



OFFICE OF INSPECTOR GENERAL

USAID/AZERBAIJAN, BELARUS, UKRAINE, AND OTHER OFFICES WOULD BENEFIT FROM ADDITIONAL GUIDANCE AND TRAINING ON USING COST SHARING

AUDIT REPORT NO. 8-000-16-002-P
JULY 5, 2016

FRANKFURT, GERMANY



Office of Inspector General

July 5, 2016

MEMORANDUM

TO: USAID/Azerbaijan, Mission Director, Mikaela Meredith
USAID/Belarus, Country Director, Matthew Sumpter
USAID/Ukraine, Acting Mission Director, John Pennell
USAID/HCTM, Acting Chief Human Capital Officer, Lawrence Hardy
USAID/OAA/P, Division Chief, Marcelle Wijesinghe
USAID/PPL/SPP, Director, Alicia Dinerstein

FROM: Regional Inspector General/Frankfurt, James C. Charlifue /s/

SUBJECT: USAID/Azerbaijan, Belarus, Ukraine, and Other Offices Would Benefit From Additional Guidance and Training on Using Cost Sharing (Report No. 8-000-16-002-P)

This memorandum transmits our final report on the subject audit. The objectives of this audit were to determine whether the cost-sharing mechanisms were achieving their intended results and whether the selected USAID offices were adhering to cost-sharing guidelines. In finalizing the audit report, we considered your comments on the draft report and included them, without attachments, in Appendix II. The report contains 16 recommendations to help improve the cost-sharing practices of the different USAID offices.

In comments on the draft report, the various USAID offices generally agreed with Recommendations 1 through 15; the Office of Human Capital and Talent Management, however, disagreed with Recommendation 16. We disagree with that office's decision and explain why in our evaluation of management comments. We acknowledge management decisions on all 16 recommendations and final action upon report issuance on Recommendations 1 through 7 and 10 through 16. Please provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with documentation of final action on Recommendations 8 and 9 when available.

Thank you and your staff for the cooperation and courtesies extended to us during this audit.

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SUMMARY OF RESULTS

When awarding grants or cooperative agreements, USAID may include conditions that require awardees to contribute resources to the overall costs of a development activity. This practice of sharing costs not only saves U.S. funds, but can also help:

- Improve activity outcomes.
- Build awardees' organizational capacity.
- Encourage awardees to find other sources of funding.
- Cultivate an added sense of commitment to the activity.

The objectives of this audit were to determine whether the cost-sharing mechanisms were achieving their intended results and whether the selected USAID offices were adhering to cost-sharing guidelines. The Office of Inspector General (OIG) conducted a performance audit of the 13 active awards in Azerbaijan, Belarus, and Ukraine that required cost sharing.¹ The awards were worth approximately \$77.5 million, and awardees were required to match about \$6 million, bringing the total to about \$83.5 million.

We determined that cost-sharing mechanisms benefited the majority of the awards we audited. One of the main benefits was encouraging local nongovernmental organizations to search for new donors, thus becoming less reliant on U.S. funding. Since international donors often have cost-sharing requirements, making cost sharing part of USAID awards exposed awardees to the practice, several said, and prepared them to work with other donors.

Moreover, some organizations found that sharing costs also brought legitimacy to their projects. During one interview, a chief of party explained that in post-Soviet Ukraine, beneficiaries of a community development project were skeptical of foreign assistance that had no strings attached. This skepticism subsided only after they were asked to contribute to the project. In another interview, the executive director of a civil society organization said that having the support of other non-U.S. donors brought more legitimacy to her organization.

Additionally, interviewees said cost sharing got more people involved, particularly when they contributed land, equipment, or labor to infrastructure projects like the one shown in the photo on the next page. Beneficiaries then felt more committed to the project and its sustainability.

¹ USAID's operating guidance, the Automated Directives System (ADS), uses the term "cost share" to mean the resources that "a recipient contributes to the total cost of an agreement" (ADS 303.3.10, effective June 18, 2012). This report instead uses the term "cost sharing."



On land contributed by local authorities in Myrhorod, Ukraine, a supervisor directs workers building a biofuel storage facility. (Photo by RIG/Frankfurt, June 27, 2015)

Despite these benefits, we found that:

- A lack of donor support and insufficient USAID guidance hindered some awardees' ability to meet cost-sharing requirements (page 5).
- USAID lacks sufficient guidance and training to ensure cost-sharing requirements are designed to achieve activity goals (page 6). We found no evidence that USAID designed cost sharing to support project goals in 6 of 13 awards we reviewed.
- USAID did not conduct thorough analyses in determining the amount of cost sharing to require (page 8). Employees conducted financial analyses to determine the appropriate amounts for only two awards. For the remaining 11, the amount seemed arbitrary, not factoring in the specifics of the activity.
- USAID agreement officer's representatives (AOR) did not monitor cost sharing, even though they are responsible for doing so (page 9). Lack of monitoring impedes USAID's ability to identify and mitigate risks before they become problems that could undermine an activity's success.

These findings were common to all three offices.² In auditing them, we identified a lack of Agency-wide guidance and training in key areas that could impede effective implementation of cost sharing at other USAID locations. Accordingly, we made some broader recommendations beyond the offices in Azerbaijan, Belarus, and Ukraine. Specifically, we recommend that:

1. USAID/Azerbaijan issue additional guidance, such as training materials and reporting templates, to clarify the allowability of and accounting for in-kind and cash contributions (page 6).

² USAID/Azerbaijan and USAID/Ukraine are missions, and USAID/Belarus is a country office. We refer to them collectively as offices rather than missions.

2. USAID/Belarus issue additional guidance, such as training materials and reporting templates, to clarify the allowability of and accounting for in-kind and cash contributions (page 6).
3. USAID/Ukraine issue additional guidance, such as training materials and reporting templates, to clarify the allowability of and accounting for in-kind and cash contributions (page 6).
4. USAID/Azerbaijan issue an official notice, provide training, or update operating procedures to remind agreement officers about the Automated Directives System (ADS) 303 requirement for cost-sharing memorandums (page 7).
5. USAID/Belarus issue an official notice, provide training, or update operating procedures to remind agreement officers about the ADS 303 requirement for cost-sharing memorandums (page 7).
6. USAID/Ukraine issue an official notice, provide training, or update operating procedures to remind agreement officers about the ADS 303 requirement for cost-sharing memorandums (page 7).
7. The Bureau for Policy, Planning and Learning determine whether ADS 201 should include guidance on cost-sharing determination and design (page 7).
8. The Bureau for Policy, Planning and Learning, in consultation with the Office of Acquisition and Assistance, develop supplemental guidance on cost-sharing determination and best practices (page 7).
9. USAID/Azerbaijan implement procedures confirming that USAID teams document their analysis on how they arrived at the amount of cost sharing to require (page 8).
10. USAID/Belarus implement procedures confirming that USAID teams document their analysis on how they arrived at the amount of cost sharing to require (page 8).
11. USAID/Ukraine implement procedures confirming that USAID teams document their analysis on how they arrived at the amount of cost sharing to require (page 8).
12. The Bureau for Policy, Planning and Learning, in consultation with the Office of Acquisition and Assistance, analyze whether and how to allow USAID missions and field offices to provide input about their posts when cost-sharing amounts and requirements pertaining to worldwide grants are determined (page 8).
13. USAID/Azerbaijan issue an official notice, provide training, or update operating procedures to remind AORs of their responsibility to monitor cost-sharing progress (page 9).
14. USAID/Belarus issue an official notice, provide training, or update operating procedures to remind AORs of their responsibility to monitor cost-sharing progress (page 9).
15. USAID/Ukraine issue an official notice, provide training, or update operating procedures to remind AORs of their responsibility to monitor cost-sharing progress (page 9).

16. The Office of Human Capital and Talent Management (HCTM) modify training for AORs to expand discussion on the impacts of cost sharing and their responsibilities for monitoring progress on it (page 9).

Detailed findings appear in the following section. The audit's scope and methodology appear in Appendix I. Management comments are included in Appendix II, and our evaluation of them starts on page 10.

AUDIT FINDINGS

Lack of Donor Support and Insufficient USAID Guidance Hindered Some Awardees' Ability To Meet Cost-Sharing Requirements

Cost sharing is an important element of the USAID-awardee relationship that can supplement the impact that Agency's activities have on development. As outlined in ADS 303, cost sharing has the potential to improve awardees' capacity, sustain their businesses, and improve overall activity outcomes. While the theory of cost sharing focuses on its positive effects, in reality it also can impede awardees and activities.

Implementers of 3 of the 13 awards we audited had trouble meeting the amount of cost sharing that USAID required. In fact, the problem was so significant for one awardee in Belarus that it was ready to terminate its activity and leave the country because of the cost-sharing requirement. USAID/Belarus was able to convince the awardee to continue only after eliminating the requirement.

The other two awards went to local organizations in Azerbaijan. Interviewees said that the requirements were so burdensome that they spent valuable time and resources trying to meet them, rather than implementing their activities. The mission had to reduce the amount of cost sharing for one of these projects.

We identified the following factors that contributed to awardees' having trouble meeting their cost-sharing requirements.

Lack of Donor Support for Some Activities. The biggest challenge was the availability of donor funds in-country. A number of key international donors were forced to leave Azerbaijan and Belarus, making it extremely difficult for USAID awardees to find alternate sources of funding. One awardee in Azerbaijan had so much trouble finding sources that the chief of party said he was including the use of his private vehicle as cost sharing. In 2014, the Government of Azerbaijan announced reforms to its grant registration requirements that reduced the availability of donor funds in the country. As a result, the primary concern of local implementers was not finding funds to match, but rather finding funds to keep their lights on.

A number of awardees discussed the difficulty they had as new organizations raising funds from donors. This became less of a problem as the organizations matured and developed track records of success that were enticing to potential donors. In addition, awardees with activities that centered on technical assistance and capacity building found it more difficult to identify sources of cost sharing than did awardees with more tangible activities, such as buying commodities or building facilities.

Insufficient USAID Guidance. Some awardees said USAID did not give them enough guidance and training on handling cost sharing. An employee for an awardee in Azerbaijan said USAID could not give her organization information or standard templates on how it should record and report cost sharing.

We found that awardees also did not fully understand how to recognize cost sharing, thus potentially understating amounts contributed. Officials from a number of recipient organizations said they did not know that in-kind contributions (e.g., volunteer time, donated supplies, equipment, and other property) could be considered. Awardees also did not know whether certain cost savings could be considered in-kind contributions.

While some of these contributing factors are beyond USAID's immediate control, by understanding them, USAID can use cost sharing better to enhance its own investments while helping its partners and awardees. To improve awardees' ability to recognize and report cost-sharing contributions accurately, we make the following recommendations.

Recommendation 1. We recommend that USAID/Azerbaijan issue additional guidance, such as training materials and reporting templates, to clarify the allowability of and accounting for in-kind and cash contributions.

Recommendation 2. We recommend that USAID/Belarus issue additional guidance, such as training materials and reporting templates, to clarify the allowability of and accounting for in-kind and cash contributions.

Recommendation 3. We recommend that USAID/Ukraine issue additional guidance, such as training materials and reporting templates, to clarify the allowability of and accounting for in-kind and cash contributions.

USAID Lacks Sufficient Guidance and Training To Ensure That Cost Sharing Requirements Are Designed To Achieve Activity Goals

According to ADS 303, cost sharing should be “flexible, case-specific, and used to support or contribute to the achievement of results.” When deciding whether sharing costs would be appropriate, USAID should consider the program's goals and how it will achieve them. To make sure Agency staff tailor the requirements to the specific activity, ADS 303 requires them to “write a memorandum to the AO [agreement officer] documenting the factors that were considered when determining the amount of cost share.”

Despite this guidance, we found limited evidence that USAID designed cost-sharing requirements to support activity goals. After reviewing available project design documentation, procurement information, and preaward communications, we could not figure out USAID's rationale for including cost sharing in 6 of the 13 awards.

When we asked to review the memorandums listing the factors in determining the share, USAID provided only four, and the discussions were generic with nearly identical justifications for each activity. Even important documents like award announcements and signed agreements did not explain the purpose of cost sharing. Many of them mentioned it only as an amount that the awardee had to match.

USAID managers from each of three offices said cost sharing had not been a priority. Some employees considered it as an afterthought, and others said they never considered it until our audit.

Furthermore, we identified a lack of Agency-wide guidance and training that could impede effective implementation of cost sharing beyond Azerbaijan, Belarus, and Ukraine. Specifically, the Bureau for Policy, Planning and Learning has not provided sufficient guidance on how employees should include cost sharing in awards. After reviewing ADS 201,³ the 94-page chapter that details various aspects of planning and project design, we found that cost sharing was never discussed beyond a brief mention as a potential alternate funding source.

One interviewee suggested that rather than covering cost-sharing determination and analysis in ADS 303, it would be better suited in ADS 201, possibly as part of a sustainability analysis. Interviewees also said the Agency did not have any supplemental guidance on cost-sharing best practices to assist USAID offices throughout the world with proper design.

Without a clearly defined purpose for including cost sharing in awards, USAID may not be able to maximize its benefits, with awardees seeing the requirement as confusing and even contrary to their interests. Two awardees said that even after the activity started, they did not know how cost sharing was to contribute to activity goals. In both of these cases, satisfying the requirement was a significant challenge for the awardee. Furthermore, without discussions on how the share should be achieved, awardees can transfer the responsibility to subawardees and thus defeat the purpose of the requirement.

To ensure that USAID properly aligns cost sharing with the goals of its activities, we make the following recommendations.

Recommendation 4. We recommend that USAID/Azerbaijan issue an official notice, provide training, or update operating procedures to remind agreement officers about the Automated Directives System 303 requirement for cost-sharing memorandums.

Recommendation 5. We recommend that USAID/Belarus issue an official notice, provide training, or update operating procedures to remind agreement officers about the Automated Directives System 303 requirement for cost-sharing memorandums.

Recommendation 6. We recommend that USAID/Ukraine issue an official notice, provide training, or update operating procedures to remind agreement officers about the Automated Directives System 303 requirement for cost-sharing memorandums.

Recommendation 7. We recommend that the Bureau for Policy, Planning and Learning determine whether Automated Directives System 201 should include guidance on cost-sharing determination and design.

Recommendation 8. We recommend that the Bureau for Policy, Planning and Learning, in consultation with the Office of Acquisition and Assistance, develop supplemental guidance on cost-sharing determination and best practices.

³ ADS 201 (partially revised October 1, 2015) covers all aspects of planning including “strategic planning, project design, and activity/mechanism selection and design.”

USAID Did Not Conduct Thorough Analysis in Determining the Amount of Cost Sharing To Require

In addition to defining a clear purpose for including cost sharing, ADS 303 requires USAID officials to determine how much awardees should be expected to contribute. This calculation should be included in the financial analysis of a program before the award is announced.

However, in reviewing available design documentation for the 13 awards, we found evidence of financial analysis in only 2. For the other 11, the amount of cost sharing seemed arbitrary, not taking the specifics of the activity into account.

A number of USAID interviewees said that the Agency has not used a structured process to determine the amount of cost sharing to require, and the level of analysis varied among awards. Design team members and agreement officers said a common practice was to use the same rates set in previous USAID activities. Others said the amount was determined through informal conversations among members of the design team.

We also found a notable weakness in how USAID applies cost sharing in its worldwide programs. Five of the 13 awards audited were part of the Agency's Development Grants Program, a multi-million-dollar grant pool that required every applicant to contribute at least 10 percent of the costs. This rate was set in Washington, D.C., and because it was never adjusted to suit the circumstances of different countries, it may have been too little for awardees from some countries or—in the case of Azerbaijan—too much. As one awardee from that country said, having so few donors available made cost sharing very difficult.

Without taking countries and program goals into consideration when determining cost-sharing amounts, USAID risks setting burdensome requirements for awardees, taking away time and resources that they could spend working on their programs. If a cost-sharing amount is set too high, the requirement may threaten the viability of a program. Conversely, by setting the rate too low, the Agency may not be maximizing the benefits of cost sharing. To improve the Agency's procedures in determining appropriate cost-sharing amounts, we make the following recommendations.

Recommendation 9. We recommend that USAID/Azerbaijan implement procedures to confirm that USAID teams conduct a documented analysis in determining the amount of cost sharing to require.

Recommendation 10. We recommend that USAID/Belarus implement procedures to confirm that USAID teams conduct a documented analysis in determining the amount of cost sharing to require.

Recommendation 11. We recommend that USAID/Ukraine implement procedures to confirm that USAID teams conduct a documented analysis in determining the amount of cost sharing to require.

Recommendation 12. We recommend that the Bureau for Policy, Planning and Learning, in consultation with the Office of Acquisition and Assistance, analyze whether and how to allow USAID missions and field offices to provide input about their posts

when cost-sharing amounts and requirements pertaining to worldwide grants are determined.

USAID Agreement Officer's Representatives Did Not Monitor Cost Sharing

Because cost sharing is a continuous and fluid requirement, ADS 303 requires AORs to monitor financial reports to make sure awardees are making adequate progress.

In spite of this guidance, we found that AORs were not always the ones monitoring cost-sharing levels. In all three USAID offices, analysts from the financial management office were tracking the progress instead of the AORs. Consequently, a number of AORs said they did not maintain systems or management tools to track the progress of cost sharing.

This situation occurred for several reasons. Because it was a financial requirement, awardees reported cost-sharing contributions to USAID's financial management offices as part of their regular financial reporting. As a result, the responsibility of overseeing the amounts shifted toward financial analysts rather than AORs. An official in USAID/Azerbaijan's financial office said he helped track the share, but as outlined in ADS, the responsibility of monitoring progress ultimately rested with AORs.

A number of AORs said cost sharing and its significance were not conveyed properly to them in training. Indeed, in the principal course for AORs, the cost-sharing section fits on just 1 page in the nearly 400-page training manual.

Without actively monitoring the progress of cost sharing, USAID may miss opportunities to identify and mitigate emerging risks before they become larger problems that could undermine a project's success. For example, we found an activity nearing its end that was significantly behind on cost sharing, but remedial actions had not yet been considered because the AOR did not monitor it. To improve monitoring of cost sharing, we make the following recommendations.

Recommendation 13. *We recommend that USAID/Azerbaijan issue an official notice, provide training, or update operating procedures to remind agreement officer's representatives of their responsibility to monitor cost-sharing progress.*

Recommendation 14. *We recommend that USAID/Belarus issue an official notice, provide training, or update operating procedures to remind agreement officer's representatives of their responsibility to monitor cost-sharing progress.*

Recommendation 15. *We recommend that USAID/Ukraine issue an official notice, provide training, or update operating procedures to remind agreement officer's representatives of their responsibility to monitor cost-sharing progress.*

Recommendation 16. *We recommend that the Office of Human Capital and Talent Management modify training for agreement officer's representatives to expand discussion on the impacts of cost sharing and the responsibilities associated with monitoring its progress.*

EVALUATION OF MANAGEMENT COMMENTS

The USAID offices generally agreed with Recommendations 1 through 15. One USAID office disagreed with Recommendation 16. The comments from the offices show they have reached management decisions on all 16 recommendations, but we disagree with HCTM's management decision on Recommendation 16. Our detailed evaluation of management comments follows.

Recommendation 1. USAID/Azerbaijan agreed to issue additional guidance to clarify in-kind and cash contributions. On February 25, 2016, the mission held training for local partners on USAID project management skills including cost-sharing management. We acknowledge the mission's management decision and final action.

Recommendation 2. USAID/Belarus agreed to issue additional guidance to clarify in-kind and cash contributions. On March 29, 2016, the office held training to discuss problems and solutions encountered when applying in-kind and cash contributions. Training materials included cost-sharing reporting templates. We acknowledge the office's management decision and final action.

Recommendation 3. USAID/Ukraine agreed to issue additional guidance to clarify in-kind and cash contributions. On March 29, 2016, the office held training on applying in-kind and cash contributions. Training materials included cost-sharing reporting templates. We acknowledge the mission's management decision and final action.

Recommendation 4. USAID/Azerbaijan agreed to remind agreement officers about the ADS 303 requirement for cost-sharing memorandums. On March 2, 2016, the mission director sent a mission-wide notice highlighting the ADS 303 requirement. We acknowledge the mission's management decision and final action.

Recommendation 5. USAID/Belarus agreed to remind agreement officers about the ADS 303 requirement for cost-sharing memorandums. On March 11, 2016, the office updated its guidance to do so. We acknowledge the office's management decision and final action.

Recommendation 6. USAID/Ukraine agreed to remind agreement officers about the ADS 303 requirement for cost-sharing memorandums. On March 11, 2016, the office updated its mission order to do so. We acknowledge the mission's management decision and final action.

Recommendation 7. The Bureau for Policy, Planning and Learning responded that it was already undertaking a revision of ADS 201. As part of this revision, bureau officials said they had determined the need for and were including language highlighting the importance of cost sharing in assistance awards. The draft ADS will be circulated for Agency clearance during FY 2016. We acknowledge the bureau's management decision and final action.

Recommendation 8. The Bureau for Policy, Planning and Learning said that to implement the recommendation, it had consulted with the Office of Acquisition and Assistance and planned to lead the development of a supplement to the revised ADS 201 that would provide guidance on best practices for determining cost-sharing in assistance awards. The target completion date is December 31, 2016. We acknowledge the bureau's management decision.

Recommendation 9. USAID/Azerbaijan agreed to implement procedures to confirm that USAID teams document how they determined the cost-sharing requirement. The mission will update and amend its mission order on project design to include more on cost-sharing determination, planning, and calculations consistent with existing guidelines and best practices. The target completion date is September 30, 2016. We acknowledge the mission's management decision.

Recommendation 10. USAID/Belarus agreed to implement procedures to confirm that USAID teams document how they determined the cost-sharing requirement. On March 11, 2016, the office updated its guidance to require teams to do so. We acknowledge the office's management decision and final action.

Recommendation 11. USAID/Ukraine agreed to implement procedures to confirm that USAID teams document how they determined the cost-sharing requirement. On March 11, 2016, the office updated its mission order to require teams to do so. We acknowledge the office's management decision and final action.

Recommendation 12. The Bureau for Policy, Planning and Learning said that to implement the recommendation, it had consulted with the Office of Acquisition and Assistance on whether and how to allow USAID missions and field offices to provide input on determining cost-sharing amounts for worldwide grants. In their analysis, the offices concluded that beyond providing guidance and reference materials, the bureau has limited influence on the determination of cost-sharing amounts. We acknowledge the bureau's management decision and final action.

Recommendation 13. USAID/Azerbaijan agreed to remind AORs of their responsibility to monitor cost-sharing progress. On March 2, 2016, the mission director sent a mission-wide notice highlighting AORs' responsibility. We acknowledge the mission's management decision and final action on this recommendation.

Recommendation 14. USAID/Belarus agreed to remind AORs of their responsibility to monitor cost-sharing progress. The office updated its guidance to do so. On April 4, 2016, the office provided training to reinforce the requirement. Lastly, the office planned to review cost-sharing progress during its quarterly financial reviews. We acknowledge the office's management decision and final action on this recommendation.

Recommendation 15. USAID/Ukraine agreed to remind AORs of their responsibility to monitor cost-sharing progress and updated the mission order to do so. On March 22, 2016, the mission delivered training to reinforce the requirement. Lastly, the mission planned to review cost-sharing progress during its quarterly financial reviews. We acknowledge the mission's management decision and final action on this recommendation.

Recommendation 16. HCTM disagreed with modifying training on cost sharing for AORs. Officials said that classes already offered contain a significant amount of training on cost sharing; the office provided information on all three courses in its response.

We acknowledge HCTM's management decision and final action, but we disagree with it. While there may be a significant amount of training available on cost sharing, a disconnect remains between training and the adoption of the concepts. As evidenced by this audit, a number of AORs did not have sufficient understanding of cost-sharing procedures and requirements. When asked about how best to address this knowledge gap, interviewees consistently requested that USAID improve its training on cost sharing.

SCOPE AND METHODOLOGY

Scope

We 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 objectives. We believe that the evidence obtained provides that reasonable basis.

Our audit objectives were to answer two questions:

- Are the cost-sharing mechanisms achieving their intended results?
- Are selected USAID offices adhering to cost-sharing guidelines?

To answer them, we performed a regional audit evaluating mechanisms and processes at USAID/Azerbaijan, USAID/Belarus, and USAID/Ukraine.

We reviewed only activities that made cost sharing a requirement in the awards. As of the date of the audit notification letter—May 26, 2015—13 activities in these offices had cost-sharing requirements, and our audit encompassed all of them. Five were from Azerbaijan, four from Belarus, and four from Ukraine.

The duration and timing of the activity were not considerations in the selection. The awards ranged in length from 10 years, beginning in September 2005, to less than 1 year, beginning in January 2015.

We conducted fieldwork in Azerbaijan from June 17 to July 2, 2015; in Belarus from July 12 to July 14, 2015; and in Ukraine from July 12 to July 29, 2015. Due to strict limitations the government put on visas in Belarus, only one auditor was able to go there for 2 days, during which time he interviewed only a limited number of awardees and USAID officials. The remaining information pertaining to USAID/Belarus came from phone interviews and e-mail.

Despite having five activities that were awarded under the centrally funded Development Grants Program, the team elected not to conduct fieldwork in Washington, D.C. Instead, we based our findings on information gathered from staff and documentation available in the three selected offices.

Methodology

OIG started this regional audit by conducting a risk analysis of all USAID offices in Eastern Europe. We reviewed factors such as (1) level of past OIG oversight in the respective missions, (2) level of corruption as indicated by Transparency International's index, and (3) gross domestic product per capita according to the World Bank. The analysis of these factors led us to select Azerbaijan, Belarus, and Ukraine.

To answer the first objective, we analyzed what federal and Agency regulations and scholarly reports consider the purposes of and best practices for cost sharing. We then reviewed the

design and procurement documentation to ascertain the intended purpose in each of the 13 awards.

We sought to determine whether cost sharing met the purposes stated in the award by interviewing selected employees and performing site visits. We talked to employees of prime awardees, subawardees, and beneficiaries to get their impressions of the effects of cost sharing. We also interviewed Agency program officers, financial officers, agreement officers, AORs, and others involved in managing the cost-sharing activities.

After the analysis and visits were finished, we determined how much impact cost sharing had and compared it with the objectives established in the award documentation.

To answer the second objective, we researched cost-sharing requirements in federal regulation (e.g., 22 CFR 226.23 and Office of Management and Budget Circular A110) and USAID policy. We also used criteria for understanding internal controls and Agency policy, such as USAID's overarching program guidance (e.g., USAID Forward), training documents, and relevant academic publications on best practices.

After the audit team had a clear understanding of the various requirements, we conducted tests to determine the level of compliance. We evaluated how cost-sharing procedures were being implemented during an activity and whether they were being implemented as required by federal regulations, Agency policy, and organizational best practices.

The audit team did not rely on computer-processed data in answering either audit objective. Instead, we relied on evidence from interviews, document reviews, and site visits. Because this audit focused on three offices, the results cannot be projected across the entire Agency; however, many of the findings and recommendations may be relevant to other areas of USAID.

MANAGEMENT COMMENTS



March 9, 2016

MEMORANDUM

TO: James Charlifue, Regional Inspector General/Frankfurt

FROM: Mikaela Meredith, Mission Director /S/

SUBJECT: Management Comments - Draft OIG Report titled "Audit of Cost-Share Practices in USAID/Azerbaijan, Belarus, and Ukraine (Report No. 8-000-16-XXX-P)

REFERENCE: OIG Transmittal email dated 2/11/2016

Thank you for providing USAID/Azerbaijan with the opportunity to review and respond to the subject draft audit report. Discussed below are the Mission's comments on the recommendations in the report. We request acknowledgement of all four management decisions and closure of three corresponding recommendations at this time as detailed below.

COMMENTS ON OIG'S RECOMMENDATIONS

Recommendation 1. USAID/Azerbaijan issue additional guidance [to partners], such as training materials and reporting templates, to clarify the allowability and accounting of in-kind and cash contributions.

USAID Management Response: The Mission concurs with Recommendation 1 in regards to the need to provide partners with guidance and training materials and templates to clarify allowability and accounting of in-kind and cash contributions.

Actions Taken: In February 2015, the Mission held training for local partners on USAID project management skills. Cost-share was a module within that training. We redistributed those materials to all partners subject to cost share requirements along with other information on cost share on February 25, 2016. Included in that communication was a firm reminder about the requirement to contribute to and document cost share, and the consequences of not doing so. See attached communication with relevant attachments.

Closure Request: The Mission deems that Recommendation 1 is being adequately addressed and therefore requests OIG's concurrence with the proposed management decision and closure of the recommendation.

Recommendation 4. USAID/Azerbaijan issue an official notice, provide training, or update operating procedures to remind agreement officers about the Automated Directives System 303 requirement for cost-share memorandums.

USAID Management Response: The Mission concurs with Recommendation 4 in regards to the need to remind Agreement Officers about the requirement for cost-share memorandums.

Actions Taken: The Mission Director sent a mission-wide notice re: cost-share responsibility addressed to all activity managers, AORs/CORs, Program/Technical office staff, Regional Support Staff and design teams on March 2, 2016. Among other information, it specifically included a reminder to Agreement Officers about the Automated Directives System 303 requirement for cost-share memorandums. See attached communication.

Closure Request: The Mission deems that Recommendation 4 is being adequately addressed and therefore requests OIG's concurrence with the proposed management decision and closure of the recommendation.

Recommendation 9. USAID/Azerbaijan to implement procedures to confirm that USAID teams conduct a documented analysis in determining the amount of cost-share to require.

USAID Management Response: The Mission concurs with Recommendation 9 in regards to implement procedures to confirm that a documented analysis is required for determining cost-share.

Action to be taken: The Mission will update and amend Mission Order on project design to include more robust cost-share determination, planning and calculations consistent with existing guidelines and best practices and consequently re-circulate to USAID/Azerbaijan.

Target Closure Date: September 30, 2016

Acknowledgement Request: The Mission deems that Recommendation 9 is being adequately addressed and therefore requests OIG's concurrence with the proposed management decision.

Recommendation 13. USAID/Azerbaijan issue an official notice, provide training, or update operating procedures to remind agreement officer's representatives of their responsibility to monitor cost-share progress.

USAID Management Response: The Mission concurs with Recommendation 13 in regards to the need to provide Agreement Officer Representatives with an official notice, training, or update to operating procedures to remind them of their responsibility regarding monitoring of cost-share progress.

Actions Taken: The Mission Director sent a mission-wide notice re: cost-share responsibility addressed to all activity managers, AORs/CORs, Program/Technical office staff, Regional Support Staff and design teams on March 2, 2016. Among other information, it specifically included language to remind agreement officer's representatives of their responsibility to monitor cost-share progress.

Closure Request: The Mission deems that Recommendation 13 is being adequately addressed and therefore requests OIG's concurrence with the proposed management decision and closure of the recommendation.

Attachments:

1. Communication to partners regarding cost share responsibilities
2. Mission Notice from MD to all USAID/Azerbaijan staff



MANAGEMENT COMMENTS

DATE: March 11, 2016

TO: Regional Inspector General/Frankfurt, James C. Charlifue /s/

FROM: USAID/Ukraine Acting Mission Director, John A. Pennell /s/
 USAID/Belarus Office Director, Matthew Sumpter /s/

SUBJECT: Audit of Cost-Share Practices on USAID/Ukraine and Belarus; Response to Draft Report No. 8-000-16-XXX-P, dated February 11, 2016.

Thank you for allowing us the opportunity to review the subject draft report and for the professional and cooperative way in which the audit was conducted.

USAID/Ukraine and Belarus have reviewed the subject report and following is the Mission's description of the actions taken to address the four findings and recommendations of the report which are the same for Ukraine and Belarus:

Recommendation 2:

USAID/Belarus issue additional guidance, such as training materials and reporting templates, to clarify the allowability and accounting of in-kind and cash contributions.

Recommendation 3:

USAID/Ukraine issue additional guidance, such as training materials and reporting templates, to clarify the allowability and accounting of in-kind and cash contributions.

We concur with the findings and have taken the following action to address the recommendations:

On March 29 2016, there is scheduled a training event on cost-sharing for NGOs in Ukraine and Belarus with participation of USAID agreement officer's representatives based on the RIG recommendations 2 & 3 (see **Appendix A**). The purpose of the training is to discuss problems and solutions encountered when applying in-kind and cash contributions. Training materials will provide cost-share reporting templates.

Recommendation 5:

USAID/Belarus issue an official notice, provide training, or update operating procedures to remind agreement officers about the Automated Directive System 303 requirement for cost-share memorandums.

Recommendation 6:

USAID/Ukraine issue an official notice, provide training, or update operating procedures to remind agreement officers about the Automated Directive System 303 requirement for cost-share memorandums.

We concur with the findings and have taken the following action to address the recommendations:

Attachment B is a Mission Order which reminds the Regional Agreement Officers about the Automated Directive System 303 requirement for cost-share memorandums.

Recommendation 10:

USAID/Belarus implement procedures to confirm that USAID teams conduct a documented analysis in determining the amount of cost-share to require.

Recommendation 11:

USAID/Ukraine implement procedures to confirm that USAID teams conduct a documented analysis in determining the amount of cost-share to require.

We concur with the findings and have taken the following action to address the recommendations:

Attachment B is a Mission Order which establishes USAID teams responsibilities for conducting cost-share analysis and documenting it.

Recommendation 14:

USAID/Belarus issue an official notice, provide training, or update operating procedures to remind agreement officer's representatives of their responsibility to monitor cost-share progress.

Recommendation 15:

USAID/Ukraine issue an official notice, provide training, or update operating procedures to remind agreement officer's representatives of their responsibility to monitor cost-share progress.

We concur with the findings and have taken the following action to address the

recommendations:

The Regional Mission has used its review of the audit report to ensure that all staff are fully aware of their roles and to ensure that the number of staff is adequate for monitoring cost-share progress.

Attachment B is a Mission Order which reminds the agreement officer's representatives of their responsibility to monitor cost-share progress.

On March 22 2016, there is scheduled a training event on cost-sharing for USAID agreement officer's representatives. See **Appendix C** which contains the training materials developed for this event.

The Mission management will also formally review cost-share progress on at least a quarterly basis, during Mission's Quarterly Financial Reviews so that any concerns related to cost-share can be immediately addressed.

Since management action has been taken on each of the finding in the draft report, we request that each of the recommendations be closed upon issuance of the final report.

Audit of Cost-Share Practices on USAID/Ukraine and Belarus; Response to Draft Report No. 8 -000-16-XXX-P, dated February 11, 2016.



MEMORANDUM

TO: Regional Inspector General/Frankfurt, James C. Charlifue

FROM: AA/Bureau for Policy, Planning and Learning (PPL), Wade Warren

SUBJECT: Management Comments on the Draft OIG Audit of Cost-Share Practices in USAID/Azerbaijan, Belarus and Ukraine, Report No. 8-000-16-XXX-P, Dated February 11, 2016

This memorandum conveys USAID/PPL's management response to the above referenced audit of the cost-share practices in USAID/Azerbaijan, Belarus and Ukraine. USAID/PPL's specific comments and responses to the three audit recommendations that pertain to PPL are provided below.

Recommendation 7: USAID/Policy, Planning and Learning (PPL) conduct an analysis on whether Automated Directives System (ADS) 201 should include guidance on cost-share determination and design.

Management Decision: PPL Office of Strategic and Program Planning (PPL/SPP) is currently leading the revision of ADS 201 which concerns the Program Cycle. As part of this, and in response to the then on-going OIG's audit of cost-share practices, in December 2015 the PPL/SPP Project Design Team considered how the ongoing ADS 201 revision should address cost-share. As a result, SPP has included specific language in the draft ADS under guidance for activity design that specifically highlights the importance of cost-share in assistance awards (whether with a local or international NGO) not only to increase resources available for implementation, but also to underpin the principle of local ownership.

The draft ADS 201 guidance reads as follows: "For assistance activities, missions and Washington OUs must prepare an activity assistance budget based on availability and allocation of funds. For assistance awards with NGOs (either international or local), setting a realistic goal for cost share from the recipient NGO can be an important consideration, since it can increase resources available to achieve activity results and support local ownership. See ADS 303.3.10 for additional guidance on cost sharing." The draft ADS will be circulated for Agency clearance during FY 2016 and is expected to be issued by September 30, 2016.

Target completion date: September 30, 2016

Recommendation 8: USAID/Policy, Planning and Learning (PPL), in consultation with USAID/Office of Acquisition and Assistance (OAA), develop supplemental guidance on cost-share determination and best practices.

Management Decision: ADS 201 guidance, as discussed under our response to Recommendation 7, is only one avenue by which PPL/SPP can encourage cost-share as part of project and activity design. As PPL transitions to a greater focus on capacity building to implement new Program Cycle guidance, the opportunity to further emphasize the importance of cost-share will exist as supplementary materials are developed. In consultation with OAA, PPL/SPP will lead the development of an “Additional Help” resource, pursuant to the revised ADS 201, that will provide additional guidance on best practices for determining cost-share in assistance awards.

Target completion date: December 31, 2016

Recommendation 12: USAID/Policy, Planning and Learning (PPL), in consultation with USAID/Office of Acquisition and Assistance (OAA), analyze the need to implement procedures to allow USAID missions and field offices to provide input about their posts when cost-share amounts and requirements pertaining to worldwide grants are determined.

Management Decision: PPL and OAA’s understanding of the recommendation is that this issue pertains specifically to a possible scenario in which a global grant opportunity administered by a Pillar Bureau to provide mission-managed grants to local organizations imposes a requirement for cost-share from the recipient. PPL does not have any authority over Pillar Bureaus in regard to this specific aspect of design. That said, referring to Recommendation 7 above, draft ADS guidance instructs the Project Design Team to set a “realistic” cost share goal. This can be further expanded in the upcoming Additional Help resource (Recommendation 8) to specifically reference the need for the mission to engage with the Pillar Bureau, as relevant. Finally, OAA policy as presented in ADS 303.3.10.1 already states that application of cost share requirements should be flexible and case-specific, and that there is no set formula for cost sharing or suggested numeric reference point; please refer to attached ADS 303.3.10.

PPL requests that Recommendation 12 be closed upon issuance of the final audit report.

ATTACHMENT: ADS 303.3.10



April 13, 2016

MEMORANDUM FOR REGIONAL INSPECTOR GENERAL, FRANKFURT

FROM: Human Capital and Talent Management, Chief Human Capital Officer (CHCO), Sharon Cromer (Acting)

SUBJECT: Management Response to Draft OIG Report titled “Audit of Cost-Share Practices in USAID/Azerbaijan, Belarus, and Ukraine (Report No. 8-000-16-XXX-P)”

Thank you for the opportunity to respond to the draft Audit of Cost-Share Practices in USAID/Azerbaijan, Belarus, and Ukraine. The below information is provided.

This memorandum addresses Recommendation 16 contained in the subject report. Please note that Office of Inspector General reports that contain recommendations for the any of the Human Capital and Talent Management (HCTM) Centers should be addressed to the Chief Human Capital Officer (CHCO), Office of Human Capital and Talent Management rather than the Centers directly. The following is provided:

Recommendation 16: USAID/Human Capital and Talent Management modify training for agreement officer's representatives to expand discussions on the impacts of cost-share and the responsibilities associated with monitoring its progress.

Management Decision: HCTM and M/OAA agrees that providing cost-share training is important, but does not agree with the recommendation. There is already a significant amount of training that is provided in a series of Office of Acquisition and Assistance (M/OAA) classes.

A&A 104: Acquisition and Assistance (A&A) Management for Contracting Officer's Representatives (CORs)/Agreement Officer's Representatives (AORs)

Enhanced Contracting Officer's Representatives (CORs)/Agreement Officer's Representatives (AORs) Skills Course

Essential Elements in Assistance

Currently, there are 1 to 1-1/2 hours dedicated to the cost share topic in A&A 104. The information is provided through lecture material, sharing of experiences (instructor and participants), and review and discussion of the CFR requirements. Attachment 1 provides detailed information of all three courses. Instructors in each of the courses have been reminded to cover all of the cost share content in the curriculum of each course and to ensure that adequate time is given to the topic.

SUBJECT: Management Response to Draft OIG Report titled “Audit of Cost-Share Practices in USAID/Azerbaijan, Belarus, and Ukraine (Report No. 8-000-16-XXX-P)”

To maintain and enhance the coverage of the cost-share topic further, it is part of a comprehensive review and revision of A&A 104 and other courses. This review and revision process is tied to changes that are pending to the USAID ADS program cycle policies (Series 200) which are expected to be approved in September 2016.

If you need further information, please contact Mr. Mark Sorensen, 703-310-0649 or msorensen@usaid.gov.

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Task No. 88101115