



Office of Inspector General

U.S. Department of State • Broadcasting Board of Governors

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Office of Audits

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# Audit of the Administration of Selected Cooperative Agreements Awarded to the Institute of International Education by the Bureau of Educational and Cultural Affairs

## CONTRACTS, GRANTS, AND INFRASTRUCTURE DIVISION

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# OIG HIGHLIGHTS

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### What OIG Audited

Between FY 2014 and FY 2016, the Bureau of Educational and Cultural Affairs (ECA) awarded 12 cooperative agreements, valued at approximately \$403.8 million, to the Institute of International Education (IIE) in support of the J. William Fulbright Program (Fulbright Program). The Fulbright Program is ECA's international educational exchange program, which has awarded more than 370,000 grants since its establishment in 1946.

OIG conducted this audit to determine whether ECA monitored cooperative agreements awarded to IIE between FY 2014 and FY 2016 in accordance with Federal regulations and Department of State (Department) policy and whether IIE complied with the terms and conditions of the cooperative agreements and incurred expenses related to the Fulbright Program in accordance with Federal regulations and Department policy.

### What OIG Recommends

OIG made 20 recommendations for ECA to improve its monitoring of IIE's cooperative agreements and to determine whether questioned costs were supported and allowable. On the basis of ECA's response to a draft of this report, OIG considers 19 recommendations resolved pending further action and 1 recommendation unresolved. A synopsis of ECA's response to the recommendations offered and OIG's reply follow each recommendation in the Audit Results section of this report. ECA's and IIE's comments are reprinted in Appendices B and C, respectively. A summary of ECA's and IIE's general comments and OIG's replies are presented in Appendices D and E, respectively.

### What OIG Found

OIG found that ECA officials did not monitor the 12 cooperative agreements awarded to IIE between FY 2014 and FY 2016, in accordance with Federal regulations and Department policy. Specifically, OIG found that the designated Grants Officer (GO) and the Grants Officer Representative (GOR) developed monitoring plans; however, the plans were not specific to each cooperative agreement and did not contain all required elements. OIG also found that the designated GO and GOR did not always assess IIE-submitted financial and progress reports as required. The lack of oversight occurred, in part, because ECA officials did not understand the extent of documentation required to demonstrate that monitoring occurred. Furthermore, a senior ECA official stated that ECA managed the Fulbright Program "as a whole" rather than monitoring each cooperative agreement distinctly to ascertain whether each cooperative agreement was achieving desired outcomes. Because of the limited monitoring of each cooperative agreement and agreement-specific performance indicators, the Department had limited assurance that IIE fulfilled the terms and conditions of the cooperative agreements.

OIG also found that IIE did not always comply with the terms and conditions of the cooperative agreements or support incurred expenses in accordance with Federal regulations and Department policy. Specifically, of \$39.4 million in cost-sharing expenses claimed by IIE that OIG reviewed, OIG found that IIE was unable to sufficiently support \$36 million (91 percent). In addition, OIG reviewed \$4.5 million in contractual, salary, and travel expenses and identified \$3.5 million (78 percent) in unsupported costs. This occurred, in part, because ECA did not have adequate controls in place to ensure that the designated GO and GOR performed appropriate financial monitoring of the agreements. Moreover, ECA did not ensure that IIE had an adequate accounting and reporting system, as required. As a result, OIG is questioning costs of \$39.5 million associated with the 12 cooperative agreements reviewed for this audit.

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## OBJECTIVE

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The Office of Inspector General (OIG) conducted this audit to determine whether the Bureau of Educational and Cultural Affairs (ECA) monitored cooperative agreements awarded to the Institute of International Education (IIE) between FY 2014 and FY 2016 in accordance with Federal regulations and Department of State (Department) policy and whether IIE complied with the terms and conditions of the cooperative agreements and incurred expenses related to the Fulbright Program in accordance with Federal regulations and Department policy.

## BACKGROUND

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According to ECA's website, the bureau's mission is to "increase mutual understanding between the people of the [United States] and the people of other countries by means of educational and cultural exchange that assist in the development of peaceful relations." One way ECA accomplishes its mission is by administering programs and initiatives that engage youth, students, educators, artists, athletes, and rising leaders in the United States and in more than 160 countries. In addition to exchange programs, ECA also administers a variety of other initiatives that support cultural understanding by protecting cultural heritage across the globe and providing educational resources for people interested in learning about American culture and the English language. Among the programs administered by ECA are the International Visitor Leadership Program,<sup>1</sup> the Cultural Heritage Center,<sup>2</sup> and the J. William Fulbright Program (Fulbright Program).

The Fulbright Program is ECA's flagship international educational exchange program. The Fulbright Program offers competitive, merit-based grants for students, scholars, teachers, professionals, and groups. Since its establishment in 1946, the Fulbright Program has awarded more than 370,000 grants. These grants are available to U.S. citizens to travel abroad and for foreign citizens to come to the United States for graduate study, research, lecture, and teaching opportunities. The Fulbright Program operates in more than 160 countries and awards approximately 8,000 grants<sup>3</sup> per year. The U.S. Government partially funds the Fulbright Program, with additional support coming from private institutions, foreign governments, and private contributions. For FY 2017, Congress appropriated \$240 million as the Federal share of funding for the program.

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<sup>1</sup> The International Visitor Leadership Program is a professional exchange program that promotes short-term visits to the United States by current and emerging foreign leaders in a variety of fields.

<sup>2</sup> The Cultural Heritage Center specializes in the protection and preservation of ancient and historic monuments, objects, and archaeological sites of the world.

<sup>3</sup> These grants are awarded to students, scholars, teachers, artists, scientists, and professionals from across the United States. The grants permit recipients to study, teach, and conduct research in almost many different academic and professional fields and to exchange ideas and contribute to finding solutions for shared challenges.

To help administer the Fulbright Program in the United States and abroad, ECA enters into cooperative agreements<sup>4</sup> with several non-profit organizations. According to ECA officials, ECA selects the organizations to administer the Fulbright Program through open competition and re-competes the awards every 5 years. Four major cooperating organizations support the Fulbright Program: IIE; the Council for International Exchange of Scholars; Academic and Professional Programs for the Americas; and the America-Mideast Educational and Training Services, Inc. Of these four organizations, IIE receives the largest amount of funding from ECA.

**Figure 1: ECA Methodology To Provide Fulbright Program Grants**



**Source:** Prepared by OIG from information from ECA.

## The Institute for International Education

IIE is a non-profit organization whose mission is to advance and promote access to international education worldwide. IIE supports 4 programs under the 12 cooperative agreements:

- Fulbright Student Program – This program provides grants for individually designed study or research projects or for English Teaching Assistant Programs. The Fulbright Student Program facilitates cultural exchange through direct interaction on an individual basis.
- Fulbright Scholar Program – This program offers grants to faculty, administrators, and professionals to lecture or conduct research in a variety of academic and professional fields or to participate in seminars.
- Hubert H. Humphrey Fellowship Program – This program provides a year of professional enrichment in the United States for experienced professionals from designated countries undergoing development or political transition.
- Distinguished Awards in Teaching – This program recognizes and encourages excellence in teaching in the United States and other countries. Teachers from the United States and other countries receive grants to study at a university, observe classes, and complete a project pertaining to their field of educational inquiry.

<sup>4</sup> A cooperative agreement is a legal instrument of financial assistance between a Federal awarding agency and the recipient. Such agreements provide for substantial involvement from both parties to achieve the award objective.

As part of its responsibilities under the 12 cooperative agreements, IIE administered the Fulbright U.S. Student Program competition, managed the placement and day-to-day supervision of the majority of Fulbright Foreign Student Program grantees in the United States, and conducted orientation and enrichment seminars for Fulbright Foreign Students. As shown in Table 1, according to USASpending.gov,<sup>5</sup> ECA awarded 12 cooperative agreements to IIE between FY 2014 and FY 2016, valued at approximately \$403.8 million, in support of the Fulbright Program; IIE had reported \$265.7 million in expenses related to these awards.

**Table 1: Department Share of Cooperative Agreements Awarded to IIE for the Fulbright Program Between FY 2014 and FY 2016**

Cooperative Agreement	Program	Base Value	Amendments	Department Share of Award	Expenses Reported <sup>b</sup>
S-ECAGD-14-CA-1017	Fulbright Student	\$14,893,755	\$76,510,706	\$91,404,461	\$78,839,140
S-ECAGD-15-CA-1015		\$3,239,568	\$81,406,687	\$84,646,255	\$67,309,161
S-ECAGD-16-CA-1004		\$3,393,986	\$82,792,573	\$86,186,559	\$23,763,800
S-ECAGD-14-CA-1032	Fulbright Scholar	\$6,790,834	\$26,608,358	\$33,399,192	\$31,631,609
S-ECAGD-15-CA-1016		\$1,549,085	\$32,984,419	\$34,533,504	\$27,780,035
S-ECAGD-16-CA-1003		\$1,593,901	\$32,056,866	\$33,650,767	\$11,023,000
S-ECAGD-14-CA-1037	Hubert H. Humphrey	\$407,333	\$9,941,867	\$10,349,200	\$10,349,199
S-ECAGD-15-CA-1017		\$331,021	\$10,668,979	\$11,000,000	\$8,828,723
S-ECAGD-16-CA-1014		\$324,525	\$11,657,591	\$11,982,116	\$2,378,394
S-ECAGD-14-CA-1021	Distinguished Awards in Teaching	\$183,879	\$2,045,721	\$2,229,600	\$1,767,875
S-ECAGD-15-CA-1011		\$120,266	\$2,047,209	\$2,167,475	\$1,566,700
S-ECAGD-16-CA-1006		\$93,350	\$2,206,650	\$2,300,000	\$442,400
<b>Total</b>		<b>\$32,921,503</b>	<b>\$370,927,626</b>	<b>\$403,849,129 <sup>a</sup></b>	<b>\$265,680,036</b>

<sup>a</sup> In addition to the U.S. share, the cooperative agreements included a cost-sharing requirement for IIE, which is discussed in Finding B of this report, bringing the total value of the agreements to \$470,947,293.

<sup>b</sup> As of September 30, 2016.

**Source:** Prepared by OIG from data obtained from USASpending.gov.

## Federal Regulations and Department Requirements for Cooperative Agreements

Federal agencies awarding and organizations participating in cooperative agreements must comply with Federal regulations and Department requirements related to the agreements. Specifically, Department financial assistance awards are subject to requirements set forth in Title

<sup>5</sup> This data were obtained as of December 21, 2016.

II of the Code of Federal Regulations (CFR)<sup>6,7</sup>—2 CFR section 215,<sup>8</sup> 2 CFR section 230,<sup>9</sup> and 2 CFR section 200.<sup>10</sup> Cooperative agreements are also subject to the Department's requirements included in the Standard Terms and Conditions for Domestic Federal Assistance Awards,<sup>11</sup> which ECA incorporated by reference to each cooperative agreement awarded to IIE. In addition, the Department provides specific policies in its Federal Assistance Policy Directive (FAPD).<sup>12</sup>

### ***Federal Regulation***

The requirements of 2 CFR section 200 provide the principles for determining whether costs associated with Federal assistance awarded to Non-Federal entities are allowable, reasonable, and allocable. To be allowable, a grant cost must be necessary and reasonable for performing the award<sup>13</sup> and the cost must "be adequately documented."<sup>14</sup> In addition, 2 CFR section 200:

- Sets forth cost principles for award recipients (for example, the recipients are responsible for the efficient and effective administration of the Federal award through the application of sound management practices)<sup>15</sup>
- Requires award recipients to assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award<sup>16</sup>
- Establishes that award recipients are responsible for oversight of the operations of the Federal award supported activities<sup>17</sup>

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<sup>6</sup> 2 CFR § 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, was issued in December 2013 and went into effect in December 2014. The requirements in 2 CFR § 200 consolidated eight Office of Management and Budget Circulars related to Federal grant awards into one authoritative document relating to grants management.

<sup>7</sup> Because 2 CFR § 200 did not go into effect until December 2014, and the period of performance for the audited cooperative agreements began before that time, OIG used 2 CFR § 200 as authoritative guidance to audit IIE transactions that occurred between December 2014 and September 2016. OIG used applicable superseded Office of Management and Budget Circulars as authoritative guidance for its review of IIE transactions that occurred before December 2014.

<sup>8</sup> 2 CFR § 215, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations."

<sup>9</sup> 2 CFR § 230, "Cost Principles for Non-Profit Organizations."

<sup>10</sup> 2 CFR § 200.

<sup>11</sup> U.S. Department of State Standard Terms and Conditions for Domestic Federal Assistance Awards, October 1, 2009.

<sup>12</sup> U.S. Department of State, "Federal Assistance Policy Directive," January 14, 2016.

<sup>13</sup> 2 CFR § 200.403(a).

<sup>14</sup> 2 CFR § 200.403(g).

<sup>15</sup> 2 CFR § 200.400(a).

<sup>16</sup> 2 CFR § 200.400(b).

<sup>17</sup> 2 CFR § 200.328(a).



### *Standard Terms and Conditions*

The Department's Standard Terms and Conditions for Domestic Federal Assistance Awards establish that award recipients and any sub-recipient must, in addition to the assurances and certifications made as part of the cooperative agreement, comply with all applicable terms and conditions of the cooperative agreement during the project period.

### *Federal Assistance Policy Directive*

The FAPD sets forth internal guidance, policies, and requirements with which all Department bureaus and posts must comply when administering Federal financial assistance awards. The FAPD describes the roles and responsibilities of Government personnel who award, administer, and oversee cooperative agreements. The two individuals with primary oversight and monitoring responsibilities for all assistance awards are the Grants Officer (GO) and the Grants Officer Representative (GOR). The GO is the only official within the Department with the authority to commit the Government to a Federal assistance award. The GOR is designated by the GO and is responsible for the programmatic and technical aspects of the cooperative agreement. Both the GO and the GOR must ensure that the Department exercises prudent management and oversight of the cooperative agreements through monitoring and evaluation.

## AUDIT RESULTS

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### **Finding A: ECA Needs To Improve its Monitoring of Cooperative Agreements Awarded to IIE**

OIG found that ECA officials did not monitor the 12 cooperative agreements awarded to IIE for the Fulbright Program in accordance with Federal regulations and Department policy. Specifically, OIG found that the designated GO and GOR developed monitoring plans; however, the plans were not specific to each cooperative agreement, as required, and were missing required elements. For example, ECA provided IIE \$86.2 million for the FY 2016 Fulbright Student Program, which is the largest Fulbright program. Under this agreement, IIE was responsible for the overall programmatic and fiscal management. However, the monitoring plan did not specify how performance would be assessed or how the designated GOR would measure progress and ensure that IIE complied with the terms and conditions of the agreement. OIG also found that the designated GO and GOR did not consistently assess Performance Progress Reports (PPR)<sup>18</sup> and the Federal Financial Reports (FFR)<sup>19</sup> submitted by IIE, as required. Table 2 provides details of the results of OIG's testing related to the oversight of the 12 cooperative agreements with IIE.

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<sup>18</sup> PPRs compare actual to planned performance and identify the progress made in accomplishing each award task.

<sup>19</sup> FFRs provide a means of monitoring expenditures and comparing the projected costs to the actual costs incurred during the performance of the award.



Table 2: Summary of ECA Performance and Financial Monitoring

Cooperative Agreement	Program	Performance Monitoring			Financial Monitoring
		GOR Designation Letter	Monitoring Plan Specific to the Cooperative Agreement	GOR Performed PPR Assessments	GOR Performed FFR Assessments
S-ECAGD-14-CA-1017	Fulbright Student	Yes	No	No	No
S-ECAGD-15-CA-1015		Yes	No	No	No
S-ECAGD-16-CA-1004		Yes	No	No	No
S-ECAGD-14-CA-1032	Fulbright Scholar	Yes	No	No	No
S-ECAGD-15-CA-1016		Yes	No	No	No
S-ECAGD-16-CA-1003		Yes	No	No	No
S-ECAGD-14-CA-1037	Hubert H. Humphrey	Yes	No	No	No
S-ECAGD-15-CA-1017		Yes	No	No	No
S-ECAGD-16-CA-1014		Yes	No	No	No
S-ECAGD-14-CA-1021	Distinguished	Yes	No	Yes	No
S-ECAGD-15-CA-1011	Awards in	Yes	No	Yes	No
S-ECAGD-16-CA-1006	Teaching	Yes	No	Yes	No

**Source:** Prepared by OIG from data obtained from PPRs, FFRs, monitoring plans, and supporting documentation.

### *Inadequate Monitoring of Cooperative Agreements*

Department policy<sup>20</sup> requires the designated GO and GOR to monitor assistance awards in accordance with regulations and a monitoring plan. Department policy<sup>21</sup> also requires that the GO designate in writing a trained GOR for all awards greater than \$100,000. OIG reviewed the GOR files for the 12 cooperative agreements tested and found that all 12 included a GOR Designation Letter,<sup>22</sup> which described GOR responsibilities specific to the cooperative agreements assigned. In addition, the designation letters included expectations that GORs would monitor project performance to ensure that recipients complied with the agreements' terms and conditions. The letters specifically required GORs to review PPRs and FFRs to assess overall program performance and to provide that assessment and the underlying documents to the designated GO. The designated GORs acknowledged their oversight responsibilities when they signed the GOR Designation Letters.

In addition to the GOR Designation Letter, Department policy<sup>23</sup> requires the designated GO and GOR to develop a monitoring plan for awards exceeding \$100,000. The plan should include the

<sup>20</sup> FAPD, sec. 1.05C.

<sup>21</sup> Ibid.

<sup>22</sup> The GOR Designation Letter delegates certain authorities and responsibilities, subject to stated limitations, from the GO to the GOR.

<sup>23</sup> FAPD, sec. 3.01A.

risk mitigation strategy,<sup>24</sup> reporting schedule, types of monitoring techniques to be used, and information on how to measure the awardee's progress in meeting the goals and objectives of the agreement.<sup>25</sup> Furthermore, the instructions on the worksheet<sup>26</sup> that ECA used for completing the Department's monitoring plan also state "A monitoring plan should be completed for each grant based on the specifications contained in the grant agreement. This worksheet should be used to identify the type of monitoring to be done for the grant and the frequency of the monitoring efforts." Developing a monitoring plan specific to each cooperative agreement is important to measure performance and ensure that IIE is meeting the terms and conditions of the agreement.

Although OIG found that the designated GO and GOR had prepared general monitoring plans for the Fulbright programs reviewed for this audit,<sup>27</sup> these plans were not specific to the scope and goals of each cooperative agreement, as required by the FAPD.<sup>28</sup> Furthermore, OIG noted that the overall Fulbright program's monitoring plans did not include required risk mitigation strategies and did not include performance metrics that could be used to measure program outcomes. For example, although all the monitoring plans stated that IIE was to submit performance and financial reports, the plans did not describe how the designated GO or GOR should assess whether the program and financial terms and conditions of the agreement were being achieved.

The GOR Designation Letter states that, among other duties, the GOR should "provide the GO with a written assessment of the overall program performance based on the review of Program Performance and Financial Status Reports within 30 days of receipt of the reports." OIG found that the designated GOR for 9 of the 12 agreements (75 percent) did not provide the GO with a report on the overall program performance based on a review of the PPR. With respect to the three instances when the GOR did provide the GO with reports based on a review of the PPR, the report and review involved the smallest Fulbright Program supported by IIE, the Distinguished Awards in Teaching program.<sup>29</sup> Instead of regularly reviewing the PPRs to assess current performance, ECA officials stated that they primarily used the PPRs for past performance information when considering recipients for future awards. However, the GOR Designation Letter clearly states that PPRs should be reviewed within 30 days to assess the overall program performance. In addition, foreign assistance oversight training available through the Department's Foreign Service Institute teaches that regular review of the PPR is essential in

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<sup>24</sup> According to FAPD, sec. 2.03A, the risk mitigation strategy should include determining approaches to possible risks and establishing measures to mitigate those risks.

<sup>25</sup> FAPD, sec. 3.01A.

<sup>26</sup> Bureau of Administration, Office of the Procurement Executive, Federal Assistance Division, "Establishing Effective Grant Monitoring Programs," Individual Grant Monitoring Worksheet, October 1, 2007.

<sup>27</sup> ECA developed a monitoring plan for each of the four programs that IIE helps to administer—the Fulbright Student Program, the Fulbright Scholar Program, the Hubert H. Humphrey Fellowship Program, and the Distinguished Awards in Teaching program.

<sup>28</sup> FAPD, sec. 3.01A.

<sup>29</sup> Of the \$403.8 million awarded to IIE between FY 2014 and FY 2016, only \$6.7 million was for the Distinguished Awards in Teaching Program.

determining whether the recipient is fulfilling the agreement and whether any program performance issues need to be addressed. OIG also found that none of the GORs reviewed the FFRs as part of their regular monitoring activities as required, which is discussed more in Finding B.

The lack of oversight occurred, in part, because ECA officials did not understand the extent of documentation required to demonstrate that monitoring occurred. For example, ECA officials asserted that each monitoring plan incorporated the specific agreement to which it was attached in the official award file "by reference." It is unclear what ECA means by this statement, as OIG found no such reference to any other documents in any of the monitoring plans that were included in the official award file for the 12 cooperative agreements reviewed. ECA officials also acknowledged that their monitoring efforts for the cooperative agreements lacked sufficient documentation to demonstrate that required monitoring efforts occurred. In addition, a senior ECA official stated that ECA managed the Fulbright Program "as a whole" rather than monitoring each cooperative agreement distinctly to ascertain whether each cooperative agreement was achieving desired outcomes. ECA officials stated that monitoring plans are "boilerplate" documents that are not actually used for monitoring because of the size of the Fulbright program. OIG notes, however, that the underlying cooperative agreements are not "boilerplate" and may contain different terms, conditions, requirements, and objectives.

OIG further notes that the lack of work performance standards that included metrics to measure proper grants oversight responsibilities for the GORs may have led to the deficiencies in oversight of the cooperative agreements, or at least the lack of documentation to demonstrate that such monitoring occurred. The inclusion of such performance standards is a relatively new Department requirement. According to Department Notice Number 2016-12-142, dated December 28, 2016, performance standards of any designated GOR must contain the appropriate work commitments and performance metrics to enhance transparency, managerial responsibility, and proper oversight of cooperative agreements. In keeping with this guidance, ECA should have developed monitoring plans addressing the specific requirements of each cooperative agreement and monitored each agreement independently to ensure the expected outcomes were achieved. The implementation of the monitoring plans would then become a measure of performance for the GOR oversight as well.

Because of ECA's limited monitoring of each cooperative agreement as a discrete award, the Department has limited assurance that IIE fulfilled the terms and conditions of each cooperative agreement.

**Recommendation 1:** OIG recommends that the Bureau of Educational and Cultural Affairs issue immediately, and annually thereafter, a directive to all designated Grants Officers and Grants Officer Representatives reminding them of their specific oversight responsibilities and requirements to provide appropriate oversight of cooperative agreements and grants in which they are entrusted.

**Management Response:** ECA concurred with the recommendation, stating that it will “issue immediately, and annually thereafter, a directive to all GOs and GORs reminding them of their specific responsibilities and requirements to provide appropriate oversight of cooperative agreements and grants.”

**OIG Reply:** On the basis of ECA’s concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts a copy of the directive to all GOs and GORs reminding them of their specific responsibilities and requirements to provide appropriate oversight of cooperative agreements and grants.

**Recommendation 2:** OIG recommends that the Bureau of Educational and Cultural Affairs verify that the performance standards for all designated Grants Officer Representatives contain appropriate work commitments and performance metrics to enhance transparency, managerial responsibility, and proper oversight of cooperative agreements, as outlined in Department Notice Number 2016-12-142, dated December 28, 2016. Performance standards of any designated Grants Officer Representatives that do not contain the appropriate work commitments should be revised accordingly.

**Management Response:** ECA concurred with the recommendation, stating that it will “verify that the performance standards for all designated GORs contain appropriate work commitments and performance metrics to enhance transparency, managerial responsibility, and proper oversight of cooperative agreements.”

**OIG Reply:** On the basis of ECA’s concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts copies of the performance standards for all designated GORs showing that those performance standards contain appropriate work commitments and performance metrics to enhance transparency, managerial responsibility, and proper oversight of cooperative agreements.

## **Finding B: IIE Did Not Comply With Certain Terms and Conditions of the Cooperative Agreements and Was Unable To Support Some Expenses Claimed**

OIG found that IIE did not always comply with the terms and conditions of the cooperative agreements and could not always support incurred expenses in accordance with Federal regulations and Department policy. Specifically, OIG reviewed \$39.4 million in cost-sharing expenses claimed by IIE and found that IIE was unable to support \$36 million (91 percent) of those expenses.<sup>30</sup> OIG reviewed an additional \$4.5 million in contractual expenses, salary expenses, and travel expenses and identified another \$3.5 million (78 percent) in unsupported costs. This occurred, in part, because ECA did not ensure that the designated GO and GOR performed financial monitoring of IIE’s cost-sharing requirements and incurred expenses. Had the designated GO and GOR reviewed the expenses reported in the FFR as part of regular

<sup>30</sup> Appendix A: Purpose, Scope, and Methodology details procedures used to select the expenses for testing.

monitoring, they may have found that IIE was not tracking cost-sharing expenses and was not maintaining adequate supporting documentation for the expenses as required. In addition, ECA did not ensure that IIE had an accounting and reporting system capable of producing an adequate audit trail, as required by Federal regulations.<sup>31</sup> As a result, OIG questions \$39.5 million in cost-sharing and expenses associated with the 12 cooperative agreements reviewed for this audit.

### *Unsupported Cost-Sharing Expenses*

Cost-sharing refers to the portion of project costs that are not borne by the U.S. Government. The award recipient must contribute the cost-sharing amount that was agreed upon in the cooperative agreement. The 12 IIE cooperative agreements reviewed for this audit included cost-sharing requirements. Federal regulations require that all cost-sharing amounts reported by recipients of Federal awards be verifiable from the organization's records and be allowable.<sup>32</sup> To be allowable, a cost-sharing expense must be allocable to a specific award and be adequately documented.

In addition, each cooperative agreement states the following:

It is understood and agreed that the Recipient must provide the minimum amount of cost sharing as stipulated in the Recipient's budget approved by the Grant Officer. Cost sharing may be in the form of allowable direct or indirect costs. The Recipient must maintain written records to support all allowable costs which are claimed as being its contribution to cost participation, as well as costs to be paid by the Federal Government. Such records are subject to audit. The basis for determining the value of cash and in-kind contributions must be in accordance with 22 CFR 145 (OMB Circular A-110 (Revised), Subpart C. Section 23 Cost Sharing and Matching). In the event the Recipient does not provide the minimum amount of cost sharing as stipulated in the Recipient's approved budget, the Department's contribution will be reduced in proportion to the Recipient's contribution.

IIE agreed to provide \$67.1 million in cost-sharing for the 12 cooperative agreements audited. As of September 30, 2016, which was the end of the audit scope period, IIE reported in its FFRs that it had provided \$39.4 million in cost-sharing for five cooperative agreements.<sup>33</sup> OIG requested documentation to support these costs that complied with Government regulations and the cooperative agreement, but an IIE official stated that IIE does not formally track cost-sharing amounts. IIE provided the documentation it had available to support the cost-sharing amounts reported. In its review of the documentation provided, OIG found that the documentation did not sufficiently support \$36 million of the \$39.4 million (91 percent) in cost-sharing expenses reported for the Fulbright Program. Specifically, OIG could not link the

<sup>31</sup> 2 CFR § 200.400(d), "Policy Guide;" 2 CFR § 215.21(b), "Standards for financial management systems."

<sup>32</sup> 2 CFR § 200.306(b), "Cost-sharing or matching;" 2 CFR § 215.23, "Cost-sharing or matching."

<sup>33</sup> As of September 30, 2016, IIE had not reported cost-sharing expenses for 7 of 12 cooperative agreements.

documentation for particular expenses provided by IIE to the specific cooperative agreements those expenses were intended to support. Therefore, during the audit, ECA could not support the allocability of the incurred cost-sharing expense to the specific agreement. In addition, since the documentation did not include detailed dates, OIG could not validate that the expenses occurred within the period reported by IIE on the FFR. The results of OIG's testing of cost-sharing contributions for the 12 cooperative agreements included in this audit are in Table 3.

**Table 3: Results of OIG Testing of Cost-Sharing Contributions**

Cooperative Agreement	Recipient Share of Costs	Cost-Sharing Reported	Questioned Costs Identified
S-ECAGD-14-CA-1017	\$14,829,120	\$14,829,120	\$14,829,120
S-ECAGD-15-CA-1015	\$19,153,955	\$19,153,955	\$19,153,955
S-ECAGD-16-CA-1004	\$20,954,148	\$0	\$0
S-ECAGD-14-CA-1032	\$993,554	\$993,554	\$993,554
S-ECAGD-15-CA-1016	\$1,024,262	\$1,024,262	\$1,024,262
S-ECAGD-16-CA-1003	\$1,216,522	\$0	\$0
S-ECAGD-14-CA-1037	\$3,374,909	\$3,374,909	\$0
S-ECAGD-15-CA-1017	\$3,041,466	\$0	\$0
S-ECAGD-16-CA-1014	\$2,424,240	\$0	\$0
S-ECAGD-14-CA-1021	\$4,000	\$0	\$0
S-ECAGD-15-CA-1011	\$41,988	\$0	\$0
S-ECAGD-16-CA-1006	\$40,000	\$0	\$0
<b>Total</b>	<b>\$67,098,164</b>	<b>\$39,375,800</b>	<b>\$36,000,891</b>

**Source:** Prepared by OIG from data obtained from FFRs for the cooperative agreements.

For example, for cooperative agreement S-ECAGD-14-CA-1017, IIE reported that it incurred \$14.8 million in expenses that represented its cost-sharing contributions to the agreement. However, the spreadsheet documentation maintained by IIE to support \$11.3 million in volunteer hours, as part of the cost-sharing contributions to the agreement, did not show specific dates of when the volunteers performed work, nor did the spreadsheet identify the cooperative agreement or Fulbright activity for which the cost-sharing contribution was claimed. In addition, the amounts reported in the spreadsheet were merely annual projections based on surveys completed by the volunteers. For instance, one of the surveys asked Fulbright Program Advisors to "estimate the number of hours you devote annually to the Fulbright-related activities." The imprecision of this methodology does not fulfill Federal requirements for tracking, documenting, and reporting costs.

IIE did not maintain adequate documentation to support cost-sharing because the designated GO did not ensure that IIE adequately tracked and supported cost-sharing expenses to validate that IIE was contributing the committed cost-sharing amount to each Fulbright Program agreement. The documentation should be specific enough to trace contributed amounts to the specific agreement it supports. The lack of assurance that IIE is contributing the agreed-upon cost-sharing amount for each agreement could adversely affect the Fulbright Program. Because

IIE provided insufficient supporting documentation, OIG questioned \$36 million IIE reported as cost-sharing expenses.

**Recommendation 3:** OIG recommends that the Bureau of Educational and Cultural Affairs issue immediately, and annually thereafter, a directive reminding all designated Grants Officers and Grants Officer Representatives to review and verify that the cost-sharing expenses for the cooperative agreements they are assigned are appropriate, documented, and supported in accordance with Federal regulations.

**Management Response:** ECA concurred with the recommendation, stating that it will “issue a directive to all GOs and GORs reminding them of their responsibilities for financial monitoring of cost-sharing expenses consistent with Federal regulations and Department policy.” ECA also stated, however, that recipients are only required to report the total amount of cost-sharing in the Federal Financial Reports and that “ECA cannot request additional back-up documentation for all expenses from every award recipient.” ECA further noted that “desk monitoring and/or site visits to spot check cost-share expenses as part of broader financial monitoring is more appropriate and should be dictated by the initial risk assessment or emerging factors during the post-award phase” and that it “would not be appropriate or feasible to review all individual cost-share expenses and supporting documentation.”

**OIG Reply:** On the basis of ECA’s concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. OIG understands that GORs cannot review all supporting documentation and is not suggesting that they do so. OIG is recommending, however, that ECA periodically request supporting documentation involving cost sharing expenses as part of its ongoing monitoring activities and will also assist ECA in identifying and reducing risk. This recommendation will be closed when OIG receives and accepts a copy of the directive to all GOs and GORs reminding them of their responsibilities for financial monitoring of cost-sharing expenses consistent with Federal regulations and Department policy.

**Recommendation 4:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the unsupported cost-sharing contributions of \$14,829,120 for cooperative agreement S-ECAGD-14-CA-1017 (October 1, 2013, through September 30, 2016) are supported and (b) reduce, for any cost-sharing contribution determined to be unsupported, the Department of State’s funding for the agreement accordingly, as stipulated in the agreement.

**Management Response:** ECA concurred with the recommendation, stating that it will “review the questioned cost-sharing contributions for cooperative agreement S-ECAGD-14-CA-1017 and determine whether the costs are supported.”

**OIG Reply:** On the basis of ECA’s concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation



demonstrating that ECA identified and took appropriate action regarding cost-sharing contributions that were unsupported.

**Recommendation 5:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the unsupported cost-sharing contributions of \$993,554 for cooperative agreement S-ECAGD-14-CA-1032 (October 1, 2013, through September 30, 2016) are supported and (b) reduce, for any cost-sharing contribution determined to be unsupported, the Department of State's funding for the cooperative agreement accordingly, as stipulated in the agreement.

**Management Response:** ECA concurred with the recommendation, stating that it will "review the questioned cost-sharing contributions for cooperative agreement S-ECAGD-14-CA-1032 and determine whether the costs are supported."

**OIG Reply:** On the basis of ECA's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA identified and took appropriate action regarding all cost-sharing contributions that were unsupported.

**Recommendation 6:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the unsupported cost-sharing contributions of \$19,153,955 for cooperative agreement S-ECAGD-15-CA-1015 (December 11, 2014, through September 30, 2016) are supported and (b) reduce, for any cost-sharing contribution determined to be unsupported, the Department of State's funding for the cooperative agreement accordingly, as stipulated in the agreement.

**Management Response:** ECA concurred with the recommendation, stating that it will "review the questioned cost-sharing contributions for cooperative agreement S-ECAGD-15-CA-1015 and determine whether the costs are supported."

**OIG Reply:** On the basis of ECA's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA identified and took appropriate action regarding all cost-sharing contributions that were unsupported.

**Recommendation 7:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the unsupported cost-sharing contributions of \$1,024,262 for cooperative agreement S-ECAGD-15-CA-1016 (December 11, 2014, through September 30, 2016) are supported and (b) reduce, for any cost-sharing contribution determined to be unsupported, the Department of State's funding for the cooperative agreement accordingly, as stipulated in the agreement.

**Management Response:** ECA concurred with the recommendation, stating that it will “review the questioned cost-sharing contributions for cooperative agreement S-ECAGD-15-CA-1016 and determine whether the costs are supported.”

**OIG Reply:** On the basis of ECA’s concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA identified and took appropriate action regarding all cost-sharing contributions that were unsupported.

### *Unsupported Contractual Expenses, Salary Expenses, and Travel Expenses*

Federal regulations require that award recipients have accounting practices consistent with cost principles and that provide for adequate documentation to support costs charged to the Federal award.<sup>34</sup> Specifically, expenditures must be supported by source documentation. Costs that are not supported by adequate documentation become questioned costs.<sup>35</sup> Federal regulations also state that a cost is allocable to a specific Federal award if the goods or services are chargeable, assignable, and incurred for a specific award.<sup>36</sup> In addition, the Department’s Standard Terms and Conditions for Domestic Federal Assistance Awards requires the recipients to maintain source documentation for expenses claimed in their accounting records.

OIG found that IIE did not maintain sufficient supporting documentation for some claimed contractual expenses, salary expenses, and travel expenses. For the contractual expenses reviewed, OIG determined that \$3.5 million of \$4.1 million (84 percent) in expenses was not supported because IIE could not document that the \$3.5 million was allocable to specific cooperative agreements. OIG determined that \$2,303 of \$308,656 (1 percent)<sup>37</sup> in salary expenses was not supported because IIE did not provide labor reports or timesheets for the specific pay periods. Finally, for the travel expenses reviewed, OIG determined that \$25,083 of \$62,574 (40 percent) in expenses was not allocable to specific cooperative agreements based on the documentation provided. In total, OIG determined that \$3.5 million of \$4.5 million (78 percent) in contractual expenses, salary expenses, and travel expenses tested was not supported as required. Table 4 presents these results.

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<sup>34</sup> 2 CFR § 200.400(d).

<sup>35</sup> 2 CFR § 200.84(b), “Questioned Cost.”

<sup>36</sup> 2 CFR § 200.405(a), “Allocable Costs;” 2 CFR 230, “Appendix A,” sec. A.4.

<sup>37</sup> The amount questioned for salary expenses was adjusted on the basis of additional information ECA provided as part of its comments to the draft report.

Table 4: Results of OIG Testing of Contractual Expenses, Salary Expenses, and Travel Expenses<sup>a</sup>

Cooperative Agreements	Expenses Reviewed <sup>a</sup>				Unsupported Expenses <sup>b</sup>			Total Questioned Costs
	Contractual	Salary	Travel	Total Reviewed	Contractual	Salary	Travel	
S-ECAGD-14-CA-1017	\$1,000,000	\$32,650	\$10,373	\$1,043,023	\$1,000,000	-	\$0	\$1,000,000
S-ECAGD-15-CA-1015	\$1,571,308	\$29,626	\$12,106	\$1,612,040	\$1,571,308	\$177	\$290	\$1,572,775
S-ECAGD-16-CA-1004	\$823,199	\$36,712	\$9,069	\$868,979	\$823,199	-	\$2,703	\$825,902
S-ECAGD-14-CA-1032	\$173,429	\$32,290	\$4,394	\$210,113	\$25,000	\$0	\$4,394	\$29,394
S-ECAGD-15-CA-1016	\$0	\$35,929	\$2,926	\$38,855	\$0	\$1,692	\$265	\$1,957
S-ECAGD-16-CA-1003	\$25,000	\$33,468	\$11,196	\$69,664	\$25,000	\$352	\$9,144	\$34,496
S-ECAGD-14-CA-1037	\$312,643	\$21,506	\$2,015	\$336,163	\$0	\$0	\$2,015	\$2,015
S-ECAGD-15-CA-1017	\$58,485	\$20,052	\$491	\$79,028	\$0	-	\$0	\$0
S-ECAGD-16-CA-1014	\$0	\$34,414	\$6,734	\$41,148	\$0	\$6	\$3,040	\$3,045
S-ECAGD-14-CA-1021	\$36,679	\$12,770	\$1,093	\$50,543	\$0	\$76	\$1,070	\$1,145
S-ECAGD-15-CA-1011	\$125,468	\$8,162	\$1,178	\$134,808	\$41,822	-	\$1,178	\$43,000
S-ECAGD-16-CA-1006	\$0	\$12,077	\$1,000	\$13,077	\$0	-	\$986	\$986
<b>Total</b>	<b>\$4,126,212</b>	<b>\$308,656</b>	<b>\$62,574</b>	<b>\$4,497,442</b>	<b>\$3,486,330</b>	<b>\$2,303</b>	<b>\$25,083</b>	<b>\$3,513,716</b>

<sup>a</sup> OIG reviewed travel and salary expenses that IIE claimed between the first expense entry in the ledger and December 31, 2016. OIG reviewed contractual expenses that IIE claimed between the award date and February 7, 2017.

<sup>b</sup> Some numbers do not sum up due to rounding.

**Source:** Prepared by OIG from its review of financial data obtained for the cooperative agreements.

### *Contractual Expenses*

Contractual expenses are subcontracts that IIE awards to different organizations in support of specific Fulbright Program cooperative agreements. OIG identified contractual expenses of \$3.5 million that were not supported by the documentation provided. Specifically, IIE could not provide sufficient documentation to link sub-awardee invoices and other supporting documentation to specific cooperative agreements. Therefore, OIG could not validate that IIE incurred the \$3.5 million for the specific cooperative agreements to which the costs were charged. For example, IIE awarded a sub-contract to the Latin American Scholarship Programs of American Universities (LASPAU)<sup>38</sup> to support the Fulbright U.S. and Foreign Student Programs. IIE reported that it had paid \$623,199 to LASPAU for services in support of the program. However, the supporting documentation provided to OIG in support of this payment was an invoice from LASPAU for \$623,199 that did not include any information regarding the specific Fulbright activity, cooperative agreement, or sub-award for which the invoice related, making it impossible for OIG to allocate this claimed expense to the agreement.

<sup>38</sup> LASPAU is a Fulbright partner agency that shares responsibility with IIE in the administration of the Fulbright Foreign Student Program for part of the Western Hemisphere.

### *Salary Expenses*

Salary expenses are wages that employees have earned during a specified period. OIG identified salary expenses totaling \$2,303<sup>39</sup> that were not adequately supported by the source documentation provided. Specifically, IIE was unable to provide either labor reports or timesheets to support the labor costs questioned.

### *Travel Expenses*

Travel expenses are travel-related costs incurred by IIE in support of specific Fulbright Program cooperative agreements. OIG found travel expenses totaling \$25,083 that were not adequately supported by source documentation. For example, IIE provided a spreadsheet to support selected expenses that showed how IIE pooled travel expenses for certain cooperative agreements, but IIE did not provide expense reports that supported the agreement to which the costs related. Therefore, OIG could not allocate \$25,083 in travel expenses claimed to specific cooperative agreements.

### *ECA's Lack of Internal Controls Contributed to Questioned Costs*

The Department's FAPD states that the designated GO and GOR are responsible for monitoring the overall financial capacity, stability, and funds management processes of the recipient, as well as the actual expenditures on the cooperative agreement activity.<sup>40</sup> OIG found that ECA did not identify the selected expenses as unsupported, in part, because ECA did not have internal controls in place to ensure that the designated GO and GOR monitored the funds management process and the actual expenditures for each cooperative agreement as required. Furthermore, an ECA GOR, who is also a senior program official, stated that ECA has never questioned any IIE incurred expenses because ECA assumes that all of IIE's incurred expenses are appropriate.

The FFR provides ECA with a way to monitor IIE's expenditures. However, ECA did not monitor specific expenditures. With respect to monitoring of expenditures, ECA officials stated that, even though it is required, neither the designated GOR nor ECA program officials review the FFRs or IIE's claimed expenses. The officials further stated that such review is the responsibility of the designated GO. However, ECA's Grants Division Chief, who is also a GO, stated that his office does not receive detailed reports of IIE's incurred expenses, nor does his office review incurred expenses during the cooperative agreement's period of performance. The GO stated that, rather than perform specific steps to monitor IIE's financial activities related to the cooperative agreements, ECA officials would review expenditures only if IIE was the subject of an audit. The

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<sup>39</sup> In a draft of this report, OIG identified \$270,146 in questioned salary expenses for cooperative agreement S-ECAGD-16-CA-1004. In ECA's response to a draft of this report, officials explained that this salary amount was in Russian rubles rather than U.S. dollars, which decreased the questioned cost amount for this cooperative agreement to \$4,351. In addition, ECA provided supporting documentation for the \$4,351. After validating that this documentation was adequate, OIG reduced the questioned cost amount for this particular cooperative agreement to \$0.

<sup>40</sup> FAPD, sec. 3.01-B, "Financial Reporting."

Grants Division Chief added that, for audit purposes, IIE should document and maintain detailed records of the expenses in its files.

A proper accounting system is part of the funds management process. OIG did not review IIE's financial systems, of which the accounting system is one component, because they were not part of the scope of the audit. However, based on the incomplete and inconsistent documentation IIE provided to support expenses, OIG found that ECA did not ensure that IIE had an accounting and reporting system capable of producing an adequate audit trail, as required by Federal regulations.<sup>41</sup> OIG found inconsistencies in the supporting documentation for selected expenses that can be attributed, in part, to IIE's accounting system. For example, OIG found inconsistencies in the documentation that IIE provided to support contractual expenses using its accounting and reporting systems. Furthermore, OIG could not always track the invoices for contractual expenses to a specific cooperative agreement.

In addition, a 2015 PricewaterhouseCoopers audit<sup>42</sup> of IIE found formula errors in a spreadsheet that supported year-end accrual for a non-U.S. Government program. According to the PricewaterhouseCoopers audit report, IIE addressed the auditors' recommendations by implementing the PeopleSoft<sup>43</sup> system in FY 2016. IIE officials stated that IIE transitioned to PeopleSoft because "PeopleSoft provided a streamlined approach for their payroll and financial business needs." In short, had ECA assessed IIE's accounting system, ECA may have identified deficiencies with IIE's accounting and reporting systems and recommended remediation of those deficiencies.

### *OIG Identified Questioned Costs*

OIG found that IIE did not always comply with the terms and conditions of the cooperative agreements and did not always support incurred expenses in accordance with Federal regulations and Department policy. Because the designated GO and the GOR did not monitor IIE's funds management process to ensure that IIE maintained adequate documentation to support expenses and that the expenses were allocable to particular cooperative agreements, ECA has no assurance that IIE is expending awarded funds in accordance with Federal requirements. As a result of testing, OIG identified a total of \$3.5 million in questioned costs related to contractual expenses, salary expenses, and travel expenses. Had the designated GO and GOR reviewed the expenses reported in the FFR as part of regular monitoring, they may have found that IIE was not tracking cost-sharing expenses and was not maintaining adequate supporting documentation for the expenses as required.

**Recommendation 8:** OIG recommends that the Bureau of Educational and Cultural Affairs develop and implement internal controls to monitor and verify that the designated Grants Officer and the Grants Officer Representative review and test expenses periodically, at least

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<sup>41</sup> 2 CFR § 200.400(d).

<sup>42</sup> *Institute of International Education, Inc. and Affiliates Report on Federal Awards In Accordance with OMB Circular A-133*, September 30, 2015.

<sup>43</sup> PeopleSoft is an application that provides financial management solutions.

quarterly, to validate that claimed expenses for cooperative agreements are supported, allocable, and allowable in accordance with Federal regulations and Department policy.

**Management Response:** ECA partially concurred with the recommendation, stating that it will “develop and implement internal controls for award monitoring.” ECA also explained that, in May 2017, it developed a procedure for reviewing PPRs and FFRs “to ensure reports are reviewed and approved, and the reviews are documented.” In addition, ECA noted that it was developing a Desk Monitoring and Site Visit Monitoring procedure and updating its tools and templates, with an estimated release date of December 2017. On January 23, 2017, ECA officials stated that “Our EX/Grants team has completed the Site Visit Monitoring procedures, tools, and templates. They are still in the process of completing the Desk Monitoring procedures and templates, which should be completed in February.”

In its response, however, ECA also stated that it does not concur with the part of the recommendation related to reviewing and testing expenses at least quarterly. ECA further noted that according to 2 CFR 200, GOs review proposed budgets as part of the pre-award review to confirm that costs are allowable, allocable, and reasonable and that recipients are only required to report the total amount of expenses in their FFRs. Additionally, ECA clarified that “desk monitoring and/or site visits to spot check expenses as part of broader financial monitoring can be appropriate, but should be dictated by the initial risk assessment or emerging factors during the post-award phase,” and that “it would not be appropriate or feasible to generally require testing of expenses quarterly.”

**OIG Reply:** On the basis of ECA’s response to this recommendation and planned actions, OIG considers this recommendation unresolved. Analysis of information in a proposed budget is not an adequate basis for determining whether actual incurred expenses are allowable. According to 2 CFR 200, the proposed budget is an estimate determined before the services are performed and standing alone does not qualify as support for charges to Federal awards. A cost can be determined to be allowable, allocable, and reasonable only after it has been incurred and the supporting documentation has been reviewed and validated in accordance with Federal Cost Principles.<sup>44</sup> Determining that costs are allowable, allocable, and reasonable on the basis of the review of the costs proposed in the budget and then assuming that all of IIE’s incurred expenses are allowable without performing any subsequent review, does not comply with Federal requirements and may increase the risk of financial mismanagement. In addition, Department guidance specifically requires the monitoring of actual expenditures.<sup>45</sup> Finally, although ECA contends that it is not “appropriate or feasible” to require quarterly testing, ECA provides no explanation as to why this is an unreasonable period. More frequent testing would provide opportunities to identify and recover any improperly used taxpayer funds.

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<sup>44</sup> 2 CFR § 200, Subpart E, “Cost Principles.”

<sup>45</sup> FAPD, 3.01-B, “Financial Reporting.”

ECA should establish internal controls establishing the level, depth, and the frequency of the expenditures review on the basis of the risk assessment. This recommendation will be resolved when ECA agrees to develop and implement internal controls to monitor incurred expenses or proposes an alternative action that meets the intent of the recommendation. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA has developed and implemented internal controls for financial monitoring.

**Recommendation 9:** OIG recommends that the Bureau of Educational and Cultural Affairs verify that the Institute of International Education's accounting system is adequate for tracking and supporting expenses and cost-sharing contributions, is capable of providing an audit trail in accordance with Federal regulations, and takes necessary action to remedy any deficiencies found.

**Management Response:** ECA concurred with the recommendation, stating that it will "confirm whether IIE's accounting system is adequate for tracking and supporting expenses and cost-sharing contributions and capable of providing an audit trail in accordance with Federal regulations." ECA further noted that it "will take necessary action to remedy any deficiencies found."

**OIG Reply:** On the basis of ECA's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation supporting ECA's verification that IIE's accounting system is adequate for tracking and supporting expenses and cost-sharing contributions and capable of providing an audit trail in accordance with Federal regulations.

**Recommendation 10:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the questioned costs of \$1,000,000 for unsupported contractual expenses for cooperative agreement S-ECAGD-14-CA-1017 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Management Response:** ECA concurred with the recommendation, stating that it will (a) review the questioned costs and determine whether the costs for cooperative agreement S-ECAGD-14-CA-1017 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**OIG Reply:** On the basis of ECA's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA identified and took appropriate action to recover all costs that were unsupported.

**Recommendation 11:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$1,572,775 for unsupported



contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-15-CA-1015 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Management Response:** ECA concurred with the recommendation, stating that it will (a) review the questioned costs and determine whether the costs for cooperative agreement S-ECAGD-15-CA-1015 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**OIG Reply:** On the basis of ECA's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA identified and took appropriate action to recover all costs that were unsupported.

**Recommendation 12:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$825,902 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-16-CA-1004 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Management Response:** ECA concurred with the recommendation, stating that it will (a) review the questioned costs and determine whether the costs for cooperative agreement S-ECAGD-16-CA-1004 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**OIG Reply:** On the basis of ECA's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA identified and took appropriate action to recover all costs that were unsupported.

**Recommendation 13:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$29,394 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-14-CA-1032 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Management Response:** ECA concurred with the recommendation, stating that it will (a) review the questioned costs and determine whether the costs for cooperative agreement S-ECAGD-14-CA-1032 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**OIG Reply:** On the basis of ECA's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This

recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA identified and took appropriate action to recover all costs that were unsupported.

**Recommendation 14:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$1,957 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-15-CA-1016 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Management Response:** ECA concurred with the recommendation, stating that it will (a) review the questioned costs and determine whether the costs for cooperative agreement S-ECAGD-15-CA-1016 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**OIG Reply:** On the basis of ECA's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA identified and took appropriate action to recover all costs that were unsupported.

**Recommendation 15:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$34,496 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-16-CA-1003 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Management Response:** ECA concurred with the recommendation, stating that it will (a) review the questioned costs and determine whether the costs for cooperative agreement S-ECAGD-16-CA-1003 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**OIG Reply:** On the basis of ECA's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA identified and took appropriate action to recover all costs that were unsupported.

**Recommendation 16:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$2,015 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-14-CA-1037 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Management Response:** ECA concurred with the recommendation, stating that it will (a) review the questioned costs and determine whether the costs for cooperative agreement S-ECAGD-14-CA-1037 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**OIG Reply:** On the basis of ECA's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA identified and took appropriate action to recover all costs that were unsupported.

**Recommendation 17:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$3,045 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-16-CA-1014 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Management Response:** ECA concurred with the recommendation, stating that it will (a) review the questioned costs and determine whether the costs for cooperative agreement S-ECAGD-16-CA-1014 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**OIG Reply:** On the basis of ECA's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA identified and took appropriate action to recover all costs that were unsupported.

**Recommendation 18:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$1,145 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-14-CA-1021 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Management Response:** ECA concurred with the recommendation, stating that it will (a) review the questioned costs and determine whether the costs for cooperative agreement S-ECAGD-14-CA-1021 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**OIG Reply:** On the basis of ECA's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA identified and took appropriate action to recover all costs that were unsupported.

**Recommendation 19:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$43,000 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-15-CA-1011 are supported and (b) recover any costs determined to be unsupported.

**Management Response:** ECA concurred with the recommendation, stating that it will (a) review the questioned costs and determine whether the costs for cooperative agreement S-ECAGD-15-CA-1011 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**OIG Reply:** On the basis of ECA's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA identified and took appropriate action to recover all costs that were unsupported.

**Recommendation 20:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$986 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-16-CA-1006 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Management Response:** ECA concurred with the recommendation, stating that it will (a) review the questioned costs and determine whether the costs for cooperative agreement S-ECAGD-16-CA-1006 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**OIG Reply:** On the basis of ECA's concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that ECA identified and took appropriate action to recover all costs that were unsupported.

## RECOMMENDATIONS

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**Recommendation 1:** OIG recommends that the Bureau of Educational and Cultural Affairs issue immediately, and annually thereafter, a directive to all designated Grants Officers and Grants Officer Representatives reminding them of their specific oversight responsibilities and requirements to provide appropriate oversight of cooperative agreements and grants in which they are entrusted.

**Recommendation 2:** OIG recommends that the Bureau of Educational and Cultural Affairs verify that the performance standards for all designated Grants Officer Representatives contain appropriate work commitments and performance metrics to enhance transparency, managerial responsibility, and proper oversight of cooperative agreements, as outlined in Department Notice Number 2016-12-142, dated December 28, 2016. Performance standards of any designated Grants Officer Representatives that do not contain the appropriate work commitments should be revised accordingly.

**Recommendation 3:** OIG recommends that the Bureau of Educational and Cultural Affairs issue immediately, and annually thereafter, a directive reminding all designated Grants Officers and Grants Officer Representatives to review and verify that the cost-sharing expenses for the cooperative agreements they are assigned are appropriate, documented, and supported in accordance with Federal regulations.

**Recommendation 4:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the unsupported cost-sharing contributions of \$14,829,120 for cooperative agreement S-ECAGD-14-CA-1017 (October 1, 2013, through September 30, 2016) are supported and (b) reduce, for any cost-sharing contribution determined to be unsupported, the Department of State's funding for the agreement accordingly, as stipulated in the agreement.

**Recommendation 5:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the unsupported cost-sharing contributions of \$993,554 for cooperative agreement S-ECAGD-14-CA-1032 (October 1, 2013, through September 30, 2016) are supported and (b) reduce, for any cost-sharing contribution determined to be unsupported, the Department of State's funding for the cooperative agreement accordingly, as stipulated in the agreement.

**Recommendation 6:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the unsupported cost-sharing contributions of \$19,153,955 for cooperative agreement S-ECAGD-15-CA-1015 (December 11, 2014, through September 30, 2016) are supported and (b) reduce, for any cost-sharing contribution determined to be unsupported, the Department of State's funding for the cooperative agreement accordingly, as stipulated in the agreement.

**Recommendation 7:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the unsupported cost-sharing contributions of \$1,024,262 for cooperative

agreement S-ECAGD-15-CA-1016 (December 11, 2014, through September 30, 2016) are supported and (b) reduce, for any cost-sharing contribution determined to be unsupported, the Department of State's funding for the cooperative agreement accordingly, as stipulated in the agreement.

**Recommendation 8:** OIG recommends that the Bureau of Educational and Cultural Affairs develop and implement internal controls to monitor and verify that the designated Grants Officer and the Grants Officer Representative review and test expenses periodically, at least quarterly, to validate that claimed expenses for cooperative agreements are supported, allocable, and allowable in accordance with Federal regulations and Department policy.

**Recommendation 9:** OIG recommends that the Bureau of Educational and Cultural Affairs verify that the Institute of International Education's accounting system is adequate for tracking and supporting expenses and cost-sharing contributions, is capable of providing an audit trail in accordance with Federal regulations, and takes necessary action to remedy any deficiencies found.

**Recommendation 10:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the questioned costs of \$1,000,000 for unsupported contractual expenses for cooperative agreement S-ECAGD-14-CA-1017 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Recommendation 11:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$1,572,775 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-15-CA-1015 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Recommendation 12:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$825,902 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-16-CA-1004 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Recommendation 13:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$29,394 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-14-CA-1032 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Recommendation 14:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$1,957 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-15-CA-1016 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Recommendation 15:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$34,496 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-16-CA-1003 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Recommendation 16:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$2,015 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-14-CA-1037 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Recommendation 17:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$3,045 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-16-CA-1014 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Recommendation 18:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$1,145 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-14-CA-1021 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**Recommendation 19:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$43,000 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-15-CA-1011 are supported and (b) recover any costs determined to be unsupported.

**Recommendation 20:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$986 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-16-CA-1006 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.



## APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

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The Office of Audits, within the Office of Inspector General (OIG) for the Department of State (Department) and the Broadcasting Board of Governors, conducted this audit to determine whether the Bureau of Educational and Cultural Affairs (ECA) monitored cooperative agreements awarded to the Institute for International Education (IIE) between FY 2014 and FY 2016 in accordance with Federal regulations and Department policy and whether IIE complied with the terms and conditions of the cooperative agreements and incurred expenses related to the Fulbright Program in accordance with Federal regulations and Department policy.

The Office of Audits conducted this audit from November 2016 to July 2017. OIG performed all audit work in the Washington, DC, metropolitan area. OIG conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

To gain an understanding of the audit topic, OIG researched and reviewed Federal laws and regulations, such as Title II of the Code of Federal Regulations (CFR), Section 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards;" 2 CFR 230, "Cost Principles for Non-Profit Organizations (OMB Circular A-122);" and the Department's Federal Assistance Policy Directive, issued by the Bureau of Administration, Office of the Procurement Executive. In addition, OIG reviewed the Department's "Standard Terms and Conditions for Domestic Federal Assistance Awards."

To determine whether ECA monitored cooperative agreements in accordance with Federal regulations and Department policy, OIG met with and interviewed key ECA officials, including designated Grants Officers (GO) and Grants Officer Representatives (GOR) for the cooperative agreements reviewed. OIG also interviewed IIE officials. Furthermore, OIG requested and analyzed supporting documentation related to monitoring activities, including GOR Designation Letters and monitoring plans, for the 12 cooperative agreements.

To determine whether IIE complied with the terms and conditions established in the cooperative agreements, OIG tested specifically for compliance with financial and performance reporting requirements, requirements for maintaining documentation for expenses, and cost-sharing requirements. For example, to determine whether IIE complied with cost-sharing requirements included in the agreements, OIG reviewed the supporting documentation provided for the \$39.4 million that IIE claimed as cost-sharing contributions during the audit scope period. Exceptions identified are presented in the Audit Results section of this report.

## Prior OIG Reports

In September 2014, OIG issued a Management Alert<sup>46</sup> that stated that the management and oversight of grants posed a heightened financial risk to the Department. The report further stated that in FY 2012, the Department obligated more than \$1.6 billion for approximately 14,000 grants and cooperative agreements worldwide. Additionally, the report stated that the Department and other oversight agencies had identified a number of deficiencies in the grant management process, including insufficient oversight, insufficient training, and inadequate documentation and closeout. OIG recommended that the Department take immediate action to ensure that adequate numbers of properly trained GOs and GORs were designated, that required documentation was maintained in grant files, and that expired grants were closed out in a timely manner. As of April 2017, OIG closed all three of the report's recommendations on the basis of information provided by the Bureau of Administration, specifically a copy of the new Federal Assistance Human Capital Plan and a newly developed and implemented Standard Operating Procedure on grant file reviews, the results of which were shared with the GO and GOR supervisors.

In a December 2012 report,<sup>47</sup> OIG determined that the U.S. Educational Fund in Pakistan had improved financial reporting, had integrated grants management with its accounting system, and had hired a controller. However, ECA had not ensured that the U.S. Educational Fund in Pakistan implemented an adequate internal control system, as required. OIG closed the single recommendation contained in this report on June 16, 2016, when ECA provided documentation showing that the U.S. Educational Fund in Pakistan (1) had installed software necessary to generate an audit trail, (2) had provided the required semiannual reports and financial statements that had been missing since November 2012, and (3) had segregated accounts payable and accounts receivable as appropriate.

## Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the areas audited. For example, OIG gained an understanding of the Department's processes for monitoring cooperative agreements and reviewing expenditures incurred by IIE. OIG also reviewed Federal guidance such as 2 CFR 200 and 2 CFR 230. Any significant internal control deficiencies noted during the audit are reported in the Audit Results section of this report.

## Use of Computer-Processed Data

In the course of this audit, OIG used electronically processed data obtained from ECA and IIE. Specifically, OIG obtained a list of cooperative agreements from ECA and obtained ledgers for

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<sup>46</sup> OIG, *Management Alert – Grant Management Deficiencies* (MA-14-03, September 26, 2014).

<sup>47</sup> OIG, *Compliance Followup Review of Department of State Internal Controls Over the J. William Fulbright Scholarship Fund in Pakistan* (AUD-MERO-13-18, December 2012).

travel expenses, salary expenses, and contractual expenses from IIE. The reliability of each dataset is discussed in the sections that follow.

### ***Universe of Cooperative Agreements***

OIG received a list of 12 cooperative agreements from ECA, all of which were awarded to IIE for the Fulbright Program for FYs 2014, 2015, and 2016. To assess the completeness and accuracy of the list, OIG corroborated the data using USASpending.gov.<sup>48</sup> OIG identified minor discrepancies when comparing the data received from ECA to the USASpending.gov data; specifically, the USASpending.gov data were missing one cooperative agreement. To further validate the data, OIG obtained and reviewed the actual 12 cooperative agreements, including the 1 missing from USASpending.gov, and confirmed that these agreements were all included in the scope period of the audit. On the basis of this assessment, OIG believes that the data were complete and sufficiently reliable to meet the audit objective.

### ***Contractual Expenses, Salary Expenses and Travel Expenses (PeopleSoft and SAP)***

OIG also obtained electronically processed financial data from IIE. Specifically, IIE provided the ledgers for the categories of expenses selected for review. For expenses claimed on or before March 31, 2016, IIE provided data from its SAP financial system; for expenses claimed after March 31, 2016, IIE provided data from its PeopleSoft financial system. Since IIE was the generator of this data, OIG could not validate the data. However, to gain information on the integrity of the data, OIG reviewed the independent audit reports of IIE performed by PricewaterhouseCoopers for FYs 2014 and 2015. These audit reports did not find deficiencies related to the financial statements. Therefore, OIG believes that the data provided by IIE were sufficiently reliable to support the audit findings and conclusions.

### **Detailed Sampling Methodology**

To gather evidence, OIG received from ECA a universe of 12 cooperative agreements. OIG selected the 12 cooperative agreements as the scope for the audit. OIG selected these awards for review because they were awarded to IIE for the Fulbright Program in FYs 2014, 2015, and 2016. For each of the selected awards, OIG selected three types of expenses to review. The sampling objective was to review expenditures for these cooperative agreements and determine whether IIE had complied with the terms and conditions of the agreements for the expenses incurred. For the 12 agreements included in this audit, the total amount of expenditures reported by IIE was \$265,680,036 as of September 30, 2016. OIG identified at least 159 different types of expenses, such as bank fees and fees for consultants, postage, printing, and meals. For the scope of this audit, OIG limited the review to contractual expenses, salary expenses, and travel expenses for testing.

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<sup>48</sup> USASpending.gov is the publicly accessible, searchable website mandated by the Federal Funding Accountability and Transparency Act of 2006 to give the American public access to information on how their tax dollars are spent.

### *Selected Contractual Expenses, Salary Expenses and Travel Expenses*

OIG targeted three types of expenses for the scope of the audit: travel, salary, and contractual. OIG selected 122 of these expenses, valued at \$4,497,442, for testing on the basis of their monetary value. For the expenses selected, OIG requested and reviewed supporting documentation to determine whether the expenses were supported in accordance with Department policy and Federal regulations.

In April 2016, IIE transitioned from SAP to PeopleSoft as its accounting and reporting system. Therefore, OIG received two different data sets for each expense type. Table A.1 details the number of expenses selected from each expense category and ledger system for each cooperative agreement.

**Table A.1: Expenses Selected for Testing**

Expense Type and Ledger	Selected Line Items	Amount Selected
Contractual - PeopleSoft	10	\$1,991,421
Contractual - SAP	10	\$2,134,790
Salary - PeopleSoft	8	\$43,913
Salary - SAP	12	\$264,742
Travel - PeopleSoft	59	\$17,632
Travel - SAP	23	\$44,942
<b>Total</b>	<b>122</b>	<b>\$4,497,442</b>

**Source:** Prepared by OIG from expense information provided by IIE.

### *Contractual Expenses Selection Methodology (PeopleSoft and SAP)*

A total of 20 contractual expenses, valued at \$4,126,211, were selected for testing. For contractual expenses made from January 2, 2014,<sup>49</sup> through March 31, 2016, OIG obtained the 1,646 line items of contractual expenses from SAP. For contractual expenses made from April 1, 2016, through February 7, 2017, OIG obtained the 597 ledger line items of contractual expenses from PeopleSoft. To select the expenses, OIG calculated the average transaction dollar amount for this category of expenses for each cooperative agreement, resulting in 12 averages. OIG then determined the percentage of the whole for each average amount, resulting in 12 percentages. Because OIG planned to review 10 sample items for each financial system, OIG used the percentages to select the 10 sample items for each financial system. Cooperative agreements that had a higher average transaction dollar amount for contractual services would have more items selected than cooperative agreements that had lower transaction dollar amounts. If the percentage was less than or equal to four, no items were tested for that cooperative agreement.

<sup>49</sup> This was the first date the ledger reflected a recorded expense.

Within the cooperative agreements, OIG selected the highest dollar contracts for testing on the basis of the sample size identified by OIG's calculations.

### ***Salary Expenses Selection Methodology (PeopleSoft and SAP)***

Twenty salary expenses line items, with a total valued of \$308,656, were selected for testing. Eight expenses were selected from PeopleSoft, and 12 expenses were selected from SAP. For salary expenses made from April 1, 2016, through December 31, 2016, OIG obtained from IIE the ledgers for salary expenses for eight cooperative agreements under the PeopleSoft accounting system.<sup>50</sup> In total, the ledgers consisted of 11,851 salary expense line items, valued at \$4,392,535. OIG selected the eight largest dollar value expenses for testing, which totaled \$43,913. For salary expenses made from October 15, 2013,<sup>51</sup> through March 31, 2016, OIG obtained the SAP ledgers from IIE. In total, the ledgers consisted of 5,684 salary expenses, valued at \$17,281,621. OIG selected the line items with the highest value for the 12 cooperative agreements. These line items totaled \$264,742.

### ***Travel Expenses Selection Methodology (PeopleSoft and SAP)***

A total of 82 travel expenses, valued at \$62,574, were selected for testing. For travel expenses made from April 1, 2016, through December 31, 2016, OIG obtained the 4,034 line items of travel expenses from PeopleSoft for the 12 cooperative agreements, valued at \$220,404. OIG selected for testing the two highest dollar value travel Journal IDs for each cooperative agreement.<sup>52</sup> Each Journal ID could have multiple line items. Therefore, OIG selected 17 Journal IDs, composed of 59 line items, valued at \$17,632. For travel expenses made from October 31, 2013,<sup>53</sup> through March 31, 2016, OIG obtained the SAP ledger for travel expenses for the 12 cooperative agreements. In total, the ledger consisted of 4,235 travel expenses, valued at \$756,527. OIG selected the two highest dollar value travel Journal IDs for each cooperative agreement.<sup>54</sup> In total, OIG selected 23 line items, valued at \$44,942.

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<sup>50</sup> Before December 31, 2016, IIE had not claimed any salary expenses for 4 of the 12 cooperative agreements.

<sup>51</sup> October 15, 2013, was the first date the ledger reflected a recorded expense.

<sup>52</sup> Cooperative agreement S-ECAGD-14-CA-1032 had only one Journal ID in the travel expense ledger.

<sup>53</sup> October 31, 2013, was the first date the ledger reflected a recorded expense.

<sup>54</sup> Cooperative agreement S-ECAGD-16-CA-1006 had only one Journal ID in the travel expense ledger.

## APPENDIX B: BUREAU OF EDUCATIONAL AND CULTURAL AFFAIRS RESPONSE

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United States Department of State

*Bureau of Educational and Cultural Affairs  
Washington, D.C. 20547*

[www.state.gov](http://www.state.gov)

November 9, 2017

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### MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: ECA – Alyson Grunder *AG*

SUBJECT: Response to Draft Report on Audit of the Administration of Cooperative Agreements Awarded to the Institute of International Education by the Bureau of Educational and Cultural Affairs

Thank you for the opportunity to provide comments and an initial management response to the Office of Inspector General (OIG) draft report. The Bureau of Educational and Cultural Affairs (ECA) appreciates and takes seriously the value of the audit process to ensure compliance with Federal regulations and Department policy.

ECA concurs with the 20 recommendations in the report, with two clarifications, and intends to improve our monitoring of cooperative agreements with the Institute of International Education and to determine whether questioned cost share and expenses were supported.

We believe a number of statements and conclusions in the report are inaccurate, misleading, or not substantiated, including assertions that are inconsistent with the information and evidence provided to the audit team. Our concerns, as well as areas of agreement with the report, are outlined below.

#### **Monitoring**

ECA recognizes the importance of sound monitoring policy, procedures, and practices consistent with Federal regulations and Department policy to ensure compliance by non-federal entities with the terms and conditions of our cooperative agreements, and to achieve program objectives in accordance with the Bureau and Department's mission.

ECA acknowledges it did not adequately document its monitoring practices, as required, on the 12 cooperative agreements reviewed by the OIG audit team. Specifically, Grants Officer Representatives (GORs) did not consistently provide Grants Officers (GOs) with a written assessment of the overall program performance based on their review of the Performance Progress Reports (PPRs) within 30 days of receipt of the PPRs, as required by their GOR designation letter. Similarly, GORs and GOs did not consistently document in the official file, found in the Department's grants management system known as Grant Solutions, that they had

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reviewed the SF-425 Federal Financial Report (FFR). We realize that this failure to document makes it difficult to substantiate that the reviews were completed. In some cases, due to staffing shortages, ECA prioritized other program or grant management responsibilities over the completion of formal documentation. The Bureau has experienced a full or partial hiring freeze for several years, including during the period under review.

ECA does not agree with the report's assertion that ECA did not develop monitoring plans specific to each cooperative agreement, as required. ECA developed monitoring plans during the pre-award phase for all 12 of the reviewed cooperative agreements and those plans were uploaded into the official file in Grant Solutions for each cooperative agreement prior to the issuance of each award. Each monitoring plan incorporated the specific agreement to which it was attached in the file by reference. In this regard, Table 2 in the report, which purports to summarize ECA's performance and financial monitoring, is incorrect.

Further, the ECA monitoring plans for all 12 cooperative agreements reviewed followed the template for monitoring plans provided by the Bureau of Administration, Office of Procurement Executive, Federal Assistance Division (A/OPE/FA), and included all the required elements. Each plan was developed following a risk assessment carried out in advance of the issuance of each award, and the risk assessment was part of the official file. The monitoring plans reflected the risk mitigation measures suggested by those assessments, including the type and frequency of monitoring. In addition, each monitoring plan included, by reference to the specific cooperative agreement, the unique performance goals, objectives, outputs, and outcomes in the cooperative agreement award proposal and the Program, Objectives, Goals, and Implementation (POGI) document for each award's Notice of Funding Opportunity (NOFO). ECA's Awards Provision template section titled Purpose/Scope of Work incorporates the proposal and POGI into the award by reference. Recipients report against these in their PPRs.

There is overwhelming evidence, based on ECA staff's intensive daily monitoring of IIE's work, that IIE is fulfilling the terms and conditions of the 12 cooperative agreements under review. The OIG audit team was provided with many examples of ECA's assessment of IIE's progress under the terms of the awards, ensuring that performance metrics were met on a continuous basis. These examples include regular meetings, site visits, phone calls, emails, required reports, surveys, desk monitoring, and in-person program activities. These actions are consistent with the monitoring plans for each cooperative agreement. ECA agrees that more of this evidence should be saved in the official grant files in Grant Solutions.

The statement in the report that ECA did not perform oversight of IIE due to a longstanding relationship with IIE is wholly without basis. ECA's risk assessment and risk mitigation process is fact-based and standard for all award recipients in accordance with Federal regulations and Department policy; ECA does not rely on assumptions. The fact that an entity has been a previous ECA award recipient has no bearing on the rigor or quality of the oversight performed on the current awards.

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UNCLASSIFIED**Cost-share and Expenses**

The OIG is questioning certain cost share and expenses over a three-year period on the basis of inadequacy of supporting documentation. The OIG explained in the exit meeting with ECA that the final determination of whether these costs are supported or not will be made by ECA. ECA is committed to undertaking a review of the questioned cost share and expenses in accordance with all applicable Federal regulations and Department policies.

Cost Share

The largest share of the questioned costs relates to the voluntary committed cost-share contributions reported by IIE, as required by the cooperative agreements. The sources and calculation methodology for tracking and assessing the value of the cost share offered was included in the IIE budget narrative for each cooperative agreement and approved by the U.S. government by incorporation into the final awards. The cash portion of IIE's cost share is trackable and documented through its accounting system, and the third-party in-kind cost share tied to volunteer services is tracked, documented, and reported to the IIE Controller's Division by IIE staff using a cost-reasonable and time-feasible methodology that values the contributions consistent with 2 CFR 200.306 (e) and 22 CFR 145. The values of the reported services are based on volunteered time by identified individuals who performed services specific to a cooperative agreement within an identified timeframe, including the supervision of ECA-supported Fulbright graduate teaching assistants on campuses, National Screening Committee review of applications, on-campus recruitment, application assistance, oversight of each institution's verified pool of U.S. applicants to the Fulbright Program, and services on the Fulbright Scholar Advisory Board. The activities for which the services were provided were verifiably completed and IIE provided documentation consistent with the approved methodology for allocating the cost share.

Expenses

While insufficiency of supporting documentation for the tested expenses is identified as a concern, the report does not detail each finding by transaction tested. IIE's provision of the documentation requested and answers to questions raised during the audit are not reflected in the report (see Attachment with examples). The OIG audit team did not review the specifics of its findings with ECA prior to issuing its draft report. The OIG has not yet provided to ECA its documentation supporting its findings. ECA looks forward to receiving that documentation to assist in identifying and confirming the questioned costs.

ECA is concerned the OIG audit team did not examine IIE's accounting system, processes or practices to assist in making its recommendations, and as a result, the audit team had incomplete information with which to make its assessment. A number of the conclusions the OIG reached in the report are not consistent with an understanding of IIE's accounting systems and practices, which are reviewed annually by a reputable external auditor. IIE utilized both SAP and

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PeopleSoft during the period under review; both are widely used accounting systems designed to create the required audit trails. The systems use unique funding codes or ID numbers, which directly correspond to specific cooperative agreements to create an audit trail of allocated costs. That is further supported with additional layers of linked source documentation.

*Contractual expenses:* ECA is concerned the OIG audit team indicated that the lack of the cooperative agreement number on external vendor invoices may be a reason why expenses are not allocable. While inclusion of this information where feasible may be a best practice, there is no requirement in 2 CFR 200 or the award terms and conditions that cooperative agreement numbers appear on invoices from external vendors. According to 2 CFR 200.405, a cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with the relative benefits received. The costs must be incurred for the specific award, necessary, and assignable to the award. In IIE's accounting system, the invoices are linked to additional documentation, which includes payment requests and purchase orders with funding codes and project IDs which are unique to the specific cooperative agreement to which an expense is being allocated, as well as project related attachments, including the relevant recipient sub-agreements specific to each cooperative agreement.

*Salary expenses:* ECA is concerned that the OIG audit team misread the general ledger during transaction testing, affecting approximately 99 percent of the questioned costs in this category. One of the transactions tested (associated with cooperative agreement S-ECAGD-16-CA-1004 and used as an illustrative example in the report) was for 274,497 Russian rubles, which, at the time the expense was incurred, converted to \$4,351.02 in U.S. dollars (the conversion appears in the general ledger in an adjacent column). The OIG audit team appears to have interpreted the transaction to be for 274,497 U.S. dollars, and having been supplied documentation supporting the \$4,351.02 salary expense, concluded that supporting documentation for the difference of \$270,146 had not been provided. Of course, there was no expense of \$270,146 to document. This error should be corrected in the report.

*Travel expenses:* ECA is concerned that the OIG audit team asserts it could not confirm travel expenses were allocable to a specific cooperative agreement. ECA notes that IIE uses a travel provider that enters reservations through the Concur travel management system, which uses IIE's unique accounting codes entered directly by the traveler to link travel expenses to specific fund/project ID numbers associated with specific cooperative agreements. Concur is the same travel tool used by many U.S. government agencies.

#### *Internal Controls*

The report incorrectly suggests that ECA did not ensure IIE had an adequate accounting and reporting system in place. As part of the Risk Assessment process to determine if there were internal control issues prior to the issuance of each of the 12 awards made to IIE, the GO

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reviewed the recipient's annual audits by a reputable external auditor, who tested IIE's systems against federal regulations. The GO also searched the Duns & Bradstreet, Inc. (DNBi) Risk Management report to verify that there were no concerns raised. The Risk Assessments for each of the 12 awards issued to IIE reflected low risk. Further, ECA's warranted grants officers conducted a site visit in May 2012 to IIE's New York offices where its financial team is located to ensure IIE had appropriate internal controls in place to provide reasonable assurance for compliance with federal regulations. That site visit included a review of IIE's financial management systems to ensure the organization had systems in place that allowed for appropriate allocation and reporting of necessary, reasonable and allowable costs to federal awards. No areas of concern were identified during that site visit.

The report states that the questions OIG raised regarding whether specific expenses are supported are due, in part, to ECA not having adequate internal controls in place to ensure that the designated GO and GOR performed appropriate financial monitoring of the agreements. ECA disputes this conclusion, but agrees it needs to strengthen its internal controls to ensure it consistently documents its review of the FFR, as required. ECA often failed to document in the official file that the review of the FFR had taken place. We realize this failure to document makes it difficult to substantiate that the reviews were completed.

However, ECA notes that A/OPE/FA's Federal Assistance Procedure Handbook (p. 38, Post Award, Section 4, Monitoring and Report, Federal Financial Report, Form SF 425) lists what the GO should review in the FFR, which shows aggregated financial information (funding received, spent, remaining, overall cost share, etc). The FFR does not include line by line expenses or supporting documentation. Importantly, the Handbook notes, "As a general practice, it is not appropriate for the Federal Assistance Team (GO, GOR) to request receipts or detailed expenditure reports from the recipient." It is not required, feasible, or resource-efficient as a matter of risk mitigation to inspect or verify tens of thousands of individual expenditures without cause.

Consistent with standard practice, the GO performed a pre-award budget review of the detailed line items for each of the 12 cooperative agreements with IIE, including all cost amendments, to determine if the proposed costs were reasonable, allowable, and allocable to the proposed activities. The budgets are reviewed in conjunction with the budget narratives and the proposals to ensure alignment. As noted above, ECA conducted a pre-award risk assessment of IIE for each of the 12 awards made. Absent an issue raised during the risk assessment, ECA would not be expected or required to request further documentation of detailed expenses beyond the FFR, where expenses are reported in the aggregate. No irregularities were indicated in the review of the FFRs for the 12 awards during the period in question. A/OPE/FA's Federal Assistance Policy Directive (FAPD) Section 2.03 explains that site visits to review financial expenditures in detail are appropriate when risks are identified or there are other reasons for concern; none were present in these cases. Therefore, it is unclear why these areas are cited in the report as omissions or deficiencies on the part of ECA.

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UNCLASSIFIED*Management Response to Draft Report:*

**Recommendation 1:** OIG recommends that the Bureau of Educational and Cultural Affairs issue immediately, and annually thereafter, a directive to all designated Grants Officers and Grants Officer Representatives reminding them of their specific oversight responsibilities and requirements to provide appropriate oversight of cooperative agreements and grants in which they are entrusted.

**ECA Response:** ECA concurs with the recommendation that it issue immediately, and annually thereafter, a directive to all GOs and GORs reminding them of their specific responsibilities and requirements to provide appropriate oversight of cooperative agreements and grants.

**Recommendation 2:** OIG recommends that the Bureau of Educational and Cultural Affairs verify that the performance standards for all designated Grants Officer Representatives contain appropriate work commitments and performance metrics to enhance transparency, managerial responsibility, and proper oversight of cooperative agreements, as outlined in Department Notice Number 2016-12-142, dated December 28, 2016. Performance standards of any designated Grants Officer Representatives that do not contain the appropriate work commitments should be revised accordingly.

**ECA Response:** ECA concurs with the recommendation to verify that the performance standards for all designated GORs contain appropriate work commitments and performance metrics to enhance transparency, managerial responsibility, and proper oversight of cooperative agreements.

**Recommendation 3:** OIG recommends that the Bureau of Educational and Cultural Affairs issue immediately, and annually thereafter, a directive reminding all designated Grants Officers and Grants Officer Representatives to review and verify that the cost-sharing expenses for the cooperative agreements they are assigned are appropriate, documented, and supported in accordance with Federal regulations.

**ECA Response:** ECA concurs with the recommendation, with the clarification below, that it issue a directive to all GOs and GORs reminding them of their responsibilities for financial monitoring of cost-sharing expenses consistent with Federal regulations and Department policy. Per 2 CFR 200, GOs review proposed budgets and cost share as part of the pre-award review to confirm that costs are allowable, allocable, and reasonable. Recipients are only required to report the total amount of cost-share in SF-425 reports (FFRs). ECA cannot request additional back-up documentation for all expenses from every ECA award recipient. Desk monitoring and/or site visits to spot check cost-share expenses as part of broader financial monitoring is more appropriate and should be dictated by the initial risk assessment or emerging factors during the post-award phase. It would not be appropriate or feasible to review all individual cost-share expenses and supporting documentation.

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**Recommendation 4:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the unsupported cost-sharing contributions of \$14,829,120 for cooperative agreement S-ECAGD-14-CA-1017 (October 1, 2013, through September 30, 2016) are supported and (b) reduce, for any cost-sharing contribution determined to be unsupported, the Department of State's funding for the agreement accordingly, as stipulated in the agreement.

**ECA Response:** ECA concurs with the recommendation to review the questioned cost share contributions for cooperative agreement S-ECAGD-14-CA-1017 and to determine whether the costs are supported. ECA approved IIE's sources and calculation methodology for tracking and assessing the value of the voluntary committed cost share offered at the time it awarded the cooperative agreement.

**Recommendation 5:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the unsupported cost-sharing contributions of \$993,554 for cooperative agreement S-ECAGD-14-CA-1032 (October 1, 2013, through September 30, 2016) are supported and (b) reduce, for any cost-sharing contribution determined to be unsupported, the Department of State's funding for the cooperative agreement accordingly, as stipulated in the agreement.

**ECA Response:** ECA concurs with the recommendation to review the questioned cost share contributions for cooperative agreement S-ECAGD-14-CA-1032 and to determine whether the costs are supported. ECA approved IIE's sources and calculation methodology for tracking and assessing the value of the voluntary committed cost share offered at the time it awarded the cooperative agreement.

**Recommendation 6:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the unsupported cost-sharing contributions of \$19,153,955 for cooperative agreement S-ECAGD-15-CA-1015 (December 11, 2014, through September 30, 2016) are supported and (b) reduce, for any cost-sharing contribution determined to be unsupported, the Department of State's funding for the cooperative agreement accordingly, as stipulated in the agreement.

**ECA Response:** ECA concurs with the recommendation to review the questioned cost share contributions for cooperative agreement S-ECAGD-15-CA-1015 and to determine whether the costs are supported. ECA approved IIE's sources and calculation methodology for tracking and assessing the value of the voluntary committed cost share offered at the time it awarded the cooperative agreement.

**Recommendation 7:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the unsupported cost-sharing contributions of \$1,024,262 for cooperative agreement S-ECAGD-15-CA-1016 (December 11, 2014, through September 30, 2016) are supported and (b) reduce, for any cost-sharing contribution determined to be unsupported, the

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Department of State's funding for the cooperative agreement accordingly, as stipulated in the agreement.

**ECA Response:** ECA concurs with the recommendation to review the questioned cost share contributions for cooperative agreement S-ECAGD-15-CA-1016 and to determine whether the costs are supported. ECA approved IIE's sources and calculation methodology for tracking and assessing the value of the voluntary committed cost share offered at the time it awarded the cooperative agreement.

**Recommendation 8:** OIG recommends that the Bureau of Educational and Cultural Affairs develop and implement internal controls to monitor and verify that the designated Grants Officer and the Grants Officer Representative review and test expenses periodically, at least quarterly, to validate that claimed expenses for cooperative agreements are supported, allocable, and allowable in accordance with Federal regulations and Department policy.

**ECA Response:** ECA concurs with the recommendation to develop and implement internal controls for award monitoring. In May 2017, ECA developed a SOP for Performance Progress Report and Federal Financial Report reviews to ensure reports are reviewed and approved, and the reviews are documented. In addition, ECA is developing a Desk Monitoring and Site Visit Monitoring SOP and is updating its tools and templates, with an estimated release date of December 2017.

ECA does not concur with the recommendation to review and test expenses at least quarterly. Per 2 CFR 200, GOs review proposed budgets as part of the pre-award review to confirm that costs are allowable, allocable, and reasonable. Recipients are only required to report the total amount of expenses in SF-425 reports (FFRs). Desk monitoring and/or site visits to spot check expenses as part of broader financial monitoring can be appropriate, but should be dictated by the initial risk assessment or emerging factors during the post-award phase. It would not be appropriate or feasible to generally require testing of expenses quarterly.

**Recommendation 9:** OIG recommends that the Bureau of Educational and Cultural Affairs verify that the Institute of International Education's accounting system is adequate for tracking and supporting expenses and cost-sharing contributions, is capable of providing an audit trail in accordance with Federal regulations, and takes necessary action to remedy any deficiencies found.

**ECA Response:** ECA concurs with the recommendation to confirm whether IIE's accounting system is adequate for tracking and supporting expenses and cost-sharing contributions and capable of providing an audit trail in accordance with Federal regulations. ECA will take necessary action to remedy any deficiencies found. ECA verified the adequacy of IIE's accounting system through a site visit in 2012 and annual reviews of IIE's external audit reports. No deficiencies were found.

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**Recommendation 10:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the questioned costs of \$1,000,000 for unsupported contractual expenses for cooperative agreement S-ECAGD-14-CA-1017 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**ECA Response:** ECA concurs with the recommendation to review the questioned costs and to determine whether the costs for cooperative agreement S-ECAGD-14-CA-1017 are supported and allowable. ECA will recover any costs determined to be unsupported or unallowable.

**Recommendation 11:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$1,572,775 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-15-CA-1015 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**ECA Response:** ECA concurs with the recommendation to review the questioned costs and to determine whether the costs for cooperative agreement S-ECAGD-15-CA-1015 are supported and allowable. ECA will recover any costs determined to be unsupported or unallowable.

**Recommendation 12:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$1,096,048 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-16-CA-1004 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**ECA Response:** ECA concurs with the recommendation to review the questioned costs and to determine whether the costs for cooperative agreement S-ECAGD-16-CA-1004 are supported and allowable. ECA will recover any costs determined to be unsupported or unallowable.

**Recommendation 13:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$29,394 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-14-CA-1032 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**ECA Response:** ECA concurs with the recommendation to review the questioned costs and to determine whether the costs for cooperative agreement S-ECAGD-14-CA-1032 are supported and allowable. ECA will recover any costs determined to be unsupported or unallowable.

**Recommendation 14:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$1,957 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-15-CA-

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1016 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**ECA Response:** ECA concurs with the recommendation to review the questioned costs and to determine whether the costs for cooperative agreement S-ECAGD-15-CA-1016 are supported and allowable. ECA will recover any costs determined to be unsupported or unallowable.

**Recommendation 15:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$34,496 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-16-CA-1003 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**ECA Response:** ECA concurs with the recommendation to review the questioned costs and to determine whether the costs for cooperative agreement S-ECAGD-16-CA-1003 are supported and allowable. ECA will recover any costs determined to be unsupported or unallowable.

**Recommendation 16:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$2,015 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-14-CA-1037 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**ECA Response:** ECA concurs with the recommendation to review the questioned costs and to determine whether the costs for cooperative agreement S-ECAGD-14-CA-1037 are supported and allowable. ECA will recover any costs determined to be unsupported or unallowable.

**Recommendation 17:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$3,045 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-16-CA-1014 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**ECA Response:** ECA concurs with the recommendation to review the questioned costs and to determine whether the costs for cooperative agreement S-ECAGD-16-CA-1014 are supported and allowable. ECA will recover any costs determined to be unsupported or unallowable.

**Recommendation 18:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$1,145 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-14-CA-1021 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

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**ECA Response:** ECA concurs with the recommendation to review the questioned costs and to determine whether the costs for cooperative agreement S-ECAGD-14-CA-1021 are supported and allowable. ECA will recover any costs determined to be unsupported or unallowable.

**Recommendation 19:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$43,000 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-15-CA-1011 are supported and (b) recover any costs determined to be unsupported.

**ECA Response:** ECA concurs with the recommendation to review the questioned costs and to determine whether the costs for cooperative agreement S-ECAGD-15-CA-1011 are supported and allowable. ECA will recover any costs determined to be unsupported or unallowable.

**Recommendation 20:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) determine whether the identified questioned costs of \$986 for unsupported contractual expenses, salary expenses, and travel expenses for cooperative agreement S-ECAGD-16-CA-1006 are supported and allowable and (b) recover any costs determined to be unsupported or unallowable.

**ECA Response:** ECA concurs with the recommendation to review the questioned costs and to determine whether the costs for cooperative agreement S-ECAGD-16-CA-1006 are supported and allowable. ECA will recover any costs determined to be unsupported or unallowable.

Attachment – Examples of Questioned Costs

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**EXAMPLES OF QUESTIONED COSTS**  
Submitted by IIE

**1. Summary**

IIE is a responsible steward of federal funds and has extensive policies, processes, and internal controls to ensure compliance with applicable federal regulations and obligations. The OIG did not directly audit IIE during its recent program review and, therefore, did not seek information on IIE's systems, processes or practices. Since publication of the report, IIE has provided ECA with step by step documentation demonstrating the allocability of costs and cost share to specific cooperative agreements that the OIG has called in to question.

IIE submits that the portions of the OIG's draft report questioning IIE's incurred costs are based on less-than-complete information and understanding about IIE's tracking, support for, and allocation of costs. This response provides details that demonstrate how IIE's incurred costs fulfill the requirements contained in the Cooperative Agreements and applicable regulations.

**2. Specific Examples of Questioned Costs**

Below we present an abridged review and explanation of specific costs questioned in the Report to demonstrate that these costs are fully substantiated, allowable and allocable to a specific Cooperative Agreement. IIE has provided ECA with documentation on other questioned costs as it would have to OIG had it been requested.

**a. Travel**

Of the \$3.8 million of total questioned costs, \$25,085 resulted from travel expenses (airfare). Page 12 of the Report summarizes questioned costs organized by Cooperative Agreement number, and highlighted below is an example that is representative of the other questioned travel expenses. We reviewed the supporting documentation in IIE's official systems of record and determined that all travel expenses questioned by the OIG are adequately supported as further demonstrated below.

Cooperative Agreement	Questioned Travel Costs	Report Recommendation
S-ECAGD-15-CA-1015	\$290	11
S-ECAGD-16-CA-1004	\$2,703	12
<b>S-ECAGD-14-CA-1032</b>	<b>\$4,394</b>	<b>13</b>
S-ECAGD-15-CA-1016	\$265	14
S-ECAGD-16-CA-1003	\$9,144	15
S-ECAGD-14-CA-1037	\$2,015	16
S-ECAGD-16-CA-1014	\$3,040	17

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S-ECAGD-14-CA-1021	\$1,070	18
S-ECAGD-15-CA-1011	\$1,178	19
S-ECAGD-16-CA-1006	\$986	20

#### i. Allocability

In the Report, OIG questioned the majority of travel costs based on a conclusion that it was not possible to confirm that travel costs were allocable to a specific Cooperative Agreement. This conclusion is inaccurate. IIE's system for tracking travel costs must handle over 10,000 international and domestic bookings per year, and therefore must be robust, efficient, and effective. IIE confirmed that all travel costs were allocable using three primary elements of documentation:

- General Ledger Detail Report
- HRG Travel Agency<sup>1</sup> Billing Summaries
- Specific Travel Invoices (transactional support)

IIE reviewed the amount questioned in Recommendation 13 in the Report (\$4,394) to the General Ledger and confirmed there are no discrepancies. Then, we compared amounts billed to the specific Cooperative Agreement in the General Ledger to the transactional level supporting documentation:

- We verified that invoices for airfare adequately supported the amount billed to the award. We also confirmed that the transaction complied with the provisions of 2 CFR 200.474 - *Travel Costs*. For example, no first-class or business class airfare was booked. Tickets issued were coach/economy class.
- We verified the HRG billing summaries for each travel transaction questioned, and confirmed that the appropriate fund number was readily identifiable. Using the fund number, IIE easily identifies the corresponding grant agreement number. One tool available at IIE to easily perform this task is the Award Management System or PeopleSoft system. We provide screenshots below to demonstrate how this is performed.

<sup>1</sup> IIE employs the services of Hogg Robinson Group (HRG), a leading global travel provider for travel bookings, and enters travel reservations through the Concur travel management system, which uses accounting codes within its system to link travel expenses to specific fund/accounting numbers. Of note, Concur is used by many U.S. Government agencies, including some OIG offices. This system is reputable and has tools incorporated to ensure travel expenses are correctly allocated to specific projects or accounts as required.

Since IIE travelers submit their travel requests directly into Concur, this ensures that the correct fund number is input by the user in real-time, and not arbitrarily allocated by an accounting or finance representative unfamiliar with the project and thus the award. This process provides the maximum assurance that travel costs are allocated to the correct Cooperative Agreement.

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For several specific transactions, OIG stated that travel costs were not supported because "travel invoices do not reflect the grant number". This is incorrect for the following reasons:

- 2 CFR 200 does not prescribe formatting requirements for vendor invoices, nor does it state that the Cooperative Agreement number must be present.
- Formatting of invoices is subject to travel industry norms and standards. For example, it is not possible for IIE to demand that airline providers or travel agencies tailor their invoices to IIE's needs. When purchasing airfare from any major airline or travel agency, the invoice will follow the format pre-determined by the vendor. There is no field on standard airfare invoices for cooperative agreement numbers.
- It is the responsibility of IIE staff familiar with the mission and the nature of the transaction to ensure that specific travel invoices are correctly billed to the Cooperative Agreements that benefitted from the transaction. Our supporting documentation adequately demonstrates that this analysis was performed and that travel costs were appropriately allocated.
- HRG travel invoices clearly show IIE's fund numbers that are used in IIE's accounting system to properly allocate costs to various IIE programs, including Federal awards.

2 CFR 200.400 - Policy Guide, Section (c) states: *The non-Federal entity, in recognition of its own unique combination of staff, facilities, and experience, has the primary responsibility for employing whatever form of sound organization and management techniques may be necessary in order to assure proper and efficient administration of the Federal award.*

## ii. Cost Support

For several specific transactions, OIG stated that travel costs were not supported because no supporting documentation was provided. In fact, supporting documentation was provided for all travel transactions reviewed.

### 1. Example: Recommendation 13

In the table above, we highlighted questioned costs of \$4,394 under Cooperative Agreement S-ECAGD-14-CA-1032. OIG appears to have made a typographical error in the Report because the transactions in question total \$4,194, not \$4,394.

The \$4,194 represents two airfare transactions for an IIE employee:

\$2,027.65	August 2014
\$2,166.80	September 2014
<b>\$4,194.45</b>	<b>TOTAL</b>



**STEP 1 - Verify Transaction to the General Ledger**

Document ID	Fund Number	Amount in FC	Fund	Reference	Line Text	Amount in FC	Currency	Amount Billed to Fund	Agreement
130043		5,26.00	1000000	FUND SEP 2014	DOOR/RECEIVA LYNN	5,26.00	USD		021
13004352	6/9/14	499.00	1000000	FUND MAY 2014	DOOR/RECEIVA ANDREA	499.00	USD		021
130037580	2/1/14	3,000.00	1021001	HRS JAN 2014	DOOR/RECEIVA S	1,165.00	USD		021
130043561	2/1/14	869.00	1021001	HRS JAN 2014	DOOR/RECEIVA S	869.00	USD		021
130043173	3/9/14	2,156.00	1016780	HRS SEPT 2014	DOOR/RECEIVA MARIA	2,156.00	USD		021
130042373	9/8/14	2,021.05	1016780	HRS AUG 2014	DOOR/RECEIVA MARIA	2,021.05	USD		021
130047007	9/10/13	694.20	1000000	FUND MAR 2013	DOOR/RECEIVA ANDREA	694.20	USD		021
130045246	1/21/16	5,12.83	1000000	HRS TRIM DEC	DOOR/RECEIVA ANDREA	5,12.83	USD		021
130045246	1/21/16	5,12.83	1000000	HRS TRIM DEC	DOOR/RECEIVA ANDREA	5,12.83	USD		021
130054534	9/1/14	1,444.00	1016780	HRS SEP 2014	DOOR/RECEIVA ANDREA	1,444.00	USD		021
130054333	11/10/15	595.20	1021001	HRS TRIM OCT	DOOR/RECEIVA ANDREA	595.20	USD		021
130052434	11/10/15	595.20	1021001	HRS TRIM OCT	DOOR/RECEIVA ANDREA	595.20	USD		021

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*STEP 3 - Verify Existence and Appropriateness of Airfare Invoice*

28789058

SALES PERSON : 1979  
CUSTOMER NBR : 0111001INVOICE NO : 29498  
ISSUEDATE : 27 AUG 14  
Page : 1 / 2TO : INSTITUTE OF INTERNATIONAL  
EDUCATION  
MARIA CRUMMETT  
1490 K STREET NW  
WASHINGTON DC 20005

FOR : CRUMMETT/MARIA

REF :

15 SEP 14 - MONDAY

AIR	DL DELTA AIR LINES INC.	FLT: 8914	COACH	ECP: 870
	LV DCA WASHINGTON DC-NATIONAL		0830P	NON-STOP
	AR LGA NEW YORK-LAGUARDIA		0230P	
	CRUMMETT/MARIA	SEAT -		
AIR	DL DELTA AIR LINES INC.	FLT: 1017	M	RESEAFEST
	LV JFK NEW YORK-KENNEDY		1130P	ECP: 772
	AR CDG PARIS-DE GAULLE		1230P	NON-STOP
	CRUMMETT/MARIA	SEAT - 12B		

16 SEP 14 - TUESDAY

AIR	DL DELTA AIR LINES INC.	FLT: 8719	COACH	ECP: 319
	LV CDG PARIS-DE GAULLE		0930P	NON-STOP
	AR FRA FRANKFURT		0445P	
	CRUMMETT/MARIA	SEAT - 00C		

20 SEP 14 - SATURDAY

AIR	DL DELTA AIR LINES INC.	FLT: 211	S	LUNCH
	LV FRA FRANKFURT		1230P	ECP: 76M
	AR JFK NEW YORK-KENNEDY		0346P	NON-STOP
	CRUMMETT/MARIA	SEAT - 89E		
AIR	DL DELTA AIR LINES INC.	FLT: 2868	S	ECP: 8P3
	LV JFK NEW YORK-KENNEDY		0713P	NON-STOP
	AR IAD WASHINGTON D.C.-DULLES		0900P	
	CRUMMETT/MARIA	SEAT - 16A		

18 MAY 15 - MONDAY

OTS TRAMP YOU FOR USING HSG MORROW  
INF IN GUESSAM



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30799059

From Invoice Page 2

SALES PERSON : 1975  
CUSTOMER NBR : IIT1001INVOICE NO : 23498  
IPSRTXDATE : 27 AUG 14  
Page : 2 / 2TO : INSTITUTE OF INTERNATIONAL  
EDUCATION  
MARIA CRUMMETT  
1800 K STREET NW  
WASHINGTON DC 20005

FOR : CRUMMETT/MARIA

REF :

AIR TICKET DL7489664507-608  
ELECTRT

CRUMMETT/MARIA 2,166.80

AIR TICKET XD0624712663

CRUMMETT/MARIA 66.00

AMOUNT DUE	2,232.80
AMERICAN EXPRESS *****1008	-2,166.80
AMERICAN EXPRESS *****1008	-66.00
TOTAL	0.00

**STEP 4 - Correlate Fund Number to Cooperative Agreement Number using the Award Management System***(Note: this step was explained to the OIG, however, its auditors did not actually observe the process)*

III ENTERPRISE / AWARDS MANAGEMENT SYSTEM

SEARCH CRITERIA

For Fund #

Program Group

Start Date Between  and

End Date Between  and

Funding Type

Fund Status

Expense Type

Fee Type

Primary Division

Search Reset

RESULTS

Fund	Fund Name	Primary Division	Start Date	End Date	Cooperative Agreement #	Status	Global Flag
U164760	Pulbright Scholar FY14 - ADMIN	D401 - Pulbright Scholar	10/01/2013	09/30/2014	5-SCAGD-14-CA-1032	Active	▼

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**b. Salary**

Of the \$3.8 million of total questioned costs, \$273,449 resulted from salary expense. The majority of these questioned costs (approximately 99%) relate to a transaction that the OIG misinterpreted. These questioned costs (\$270,146) are discussed in the Report's Recommendation 12. The example is highlighted below:

Cooperative Agreement	Salary Costs Reviewed	Questioned Costs	Report Recommendation
S-ECAGD-15-CA-1015	\$29,626	\$1,177	11
S-ECAGD-16-CA-1004	\$306,858	\$270,146	12
S-ECAGD-15-CA-1016	\$35,929	\$1,692	14
S-ECAGD-16-CA-1003	\$33,468	\$352	15
S-ECAGD-16-CA-1014	\$34,414	\$6	17
S-ECAGD-14-CA-1021	\$12,770	\$76	18

**i. Misinterpreted General Ledger Information**

Because IIE operates in a multinational environment, we often must track foreign currencies and convert them to US dollars for reporting in our official system of record. When transactions occur in foreign currencies, the "Transaction Amount" field in the general ledger (GL) will show the amount of the transaction in the local currency. For these transactions, the amount that is in fact billed to the award is the "Base Amount" field, which converts the local currency to US Dollars using the "Divisor" field, which represents the currency exchange rate on the date of the transaction.

During transaction testing, the OIG questioned a transaction in the IIE general ledger in the amount of \$4,351.02 as \$274,497. The amount 274,497 in fact represented the expense in Russian Rubles. The OIG received timesheets and payroll reports to support the transaction amount in US Dollars of \$4,351.02, and IIE walked OIG through the transaction. Even so, OIG appears to have interpreted the transaction as amounting to \$274,497 USD, it concluded that supporting documentation for the difference (\$270,146) had not been provided. We re-verified the GL report to timesheets, currency exchange rates, and payroll reports, and determined that the salary expense billed to the award was adequately supported. Screenshots that support this verification are provided below.

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## STEP 1 - Verify GL Amount/Currency Exchange Process

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z
	Unit	Journal ID	Journal Date	Account	Acct Descr	Debit	Oper Unit	Fund	Project	Trans Amount	Stats Currency	Rate Type	Divisor	Multiplier	Base Amount	Base Currency										
3203	RUS01	898100103	9/30/16	501000 Direct Salarie	2338 E004	160	CNV021800				USD	CRNNT	61.088	1	97.91 USD											
3204	RUS01	898100103	9/30/16	501000 Direct Salarie	2333 E004	160	CNV021800			-553.58 RUB		CRNNT	61.088	1	-8.87 USD											
3205	RUS01	898100000	9/30/16	501000 Direct Salarie	2333 E004	160	CNV021800			-90.11 RUB		CRNNT	61.088	1	-1.46 USD											
3206	RUS01	898100000	9/30/16	501000 Direct Salarie	2333 E004	160	CNV021800			392.41 RUB		CRNNT	61.088	1	6.27 USD											
3207	RUS01	898100002	9/30/16	501000 Direct Salarie	2338 E004	160	CNV021800			528.04 RUB		CRNNT	61.088	1	8.57 USD											
3208	RUS01	898100007	9/30/16	501000 Direct Salarie	5400 NY003	160	CNV021800			1.67 USD		CRNNT	1	1	1.67 USD											
3209	RUS01	898100047	9/30/16	501000 Direct Salarie	2338 E004	160	CNV021800			274481.15 RUB		CRNNT	61.088	1	4493.02 USD											
3210	RUS01	898100005	9/31/16	501000 Direct Salarie	2338 E004	160	CNV021800			88.15 RUB		CRNNT	61.0449	1	1.36 USD											
3211	RUS01	898100005	9/31/16	501000 Direct Salarie	2338 E004	160	CNV021800			81.07 RUB		CRNNT	61.0449	1	0.51 USD											
3212	RUS01	898100006	9/31/16	501000 Direct Salarie	2338 E004	160	CNV021800			466.33 RUB		CRNNT	61.0449	1	7.59 USD											
3213	RUS01	898100006	9/31/16	501000 Direct Salarie	2333 E004	160	CNV021800			13696.54 RUB		CRNNT	61.0449	1	211.22 USD											
3214	RUS01	898100005	7/31/16	501000 Direct Salarie	2333 E004	160	CNV021800			15.24 RUB		CRNNT	1	1	0.23 USD											
3215	RUS01	898100008	7/31/16	501000 Direct Salarie	2338 E004	160	CNV021800			1137.34 RUB		CRNNT	1	1	18.89 USD											
3216	RUS01	898100005	7/31/16	501000 Direct Salarie	2333 E004	160	CNV021800			942.31 RUB		CRNNT	1	1	14.22 USD											
3217	RUS01	898100004	7/31/16	501000 Direct Salarie	2338 E004	160	CNV021800			21843.63 RUB		CRNNT	1	1	3427.64 USD											
3218	RUS01	898100004	9/30/16	501000 Direct Salarie	2338 E004	160	CNV021800			3422.79 RUB		CRNNT	1	1	54.75 USD											

## STEP 2 - Compare US Dollar Amount to Payroll

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
	TRN Audit Data	EmpID	Name	DeptID	PC Bus Unit	Project	Activity	Start Date	End Date	Acct	Fund	Program	Monetary Amount	Currency		
Selection #1																
71632		338	E008	CNV0216001	3, U116020, ADMN	9/16/16	9/30/16	503000	1.68	50307			481.93 USD			
71640		338	E008	CNV0216001	3, U116020, ADMN	9/16/16	9/30/16	503000	1.68	50307			487.79 USD			
70582		338	E008	CNV0216001	3, U116020, ADMN	9/16/16	9/30/16	503000	1.68	50307			1,187.86 USD			
71614		338	E008	CNV0216001	3, U116020, ADMN	9/16/16	9/30/16	503000	1.68	50307			789.81 USD			
50584		338	E008	CNV0216001	3, U116020, ADMN	9/16/16	9/30/16	503000	1.68	50307			897.07 USD			
50722		338	E008	CNV0216001	3, U116020, ADMN	9/16/16	9/30/16	503000	1.68	50307			556.81 USD			
													4,851.03			

Here we can see a summary payroll report for 09/03/2016 representing 8 Russian Employees, whose total payroll of \$4,851.02 matches the amount billed to the award in the GL.

## STEP 3 - Compare Payroll to Timesheets

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
TRN Audit Data	EmpID	Name	Project	Activity	Start Date	End Date	Acct	Monetary Amount	Currency	Foreign Amt	Effective Rate	Total Hours									
Selection #1																					
71632				CNV0216001	3, U116020, ADMN	9/16/16	9/30/16	503000	481.93 USD		481.93	3.239825	91.00								
71640				CNV0216001	3, U116020, ADMN	9/16/16	9/30/16	503000	487.79 USD		487.79	7.520797	88.00								
70582				CNV0216001	3, U116020, ADMN	9/16/16	9/30/16	503000	1,187.86 USD		1,187.86	29.271144	88.00								
71614				CNV0216001	3, U116020, ADMN	9/16/16	9/30/16	503000	789.81 USD		789.81	8.572880	88.00								
50584				CNV0216001	3, U116020, ADMN	9/16/16	9/30/16	503000	897.07 USD		897.07	7.520820	81.00								
50722				CNV0216001	3, U116020, ADMN	9/16/16	9/30/16	503000	556.81 USD		556.81	6.940425	80.00								
									4,851.03												

Here the Payroll Analysis demonstrates that the allocation of the employee's hours worked were allocated to the award using her pay rate of \$7.01 / hour.

Hours in the payroll report for this project match the hours recorded on the timesheet for the same project.

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Timesheet

From: 09-16-2016	To: 09-30-2016
Employee ID: 8284	Employee Record: 0
Name: [REDACTED]	Jobcode: Program Officer
Department: Fulbright Outreach	Department #: 2338
Full/Part Time: Full-Time	Employee Type: Salamed
Regular/Temp: Regular	HR Status: Active
Workgroup: RUSSIA	Std Hours: 40

	Pri	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Tue	Wed	Thu	Fri	Total
	08/15	08/16	08/18	08/21	08/22	08/23	08/25	08/27	08/28	08/29	08/30		
REG 0893 GNV3210001 U116020.ADMIN	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	83.00
SCH317	2.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.04
	3.04	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	85.04

Submission Date: 9/16/2016	Approval Date: 9/19/2016
By: [REDACTED]	By: [REDACTED]

In the analysis above, we can see that 83 hours from the timesheet, charged to fund U116020, were appropriately allocated to payroll for fund U116020. As demonstrated in the Travel cost example, the fund number is readily matched to the corresponding Cooperative Agreement number to demonstrate the proper allocation to the award. IIE performed the same analysis for the other 5 employees listed in the payroll report for 9-30-2016 and identified no discrepancies.

## ii. Other Salary Expenses

The example above represents around 99% of the questioned salary expenses. The remaining questioned expenses total \$3,303, and are discussed in Recommendations 11, 14, 15, 17 and 18. Three of these questioned salary amounts are of nominal amounts (\$6, \$76, \$352), which leaves two remaining salary costs that were questioned for discussion:

1. \$1,177: S-ECAGD-15-CA-1015
2. \$1,692: S-ECAGD-15-CA-1016

For the first of these two salary amounts, we are not able to identify the source transaction(s) that are being questioned by the OIG, but believe it matches a transaction of \$177, for which supporting documentation was provided. We request that the OIG provide additional information about the nature of these questioned costs so that we can demonstrate the supporting documentation and resolve the question.

For the second salary amount of \$1,692 billed to Cooperative Agreement S-ECAGD-15-CA-1016, we have determined that we inadvertently provided the wrong IIE

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employee's timesheet to the OIG for that transaction. The payroll report and GL extract shows that \$1,692 was billed for the correct employee. IIE mistakenly gave the OIG the timesheet for a different employee. These team members' Employee IDs differ by one digit. IIE will provide the correct employee's time records to support this transaction.

IIE maintains records for all salary expenses incurred. We are confident that adequate supporting documentation exists for these labor expenses, in line with the documentation maintained for all IIE salary expenses.

#### c. Contractual Costs

Of the \$3.8 million of total questioned direct costs, \$3,486,329 resulted from sub-recipient agreement costs. All the costs referred to in the Report as contractual expenses were payments to sub-recipients. Page 12 of the Report summarizes questioned costs organized by Cooperative Agreement number. An example, representative of typical sub-recipient expenses, is highlighted below was reviewed to determine if the documentation supported the costs.

Cooperative Agreement	Questioned Consultant Costs	Report Recommendation
S-ECAGD-14-CA-1017	\$1,000,000	10
S-ECAGD-15-CA-1015	\$1,571,308	11
S-ECAGD-16-CA-1004	\$823,199	12
S-ECAGD-14-CA-1032	\$25,000	13
S-ECAGD-16-CA-1003	\$25,000	15
S-ECAGD-15-CA-1011	\$41,822	19

#### i. EXAMPLE - Recommendation 10

For Cooperative Agreement S-ECAGD-14-CA-1017, the Report questions \$1,000,000 in sub-recipient expenses, stating that *"documentation was not sufficient to link subcontractor invoices and other supporting documentation to specific cooperative agreements."* We reviewed sub-recipient invoices, sub-recipient agreements, and important system tools that are needed to provide the link between sub-recipient costs and the original prime award. After the review, we confirmed that the costs are fully supported.


The \$1,000,000 related to two different invoices from the sub-recipient LASPAU. LASPAU's invoices documented the appropriate Cooperative Agreement through use of the fiscal year notation. IIE recognizes that this denotation could be clearer, but in the current example, using the personnel, tools and analyses that IIE has readily available, linking a sub-recipient invoice to a prime Cooperative Agreement number is a simple process. Here, we will demonstrate step-by-step how this was achieved in the SAP accounting system.



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*STEP 1 – Verify Vendor Transaction Info on Subrecipient Invoice*

The sub-recipient invoices are standard requests for payment that identify pertinent details such as the vendor name, date, amount requested, services performed, etc. There are also attachments such as the payment request (discussed below) and often other project-related attachments, such as email correspondence and/or sections of the original sub-agreement, funding levels, deliverables, etc. The addition of these elements to the invoices demonstrates significant involvement by the IIE team members working on the program. These IIE employees are intimately familiar with the program and where the costs are to be allocated. These invoices, together with the knowledge, tools, and systems available to IIE team members, readily generate sufficient supporting documentation to link payments to sub-recipients to the appropriate prime Cooperative Agreement.

 <b>Invoice</b>			
25 Mt Auburn Street, Cambridge, MA 02138-6085, USA Tel: (617) 495-5256, Fax: (617) 495-1830		7/21/2014 20140145	
<b>Customer</b> Inst. of International Education 809 United Nations Plaza New York, NY 10017-3580 USA			
Description	Quantity	Unit Price	Amount
Grantee Funds - Contract FY 2014	1.00	3000000.00	\$3000000.00

*STEP 2 – Verify Fund Number on Payment Request*

The Payment Request is a document created by the IIE program team member that identifies the fund number to which the transaction corresponds. The fund number is an internal project code used by IIE that is unique to each project. Each fund number is unique to a single award under IIE management. The OIG questioned costs on these invoices because the Cooperative Agreement number was not visible thereon, but because the fund number is evident, the Cooperative Agreement number is not necessary because the fund number is unique to the Cooperative Agreement.

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ACCOUNTS PAYABLE

34 AUG 18 AM 10:59

Vendor: #0003006449  
1099: No

**IIE Payment Request**

PR#: 341190 Submitted Date: 08/14/2014 1:36 PM Requestor: [redacted]

**Payment Details:**  
 Location: New York  
 Document Type: IS - Wire - Government  
 Payment Terms: Due Upon Receipt

**Vendor:** [redacted]  
 LASPAU  
 LASPAU  
 25 Mt. Auburn Street  
 Cambridge, MA 02138

**Text:**  
 (Comments Printed on Check) Grants/Funds - Contract FY 2014

**Invoice:** 1 Invoice Date: 08/12/2014 Reference (Invoice Number): 20140146 Total Invoice Amount: \$600,000.00

GL Account	Fund	Cost Center (Division/Grantee)	Business Area (Division)	Amount	Description of Expense
481570	U114351	G7025524	D600	\$500,000.00	Grantee Expenses - Contract FY 2014
Program Subrecipient Expenses/FULBRIGHT LASPAU PROGRAM 2014/Advocacy/D600 - OVP Exchange Programs					

**Total Payment Amount: \$600,000.00**

**STEP 3 - Compare Fund Number to  
Corresponding Cooperative Agreement**

Using the Award Management System, IIE staff can easily compare the fund number present on payment requests to the Cooperative Agreement number. In this example, we input the fund code U114351 in to AMS and the system output (excerpt below) demonstrated that the corresponding Program is "Fulbright LASPAU Program 2014 under Cooperative Agreement S-ECAGD-14-CA-1017.

Search    Reset

**RESULTS**

Fund	Fund Name	Primary Division	Start Date	End Date	Agreement #	Status	Status Flag
U114351	Fulbright LASPAU Program 2014	D600 - MVE Exchange Programs	10/01/2013	09/30/2017	S-ECAGD-14-CA-1017	Active	▼

**STEP 4 - Identify Prime Cooperative Agreement  
Number on Subrecipient Agreement**

By referencing the sub-recipient agreement, the prime Cooperative Agreement number is evident on the first page, as is the sub-recipient name and other pertinent information about the sub-award. This documentation provides additional support that the agreement between IIE and the sub-recipient LASPAU, in this example, was an official sub-award, budgeted and approved in the original Cooperative Agreement, and that these costs are allowable. We can provide sub-recipient agreements for both the FY2014 and FY2015 awards with LASPAU.

**3. Conclusion**

IIE adheres to all federal regulatory and contractual requirements.



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Under 2 CFR 200.403<sup>2</sup>, a cost is allowable under a Federal Award if it is reasonable, allowable, allocable, and adequately documented. The OIG's draft audit report focuses on the latter two issues: cost allocability to certain federal awards, and adequacy of supporting documentation. IIE's systems, processes, procedures, and internal controls were built to support compliance with these Federal standards.

**a. Allocability**

The regulatory standards applicable to cost Allocability are located at 5 200.405 *Allocable costs*, which states, "A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received."

While the OIG did not review IIE's written policies, procedures, or cost allocation process, these are integral components of IIE's effective cost management and allocation of costs.

**b. Documentation Standards**

The regulatory standards that prescribe Federal requirements for documenting costs are located at 2 CFR 200.302 *Financial Management*. The standard requires recipients of Federal funds to have a system of financial management that identifies "adequately the source and application of funds for federally-funded activities" and that system records be "supported by source documentation." The standard does not require that source documentation alone fulfill the requirements of this section, but rather that the recipient maintain adequate records and source documentation, and support these with effective controls over the funds.

While the OIG did not review IIE's written procedures or review IIE's systems, these are integral components of IIE's effective cost management and are an inextricable part of our audit trail.

IIE has routine external and internal audits, reviews, and site-visits that test our application of policies and compliance with our contractual and regulatory requirements.

- As required, IIE undergoes an annual single audit, which includes transaction testing and review of supporting documentation by an external auditor.
- IIE is routinely audited and reviewed by our clients for compliance and cost allowability. Recent examples include:
  - 2016 Department of State, Bureau of Near Eastern Affairs- site visit

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<sup>2</sup> The Cooperative Agreements subject to this audit contain additional financial management and documentation standards language, but the language is not materially different from the requirements in the Uniform Guidance.

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- 2017 Rockefeller- Post-award Audit
- 2017 Department of State, Middle East Partnership Initiative- Grants Office review of OIG questioned costs

All instances included transactional testing and review of IIE's supporting documentation, and found that IIE's supporting documentation and audit trail met the requirements applicable to the agreements tested.

Additionally, the U.S. Department of State, Bureau of Educational and Cultural Affairs conducted a site visit in 2012, which tested transactions on-site from all active awards and found IIE's supporting documentation and audit trail to be sufficient.

## APPENDIX C: INSTITUTE OF INTERNATIONAL EDUCATION RESPONSE

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November 9, 2017

Norman P. Brown  
Assistant Inspector General  
Office of Audits  
Office of Inspector General  
U.S. Department of State

Re: Audit of the Administration of Cooperative Agreements Awarded to the Institute of International Education by the Bureau of Educational and Cultural Affairs

Dear Assistant Inspector General Brown:

The Institute of International Education, Inc. ("IIE") hereby provides this response to the subject draft audit report by the Office of Inspector General ("OIG"). While the Bureau of Education and Cultural Affairs ("ECA"), rather than IIE, was the auditee for this program audit, the draft report directly questions IIE's compliance with cost and cost share requirements under 12 cooperative agreements ("Cooperative Agreements"). IIE believes the draft report contains substantive errors.

Since receiving the report, IIE has provided additional information about its systems, cost accounting and cost sharing calculations to ECA, but we also must direct OIG's attention to particular findings that are demonstrably erroneous and, if published, would unfairly damage IIE's reputation. We respectfully request that the OIG consider this information and revise its draft report.

During the audit, IIE responded to all OIG requests, provided all requested documentation, which it has also provided to ECA, and made itself available to explain any costs or cost share items in question, had the auditors so requested. The OIG did not, however, request access to our accounting systems or relevant policies, spent little time on-site asking questions about our costs and cost share accounting, and did not ask about our audit trail. We were therefore surprised to find that OIG's draft audit report made negative – and erroneous – findings about IIE in each of these areas.

IIE takes seriously the requirements contained in the Cooperative Agreements and applicable Federal regulations regarding allowability, allocability, reasonableness, and support for costs and cost share. In the days since IIE received the draft report, we have provided to ECA

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documentation and detail that demonstrate adequate support and proper allocability for questioned costs and cost share that the OIG either did not review or did not take into account when drawing its conclusions. IIE will demonstrate to the ECA Grants Office that our costs and cost share contributions are supported, allowable, allocable, and verifiable. We are confident that such review will confirm that: (i) IIE has been closely and appropriately monitored by ECA pursuant to the terms of the respective Cooperative Agreements; (ii) IIE utilizes government-compliant accounting systems with verifiable audit trails; and (iii) IIE maintains appropriate support for, and properly allocated, its costs and cost sharing obligations.

In view of OIG's findings with respect to IIE's compliance with the Cooperative Agreements and Federal regulations, IIE believes it important to address several inaccuracies and erroneous conclusions in the draft report.

1. Misunderstanding of the General Ledger

While transaction testing a salary expense, which was charged to Cooperative Agreement S-ECAGD-16-CA-1016, OIG apparently misread IIE's general ledger report, which contained the IIE team member's salary in her local currency, Russian rubles (R270,146), and, in an adjacent field, the salary amount converted to U.S. dollars (\$4351.02). IIE explained that the general ledger displays the amount in both currencies and showed that the USD amount was used for the payroll record, the employee's timesheet, and charges to the Cooperative Agreement. Nevertheless, the draft report questions (at Recommendation 12) a non-existent charge of US\$270,146 to the Cooperative Agreement. This is a clear misunderstanding of the same entry in two different currencies.

2. Misunderstanding of Fund Accounting

OIG questioned the allocability of certain travel expenses, apparently because the travel invoices do not contain the specific Cooperative Agreement number. There is no such requirement in the Cooperative Agreements or the regulations. Furthermore, IIE ensures that travel costs are properly allocated via use of three primary elements of documentation:

- General Ledger Detail Report
- Travel Agency Billing Summaries
- Specific Travel Invoices

IIE uses fund accounting, whereby every Cooperative Agreement has unique fund numbers assigned to it in our system in order to accurately allocate expenses thereto. IIE provided screenshots from these sources to OIG to demonstrate how the fund accounting system properly allocated the expenses, and has provided them to ECA, to demonstrate how it verifies that all travel transactions are supported. IIE properly accounted for these costs and OIG's failure to credit its system of fund accounting led to the erroneous findings.

### 3. Cost share Tracking and Documentation

The draft report quotes an IIE official. No IIE official made the quoted statement. The draft report further states the amounts reported for volunteer time were “merely annual projections based on surveys.” In fact, IIE reported time that had been donated, and not projections. Finally, although the draft report stated that IIE had “provided the documentation it had available” to support reported in-kind cost share valuations, OIG had received spreadsheets showing our cost share valuation allocated to various Cooperative Agreements, but did not request or review all the backup data IIE maintains to support its cost share allocations.

In summary, IIE believes the amount of time OIG spent with IIE during the audit was inadequate to understand IIE’s systems and cost-related compliance. As a result, the draft report contains inaccuracies that would give the false impression that the Fulbright programs are poorly administered.

For these reasons, we respectfully request the OIG consider this information, as well as the information that IIE has provided to ECA, and revise its draft report to correct these inaccuracies before it is provided to the public.

Sincerely,



Allan E. Goodman

## APPENDIX D: OIG REPLIES TO BUREAU OF EDUCATIONAL AND CULTURAL AFFAIRS GENERAL COMMENTS

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In addition to providing comments regarding the recommendations offered in this report, the Bureau of Educational Affairs (ECA) provided general comments related to the draft of this report (ECA's comments are reprinted in their entirety in Appendix B). ECA structured its response into comments for each of the report's 20 recommendations and included an attachment, "Examples of Questioned Costs," which was submitted by the Institute of International Education (IIE). Rather than responding to each point raised by ECA, OIG considered ECA's comments and updated the report, as appropriate. OIG notes that, for all its recommendations regarding recoveries of questioned costs, it is ultimately ECA's prerogative to decide whether any given cost is appropriate. Below is a summary of ECA's general comments and OIG's reply to each.

**ECA Comment:** For Finding A, ECA disagreed with OIG's conclusion that it did not develop monitoring plans that were specific to each cooperative agreement. ECA stated that it prepared monitoring plans for the 12 cooperative agreements and that each plan incorporated the specific agreement by reference. Therefore, ECA asserts that Table 2 of this report, Summary of ECA Performance and Financial Monitoring, is incorrect.

**OIG Reply:** ECA developed monitoring plans for the 12 cooperative agreements reviewed. However, as set forth in Table 2 of this report, the monitoring plans were not, in fact, specific to each cooperative agreement as required. The plans did not include information identifying them with a specific agreement, such as the cooperative agreement number, and there was no other notation that linked the plans to other related documents "by reference." In addition, although the plans contained some overall program goals, they did not include required elements, such as risk mitigation strategies and performance metrics based on each agreement's goals and specifications, and they did not define how progress against those goals would be measured or how ECA would monitor the program performance indicators completed by IIE.

**ECA Comment:** In other comments on Finding A, ECA stated that it engaged in intensive daily monitoring of IIE's work, including regular meetings, site visits, phone calls, emails, required reports, surveys, desk monitoring, and in-person program activities. However, ECA acknowledged that it did not adequately document its monitoring practices for the 12 cooperative agreements reviewed. ECA also explained that GORs did not consistently provide GOs a written assessment of the overall program performance based on the PPR review. In addition, ECA stated that GOs and GORs did not consistently document in Grant Solutions that they reviewed the Federal Financial Reports. ECA accepted that the failure to document makes it difficult to substantiate that the reviews were completed. ECA said that it had experienced a hiring freeze for several years, which resulted in ECA prioritizing other programs or grant management responsibilities over documenting monitoring.



**OIG Reply:** OIG agrees that the lack of supporting documentation makes it difficult for auditors to validate that monitoring occurred as required, and, as set forth in the report, OIG did not, in fact, find evidence supporting that ECA was monitoring IIE. Although ECA described various methods through which it said it monitored IIE and provided anecdotal information regarding particular agreements, OIG could not establish that these methods were actually applied to monitor IIE as required. While phone calls, site visits, emails and meeting are all acceptable and expected ways to perform oversight, documentation should generally be preserved and substantive documentation should specifically be maintained in the file as evidence of such oversight.

Moreover, in addition to the lack of documentation supporting monitoring, ECA officials stated that PPRs and FFRs were not reviewed to evaluate performance and expenses reported and that the cooperative agreements were not monitored independently due to the large size of the Fulbright Program. Performing reviews of grantee reports and documenting the results, however, is an internal control that will help ECA establish sound monitoring practices. Many of OIG's recommendations are intended to promote a reasonable and feasible approach that considers both the need for sound internal controls and the practicalities of administering a large program.

**ECA Comment:** For Finding B, ECA stated that the sources and calculation methodology for tracking and assessing the value of the cost-share offered by IIE was included in the IIE budget narrative for each agreement and approved by the U.S. Government when incorporated into the final awards. ECA explained that IIE staff tracks, documents, and reports in-kind cost-share using a valuing methodology consistent with 2 CFR 200.306(e) and 22 CFR 145. ECA added that the values of the reported services are based on volunteered time by identified individuals who performed services specific to a cooperative agreement within an identified timeframe.

**OIG Reply:** IIE did not support and document cost-share amounts questioned in this report. Federal guidance requires reported cost-share to be allowable in accordance with cost principles.<sup>1</sup> For cost-share to be allowable, it must be adequately documented and allocable to the specific cooperative agreement. That is, the source documentation must support that the cost-share reported was incurred for the specific award.

OIG agrees that the budget narrative for the cooperative agreements provides the calculation methodology to value cost-sharing, but this methodology is intended to estimate or project the value being used for the budget being proposed; it is not intended to track or document actual cost-sharing as it is reported in required Federal reports. According to 2 CFR 200, a budget estimate is determined before the services are performed and, standing alone, does not qualify as support for charges to Federal awards. A cost can be determined to be allowable, allocable, and reasonable only after it has been incurred and the supporting documentation has been reviewed and validated in accordance with Federal Cost Principles. Therefore, the existing

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<sup>1</sup> 2 CFR § 200.306(b)(4), "Cost Sharing or Matching."



methodology is inadequate to track and document actual cost-sharing amounts incurred for specific Fulbright activities in accordance with Federal cost principles. Moreover, the documentation provided by IIE during the audit to support the questioned cost-share was inadequate to validate that it was incurred for the specific cooperative agreement for the period reported.

**ECA Comment:** In other comments on Finding B, ECA stated that it is concerned the OIG audit team indicated that the lack of the cooperative agreement number on external vendor invoices may be a reason why expenses are not allocable. Although acknowledging that this may be a best practice, ECA stated that there is no such requirement pursuant to Federal regulation. ECA added that, in IIE's accounting systems, the invoices are linked to additional documentation, including payment requests and purchase orders with funding codes and project IDs that are unique to the specific cooperative agreement being charged.

ECA included in an attachment provided by IIE an example of a contractual expense valued at \$1,000,000 for cooperative agreement S-ECAGD-14-CA-1017, and explained in detail why it believed that the expense is fully supported (See invoice at Appendix B, p. 54). The \$1,000,000 related to two invoices from the same sub-recipient, valued at \$500,000 each. IIE stated that the invoices documented the specific cooperative agreement through the fiscal year notation. IIE further explained that linking the sub-recipient invoice to the specific agreement is a "simple process" using the "personnel, tools, and analyses that IIE has available." IIE acknowledged that the notations on invoices "could be clearer" but stated that, when the invoice is received, IIE team members add elements such as payment request, sections of the sub-agreement, etc. IIE stated that its employees are "intimately familiar" with the program and know where the costs are to be allocated.

**OIG Reply:** The invoices provided for the contractual expenses did not support allocability to the specific cooperative agreement to which those invoices were being charged. According to 2 CFR 200, the proposed budget is an estimate determined before the services are performed and, standing alone, does not qualify as support for charges to Federal awards. A cost can be determined to be allowable, allocable, and reasonable only after it has been incurred and the supporting documentation has been reviewed and validated in accordance with Federal Cost Principles.<sup>2</sup> Determining that costs are allowable, allocable, and reasonable on the basis of the review of the costs proposed in the budget and then assuming that all of IIE's incurred expenses are allowable without performing any subsequent review does not comply with Federal requirements and may increase the risk of financial mismanagement. Although including the cooperative agreement number on the invoices is not a requirement, it would help in the documentation and the allocation process. Such information is necessary because OIG found many of the invoices reviewed did not include any type of information tying the invoice to the specific cooperative agreement; relevant information could have included the cooperative agreement number or the specific program/activity name, including the program year, for which the invoice was being rendered.

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<sup>2</sup> 2 CFR § 200, Subpart E, "Cost Principles."

Moreover, the information on the invoices provided as support for the \$1,000,000 contractual expense was insufficient to allocate the expense to the cooperative agreement S-ECAGD-14-CA-1017. For instance, the invoice description notes only "Grantee Funds – Contract FY 2014," without any reference to a specific agreement or to the Fulbright Program (see Appendix B, p. 54). On the basis of the information on the invoice, it was impossible for OIG to allocate this expense to the specific agreement. The allocation of an expense should not be based on the experience of IIE personnel but on the source documentation that should support the expense allocation, as this is necessary to establish an audit trail.

**ECA Comment:** In further comments on Finding B, ECA disputed OIG's conclusion that ECA did not have internal controls in place to ensure that the Grants Officer (GO) and Grants Officer Representative (GOR) performed financial monitoring of the agreements, but agreed that they needed to strengthen their internal controls to ensure that reviews of Federal Financial Reports (FFRs) are consistently documented. ECA added that the Bureau of Administration, Office of Procurement, Federal Assistance Division's Federal Assistance Procedure Handbook states that, generally, it is not appropriate for the GO or GOR to request receipts or detailed expenditures reports from the recipient. ECA further noted that it is not required, feasible, or resource-efficient to verify thousands of individual expenditures without cause and that, because ECA had not found any issues during the risk assessments, ECA would not be expected to request detailed expenses beyond amounts reported in the FFR.

**OIG Reply:** OIG stands by its conclusion that ECA does not have the internal controls in place to ensure that GOs or GORs review expenditures as required by Federal regulations. OIG is not suggesting that ECA can or should automatically review thousands of expenditures. Under ECA's current approach, though, there is no review of expenditures at all. An adequate internal control establishing some expenditures-testing as part of regular monitoring would provide greater assurance that IIE is in compliance with applicable regulations. The level and frequency of the expenditures review should be based on the risk assessment.

**ECA Comment:** ECA expressed concern that OIG did not examine IIE's accounting system, processes, or practices when making the report recommendations and asserts that OIG therefore had incomplete information when making its assessment. ECA added that OIG's conclusions are not consistent with an understanding of IIE's accounting systems and practices. ECA explained that the two accounting systems used by IIE, SAP and PeopleSoft, are designed to create an audit trail of allocated costs.

**OIG Reply:** ECA is correct that OIG did not evaluate IIE's accounting system, as this was not among the audit's objectives. Accordingly, OIG did not request access to those accounting systems or review policies relevant thereto. Rather, OIG conducted the audit to determine whether (1) ECA monitored cooperative agreements awarded to IIE in accordance with Federal regulations and Department policy; and (2) IIE complied with the terms and conditions of the cooperative agreements and incurred expenses related to the Fulbright program in accordance with Federal regulations and Department policy. As described in more detail in responses to IIE's

own comments, however, OIG obtained extensive information from IIE in the course of its fieldwork. On the basis of documentation and explanations provided by IIE regarding its accounting system and practices, OIG obtained a sufficient understanding of IIE's process for accounting expenses that, together with an understanding of Federal financial requirements, allowed the audit team to determine whether the selected expenses were supported as required.

**ECA Comment:** ECA did not agree that IIE had an inadequate accounting and reporting system in place. ECA stated that as part of the risk assessment, ECA reviewed IIE's annual audits performed by an external auditor and determined that the 12 awards reflected a low risk. Also, ECA explained that GOs conducted a site visit in May 2012 to IIE's New York offices, where its financial team is located, to review IIE's internal controls, and found no areas of concern.

**OIG Reply:** ECA did not ensure that IIE's accounting and reporting systems were adequate to produce an audit trail based on the documentation obtained and reviewed. A cost can be determined to be allowable, allocable, and reasonable only after it has been incurred and the supporting documentation has been reviewed and validated in accordance with Federal Cost Principles. ECA stated that its last site visit was in May 2012, but several events since that time cast doubt on ECA's conclusion that there were no areas for concern. First, an audit report issued by PricewaterhouseCoopers on September 30, 2012, found errors in cost-sharing that resulted in the Department not receiving the expected cost-share requirements from IIE. Moreover, after another PricewaterhouseCoopers audit in 2015 identified additional accounting issues, IIE transitioned from SAP to a PeopleSoft accounting system. More recently, IIE submitted its data collection form and audit reporting package for the FY 2016 A-133 single audit report more than 5 months after the deadline for those documents due to issues related to the implementation of IIE's new financial system. As a result, PwC will consider IIE a high-risk auditee for fiscal years 2017 and 2018 audit years. All three of these facts reflect a need for additional financial monitoring actions by ECA during any risk analysis.

**ECA Comment:** The attachment to ECA's comments provided by IIE states that \$4,394 in questioned costs for cooperative agreement S-ECAGD-14-CA-1032 is a typographical error because the transactions in question total \$4,194, not \$4,394. IIE stated that the \$4,194 represents two airfare transactions for an IIE employee: \$2,027.65 and \$2,166.80.

**OIG Reply:** OIG reviewed the typographical error allegation and concludes that the number in the report—\$4,394—is correct. OIG reviewed a sample of expenses for cooperative agreement S-ECAGD-14-CA-1031 from SAP and PeopleSoft accounting systems. Specifically, OIG reviewed two transactions from SAP valued at \$4,194.45, and one transaction from PeopleSoft valued at \$199.34, for a total of \$4,394.

## APPENDIX E: SUMMARY OF AND REPLIES TO INSTITUTE OF INTERNATIONAL EDUCATION GENERAL COMMENTS

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The Institute of International Education (IIE) provided general comments related to a draft of this report (IIE's comments are reprinted in their entirety in Appendix C). IIE structured its response into comments to address what it contends were inaccuracies, "substantive errors," and erroneous conclusions in the draft report. OIG summarized IIE's comments and presented those summaries, along with replies from OIG, below. OIG considered IIE's comments and updated the report, as appropriate.

**IIE Comment:** Like ECA, IIE commented that OIG "did not request access to IIE's accounting systems or relevant policies, spent little time on-site asking questions about [its] costs or cost share accounting, and did not ask about [its] audit trail."

**OIG Reply:** As noted in response to ECA's comments, OIG did not attempt to perform an audit of IIE's accounting systems, as this was not among the audit's objectives. Accordingly, OIG did not request access to those accounting systems or review policies relevant thereto. Rather, OIG conducted the audit to determine whether (1) ECA monitored cooperative agreements awarded to IIE in accordance with Federal regulations and Department policy; and (2) IIE complied with the terms and conditions of the cooperative agreements and incurred expenses related to the Fulbright program in accordance with Federal regulations and Department policy. OIG conducted audit fieldwork for nine months (from November 2016 to July 2017) and had significant interaction during that period via phone, email, and in-person with officials from both ECA and IIE who served as designated points-of-contact. Auditors met with IIE officials at IIE's Washington, DC offices on two different occasions, including one meeting where IIE accounting professionals from IIE's New York office participated via teleconference. These meetings were held to allow OIG to gain a better understanding of IIE accounting systems, including the organization's protocols for cost-sharing as well as fund and activity code cost allocations. At those meetings, OIG made clear that auditors were attempting to establish an audit trail linking supporting documentation provided by IIE to particular cooperative agreements. OIG was able to do so for some sampled expense items, but, for many others, no such audit trail could be established. OIG made no changes to the report based on this comment.

**IIE Comment:** IIE identified an apparent OIG misunderstanding of an entry in IIE's general ledger. Specifically, IIE noted that, when testing a salary expense for cooperative agreement S-ECAGD-16-CA-1016, OIG apparently misread a general ledger entry that contained the IIE team member's salary in her local currency, Russian rubles (R270,146), and, in an adjacent field, the salary amount converted to U.S. dollars (\$4351.02). The draft report questioned (at Recommendation 12) a misunderstood charge of US\$270,146 to the cooperative agreement rather than the correct amount of \$4351.02.

**OIG Reply:** OIG acknowledged the misunderstanding and made the necessary changes in this report to adjust the questioned cost amounts for the particular cooperative agreement, the

identifying number for which is actually S-ECAGD-16-CA-1004. The adjusted cost amounts and a footnote to explain the misunderstanding appear on p. 17 of this report. Numbers in Table 4 on p. 16 were also adjusted to reflect the change.

**IIE Comment:** IIE asserted that OIG misunderstood IIE's fund accounting system, whereby every cooperative agreement has unique fund numbers assigned to it in order to accurately allocate expenses, such as certain travel expenses reviewed by OIG. IIE further commented that there is no requirement in the cooperative agreements or in the Federal regulations for travel invoices to contain the specific cooperative agreement number and that IIE ensures that travel costs are properly allocated using three primary elements of documentation: (1) General Ledger Detail Report; (2) Travel Agency Billing Summaries; and (3) Specific Travel Invoices. IIE noted that it provided screenshots from these sources to OIG to demonstrate how the fund accounting system properly allocated the expenses. IIE also asserted that OIG's misunderstanding of IIE's fund accounting system led to erroneous findings.

**OIG Reply:** As noted above, auditors met with IIE officials at IIE's Washington, DC offices on two different occasions, including one meeting where IIE accounting professionals from IIE's New York office participated via teleconference, to gain a better understanding of IIE accounting systems, including the organization's protocols for cost-sharing as well as fund and activity code cost allocations. IIE officials were responsive to OIG requests for documentation and provided screenshots of select portions of IIE's general ledger, travel agency billing summaries, and specific travel invoices, as IIE noted in their comments. However, certain sampled expenses, such as for travel and contractual, were not adequately supported by the source documentation provided, as noted on pp. 16-17 of this report. OIG agrees that there is no requirement in the cooperative agreements or in the Federal regulations for travel invoices to contain the specific cooperative agreement number, but auditors could not otherwise link the invoices provided or establish a necessary audit trail. For example, OIG did not receive a voucher, authorization, or other such documentation that could associate a specific travel invoice with a particular cooperative agreement. Also, as noted on p. 17 of this report, during the audit, IIE provided a spreadsheet to support selected expenses that showed how IIE pooled travel expenses for certain cooperative agreements. IIE did not, however, provide expense reports that supported the agreement to which the costs related. Therefore, IIE could not support the allocability of the travel expenses claimed to specific cooperative agreements. OIG made no changes to the report based on this comment.

**IIE Comment:** IIE explained its cost share tracking and documentation process. It also questioned a statement attributed to an IIE official, stating that "no IIE official made the quoted statement."

**OIG Reply:** The statement in question reported that "IIE does not formally track cost-sharing amounts," which appears on p. 11 of this report. The statement was made by an IIE official on January 31, 2017 at a meeting at IIE's Washington, DC offices. The purpose of that meeting was to discuss the sample selection of expenses for review, IIE's financial systems, time and attendance practices, expense allocation, budget, travel, cost sharing, and ECA's monitoring. In

addition, at a subsequent meeting, an IIE official stated that IIE does not track cost-sharing expenses as they do other expenses. OIG made no changes to the report based on this comment.

**IIE Comment:** In additional comments to explain its cost share tracking and documentation process, IIE noted that amounts reported for volunteer time consisted of donated time and were not projections based on surveys. IIE further commented that, although OIG received spreadsheets showing the cost share valuation allocated to various cooperative agreements, OIG did not request or review all the backup data IIE maintains to support its cost share allocations.

**OIG Reply:** For cost-share expenses to be allowable, they must be adequately documented and allocable to the specific cooperative agreement. Auditors were unable to allocate cost sharing amounts to particular cooperative agreements based on the documentation provided by IIE. OIG requested additional support to link reported cost sharing amounts to their respective cooperative agreements, but no additional "backup data" were shared that would produce such a linkage or audit trail that could be followed. OIG made no changes to the report based on this comment.



## ABBREVIATIONS

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CFR	Code of Federal Regulations
ECA	Bureau of Educational and Cultural Affairs
FAPD	Federal Assistance Policy Directive
FFR	Federal Financial Reports
GO	Grants Officer
GOR	Grants Officer Representative
ID	Identification
IIE	Institute of International Education
LASPAU	Latin American Scholarship Programs of American Universities
PPR	Performance Progress Reports

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