a condition of a USAID award when it is part of the approved award budget."<sup>7</sup> This condition is applied throughout the life of an award either on an annual basis or toward the end of the award. Agency policy states that if the recipient is not making adequate progress, USAID has the authority to reduce funding to the recipient in the subsequent period, reduce the amount of the cost-share requirement, or require the recipient to reimburse the difference between the cost-share requirement and actual amount contributed when the agreement expires or is terminated.<sup>8</sup> Cost sharing must

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<sup>6</sup> Title 2 of the Code of Federal Regulations, Part 200, Section 306 (2014).

<sup>7</sup> ADS, Chapter 303.3.10, "Cost Share and Program Income" (2020).

<sup>8</sup> ADS, Chapter 303.3.10.3, "Meeting Cost Sharing Requirements" (2020).

meet various Federal regulations and Agency directives; for example, it must be necessary and reasonable for the accomplishment of the award's objectives and verifiable from the recipient's records.<sup>9</sup>

## USAID Roles and Responsibilities for Monitoring Cost-Sharing Contributions

It is USAID's responsibility to ensure that partner governments and recipients are accountable for their share of the agreed-upon cost sharing, and many levels within the Agency play a role. Specifically, according to the Agency:

- At the Agency level, USAID's Bureau for Policy, Planning, and Learning's Office of Learning, Evaluation, and Research builds the Agency's monitoring capacity by providing training and technical assistance, developing policy and guidance, and leading communities of practice around established and emerging approaches.<sup>10</sup>
- At the bureau level, the regional bureau—such as the Asia Bureau—serves as the main link between headquarters operating units and the field, provides technical guidance, and supports respective missions in monitoring.<sup>11</sup> As of September 30, 2020, the Asia Bureau included 18 missions.<sup>12</sup> However, this audit only considered 15 missions that OIG's Asia Regional Office had oversight over at the time—Bangladesh, Burma, Cambodia, Central Asia, India, Indonesia, Kyrgyz Republic, Mongolia, Pakistan, Philippines, Nepal, Regional Development Mission for Asia, Sri Lanka, Timor-Leste, and Vietnam.
- At the mission level, project managers are responsible for ensuring prudent management of the award, ensuring compliance with the terms of the award, and monitoring the recipient's financial reports to ensure that recipients are meeting the required cost sharing.<sup>13</sup> Missions are also responsible for ensuring that the recipient meets Federal audit compliance standards.<sup>14</sup>

As USAID policy requires project managers to monitor activities with cost-sharing requirements,<sup>15</sup> individual project managers determine how to carry out the monitoring. Monitoring to ensure cost sharing complies with Federal regulations and Agency directives entails one or a combination of two primary approaches: (1) project managers checking or verifying the details behind cost-sharing contributions made by recipients (or using third-party

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<sup>9</sup> Examples of Federal regulations and Agency directives include ADS 303mab, Standard Provision 21, "Cost Sharing (Matching)," (2002) for foreign-based NGOs; ADS 350mab, Article H, "Reports and Information, Agreement Books and Records, Audits, and Inspections," (2003) and ADS 350.3.5.4, "Form, Valuation, and Timing of Host Government Contribution" for host government entities; and 2 CFR § 200.306 (2014) for U.S.-based recipients.

<sup>10</sup> ADS, Chapter 201.2.j, "The Bureau for Policy, Planning and Learning, Office of Learning, Evaluation, and Research (PPL/LER)" (2021).

<sup>11</sup> USAID, Bureau for Asia, "[Who We Are](#)," accessed July 16, 2021.

<sup>12</sup> Asia Bureau supported a total of 18 missions (15 bilateral missions and 3 regional missions).

<sup>13</sup> ADS, Chapter 303.2.f, "Primary Responsibilities" (2017-2020) and ADS, Chapter 350.3.5.5, "Host Government Written Assurances and Compliance" (2003).

<sup>14</sup> ADS, Chapter 591maa, Section 2.1, "USAID Operating Units" (2019).

<sup>15</sup> ADS, Chapter 303.2.f, "Primary Responsibilities" (2017-2020) and ADS, Chapter 350.3.5.5, "Host Government Written Assurances and Compliance" (2003).

monitors to assist in doing so) and/or (2) using external auditors to verify cost-sharing contributions made during mandated reviews.

## Awards With Cost-Sharing Requirements Reviewed by This Audit

As of September 2020, 15 USAID missions in the Asia region reported 119 active awards with cost-sharing requirements. We reviewed 12 active awards with cost-sharing requirements in 6 missions that we determined to have higher risk factors based on our sampling methodology (see Appendix A). Table I lists the selected awards.

**Table I. Selected Awards Across USAID Missions in Asia**

| Mission           | Award   | Recipient Type    | Cost Share Requirement | Cost Share Reported as of September 30, 2020 |
|-------------------|---|-------------------|------------------------|--|
| <b>Bangladesh</b> | 1. Livestock Production for Improved Nutrition Project (LPIN)                             | U.S.-based NGO    | \$545,000              | \$1.4 million                                |
|                   | 2. Research for Decision-Makers Activity (RDMA)   | Foreign-based NGO | \$1.5 million          | \$858,000                                    |
| <b>Burma</b>      | 3. USAID Defeat Malaria (DM)  | U.S.-based NGO    | \$3.2 million          | \$1.1 million                                |
| <b>Cambodia</b>   | 4. Family Care First (FCF)  | U.S.-based NGO    | \$1.4 million          | \$1.4 million                                |
|                   | 5. USAID Wildlife Sanctuary Support Program (WSS)   | U.S.-based NGO    | \$1.0 million          | \$921,000                                    |
| <b>Indonesia</b>  | 6. Ready-to-Work Accelerated Program (RWAP)   | U.S.-based NGO    | \$126,000              | \$126,000                                    |
| <b>Nepal</b>      | 7. National Early Grade Reading Program (NEGRP)   | Host government   | \$2.7 million          | \$40.5 million <sup>a</sup>                  |
|                   | 8. Reading for All (R4A)  | U.S.-based NGO    | \$389,000              | \$164,000                                    |
| <b>Pakistan</b>   | 9. Gomal Zam Dam Command Area Development Project (GZD-CADP)                              | Host government   | \$21.2 million         | \$3.7 million                                |
|                   | 10. Khyber Pakhtunkhwa Reconstruction Program (KPRP)                                      | Host government   | \$41.6 million         | \$34.1 million                               |
|                   | 11. Municipal Services Program – Sindh (MSP-Sindh)  | Host government   | \$10.7 million         | \$378,000 <sup>a</sup>                       |
|                   | 12. Power Transmission System for Wind Projects in Sindh Wind Corridor- Jhimpir (Jhimpir) | Host government   | \$2.4 million          | \$2.3 million                                |
| <b>Total</b>      |   |                   | <b>\$86.8 million</b>  | <b>\$86.9 million</b>                        |

<sup>a</sup> We found discrepancies with the cost-sharing contributions initially reported to us by the six missions; our audit methodology did not include verifying the actual contributions made under each selected award.

Source: Figures are based on data reported by missions in November and December 2020, rounded to the nearest thousand.

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## **Not All Selected Missions Fully Ensured Cost-Sharing Contributions Were Verified Due to Insufficient Guidance and Training**

USAID missions bear the ultimate responsibility to monitor cost-sharing contributions to ensure that they meet Federal regulations and Agency guidance. A mission can monitor cost sharing by verifying it themselves (or using third-party monitors to assist in doing so) and/or through the recipient's external auditors.

For the six missions we reviewed, we did not find gaps in two of the missions' monitoring of cost sharing (Burma and Cambodia). However, we found gaps in the remaining four missions (Bangladesh, Indonesia, Nepal, and Pakistan), where neither the missions nor external auditors verified cost-sharing contributions. Overall, these gaps affected 6 out of the 12 awards we reviewed.

The gaps we identified in verifying cost sharing were caused by insufficient Agency guidance and training for staff on how to monitor cost sharing. Further, trainings provided to external auditors did not have the intended result of ensuring auditors verified the accuracy of reported cost-sharing contributions.

### **Four of Six Missions Did Not Fully Ensure Cost-Sharing Contributions Were Verified for All Selected Awards**

Across the 6 selected missions in Asia, we reviewed 12 awards. In two of the six missions we reviewed—Burma and Cambodia—we did not find gaps in the missions' monitoring of the three selected awards. For these awards, either the project manager verified cost sharing, or external auditors verified the cost-sharing contributions during their mandated financial reviews. For example, for the Family Care First (FCF) project in Cambodia, the project manager monitored cost sharing by reviewing underlying support, such as third-party donor contracts, and verbally corroborating contributions with other donors, such as the European Union and the United Nations Children's Fund (UNICEF). For the Defeat Malaria project in Burma, external auditors verified the cost-sharing contributions during their annual financial review.

For the remaining four missions we reviewed—Bangladesh, Indonesia, Nepal, and Pakistan—we found gaps in the missions' monitoring of cost sharing:

- In Bangladesh and Pakistan, we found gaps in the missions' monitoring for three of six selected awards.
- In Indonesia and Nepal, we found gaps in monitoring for all three selected awards.

For these six awards (highlighted in Table 2), neither missions nor external auditors verified whether recipients' reported cost-sharing contributions complied with Federal regulations and

Agency directives. These six awards amounted to approximately \$77 million in reported cost sharing.<sup>16</sup>

**Table 2. Cost Sharing of Selected Awards That Was Verified by the Mission or by External Auditors**

| Mission           | Selected Award           | Mission verified reported cost-sharing contributions | External auditors verified reported cost-sharing contributions <sup>a</sup> |
|-------------------|--------------------------|--|---|
| <b>Bangladesh</b> | 1. LPIN                  | X  | X   |
|                   | 2. RDMA                  | X  | ✓   |
| <b>Burma</b>      | 3. DM                    | X  | ✓   |
| <b>Cambodia</b>   | 4. FCF                   | ✓  | X   |
|                   | 5. WSS                   | X  | ✓   |
| <b>Indonesia</b>  | 6. RWAP                  | X  | X   |
| <b>Nepal</b>      | 7. NEGRP                 | X  | X   |
|                   | 8. R4A                   | X  | X   |
| <b>Pakistan</b>   | 9. GZD-CADP <sup>b</sup> | X  | ✓   |
|                   | 10. KPRP                 | X  | X   |
|                   | 11. MSP-Sindh            | X  | X   |
|                   | 12. Jhampir              | ✓  | N/A <sup>c</sup>  |

Notes: Missions could ensure cost sharing meets Federal regulations and Agency directives by verifying the reported contributions (themselves, or with the assistance of a third-party monitor) and/or through external auditors. Therefore, we considered projects with two X's (indicating that neither of the monitoring approaches were used) to be projects for which the missions were not ensuring cost-sharing contributions met Federal regulations and Agency directives.

<sup>a</sup> ADS 591.3.1.1, "U.S. Nonprofit Organizations" and ADS 591.3.2.1, "Foreign Organizations" (2017) states that recipients expending \$750,000 or more in a fiscal year are required to have these audits conducted for the period.

<sup>b</sup> The mission hired third-party monitors to verify cost sharing; however, 5 years into the award, only around 2 percent of \$3.7 million in cost sharing reported by the recipient was verified.

<sup>c</sup> Not Applicable: The external audit report available was for the prior period in which cost sharing had not been reported.

Source: Created by OIG based on review of information from USAID, recipient organizations, third-party monitoring organizations, and external audit organizations.

For these awards, mission staff did not verify the cost-sharing contributions made by the recipients. Instead, they relied on quarterly or annual financial information from the recipients that only reported a total cost-sharing amount without any supporting details, or they expected the external auditors to verify the cost-sharing contributions. However, due to gaps in the external auditors' work and auditor's discretion allowed by the auditing standards,<sup>17</sup> the external auditors did not conduct a review or adequately verify the accuracy of the reported cost-sharing amounts. Specific gaps included:

<sup>16</sup> The cost sharing consists of the following awards: NEGRP in Nepal (\$40.5 million); KPRP in Pakistan (\$34.1 million), MSP-Sindh in Pakistan (\$378,000); LPIN in Bangladesh (\$1.4 million); R4A in Nepal (\$164,000); and RWAP in Indonesia (\$126,000).

<sup>17</sup> Of the 12 awards we reviewed, 6 were granted to U.S.-based NGOs and, therefore, fell under the single audit regulation—2 CFR§ 200.501.b (2014). Generally Accepted Auditing Standards permit auditors to use their professional judgment and do not require auditors to test all the recipient's cost-sharing contributions. Rather, external auditors may review cost sharing on a sample basis.

- Project managers of three awards—LPIN in Bangladesh, R4A in Nepal, and RWAP in Indonesia—relied on quarterly financial information submitted by recipients or other recipient-generated data, such as progress reports or minutes of recipients’ meetings, and did not verify any details behind the reported cost sharing. For these awards, the external auditors also elected not to review cost-sharing contributions, based on their sampling methodology.<sup>18</sup> Hence, there was no independent review of cost sharing—either by the mission or by external auditors—in these three awards totaling around \$1.7 million.
- For the NEGRP award in Nepal, the mission relied solely on external auditors to review the \$40.5 million cost-sharing contributions reported by the host government, despite the project’s implementation letter enabling the mission to verify the cost-sharing contributions. However, external auditors did not adequately review the cost-sharing contributions. Out of \$26.4 million in cost sharing reviewed by external auditors over fiscal years 2017 to 2019, we determined based on our review of the supporting details provided by the audit firm that around \$25.4 million of cost sharing was not relevant to the project; however, this amount was not questioned by the external auditors. The audit firm stated it conducted a “light review” and did not verify the reported expenditure. The mission’s project manager agreed that \$25.4 million was not relevant to the project and, therefore, should not have been reported as a cost-sharing contribution.
- For the KPRP award in Pakistan, the mission relied on the cost sharing reported by the host government and the external auditor’s report and did not verify \$7.2 million in cost sharing.<sup>19</sup> Further, the external auditors did not adequately verify cost-sharing contributions. In response to our inquiry, the recipient stated that the cost-sharing schedule in the audit reports for two consecutive years was not correct. While the external auditors acknowledged that the cost-sharing schedule in the fiscal year 2019 audit report was not correct and had a discrepancy of \$7 million in annual cost-sharing contributions, they could not explain an overstatement of around \$2 million in accumulated cost-sharing contributions in the fiscal year 2020 audit report.
- For the MSP-Sindh award in Pakistan, initially the mission did not know the recipient’s cost-sharing contributions. The mission reported \$378,000 in cost sharing to our audit team, but the contribution report submitted by the recipient reported \$3.7 million. Further, the external auditors did not verify any cost-sharing contributions. As of September 30, 2020, \$3.7 million of cost sharing was claimed by the recipient, with a total agreed cost-sharing amount of \$10.7 million.

These examples illustrate the vulnerabilities missions may be exposed to when both the mission and external auditors do not properly verify cost-sharing contributions. Some project managers

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<sup>18</sup> Ibid.

<sup>19</sup> The KPRP award reported total cost sharing of \$34.1 million; however, only \$7.2 million was related to cost sharing under a cost-reimbursement mechanism. The remaining cost-sharing amount (\$26.9 million) was to be contributed under fixed-amount reimbursement (FAR) mechanisms. Under a FAR mechanism, all costs are fixed up front (including cost-sharing contributions) so the mission’s monitoring role during implementation is primarily focused on ensuring that agreed-upon outputs are met rather than cost. Therefore, we only reviewed cost sharing reported under the cost-reimbursement mechanism.

for awards we reviewed stated that they did not know whether external auditors verified cost-sharing contributions.<sup>20</sup>

## Guidance and Training Are Lacking on How to Monitor Cost-Sharing Requirements of Awards

Based on our review of Agency documents and interviews with officials in selected missions in Asia, we noted that the gaps in USAID's oversight of cost sharing identified through this audit were caused by insufficient Agency guidance and training for staff on how to monitor to ensure compliance with Federal regulations and Agency directives. We further noted that while the selected missions provided training to external auditors,<sup>21</sup> the training did not have the intended result of ensuring compliance with the statement of work.<sup>22</sup>

Our review determined that all six missions did not have mission-specific guidance on cost sharing. Moreover, project managers' designation letters did not include specific guidance on how to monitor cost sharing.

In addition, contrary to Federal standards for internal control, the Agency did not provide an appropriate level of detail in its guidance to allow project managers to effectively monitor cost sharing.<sup>23</sup> Based on our audit work, we concluded that Agency-level guidance on monitoring cost sharing was inadequate for all the missions we reviewed, including Burma and Cambodia, where we did not find any gaps in the mission's monitoring of cost share. The Agency-level guidance on monitoring cost sharing only included the need to carry out monitoring but lacked details on what information to review and verify, and in general, how to perform the monitoring.

In five of the six missions we reviewed, mission officials stated that they wanted more guidance on monitoring cost sharing. For example:

- Three project managers in Pakistan stated that determining cost-sharing contributions made by the recipients was complex and challenging, and they needed more guidance on how to monitor cost sharing.
- A project manager in Cambodia stated that the current cost-sharing monitoring guidance did not require recipients to submit any details behind the amounts reported, and that detailed breakdowns of amounts reported would provide more clarity on the source of funding.

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<sup>20</sup> Three out of six project managers for the following selected awards with U.S.-based NGOs: DM in Burma, LPIN in Bangladesh, and RWAP in Indonesia.

<sup>21</sup> We reviewed two missions (Pakistan and Nepal) out of the six missions, as these missions had instances (two awards in Pakistan—MSP-Sindh and KPRP—and one award in Nepal—NEGRP) where the external auditors did not review cost sharing in accordance with the statement of work and applicable regulations and policy.

<sup>22</sup> The statement of work calls for the external auditors to verify that the cost-sharing contributions are in accordance with Federal regulations and Agency directives as part of the auditor's financial review.

<sup>23</sup> The U.S. Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government (GAO-14-704G), "Control Activities," Principle 12, "Implement Control Activities," Attribute 12.03 (September 2014) states that entities should document policies in the appropriate level of detail to allow management to effectively monitor the control activity.

- A project manager and a mission controller in Indonesia stated that better guidance would help them understand how in-kind contributions are monetized by the recipient. They also stated that better guidance for centrally awarded agreements would help address confusion regarding whether cost sharing should be monitored by the missions or headquarters.

Additionally, to align with Federal standards for internal control, missions should provide training to project managers on how to monitor cost sharing.<sup>24</sup> Seven project managers indicated that no formal or specific training on how to monitor cost sharing was provided by USAID. A project manager in Nepal did not recall any information related to cost sharing in the agreement officer's representative (AOR) training received, whereas the other project manager in Nepal could only recall a limited discussion on cost sharing in the AOR training. Additionally, the training material in Pakistan lacked detailed guidance on how to monitor cost sharing.

Missions may also provide assistance and expertise as needed to external auditors. In Nepal and Pakistan, the missions last provided training that included topics on cost sharing to external auditors in 2017 and 2019, respectively. However, the trainings did not have the intended result of ensuring that the external auditors verified cost-sharing contributions in accordance with Federal regulations and Agency directives during their reviews, as required by the statement of work.

While we focused our review on six selected missions in Asia, detailed guidance and focused training on monitoring cost sharing would provide benefits to all missions in the region and could provide greater assurance that missions in Asia are consistently ensuring that reported cost-sharing contributions are verified.

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## Conclusion

Cost sharing plays an important role in USAID's efforts to leverage the private sector and other partners and to gain commitment from host governments toward achieving and sustaining their country's development goals. Until the gaps we identified in monitoring cost sharing are addressed, missions we reviewed may continue to lack assurance that the cost-sharing information reported by recipients is accurate, hampering their ability to adjust to shortfalls or surplus in cost-sharing contributions in a timely manner. Missions can make such adjustments by reducing the amount of the cost-sharing requirement, reducing their funding in the subsequent period, or getting reimbursed by the recipients at the end of the award.

With more detailed guidance that includes what information to review and verify and how to generally perform the monitoring—and training for staff with cost-share monitoring responsibilities, as well as external auditors—missions could better ensure that they realize the intended benefits of cost sharing to achieve the project objectives, secure recipients' buy-in, and sustain impacts of Agency investments.

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<sup>24</sup> GAO's Federal Standards for Internal Control, "Control Environment," Principle 4, "Demonstrate Commitment to Competence," Attribute 4.05 (September 2014) states that management should enable individuals to develop competencies appropriate for key roles, reinforce standards of conduct, and tailor training based on the needs of the role.

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## Recommendations

We recommend that the Asia Bureau take the following actions:

1. Coordinate with USAID/Nepal to determine the course of action to address the \$25.4 million in ineligible questioned costs relating to cost-sharing contributions of the National Early Grade Reading Program.
2. Coordinate with the Bureau for Policy, Planning, and Learning to develop and issue additional guidance to missions in the region on how to monitor cost sharing to ensure compliance with Federal regulations and Agency directives.
3. Coordinate with all missions in the region to develop a plan to provide training to (i) mission staff on how to monitor cost sharing to ensure compliance with Federal regulations and Agency directives and (ii) external auditors on reviewing cost sharing in accordance with the relevant statements of work.

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## OIG Response to Agency Comments

We provided our draft report to USAID on September 29, 2021. On November 13, 2021, we received the Agency's response, which is included as Appendix B of this report.

The report included three recommendations. We acknowledge management decisions on all three recommendations.

We consider all three recommendations (recommendations 1, 2, and 3) resolved but open pending completion of planned activities.

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## Appendix A. Scope and Methodology

We conducted our work from October 2020 through September 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Our audit objective was to determine to what extent USAID has monitored selected awards in Asia to ensure cost-sharing contributions meet Federal regulations and Agency directives.

Our audit scope covered active awards with cost-sharing requirements from selected USAID missions in the Asia region as of September 30, 2020. The six selected missions were Bangladesh, Burma, Cambodia, Indonesia, Nepal, and Pakistan. In answering the audit objective, the team conducted fieldwork virtually because travel was prohibited due to the COVID-19 pandemic. We conducted virtual fieldwork by requesting electronic documents and records and by holding virtual interviews and discussions via teleconferences and video conferences. We interviewed USAID mission officials and staff with knowledge of the subject matter under review in the Asia region, pertinent recipient staff (e.g., chief of party), third-party monitors, and external auditors who are responsible for reviewing the selected award's cost-sharing contributions.

To answer the audit objective, we:

- Identified and reviewed the Federal regulations and Agency directives that are significant to cost sharing and monitoring of cost sharing. Specifically, we reviewed Federal regulations including Title 2 of the Code of Federal Regulations, Part 200, Section 306 (2 CFR § 200.306), 2 CFR § 200.403, and 2 CFR § 700.3 and Agency policies that included portions of ADS Chapters 201, 303, and 350 related to cost sharing or matching to determine what can be considered as cost sharing and USAID's responsibility at various levels (Agency, bureau, mission) for monitoring cost sharing.
- Consulted with the USAID Asia Bureau's risk management specialist to understand the level of oversight on cost sharing at the bureau level.
- Selected a nonstatistical sample of 12 awards with a cost-sharing requirement at six missions (Bangladesh, Burma, Cambodia, Indonesia, Nepal, and Pakistan) in the Asia region. We judgmentally selected our sample from the compiled and collated cost-sharing data obtained from 15 Asia missions that reported 119 active awards as of September 30, 2020, based on higher risk factors of noncompliance, such as:
  - Awards that had a large cost-sharing contribution amount requirement.
  - Awards with a reportedly large variance between an agreed cost-sharing amount and the actual amount contributed, with a short time left until award completion.
  - Awards that had reportedly large variances between the amount that was contributed for cost sharing and the amount that was expected, in proportion to the time elapsed.

- Awards reporting excessive cost-sharing contributions.
- Awards that had a large percentage of agreed-upon cost sharing relative to the total award amount.
- Awards that had been extended over their initial agreement period that had a large amount of cost sharing outstanding.
- Awards that registered a large change in cost-sharing contributions between March 30, 2020, and September 30, 2020, and that were nearing completion.

In addition, we considered secondary factors such as concerns identified in reviews of internal control as part of our data reliability assessment and recipient types (e.g., government, NGOs) and ensured that we had a diverse sample from the population. Although our sample is not generalizable, we believe our sample selection provides valid and reliable evidence to support our conclusions despite the data limitations we identified through the data reliability assessment conducted, as detailed below.

- Reviewed prior OIG audit reports and investigations related to this topic.

For our 12 sampled awards, we:

- Sent questionnaires to all six missions to obtain an understanding of the various approaches and guidance that USAID missions used to monitor cost sharing and identify challenges in monitoring cost share.
- Reviewed and analyzed the following mission documents:
  - Project managers' designation letters, training materials, and other internal documents to determine the missions' specific guidelines and project managers' specific responsibilities relevant to monitoring cost sharing.
  - Award documents such as signed cooperative agreements, project implementation letters, and related modifications to understand the nature of cost sharing associated with the selected awards; determine the terms and conditions of the cost-sharing requirements, including the relevant reporting; and determine monitoring requirements.
  - Evidence of project managers' monitoring practices such as cost-sharing plans, progress and site visit reports, and project managers' correspondence with recipients to determine the level and frequency of monitoring performed by the respective missions and what actions were taken based on their monitoring practices.
- Informed by our review of the responses to the questionnaire and supporting documents, we conducted 32 virtual interviews of four groups of stakeholders—USAID (16), recipient organizations (8), third-party monitoring organizations (3), and external audit organizations (5)—to gather information from various perspectives on USAID's extent of monitoring of cost sharing in the Asia region and corroborate it with the result of our document review and analysis.
- Reviewed and analyzed award recipients' quarterly financial reports, external audit reports, third-party monitoring reports, contracts, and verification certificates—including details of cost-sharing contributions reported—to determine the extent to which recipients made

progress to meet their cost-sharing requirements.<sup>25</sup> We also reviewed the external auditors' audit cost-sharing program to determine whether the extent of their review was within the required level of review per the statement of work.

- Analyzed the collective results from the questionnaires, documents, and interviews to determine the extent to which USAID monitored the selected awards in Asia to ensure cost-sharing contributions met Federal regulations and Agency directives.

In planning and performing the audit, we assessed and gained an understanding of internal controls that were significant to the audit objectives. Specifically, we designed and conducted procedures related to internal control principles 3, 5, 8, 10, 12-13, and 16-17 under the five components of internal control as defined by GAO.<sup>26</sup>

In answering the audit objective, we considered, but did not rely extensively on, computer-processed data. We obtained cost-sharing data from 15 missions in the Asia region for awards with a cost-sharing component that were active as of September 30, 2020. We conducted a data reliability assessment on the cost-sharing data obtained. To conduct our assessment, we (1) sent questionnaires to 10 missions to obtain an understanding of missions' sources of cost-sharing data, including the controls surrounding the data sources; (2) traced a sample of 20 high-risk awards to source documents at 10 missions to confirm the accuracy (not completeness) of the 15 data call attributes; and (3) sent confirmations to missions for the discrepancies noted.

We determined that the data were insufficiently reliable, but we believed that they were sufficient to use for selecting the awards for review because we tested the data elements of the selected awards. In addition, because the Agency does not have a central repository to track cost-sharing contributions, we did not have full assurance of the entire universe of awards to select from. Because of these limitations, we used the cost-sharing data only to select awards for review. We believe our procedures for substantive testing were sufficient to support our audit findings and conclusions.

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<sup>25</sup> Certificates issued by third-party monitors hired by the mission confirm grantee contributions are allowable, allocable, and reasonable.

<sup>26</sup> GAO's Federal Standards for Internal Control, September 2014. The internal control principles are: Principle 3 - establishing structure, responsibility, and authority; Principle 5 - enforcing accountability; Principle 8 - assessing fraud risk; Principle 10 - designing control activities; Principle 12 - implementing control activities; Principle 13 - using quality information; Principle 16 - performing monitoring activities; and Principle 17 - evaluating issues and remediating deficiencies.

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## Appendix B. Agency Comments



November 10, 2021

### MEMORANDUM

**TO:** Christine M. Byrne, Deputy Assistant, Inspector General for Audit

**FROM:** Karen Freeman, Acting Assistant Administrator, USAID/Asia

Bureau /s/

**DATE:** October 25, 2021

**SUBJECT:** Management Comments to Respond to the Draft Audit Report Produced by the Office of Inspector General (OIG) titled, “*Cost Sharing: USAID’s Asia Bureau Should Enhance Guidance and Training to Ensure Missions Verify Awardees’ Contributions*” (5-000-22-00X-P)(Task No. 55100120)

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The U.S. Agency for International Development (USAID) would like to thank the Office of Inspector General (OIG) for the opportunity to provide comments on the subject draft report. The Agency agrees with the recommendations, and herein provides plans for implementing them, and reports on significant progress already made.

**MANAGEMENT COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE REPORT RELEASED BY THE USAID OFFICE OF THE INSPECTOR GENERAL (OIG) TITLED, “Cost Sharing: USAID’s Asia Bureau Should Enhance Guidance and Training to Ensure Missions Verify Awardees’ Contributions”**  
(5-000-22-00X-P) (Task No. 55100120)

Please find below the management comments from the U.S. Agency for International Development (USAID) on the draft report produced by the Office of the USAID Inspector General (OIG), which contains three recommendations for USAID:

**Recommendation 1:** Coordinate with USAID/Nepal to determine the course of action to address the \$25.4 million in ineligible questioned costs relating to cost-sharing contributions of the National Early Grade Reading Program.

- **Management Comments:** USAID/Nepal agrees that for the three fiscal years of cost share reporting audited, \$25.4 million out of \$26.4 million is ineligible. The Government of Nepal (GON) reported cost share expenses for early childhood development, secondary education, and disability inclusive education that are not relevant to National Early Grade Reading Program (NEGRP) and therefore, are ineligible expenses. Nevertheless, even excluding the ineligible expenses from the total GON contributions, the GON exceeded their cost share contribution as required by the agreement, which was verified by the OIG Audit Report.

Following cost share data reporting in FY16/17, USAID/Nepal noted reporting deficiencies and took action to improve cost share reporting by the GON. The Mission’s Government Agreement Technical Representative (GATR)/ Activity Manager worked with the Ministry of Education, Science, and Technology counterparts to better understand cost share reporting requirements and allowable costs. As a result, the reported cost share figures from subsequent years were more reasonable and better represent GON activities directly linked to NEGRP.

Proposed corrective action includes:

- 1) The Mission will expand on the existing guidance and develop more detailed processes and procedures to GATRs/Agreement Officer Representatives (AORs) to improve cost share monitoring.
  - 2) With regard to Government-to-Government awards, the Mission will update terms of reference to ensure that verification and analysis of cost sharing is a part of the contracted independent audit firm’s responsibilities.
  - 3) The Mission will include a cost share monitoring checklist as part of the Mission’s field visit template.
- **Target Completion Date:** May 31, 2022

**Recommendation 2:** Coordinate with the Bureau for Policy, Planning, and Learning to develop and issue additional guidance to missions in the region on how to monitor cost sharing to ensure compliance with Federal regulations and Agency directives.

- **Management Comments:** USAID’s Bureau for Policy, Planning and Learning (PPL) agrees with this recommendation. The COR/AOR workforce is at the forefront of USAID’s development programs. PPL is actively supporting COR/AORs by developing the tools and guidance they need to achieve success. This includes forthcoming guidance regarding how to monitor cost-share requirements in assistance awards.

PPL is currently working on the development of a digital “COR/AOR Toolkit.” This Toolkit aims to address requests from the COR/AOR community to establish centralized guidance that can help staff in their day-to-day jobs. Among other topics, this Toolkit will include user-friendly guidance on how to monitor cost share. It will also include links to applicable Federal regulations and Agency directives on cost share in 2 CFR 200.306, ADS 303.3.10 and ADS 303mai.

Throughout this process, PPL will be working closely with M/OAA and other stakeholders in USAID/Washington, such as the Bureau for Management’s Chief Financial Office (OCFO). PPL also intends to work with CORs/AORs from across the Agency to ensure that the final product has the desired utility.

In parallel tracks, PPL is also developing a “GATR toolkit” for the management of Government-to-Government awards. It will include additional guidance on cost shares supporting policy requirements under ADS 220 and ADS 350. PPL will be working closely with OCFO, GC and other stakeholders in developing the GATR Toolkit.

- **Target Completion Date:** July 30, 2022 for COR/AOR Toolkit  
September 30, 2022 for GATR Toolkit

**Recommendation 3:** Coordinate with all missions in the region to develop a plan to provide training to (i) mission staff on how to monitor cost sharing to ensure compliance with Federal regulations and Agency directives and (ii) external auditors on reviewing cost sharing in accordance with the relevant statements of work.

- **Management Comments** USAID/Asia Bureau agrees with the recommendation. We will work amongst the Asia Bureau’s Program Office to communicate USAID resources available to provide guidance for the mission staff. AORs and Activity managers will also be responsible for communicating the importance of training external auditors to review cost sharing in accordance with the relevant statements of work. The agency currently provides USAID University Training titled, Cost Sharing Vignette developed to train USAID staff on cost sharing responsibilities from all involved parties. In addition, agency policy establishes guidance in ADS 303.

- **Target Completion Date:** May 31, 2022

In view of the above, we request that the OIG inform USAID when it agrees or disagrees with a management comment to allow for adequate time in preparing and formalizing next steps.

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## Appendix C. Major Contributors to This Report

Members of the audit team include:

- Christine Byrne, Audit Director
- Esther Park, Assistant Director
- Nofil Ehsan, Lead Auditor
- Michael Hutchinson, Lead Auditor
- Charles Pelayo, Auditor
- Nina Valencia, Auditor

The audit team would also like to acknowledge contributions from Joanne Howard and Laura Pirocanac.



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