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AUD-MERO-16-42 | Office of Audits | July 2016

Audit of the Bureau of Near Eastern Affairs Financial Management of Grants and Cooperative Agreements Supporting the Middle East Partnership Initiative

MIDDLE EAST REGION OPERATIONS

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JULY 2016
OFFICE OF AUDITS
Middle East Region Operations

OIG HIGHLIGHTS

AUD-MERO-16-42

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What Was Audited

In 2002, the Department of State (Department) initiated the Middle East Partnership Initiative (MEPI). MEPI is the primary U.S. Government tool for supporting civil society in the Middle East and North Africa. The Department placed MEPI under the responsibility of the Bureau of Near Eastern Affairs (NEA). Programs implemented under MEPI aim to improve and expand civil society, economic growth, democracy, women's rights, and education. To accomplish its goals and objectives, MEPI awards grants and cooperative agreements to non-governmental organizations, private-sector organizations, academic institutions, and government institutions, both in the United States and abroad. From FY 2012 through FY 2015, Congress appropriated approximately $253.3 million for MEPI.

Acting on behalf of the Office of Inspector General (OIG), Kearney & Company, P.C. (Kearney), an independent public accounting firm, conducted this audit to determine to what extent NEA ensured that grant and cooperative agreement expenditures were allowable, allocable, reasonable, supported, and made in accordance with the terms and conditions of the award agreement.

What OIG Recommends

OIG made four recommendations to address approximately $1.5 million in questioned costs and improve NEA's monitoring of grants expenditures. NEA concurred with three recommendations and did not concur with one recommendation. NEA's response to the report is reprinted in full in Appendix B.

What OIG Found

Kearney selected 20 MEPI grants and cooperative agreements awarded from FYs 2012–2014 valued at approximately $18.9 million to review. From these 20, Kearney selected a sample of expenditures totaling $6.7 million for detailed analyses. After its analyses, Kearney questioned approximately $1.5 million in expenditures as either unsupported or unallowable.

Unsupported Costs	$1,423,118
Unallowable Costs	$ 74,820
Total Questioned Costs	**$1,497,938**

The unsupported and unallowable questioned costs occurred, in part, because NEA's grants monitoring process was not designed to prevent or detect unallowable and unsupported costs. Specifically, NEA did not independently verify that all award recipients had sufficient financial management controls in place to prevent unallowable and unsupported costs. Rather, NEA procedures required such verifications only for "high-risk" recipients. NEA officials had determined that the 20 awards were low risk based on results of audit reports and financial statements, among other things. However, the documentation NEA officials provided and analysis Kearney performed showed that 5 recipients did not even have A-133 audits conducted, while 6 had A-133 audits that contained findings, significant deficiencies, or questioned costs. In addition, during site visits, NEA did not consistently validate financial controls, review recipient expenditures and determine whether funds are being spent in accordance with cost principles, as recommended by the Department's Grants Policy Directives. Without procedures to monitor the financial management of award recipients, NEA cannot easily determine if funds are being spent in accordance with laws and regulations. Moreover, unallowable costs that the Department reimbursed could have been put to better use in helping MEPI's overall mission.

When these questioned costs are extrapolated over the 20 sampled grants and cooperative agreements, Kearney estimates a total of $3.3 million may be unallowable and unsupported. Further, Kearney believes that there is a strong likelihood that unallowable and unsupported costs exist in other MEPI grants and cooperative agreements outside the scope of this review.

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Audit of the Bureau of Near Eastern Affairs Financial Management of Grants and Cooperative Agreements Supporting the Middle East Partnership Initiative

Office of Inspector General
U.S. Department of State
Washington, D.C.

Kearney & Company, P.C. (Kearney) has performed an audit to determine to what extent the Bureau of Near Eastern Affairs ensured that costs incurred under the Middle East Partnership Initiative were allowable, allocable, reasonable, supported and made in accordance the terms and conditions of the award agreement and Federal regulations. This performance audit, performed under Contract No. SAQMMA14A0050, was designed to meet the objective identified in the report section titled "Objectives" and further defined in Appendix A, "Purpose, Scope, and Methodology," of the report.

Kearney conducted this performance audit from June 2015 through February 2016 in accordance with *Government Auditing Standards*, 2011 Revision, issued by the Comptroller General of the United States. The purpose of this report is to communicate the results of Kearney's performance audit and its related findings and recommendations.

Kearney appreciates the cooperation provided by personnel in Department of State offices and the award recipients during the audit.

Kearney & Company

Kearney & Company, P.C.
Alexandria, Virginia
July 7, 2016

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OBJECTIVE

The objective of this audit was to determine to what extent the Department of State (Department) Bureau of Near Eastern Affairs (NEA) ensured that costs incurred under the Middle East Partnership Initiative (MEPI) were supportable with documentation and allowable under the terms and conditions of the award agreement and Federal regulations.

An external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General (OIG), performed this audit.

BACKGROUND

MEPI is a Department program designed to promote political, economic, and social reform in the Middle East and North Africa.[1] The Department created the program with the overall goals of promoting pluralistic and participatory societies and supporting prosperous societies. The program seeks to meet these goals by partnering with local and regional organizations and individuals to implement projects that emphasize improving and expanding civil society, economic growth, democracy, women's rights, and education. NEA awards MEPI grants and cooperative agreements[2] to non-governmental organizations, private-sector organizations, academic institutions, and government institutions, both in the United States and abroad.

MEPI Annual Appropriations

Congress appropriates funds to MEPI through the Economic Support Fund. Table 1 shows the amounts Congress has appropriated to MEPI each year from FY 2012 to FY 2015.

[1] MEPI operates in Algeria, Bahrain, Egypt, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, the West Bank and Gaza, Qatar, Saudi Arabia, Syria, Tunisia, the United Arab Emirates (UAE), and Yemen.

[2] Grants and cooperative agreements—sometimes referred to as Federal awards, Federal financial assistance, or Federal assistance awards—are similar instruments that Federal agencies use to provide funding to non-Federal entities to carry out a public purpose. This report refers to these instruments collectively as "grants." As a general rule, an agency solicits grant proposals and awards grants after competitive bidding. Upon award, the agency commits to paying the grantee a lump sum for carrying out the project and usually disburses the lump sum via advancements. The grantee is expected to work diligently to achieve the intended aim of the grant but is not legally bound to achieve that aim. In contrast, a contract is a legally binding instrument that an agency uses to acquire property or services for the direct benefit or use of the United States Government. After awarding a contract, the agency pays the contractor via reimbursements for providing deliverables or achieving milestones specified in the contract.

Table 1. Annual Appropriations for MEPI, FYs 2012–2015

Fiscal Year	Amount
2012	$70,000,000
2013	$67,510,000
2014	$75,000,000
2015	$40,800,000
Total	**$253,310,000**

Source: Department of State Congressional Budget Justifications, 2013–2017.

Federal and Department Guidance for Grants Management

The Department and its award recipients must comply with Federal regulations and Department guidelines on managing grants. All of the grant projects reviewed in this audit started and ended within the 3-year period of FYs 2012-2014. During that period, Department grants were subject to requirements set forth by the Office of Management and Budget (OMB) and the Grant Policy Directives (GPD) issued by the Department's Bureau of Administration, Office of the Procurement Executive. [3]

OMB circulars provide the principles for determining whether costs associated with grants awarded to educational institutions, hospitals, and nonprofit organizations are allowable, reasonable, and allocable. To be allowable, OMB states that a cost must be necessary and reasonable for the performance of the award[4,5] and that the cost must "be adequately documented."[6] OMB circulars also provide detailed guidance on a number of specific types of costs—such as equipment, training, and travel—that award recipients must follow.[7] In particular:

- OMB Circular A-21, *Cost Principles for Educational Institutions,* sets forth cost principles for educational institutions;

[3] Title II of the Code of Federal Regulations (CFR), Part 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 CFR consolidated eight OMB Circulars into one authoritative document relating to grants management; the consolidated document made no substantial changes to guidance set forth in the Circulars. Because the CFR did not go into effect until the first quarter of FY 2015, it was not the authoritative guidance for the grants tested as a part of this audit, which were limited to FY 2012 – 2014 (see Appendix A). Kearney reviewed the CFR to gain an understanding of any significant changes from the OMB circulars as well as to make note of current best practices.

[4] OMB Circular No. A-122, Attachment A, Section A, Subpart 2, Item a.

[5] OMB Circular No. A-21, Section C, Subpart 2.

[6] OMB Circular No. A-122, Attachment A, Section A, Subpart 2, Item g.

[7] OMB Circular No. A-122, Attachment B; OMB Circular No. A-21, Section J.

- OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, sets forth cost principles for nonprofit organizations;

- OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, sets forth requirements for Federal agencies in the administration of grants. The circular establishes requirements for retention of records, stating that "financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years."[8] The circular also requires that award recipients maintain financial management systems that are capable of documenting accounting records, including cost-accounting records supported by source documentation.[9] Lastly, it requires award recipients to provide unrestricted and timely access of such records to Inspectors General and their authorized representatives.[10]

- OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*,[11] sets forth audit requirements for non-Federal entities expending Federal awards. For the audit scope period of FYs 2012 through 2014, all non-Federal entities expending $500,000 or more in Federal awards in a year were required to have a single or program-specific audit conducted for that year.[12,13] Single audits assess the non-Federal entity's financial statements, internal controls, and compliance with laws, regulations, and provisions of contracts or grant agreements, while program-specific audits assess all of the aforementioned areas except for financial statements.[14] For the purposes of this report, Kearney will refer to both types of audits as A-133 audits.

The Department's Bureau of Administration, Office of the Procurement Executive issues grants management policy and provides quality assurance, among other things. Until March 2015, the bureau provided guidance for administering and monitoring grants in its GPD. The GPDs collectively identified the Department's internal control policies and guidance for managing grants from pre-award through closeout. For example,

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[8] OMB Circular No. A-110, Subpart C, Section 53.

[9] OMB Circular No. A-110, Subpart C, Section 21.

[10] OMB Circular No. A-110, Subpart C, Section 53.

[11] OMB Circular A-133 was issued in 1996, pursuant to the Single Audit Act of 1984 (P.L.98-502).

[12] The threshold for requiring a single or program-specific audit has since been increased to $750,000.

[13] A program-specific audit applies when the non-Federal entity expends awards under only one Federal program.

[14] Both OMB Circular A-133 and the superseding 2 CFR 200 allow Federal agencies, Inspectors General, and the Government Accountability Office to conduct or arrange for audits or evaluations in addition to a single or program-specific audit required under the circular and CFR (OMB Circular No. A-133, Subpart A, Section 215; 2 CFR 200, Subpart F, §200.503).

- GPD 42, *Monitoring Assistance Awards*,[15] described the responsibilities of management officials in monitoring assistance awards.

- GPD 43, *Pre-Award Responsibility Determination*, established guidelines for determining a prospective organization's capacity to perform proposed Federal assistance activities.

The GPDs were consolidated into the Department's newly established Federal Assistance Policy Directive on March 13, 2015.[16] The Federal Assistance Policy Directive did not substantially change the requirements set forth in the GPDs. However, because the sample grants were awarded and implemented before that time, OIG and Kearney used the GPDs—not the Federal Assistance Policy Directive that superseded them—as criteria while conducting this audit.

Roles and Responsibilities for Overseeing MEPI Grants

Department guidance describes the roles and responsibilities of government personnel assigned responsibility for awarding, administering, and overseeing grants. The two individuals with primary oversight and monitoring responsibilities with respect to any grant are the grants officer and grants officer representative (GOR). The grants officer is authorized to award, amend, and terminate a Federal assistance agreement. Department policy requires that the grants officer designate a GOR for all grants exceeding $100,000.[17] GPD 16 states that "the GOR assists the grants officer in ensuring that the Department exercises prudent management and oversight of the award through the monitoring and evaluation of the recipient's performance."[18] The program office (such as NEA) may assign program officers or field staff to help with onsite monitoring and oversight of assistance awards if the grants officer and GOR cannot travel to the place of performance.

AUDIT RESULTS

Finding: NEA Lacks Sufficient Oversight to Ensure MEPI Award Recipient Expenditures Are Allowable and Supported

NEA did not ensure that award recipient expenditures under MEPI grants were allowable and supported. Kearney selected 20 grants totaling approximately $18.9 million in expenditures from a universe of 243 grants with total expenditures of approximately $44.9 million to review. Within

[15] The Federal Assistance Policy Directive replaced GPD 42 with 3.01, *Monitoring and Performance Reporting*. Kearney used the criteria in 3.01 for the purpose of making recommendations.

[16] A revised version of the Federal Assistance Policy Directive has since been issued, effective January 14, 2016. The Department also released a companion to the Federal Assistance Policy Directive, the Federal Assistance Procedures Desk Guide (December 31, 2015).

[17] GPD 16, rev. 3, *Designation of Grants Officer Representatives*.

[18] Ibid.

the $18.9 million in expenditures, Kearney further selected a statistical sample of expenditures totaling $6.7 million for detailed analysis. Kearney found that award recipient expenditures under 7 of the 20 awards were made in accordance with Federal and Department guidelines. However, Kearney found that $1.5 million in expenditures under 13 of the 20 awards were unsupported[19] or unallowable.[20] The questioned costs occurred, in part, because NEA's grants monitoring process was not designed to prevent or detect unallowable and unsupported costs. Specifically, NEA did not independently verify that all award recipients had sufficient financial management controls in place to prevent unallowable and unsupported costs. Further, NEA did not always utilize monitoring procedures recommended by Department guidance, such as award recipient site visits, to review recipient expenditures and determine whether they are being spent in accordance with cost principles. Without comprehensive review of recipient expenditures, it is difficult for NEA to determine if Federal funds are being spent in accordance with cost principles and thus with applicable Federal regulations and guidelines.

$1.5 Million in Expenditures Were Unsupported or Unallowable

Kearney selected 20 MEPI awards (out of a universe of 243 grants) as a target universe because these represented the highest dollar value of total expenditures. The 20 awards had 31,385 expenditures for approximately $18.9 million, from which Kearney selected a random statistical sample of 1,271 expenditures totaling approximately $6.7 million.[21] Kearney requested that award recipients provide documentation supporting the sampled expenditures. Based on a review of the documents provided, Kearney determined that $1.5 million in questioned costs associated with 307 expenditures were unallowable and unsupported. Table 2 provides a breakdown of the questioned costs by award.

[19] According to OMB Circular A-110, costs related to federal awards must be supported by source documentation. Source documentation is an original record containing the details to substantiate a transaction entered into the accounting system.

[20] According to OMB Circular A-110, for a cost to be allowable, it must be reasonable, conform to limitations set in the principles (such as OMB Circulars A-21 and A-122), be consistent with policies and procedures, be accorded consistent treatment, be determined in accordance with generally accepted accounting principles, not be included as a cost of another federally financed program, and be adequately documented.

[21] See Appendix A: Purpose, Scope, and Methodology for more detailed information on the sampling methodology.

Table 2: Questioned Costs, by MEPI Awards

Award Number	Award Amount	Sample Amount	Total Questioned Costs	Unsupported Costs	Unallowable Costs
S-NEAPI-12-CA-0018	$2,000,000	$391,266	$ -	$ -	$ -
S-NEAPI-12-CA-0007	1,900,000	744,974	65,056	35,056	30,000
S-NEAPI-12-CA-0019	1,855,171	292,606	85,746	85,746	-
S-NEAPI-12-CA-0005	1,855,868	601,805	-	-	-
S-NEAPI-12-CA-0026	1,336,825	421,030	131,903	131,903	-
S-NEAPI-12-CA-0036	1,000,000	553,211	298,135	298,135	-
S-NEAPI-12-CA-0023	1,000,000	337,721	120,807	120,798	9
S-NEAPI-13-CA-1002	998,400	422,231	-	-	-
S-NEAPI-12-CA-0021	849,875	325,482	-	-	-
S-NEAPI-12-CA-0040	729,528	366,995	57,803	35,003	22,800
S-NEAPI-12-CA-0053	739,289	25,010	-	-	-
S-NEAPI-12-CA-0052	730,692	399,033	199,684	199,684	-
S-NEAPI-12-CA-0006	660,000	285,455	256,133	236,378	19,755
S-NEAPI-12-CA-0009	576,852	301,892	143,851	143,851	-
S-NEAPI-13-CA-1015	548,011	300,155	16,600	16,600	-
S-NEAPI-12-CA-1003	480,555	159,775	-	-	-
S-NEAPI-12-CA-1002	499,940	91,994	60,674	60,674	-
S-NEAPI-12-CA-0034	374,062	160,662	-	-	-
S-NEATU-12-GR-0063	404,057	224,100	46,223	43,967	2,256
S-NEAPI-12-CA-0027	324,828	258,583	15,323	15,323	-
Total	**$18,863,953**	**$6,663,980**	**$1,497,938**	**$1,423,118**	**$74,820**

Source: Kearney's analysis of invoices and documentation provided by award recipients.

Of the $1.5 million in questioned costs, Kearney determined that $1.4 million did not have sufficient or adequate documentation to support the costs. For example, for award S-NEAPI-12-CA-0036, Kearney selected a sample of 48 expenditures totaling $553,211 from a population of 2,047 expenditures totaling $993,372. The award recipient did not provide any supporting documentation for $298,135 of those expenditures. Kearney questioned all $298,135 (which is 54 percent of the amount sampled). For award S-NEATU-12-GR-0063, Kearney selected a sample of 62 expenditures totaling $224,100 from a population of 424 expenditures totaling $421,546; however, the award recipient did not provide any supporting documentation for $43,967 (17 percent) of those expenditures. Further, for the same award, the award recipient did not provide timesheets to support $4,046 worth of expenditures for labor costs. As a result, Kearney was unable to reasonably determine whether the labor charges were appropriate.

For some sampled expenditures, Kearney concluded that costs were not fully supported due to a lack of evidence that appropriate award recipient personnel reviewed and authorized the expenditures. For example, for award S-NEAPI-12-CA-0006, Kearney selected a sample of 66 expenditures totaling $285,455 from a population of 930 expenditures totaling $652,125. Of the

66 sampled expenditures, Kearney found 32 expenditures totaling $195,756 [22] for which the award recipient did not have adequate evidence of review and approval of the expenditures—such as a disbursing officer reviewing invoices to ensure that they were allowable and in line with the terms and conditions of the grant. Internal Control—Integrated Framework[23] states that in order for an organization to ensure that its expenditures are reasonable, in accordance with laws and regulations, and are for goods or services that were actually received, there should be a proper level of internal review and authorization of expenditures before they are paid.[24]

Regarding unallowable costs, Kearney determined that $74,820 of award recipient expenditures did not adhere to the guidance set forth in the OMB circulars. For example, award S-NEAPI-12-CA-0040 included a $22,800 payment to a key employee for use of his personal vehicle as part of a transportation expenditure related to the grant. According to OMB Circular A-122, rental costs for equipment of key employees are allowable only for expenses such as depreciation or use allowance, maintenance, taxes, and insurance.[25] However, the agreement between the employee and the award recipient did not break down the expenditure to this level, but was instead based on a set monthly amount. Kearney was also unable to determine the extent to which the vehicle was used for personal travel, for which related costs are also unallowable per OMB Circular A-122.[26] Further, the agreement between the award recipient and the employee was for 12 months, with the full amount paid prior to the onset of the agreement. However, the employee was terminated 4 months prior to the agreement end date, with the termination notice stating that the car lease agreement had also been terminated. Even though the employee and the lease were terminated, Kearney did not find any records that funds were returned for the car rental. Finally, OMB Circular A-122 states that a cost is reasonable if it does not exceed what would be incurred by a prudent person.[27] Kearney identified several long-term car rental options in Libya with a yearly rate of less than the amount the award recipient paid the employee. As a result, Kearney questions $22,800 under this award.

[22] The $195,756 represents approximately 83 percent of the $236,378 unsupported costs for award S-NEAPI-12-CA-0006.

[23] The "Internal Control—Integrated Framework" is published by the Committee of Sponsoring Organizations of the Treadway Commission, an organization that provides guidance on risk management, internal control, and fraud deterrence. Five major professional associations including the American Institute of Certified Public Accountants and the Institute of Internal Auditors sponsor the Commission jointly.

[24] From 1992-2013, the framework was the industry standard but its use was not required by OMB for grant award recipients. In December 2013, as part of the consolidation of the OMB Circulars, OMB began requiring that all award recipients comply with the provisions of the framework (see 2 CFR 200, Subpart D, §200.303). Some of the grants and cooperative agreements tested for this audit were awarded before effective date of this requirement; thus, they were not required to incorporate the framework's provisions.

[25] OMB Circular No. A-122, Attachment B, Section 43, Item c.

[26] OMB Circular No. A-122, Attachment B, Section 19.

[27] OMB Circular No. A-122, Attachment A, Section A, Subpart 3.

Kearney also found several instances where the award recipients did not properly apply fringe benefit rates.[28] For example, Kearney found that award S-NEAPI-12-CA-0006 did not have a fringe benefit rate negotiated with the government. In the case of award S-NEAPI-12-CA-0007, Kearney found two instances where the award recipient charged a higher amount for fringe benefits than what was allowed by a provisional fringe benefit rate, which had already been negotiated with and approved by the government. According to OMB A-122,[29] a provisional rate or billing rate is used for a specified period (fiscal year) for reporting indirect costs on an award pending the establishment of a final rate.[30] These improperly applied fringe benefit rates resulted in $49,755 in questioned costs.

Lastly, in award S-NEATU-12-GR-0063, the award recipient submitted invoices for $2,256 for costs related to an advertisement at a local convention. OMB Circular A-122 specifically states advertising is an unallowable cost.[31] Accordingly, Kearney questioned the entire $2,256.

Insufficient Financial Oversight Leads to Questioned Costs

Unsupported and unallowable costs went undetected and were eventually paid because NEA's grant monitoring processes in place during the scope period of the audit were not sufficiently designed to prevent or detect unallowable or unsupported costs. During this period, NEA's financial monitoring procedures consisted of performing site visits; reviewing award recipient A-133 audit reports,[32] as well as any performance reports and financial statements; and reviewing the quarterly financial report submitted by award recipients.

However, NEA did not independently validate that all award recipients have sufficient financial management controls in place to prevent unallowable or unsupported costs. OMB Circular A-110 states that recipients' financial management systems must provide "accurate, current and complete disclosure of the financial result," as well as "effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes."[33] In addition, NEA's *Middle East Partnership Initiative Policies and Procedures Manual* that was in place during the period under

[28] A fringe benefit rate is the percentage of an organization's cost for employee benefits, such as healthcare and paid time off, over the cost of employee salaries. The rate is applied to the labor costs that an organization incurs and is an allowable cost for grants. When awarding a grant, the awarding agency should approve a provisional rate for the award recipient to use throughout the performance of an award until a final rate is established and approved at the end of the award.

[29] OMB Circular No. A-122, Attachment A, Section E, Subpart 1, Item e.

[30] Evidence of an established final fringe benefit rate had not been posted to NEA's Assistance Coordination Performance Reporting System as of May 2016.

[31] OMB A-122 Attachment B 1. c. (1). The only allowable advertising costs are those that are solely for: The recruitment of personnel required for the performance by the non-profit organization of obligations arising under a Federal award.

[32] Specifically, single or program-specific audits required by OMB Circular No. A-133.

[33] OMB Circular No. A-110, Subpart C, Section 21.

audit required that NEA send award recipients designated as "high-risk" during the pre-award process a questionnaire[34] requesting information about the award recipient's financial management policies and procedures. However, unless the grants officer identified any concerns in the recipient's responses, no further verification procedures were required.[35] Although Kearney found that 13 of the 20 awards selected for review had unsupported or unallowable costs, none of the recipients was designated by NEA as high risk.

As part of its risk assessment, NEA officials stated they relied, and continue to rely, on A-133 audit reports, performance reports, and award recipient financial statements for assurance that Federal funds are spent in accordance with cost principles and applicable Federal regulations and guidelines. NEA officials stated that they use the results of these reports to determine the level of risk posed by each recipient,[36] and to determine whether further monitoring procedures are necessary.

NEA officials told Kearney that all the recipients of the 20 awards that Kearney reviewed were considered low risk based in large part on the results of A-133 and other audits. However, according to the documentation provided by NEA, as well as Kearney's review of the Federal Audit Clearinghouse,[37] 5 of the 20 award recipients did not have A-133 audits conducted, while 6 had A-133 audits wtih findings, significant deficiencies or questioned costs. [38] In addition, for another 5 awards, NEA relied on audited financial statements rather than A-133 audit reports to assess the level of risk. Unlike A-133 audit reports, the audited financial statements do not provide details regarding the recipient's financial management controls, nor do they report questioned costs resulting from the audit.

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[34] According to NEA's *Middle East Partnership Initiative Policies and Procedures Manual*, a high-risk organization is typically one that has limited experience managing Federal funds but can also include organizations with deficiencies identified in recent audits. The *Policies and Procedures Manual* states that the bureau can use one of two questionnaires: the "DC Awards – Financial Control Questionnaire" and the "DC Awards – Local Grants Pre-Award Questionnaire." The Financial Control Questionnaire requests information such as the audited financial statements. It is used for U.S.-based award recipients and contains 47 questions. The Local Grants Pre-Award Questionnaire does not request any documentation from the award recipient; and is used for non-U.S.-based recipients. The local grants questionnaire contains 17 questions. These questionnaires have been included in this report as Appendices C and D.

[35] According to NEA officials, NEA was in the process of updating its *Middle East Partnership Initiative Policies and Procedures Manual.*

[36] NEA considers several areas of risk and risk factors when evaluating award recipients, such as the risk that the recipient does not have the capability to carry out the award objectives, or the risk that the recipient will not spend Federal funds in compliance with applicable cost principles.

[37] The Federal Audit Clearinghouse, operated on behalf of OMB, distributes single audit reporting packages to Federal agencies, supports OMB oversight and assessment of Federal award audit requirements, maintains a public database of completed audits, and help auditors and auditees minimize the reporting burden of complying with Circular A-133 audit requirements.

[38] Audit findings are deficiencies, such as noncompliance with laws or the terms of an award, which the auditor is required to report in an A-133 audit. A significant deficiency is a weakness, or combination of weaknesses, related specifically to internal controls for financial reporting. Not all findings or significant deficiencies result in questioned costs.

Table 3 compares the results of A-133 audits and audited financial statements for the recipients of the 20 awards with the testing Kearney performed for this audit. The table shows that Kearney identified questioned costs for 13 of the 20 awards, including:

- 1 of the 4 awards for which the recipient received a clean A-133 audit result.
- 5 of 6 awards whose recipients had A-133 audits with findings, significant deficiencies, or questioned costs;
- 2 of the 5 awards which only had financial statements, but not A-133 audits;
- 5 of the 5 awards for which there was no available A-133 audit or financial statement;

Although this analysis was based on a non-statistical sample of awards, the results raise questions as to whether NEA should have considered each of the recipients for the 20 awards as low risk.

Table 3: Comparison of A-133 Audit Findings to Kearney Audit Sample Findings

		Kearney Findings From Audit Sample	
Information from A-133 Audit Reports, Provided by NEA*	**Total Number of Awards**	**Questioned Cost Identified**	**No Questioned Costs Identified**
Low Risk With No Findings	**4**	1	3
Findings, Significant Deficiencies, or Questioned Costs	**6**	5	1
Only Financial Statements Provided	**5**	2	3
No A-133 Audit Report or Financial Statements	**5**	5	0
Total	**20**	**13**	**7**

* NEA assessed all recipients for the 20 awards as low risk.
Source: Documentation of A-133 Audit Reports and Audited Financial Statements provided by NEA, and results of audit sampling compiled by Kearney.

As a part of its financial monitoring procedures, NEA also performed site visits. GPD 42, *Monitoring Assistance Awards,* recommends that the Department make site visits to review the recipients' accounting records to ensure that the recipients are maintaining adequate documentation to support award expenditures. However, NEA did not perform site visits for all award recipients, and for those that were conducted, NEA did not always look at expenditure reports or documentation supporting expenditures.

NEA utilized a risk-based approach in determining which award recipients warranted site visits. Of the 20 award recipients (18 that were unique) that Kearney reviewed,[39] NEA performed financial and programmatic site visits for 13 of the recipients. Site visit reports showed that NEA did not always review financial aspects of the award recipient, and when it did, such reviews

[39] A single recipient administered 3 of the 20 awards in our sample.

were often limited to reviewing and making recommendations on the recipient's written policies and procedures. For two recipients for which site visits were conducted, NEA documented only the programmatic aspects of the site visit. For six other recipients, the financial site visit reports did not show that NEA verified that the financial management controls detailed in written policies and procedures were actually implemented and operating as intended. Further, NEA officials did not always review expenditures or expenditure reports during their site visits. NEA officials stated that if they did not find indications of financial mismanagement or other problems during a site visit, they assume other awards also would not have problems because the recipient's systems and controls would also apply to those awards.

For the remaining five award recipients, NEA did not conduct site visits during the period of performance. For example, NEA conducted a site visit of the recipient of award S-NEAPI-12-CA-0026 after the period of performance of that award.[40] In addition to S-NEAPI-12-CA-0026, Kearney found that NEA conducted a site visit for one other award, but the site visit was conducted outside of the period of performance of the award.

However, during Kearney's review of expenditures for S-NEAPI-12-CA-0026, Kearny noted that the recipient had poorly designed financial management controls. Specifically, Kearney identified multiple invoices that lacked evidence of review and approval of expenditures as recommended by Internal Control—Integrated Framework. As a result, Kearney questioned $131,903 of the $421,030 (31 percent) it reviewed for this award. The current finance director for this award recipient, who was not the director during the time the sampled award took place, told Kearney that, if she were a Department official, she would not have awarded her organization the grant due to its weak financial management controls. However, the site visit documentation prepared by NEA did not note these issues with the recipient's financial management controls.

Kearney noted an additional five award recipients it reviewed that had questioned costs resulting from improper invoice review and approval procedures. These award recipients could not provide Kearney with evidence that they had internal control procedures requiring an award recipient official to review and approve invoices or to require segregation of duties (that is, requiring different employees to submit, review, and approve expenditures). Kearney found that NEA did not identify these concerns because the bureau lacked sufficient monitoring procedures at the time that these awards took place that would allow NEA to identify internal control deficiencies.

In addition to A-133 audits, audited financial statements, and other audit reports, NEA officials also stated that they rely on quarterly financial reports to gain assurance that Federal funds are

[40] During the site visit, NEA reviewed four different MEPI awards administered by the recipient, including S-NEAPI-12-CA-0026. However, according to the site visit documentation, NEA only looked at financial records—such as receipts and accounting ledgers—related to two of the four grants, but not for S-NEAPI-12-CA-0026.

spent in accordance with cost principles and applicable Federal regulations and guidelines.[41] These reports contain high-level information such as Federal expenditures and cash-on-hand. However, they lack the details necessary for NEA to determine if the costs incurred are allowable and supported.

Unallowable and Unsupported Costs May Be in Other Grants

Without procedures to monitor the financial management of award recipients, it is difficult for NEA to determine if Federal funds are being spent in accordance with cost principles. The Department might not be receiving the support it is paying for if award recipients are not using funds to support MEPI's overall mission and programs. When Kearney's finding—$1.5 million in questioned costs associated with 307 expenditures in 13 grants and cooperative agreements—is extrapolated to cover all expenditures under these 13 grants, Kearney estimates a total of $3.3 million[42] may be unallowable and unsupported. While the 20 grants and cooperative agreements that Kearney reviewed represent only 8 percent of the 243 MEPI grants and cooperative agreements awarded, they represent approximately 42 percent of MEPI's $44.9 million total costs incurred under the same period. Kearney did not review the remaining MEPI awards, but the same issues identified in its testing are likely to exist in these awards as well. Unallowable costs found are Federal funds that award recipients could have used to accomplish the goals of their grant agreements while complying with Federal and Department requirements.

As a result of these findings, OIG is making the following recommendations:

> **Recommendation 1:** OIG recommends that the Bureau of Near Eastern Affairs (NEA) develop and implement a process to verify that grants officers and the grants officers representatives develop and implement monitoring plans that comply with the *Federal Assistance Policy Directive*, specifically subchapters 2.03-A, Risk Management; 3.01-A, Monitoring Plan; and 3.01-B, Financial Reporting. Specifically, the monitoring plans should enable NEA to obtain reasonable assurance that award recipients have adequate financial management controls in place.

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[41] Award recipients are required to submit quarterly financial reports to NEA.

[42] The results were projected with IDEA data analysis software using a 95 percent confidence interval. The 95 percent confidence interval for this estimate is from $2.6 million to $4.3 million. Kearney utilized a Monetary Unit Sampling, a technique used to select a statistical sample based on the proportionate unit size of the sample to the overall population. For purposes of this audit, the unit is the dollar value of the transactions, meaning that every dollar in the population has an equal chance of being selected. Monetary Unit Sampling determines the number of samples required to obtain the planned level of accuracy, precision, or confidence level, and determines the unit intervals necessary to generate the total number of samples needed for testing. Misstatements, whole or partial, in the sample population are projected over the population based on the proportion of the misstatement in the selected sample. See Appendix A: Purpose, Scope, and Methodology for further information on the sampling methodology as well as the error projections.

NEA Response: NEA concurred with this recommendation, stating it has already addressed this issue in the Grants Management Policies and Procedures Manual, Version 1.1, effective February 11, 2016. NEA's response is reprinted in full in Appendix B.

OIG Reply: OIG considers this recommendation resolved. Subsequent to its response, NEA provided OIG a copy of the Grants Management Policies and Procedures Manual (the Manual), Version 1.1, which showed that the policy was adopted March 26, 2016. The Manual requires that NEA officials review policies and procedures of award recipients. Further, for site visits that NEA conducts to review the recipients' financial records, NEA officials are required to review documentation for selected expenditures to ensure that controls are being implemented, as described in policies and procedures, and that costs are appropriate. This recommendation will be closed when OIG receives and accepts documentation demonstrating the Manual's policies and procedures have been applied to MEPI awards.

Recommendation 2: OIG recommends that the Bureau of Near Eastern Affairs conduct site visits, as recommended by the *Federal Assistance Policy Directive* and the *Federal Assistance Procedures Desk Guide*, to monitor award recipients' financial activities, including reviewing the recipients' financial policies and procedures, financial management controls, and supporting documentation for a selection of expenditures, and establish a corrective action plan, if necessary.

NEA Response: NEA concurred with the recommendation, stating it conducts financial and programmatic site visits that encompass all recommended oversight deficiencies found in this report. NEA also stated that to supplement site visits, it conducts desk reviews, reviews quarterly financial and performance reports, and regularly holds meetings and phone calls with recipients. NEA stated it will continue with this monitoring practice and site visits will be based on the existing risk-based approach and methodology documented in the Grants Management Policies and Procedures Manual, Version 1.1.

OIG Reply: OIG considers this recommendation resolved. The Manual requires that for financial site visits, NEA officials review documentation for selected expenditures to ensure that controls are being implemented, as described in policies and procedures, and that costs are appropriate. This recommendation will be closed when OIG receives and accepts documentation demonstrating the Manual's policies and procedures have applied to MEPI awards.

Recommendation 3: OIG recommends that the Bureau of Near Eastern Affairs (a) determine whether questioned costs of $1.5 million identified in this report are allowable and supported and (b) recover any costs determined to be unallowable or unsupported.

NEA Response: NEA concurred with the recommendation but did not elaborate as to how the recommendation will be implemented.

OIG Reply: Although NEA concurred with this recommendation, OIG considers this recommendation unresolved because NEA did not provide a decision with respect to the validity of the value of questioned costs Kearney identified. This recommendation can be resolved when OIG receives and accepts NEA's determination regarding the validity of the $1.5 million in questioned costs. This recommendation will be closed when OIG receives and accepts documentation demonstrating that NEA took appropriate action (i.e., established an account receivable or received repayment) to recover all costs that were disallowed.

Recommendation 4: OIG recommends that the Bureau of Near Eastern Affairs review the 223 MEPI awards not selected for this audit to determine whether unallowable and unsupported costs exist in those awards and to recover any costs deemed unallowable or unsupported.

NEA Response: NEA did not concur with the recommendation, stating that implementing it would place a significant human capital and financial burden on the bureau. NEA estimated that implementing the recommendation would require two staff members to review awards full time for approximately 2 years. NEA also stated that it does not have the available human capital, time, or financial resources to issue and manage a contract to a third-party auditor to conduct such an extensive review. In addition, NEA stated the recommendation would require that NEA implement oversight exceeding the standard approaches stated in the Single Audit Act of 1984, OMB Circular A-133, 2 CFR Part 200 subpart F, and as recommended in the *Federal Assistance Policy Directive and the Federal Assistance Procedures Desk Guide*. NEA further stated that requiring that it review all 223 MEPI awards negates the efficiency and usefulness of the Single Audit Act, as well as the risk-based monitoring standards established in *Federal Assistance Policy Directive and the Federal Assistance Procedures Desk Guide*. Thus, NEA concluded that the recommendation would place an undue financial and human capital burden on the bureau and sets an unsustainable business model for monitoring recipients.

OIG Reply: OIG considers this recommendation unresolved. Based on the findings of Kearney's review of 20 MEPI awards, there is a strong likelihood that unallowable and unsupported costs exist in other MEPI grants and cooperative agreements outside the scope of this review. It is not OIG's intent to place undue human capital or financial burden upon NEA. Rather, the intent of this recommendation is to determine whether unallowable and unsupported costs exist in other MEPI grants and to recover those taxpayer funds accordingly. Since NEA indicates that compliance with the recommendation as stated would present a burden on its resources, OIG invites NEA to offer an alternative. This recommendation will be considered resolved when NEA provides OIG an acceptable alternative that meets the intent of the recommendation. This recommendation will be closed when that agreed-upon alternative has been fully implemented.

OIG agrees that the intent of the Single Audit Act is, in part, to promote the efficient and effective use of audit resources and reducing burdens on both award recipients and government entities. However, the Act also acknowledges that Federal agencies retain the authority to review individual awards even if the recipient had received an A-133 audit. The

Code of Federal Regulations states that the Act does "not limit the authority of Federal agencies to conduct, or arrange for the conduct of, audits and evaluations of Federal awards, nor limit the authority of any Federal agency Inspector General or other Federal official."[43] Thus, Kearney believes the findings presented in this report support the recommendation that NEA review the 223 awards not included in the sample reviewed for this study.

Additional NEA Comments

In addition to its responses to the recommendations above, NEA expressed concern that the report did not account for the value of the Single Audit requirement (also referred to as the A-133 audit requirement). NEA stated that the draft of this report failed to reference the A-133 or Single Audit Act of 1984. It stated the objectives of the Single Audit requirement are to promote sound financial management, including effective internal controls, with respect to Federal awards administered by non-Federal entities. NEA also stated A-133 and the Act established uniform requirements for audits administered by non-Federal entities; promotes the efficient and effective use of audit resources; reduces burdens on state and local governments, Indian tribes, and nonprofit organizations; and ensures that Federal departments and agencies, to the extent practical, rely upon and use audit work done pursuant to the Act. While the OIG draft report references the A-122 and A-110 in *Federal and Department Guidance for Grants Management* on page two, it does not identify the A-133 audit reports as reliable resources that should be used for conducting effective financial oversight. NEA officials stated that they review single audit reports with the purpose of examining the recipients' capacity for financial oversight and internal controls as is required by both OMB and Department of State policy. They also stated the data sample used for this audit mainly includes 16 implementing partners who have undergone annual A-133 audits and furnished their FY 2012 and FY 2013 reports to MEPI, depending on the year their awards were issued. Of those 16 reports, 12 did not have findings and 15 rated the audited implementing partner as low risk. The reports were a critical component of the overall financial risk assessment practice at the time, and NEA Grants Officers made the same determination when rating the risk levels of the organization.

OIG Reply

The report now incorporates NEA's technical comments as appropriate. Specifically, the report incorporates additional information relating to OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, to address NEA's concern the audit did not account for the value of the Single Audit requirement. However, according to the documentation provided by NEA, as well as Kearney's review of the Federal Audit Clearinghouse,[44] it is important to note that of the 20 MEPI award recipients that NEA

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[43] 2 CFR 200 Subpart F 200.503 Point (c).

[44] The Federal Audit Clearinghouse, operated on behalf of OMB, distributes single audit reporting packages to Federal agencies, supports OMB oversight and assessment of Federal award audit requirements, maintains a public database of completed audits, and help auditors and auditees minimize the reporting burden of complying with Circular A-133 audit requirements.

determined as being low risk, 5 did not have an A-133 audit conducted, while 6 had A-133 audits that identified significant deficiencies or questioned costs.

In addition, for five MEPI awards, NEA indicated it had relied on audited financial statements rather than A-133 audits reports to assess the level of risk. However, unlike A-133 audit reports, the audited financial statements do not provide details regarding the recipient's financial management controls, nor do they report questioned costs resulting from the audit. Therefore, using information from financial statements to assess overall financial risk of MEPI award recipients should be coupled with procedures to validate that award recipients have sufficient financial management controls in place to prevent unallowable or unsupported costs.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Near Eastern Affairs (NEA) develop and implement a process to verify that grants officers and the grants officers representatives develop and implement monitoring plans that comply with the *Federal Assistance Policy Directive*, specifically subchapters 2.03-A, Risk Management; 3.01-A, Monitoring Plan; and 3.01-B, Financial Reporting. Specifically, the monitoring plans should enable NEA to obtain reasonable assurance that award recipients have adequate financial management controls in place.

Recommendation 2: OIG recommends that the Bureau of Near Eastern Affairs conduct site visits, as recommended by the *Federal Assistance Policy Directive* and the *Federal Assistance Procedures Desk Guide*, to monitor award recipients' financial activities, including reviewing the recipients' financial policies and procedures, financial management controls, and supporting documentation for a selection of expenditures, and establish a corrective action plan, if necessary.

Recommendation 3: OIG recommends that the Bureau of Near Eastern Affairs (a) determine whether questioned costs of $1.5 million identified in this report are allowable and supported and (b) recover any costs determined to be unallowable or unsupported.

Recommendation 4: OIG recommends that the Bureau of Near Eastern Affairs review the 223 MEPI awards not selected for this audit to determine whether unallowable and unsupported costs exist in those awards and to recover any costs deemed unallowable or unsupported.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Department of State (Department) Office of Inspector General (OIG) initiated this performance audit to determine to what extent the Bureau of Near Eastern Affairs (NEA) ensured that costs incurred under the Middle East Partnership Initiative (MEPI) were supportable with documentation and allowable under the terms and conditions of the award agreement and Federal regulations. The scope for the audit is grants and cooperative agreements awarded with project period start dates during FYs 2012-2014 and project period end dates prior to the end of FY 2014. An external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of OIG, performed this audit.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards required that Kearney 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. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

Kearney conducted fieldwork for this performance audit from June 2015 to February 2016 in the Washington, D.C., metropolitan area. To obtain background information, Kearney researched and reviewed Federal laws and regulations as well as prior OIG and Government Accountability Office audit reports. Kearney also reviewed the United States Code, Office of Management and Budget (OMB) circulars,[1,2,3] the Department's *Foreign Affairs Manual* and *Foreign Affairs Handbook*, and NEA procedures.

Kearney met with NEA personnel and grants officer representatives (GORs) from NEA's Office of Assistance Coordination (NEA/AC) to gain an understanding of the processes and procedures to monitor grant and cooperative agreement expenditures for MEPI. Kearney met with NEA/AC program directors for assistance in obtaining a complete listing of MEPI grant awards for the scope period. In addition, Kearney coordinated directly with MEPI award recipients to acquire general ledger expenditure detail and reviewed electronic documentation provided by award recipients and/or hardcopy supporting documentation onsite at selected award recipient locations.

Kearney selected the 20 largest awards (from the 243 awards) from the scope period, based on expenditures recorded in the Department's Global Financial Management System (GFMS). For each award, Kearney contacted award recipients to obtain the general ledger related to the award selected. Kearney reviewed a statistical sample from each general ledger to determine if

[1] OMB Circular A-21, "Cost Principles for Education Institutions," revised May 10, 2004.

[2] OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," revised November 19, 1993, as further amended September 30, 1999.

[3] OMB Circular A-122, "Cost Principles for Non-Profit Organizations," revised May 10, 2004.

the expenditures were allowable, allocable, reasonable, supported, and made in accordance with the terms and conditions of the grant agreement.

Prior Reports

Kearney reviewed prior Government Accountability Office and OIG audit and inspection reports to identify information previously reported relating to the MEPI program. Kearney did not identify any recent reports that were relevant to this audit.

Work Related to Internal Controls

Based on the information obtained during preliminary audit procedures, Kearney performed a risk assessment that identified audit risks related to the audit objective. Kearney conducted meetings and observed processes to identify controls in place to address those risks; however, no key controls were identified. The deficiencies identified with internal controls and related to the audit objective are included in the Audit Results section of this report. Based upon the assessed level of risk of each audit objective and lack of internal controls, Kearney designed procedures that would enable Kearney to obtain sufficient and appropriate evidence to conclude upon the audit objective.

Use of Computer-Processed Data

Kearney obtained a list of awards from NEA to identify the universe of awards with project period start dates during FYs 2012-2014 and project period end dates prior to the end of FY 2014. To confirm the completeness and accuracy of the NEA-provided MEPI award population, Kearney extracted populations of MEPI awards from State Assistance Management System (SAMS)[4]and USAspending.gov.[5] NEA's Project Inventory and SAMS include all domestic and overseas awards, including those that NEA considers sensitive, whereas USAspending.gov includes only nonsensitive awards.

In addition, Kearney obtained a universe of award expenditures electronically from GFMS, the Department's core financial system.[6] The Department has controls in place to ensure that the expenditures recorded in GFMS are accurate and complete. Kearney performed procedures to evaluate the accuracy and completeness of the information in GFMS during the audits of the Department's FY 2012, FY 2013, and FY 2014 financial statements. Kearney reconciled the populations of expenditures provided by the award recipients to GFMS expenditures by award.

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[4] SAMS standardizes the Department's assistance-related business processes from solicitation through award and close-out, thereby ensuring a high degree of consistency and manageability. SAMS has a direct interface with the Department's accounting system, GFMS, and spans contract transactions from FY 2000 onwards. SAMS includes all domestic and some overseas non-sensitive awards.

[5] USAspending.gov was established by the Department of the Treasury in 2007 to comply with the Federal Funding Accountability and Transparency Act (FFATA). The website receives and displays data pertaining to obligations, not outlays or expenditures. USAspending.gov is updated with information from SAMS on a daily basis.

[6] GFMS supports the Department of State's mission by accounting for business activities and recording the associated financial information, including obligations and costs, performance, financial assets, and other data.

In some instances, Kearney noted immaterial differences between the award recipient-provided expenditure population and GFMS. Kearney worked with the award recipients to reconcile the differences. One award recipient could not explain the difference; this amount was ultimately included in questioned costs and reported in the Audit Results section of this report. Kearney concluded that the data was sufficiently reliable for sample selection. The source documentation from the sample supplied the dollar values for the findings, recommendations, and conclusions in this report.

Detailed Audit Methodology

Universe of MEPI Awards

NEA provided Kearney with a population of MEPI awards with award period start dates during FY 2012 to FY 2014 and project period end dates prior to the end of FY 2014 from the Project Inventory.

To confirm the completeness and accuracy of the NEA-provided MEPI award population, Kearney extracted populations of MEPI awards from SAMS and USAspending.gov. According to NEA personnel, each of these sources contains different award types. NEA's Project Inventory and SAMS include all domestic and overseas awards, including those that NEA considers sensitive, whereas USAspending.gov includes only nonsensitive awards.

Kearney combined the three populations, identified duplicate award numbers, and removed the duplicates so that each award was included in the consolidated population only once.[7] Kearney further excluded awards that fell outside the scope period and certain embassy awards that NEA does not manage. Table A.1 summarizes the final award population created by Kearney as described above. Kearney provided this final population to NEA for validation and approval, and NEA noted no issues with the Kearney-created population. As a result of Kearney's analysis and comparison of the awards in Project Inventory, SAMS, and USAspending.gov, Kearney was able to create a population of MEPI awards that started during FYs 2012-2014 and ended prior to the end of FY 2014. That population was sufficiently complete and accurate for the purposes of this report.

Table A.1: Kearney Created MEPI Award Population

Source	Awards Count	Award Amount
USAspending.gov	145	$26,732,637
Project Inventory (NEA/AC)	69	6,141,657
SAMS	29	37,972,690
Total	**243**	**$70,846,984**

Source: Prepared by Kearney based on award obligation amount included in the respective system. Kearney did not perform procedures to validate the accuracy of the award amounts.

[7] Kearney identified SAMS as the most reliable source for award information. Therefore, Kearney used information from SAMS first, followed by Project Inventory and USAspending.gov.

Universe of Expenditures

The award numbers used for tracking in the three systems discussed above do not correlate with the obligation numbers in GFMS. Kearney obtained the GFMS obligation numbers for each of the 243 awards included in the population from NEA. Then Kearney obtained the Department's general ledger[8] detail from GFMS showing all of the expenditures for MEPI from FY 2012 to FY 2014. Using the "Referenced_Document_Number" field in GFMS, which is the obligation number, Kearney extracted all expenditures related to the population of 243 awards. The population consists of 930 unique expenditure transactions totaling $44,939,882.

Sample of Expenditures

Kearney identified the top 20 awards[9,10] based on total amount expensed in GFMS between FY 2012 and FY 2014. Kearney then requested the detailed population of expenditures paid with award funds from the award recipients since inception of the awards.

Prior to sampling from each award recipient's expenditure population, Kearney excluded items such as accruals (credit and debit balances), credit amounts, zero balances, and indirect costs.[11] Using IDEA,[12] Kearney ran a Monetary Unit Sampling (MUS)[13,14] on each general ledger, arriving at sample sizes ranging from 50 to 75 samples per general ledger.

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[8] A general ledger is the master set of accounts that summarizes all transactions occurring within an entity.

[9] According to Federal Assistance Policy Directive 6.01, foreign public entities (FPEs) are not expected to subject their books and records to inspection by officials of each country making a grant to the organization. Kearney removed certain organizations that qualified as FPEs from the population.

[10] This covered $17,961,702 of the total $44,939,882 (39.9 percent) expensed during the scope period.

[11] Kearney was not able to remove all indirect costs, as they were not always easily identifiable. One such case, an award sample, included indirect costs. These costs were excluded after the sample was received and were not taken into consideration in the results.

[12] IDEA is an Audimation Services, Inc., computer program used to analyze data and, based upon the parameters input by the user, select a sample to aid in evaluating the results of the sample.

[13] Monetary Unit Sampling (MUS) is a statistical sampling technique used to select a sample based on the proportionate unit size of the sample to the overall population. For purposes of this audit, the unit is the dollar value of the transactions. This means that every dollar in the population has an equal chance of being selected. If a particular dollar unit is selected, the entire transaction that is associated to the dollar unit will be selected for testing. MUS determines the number of samples required to obtain the planned level of accuracy, precision, or confidence level, and determines the unit intervals necessary to generate the total number of samples needed for testing. Misstatements, whole or partial, in the sample population are projected over the population based on the proportion of the misstatement in the selected sample. This sampling technique is used when overstatements or low misstatements are expected in the population.

[14] In selecting the sample, Kearney utilized a 95% confidence level, with a tolerable error rate of 5% and an expected error rate of 0.5%. A confidence level is the level of certainty to which an estimate can be trusted. The degree of certainty is expressed as the chance, usually in the form of a percentage, that a true value will be included within a specified range, called a confidence interval. The tolerable error is the rate of deviation set by the auditor and by which the auditor seeks assurance that the allowable rate of deviation is not exceeded by the actual rate of deviation in the population. The expected error is the rate of error in the population that Kearney expected to find, based on various considerations researched prior to testing the sample.

Table A.2: MEPI Expenditure Sample by Award

Award Number	Total Expenditures Per Award Recipient GL	Excluded Expenses	Final Population Amount	Sample Amount
S-NEAPI-12-CA-0018	$1,999,787	$467,316	$1,532,471	$391,266
S-NEAPI-12-CA-0019	1,885,172	(62,138)	1,378,312	292,606
S-NEAPI-12-CA-0007	1,881,304	390,357	1,490,948	744,974
S-NEAPI-12-CA-0005	1,863,873	(39,356)	1,613,631	601,805
S-NEAPI-12-CA-0026	1,336,825	190,567	1,146,258	421,030
S-NEAPI-12-CA-0023	1,000,000	1,253,770	746,230	337,721
S-NEAPI-13-CA-1002	998,400	222,725	775,675	422,231
S-NEAPI-12-CA-0036	993,372	143,163	850,209	553,211
S-NEAPI-12-CA-0021	849,623	162,862	686,761	325,482
S-NEAPI-12-CA-0053	739,289	253,573	485,716	25,010
S-NEAPI-12-CA-0052	738,643	(54,137)	792,780	399,033
S-NEAPI-12-CA-0040	729,528	(10,504)	740,032	366,995
S-NEAPI-12-CA-0006	652,125	(294)	652,419	285,455
S-NEAPI-12-CA-0009	576,852	(18,555)	600,228	301,892
S-NEAPI-13-CA-1015	548,311	-	548,311	300,155
S-NEAPI-12-CA-1002	527,732	282,408	240,994	91,994
S-NEAPI-13-CA-1003	480,555	121,242	359,313	159,775
S-NEATU-12-GR-0063	421,546	-	421,546	224,100
S-NEAPI-12-CA-0034	374,610	94,900	279,710	160,662
S-NEAPI-12-CA-0027	324,828	20,290	304,538	258,583
Total	**$18,922,375**	**$3,418,189**	**$15,646,082**	**$6,663,980**

Source: Prepared by Kearney based upon award recipient-provided expenditure information.

Request for Documentation

Kearney requested the award recipient to provide detailed documentation of each transaction selected. Each award recipient had 2 months to provide supporting documentation. Kearney found most award recipients were unable to provide a complete set of documentation and, in most instances, Kearney needed to make multiple follow-up requests.

Testing of Expenditures

Kearney tested all documentation provided against Federal[15] and Department guidance, and the terms and conditions of the award agreement. Any discrepancies were brought up to the award recipient to determine the cause. If the cause could not be determined or if Kearney found the

[15] OMB A-21, "*Cost Principles for Educational Institutions,*" and OMB A-122, "*Cost Principles for Non-Profit Organizations,*" provide guidance on what grant expenses are allowable.

explanation was not sufficient, Kearney questioned those costs. The known questioned costs were input into IDEA to obtain a projection of questioned costs over the entire population.

Table A.3: Projected Questioned Costs

Award Number	Value of Sampled Population	95 Percent Lower Bound	Projected Questioned Costs	95 Percent Upper Bound
S-NEAPI-12-CA-0018	$1,532,471	$ -	$ -	$ 62,879
S-NEAPI-12-CA-0007	1,490,948	126,291	186,617	304,289
S-NEAPI-12-CA-0019	1,378,312	202,158	258,728	376,349
S-NEAPI-12-CA-0005	1,613,631	-	-	65,574
S-NEAPI-12-CA-0026	1,146,258	260,870	389,896	518,922
S-NEAPI-13-CA-1002	775,675	-	-	31,434
S-NEAPI-12-CA-0023	746,230	235,630	312,424	389,217
S-NEAPI-12-CA-0036	850,209	264,521	298,609	340,031
S-NEAPI-12-CA-0021	686,761	-	-	27,865
S-NEAPI-12-CA-0040	740,032	96,700	126,536	184,034
S-NEAPI-12-CA-0053	485,716	-	-	19,793
S-NEAPI-12-CA-0052	792,780	413,240	474,521	535,802
S-NEAPI-12-CA-0006	652,419	487,935	542,794	597,653
S-NEAPI-12-CA-0009	600,228	298,609	356,184	413,758
S-NEAPI-13-CA-1015	548,311	8,223	30,545	66,983
S-NEAPI-13-CA-1003	359,313	-	-	14,569
S-NEAPI-12-CA-1002	240,994	147,485	171,333	195,180
S-NEAPI-12-CA-0034	279,710	-	-	11,053
S-NEATU-12-GR-0063	421,546	72,765	89,992	125,589
S-NEAPI-12-CA-0027	304,538	7,420	19,470	33,782
Total	**$15,646,082**	**2,621,847**	**$3,257,649**	**$4,314,756**

Source: Prepared by Kearney based upon award recipient-provided expenditure information.

APPENDIX B: BUREAU OF NEAR EASTERN AFFAIRS RESPONSE

United States Department of State

Washington, D.C. 20520

June 14, 2016

UNCLASSIFIED
MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: NEA – Assistant Secretary Anne Patterson AWP

SUBJECT: Draft OIG Report on Audit of the Department of State's *Financial Management of Grants and Cooperative Agreements Supporting the Middle East Partnership Initiative*

Thank you for providing NEA the opportunity to provide comments on the Office of Inspector General (OIG) draft report. Below please find comments and feedback regarding actions we have taken or plan to take in response to all four recommendations, as well as overall feedback related to the report.

Recommendation Responses
OIG Report Recommendation 1:
OIG recommends that the Bureau of Near Eastern Affairs (NEA) develop and implement a process to verify that grants officers and the grant officer representatives develop and implement monitoring plans that comply with the *Federal Assistance Policy Directive,* specifically subchapters 2.03-A, Risk Management; 3.01-A, Monitoring Plan; and 3.01-B, Financial Reporting. Specifically, the monitoring plans should enable NEA to obtain reasonable assurance that award recipients have adequate financial management controls in place.

NEA Response:
NEA concurs with this recommendation and has already addressed this in the Grants Management Policies and Procedures Manual, Version 1.1, effective February 11, 2016.

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OIG Report Recommendation 2:
OIG recommends that the Bureau of Near Eastern Affairs conduct site visits as recommended by the *Federal Assistance Policy Directive* and the *Federal Assistance Procedures Desk Guide,* to monitor award recipients' financial activities, including reviewing recipients' financial policies and procedures, financial management controls, and supporting documentation for a selection of expenditures, and establish a corrective action plan, if necessary.

NEA Response:
NEA concurs with this recommendation with explanation. NEA conducts financial and programmatic site visits that encompass all recommended oversight found in Recommendation 2 of this report. In fact, NEA conducted 48 such financial site visits during the period covered by this audit, and has documented the results of these visits in its files. The necessity of conducting a site visit is determined via a risk-based approach, which leverages the recipients' financial statements and results of single audit reports, formerly known as A-133 audits. NEA documents site visit findings, recommendations and related documentation, including corrective action plans when needed. To supplement site visits, NEA Grants Officers and Grants Officer Representatives conduct desk reviews, review quarterly financial and performance reporting and regularly hold meetings and phone calls with recipients. NEA will continue to this monitoring practice and recipient site visits will be based on NEA/AC's existing risk based approach and methodology which is documented in the Grants Management Policy and Procedures Manual Version 1.1.

OIG Report Recommendation 3:
OIG recommends that the Bureau of Near Eastern Affairs (a) determine whether questioned costs of $1.5 million identified in this report are allowable and supported and (b) recover any costs determined to be unallowable or unsupported.

NEA Response:
NEA concurs with this recommendation.

OIG Report Recommendation 4:
OIG recommends that the Bureau of Near Eastern Affairs review the 223 MEPI awards not reviewed selected for the audit sample to determine whether unallowable and unsupported costs exist in those awards and to recover any costs deemed unallowable or unsupported.

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NEA Response:
NEA does not concur with this recommendation. Implementing this recommendation would require a significant and unreasonable dedication of limited human capital and financial resources. Moreover, this recommendation calls for NEA to implement oversight exceeding the standard approaches stated in the Single Audit Act of 1984, Office of Management and Budget (OMB) Circular A-133, 2 CFR Part 200 subpart F, and as recommended in the *Federal Assistance Policy Directive* and the *Federal Assistance Procedures Desk Guide.*

First, implementing this recommendation would place a significant human capital and financial burden on NEA. Based on NEA/AC's experience, a single financial site visit requires, at a minimum, two full time employees at 16 hours of level of effort each, which includes prep time, conducting the on-site review and follow-up meetings with the recipient. This recommendation would require NEA/AC staff to expend an estimated 7,136 hours, or 178.4 business weeks, dedicated solely to reviewing each award in the sample. In other words, it is estimated that this recommendation would require two staff members to review awards full time for almost two years. NEA does not have the available human capital, time or financial resources to issue and manage a contract to a third party auditor to conduct such an extensive review.

Second, single audit reports, previously known as A-133 audits, are mandated tools used by all Federal agencies to review expenditures under Federal awards and assess the internal controls and financial management processes established by the recipients. The annual independent audit reduces the burden on both recipients and Federal agencies, establishes uniform requirements administered by nonfederal entities and enables Federal departments and agencies to rely on the audit reports to the extent practicable. When audit reports are unavailable, NEA/AC grants officers independently review recipients' financial statements, internal controls and financial management processes and procedures to determine the risk posed by the recipient and the appropriate level of monitoring.

NEA/AC has established procedures for assessing the overall risk of each recipient that have proven to be cost efficient and in line with the standards established by Federal and Department guidelines. Since 2013, NEA/AC grants officers have conducted over sixty individual financial site visits during which the recipients' internal controls and financial management processes were evaluated, and the supporting documentation for sampled costs were closely reviewed. When necessary, recipients were placed on corrective action plans and monitored as they resolved the deficiencies identified.

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Requiring NEA to review all 223 MEPI awards negates the efficiency and usefulness of the Single Audit Act, as well as the risk-based monitoring standards established in *Federal Assistance Policy Directive* and the *Federal Assistance Procedures Desk Guide*. It also places an undue financial and human capital burden on the Bureau and sets an unsustainable business model for monitoring recipients.

Detailed Responses

- NEA expresses concern that the report has not accounted for the value of Single Audit requirement. The OIG draft report fails to reference the A-133 or the Single Audit Act of 1984. The objectives of the Single Audit requirement are to promote sound financial management, including effective internal controls, with respect to Federal awards administered by non-Federal entities. It establishes uniform requirements for audits administered by non-Federal entities; promotes the efficient and effective use of audit resources, reduces burdens on state and local governments, Indian tribes, and nonprofit organizations; and ensures that Federal departments and agencies, to the extent practicable, rely upon and use audit work done pursuant to the act. While the OIG draft report references the A-122 and A-110 in *Federal and Department Guidance for Grants Management* on page two, it does not identify the A-133 audit reports as reliable resources that should be used for conducting effective financial oversight. NEA reviews single audit reports with the purpose of examining the recipients' capacity for financial oversight and internal controls as is required by both OMB and Department of State policy.
- The data sample used by the OIG for this audit mainly includes 16 implementers who have undergone annual A-133 audits and furnished their FY12 and FY13 reports to MEPI, depending on the year their awards were issued. Of those 16 reports, 12 had no identified findings and 15 rated the organization audited as low risk. The reports were a critical component of the overall financial risk assessment practice at the time, and NEA Grants Officers made the same determination when rating the risk levels of the organizations.

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Should you have any additional questions or concerns, please contact the Division Chief of the Grants Management Department in the Office of Assistance Coordination, Greg Young (b) (6) [redacted]@state.gov).

Drafted: NEA/AC - MDaher-Mansour, ext. (b) (6) [redacted]

Approved: A/S Patterson

Cleared:

NEA/AC	RAlbright	
NEA/AC/GM	GYoung	(ok)
NEA/AC/PPC	AViehe	(ok)
NEA/AC/PPC	BAggeler	(ok)
NEA/AC/GM	JBell	(ok)
NEA/AC/GM	NGazzetta	(ok)
NEA/AC/GM	DHenry	(ok)
A/OPE	SMackey	(ok)
L/LFA	ANeustaetter	(ok)
M	CampbellG	(Info)

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APPENDIX C: MEPI DC AWARDS FINANCIAL CONTROL QUESTIONNAIRE

Appendix 17

DC Awards - Financial Control Questionnaire

U.S.-Middle East Partnership Initiative

MEPI

Democracy • Education • Economy • Women

The Middle East Partnership Initiative (MEPI) uses this questionnaire to verify non-US recipient ability to comply with requirements associated with government and multi-lateral donor agency funding, including OMB Circular A-110 (or specific Agency codification, such as 22 CFR 145), the applicable OMB Circulars regarding Cost Principles and OMB Circular A-133 regarding audit.

MEPI recognizes that the accounting practices and legal framework and practices regarding disclosure of information vary from country to country. However, the information requested in the questionnaire is necessary for MEPI to determine the recipient's preparedness for administering donor agency funding and to assess what, if any, guidance may be required. MEPI asks that the recipients complete the questionnaire and provide full and complete information.

Please Type or Print		
	Organization Name:	Email address:
	Number and street (or P.O. box if mail is not delivered to street address): Room/suite	Telephone number:
	City or town, province, state or country, and zip:	Fax number:

Part I	**General**		**Yes**	**No**
1	Type of Organization: ☐ Non-profit ☐ For-Profit ☐ Educational ☐ Other ______ ☐ Government Agency	1		
2	Is the Organization incorporated/registered/licensed as a legal entity? **a** If YES: Place of Incorporation/Registration (State/Country): ______ Incorporation/Registration Date: ______ **b** If NO: List parent company/organization name and address OR explain status: ______ ______ ______	2		
3	Has the Organization received U.S. federal grant or agreement funds before?	3		
4	Does the Organization have a clear understanding of the terms and condition of the proposed Award.			
Part II	**ORGANIZATION STRUCTURE AND POLICIES**		**Yes**	**No**
1	Is your organization governed by Board of Directors? If Yes, please list the names of the Board Directors here: ______ ______	1		
2	Does the Organization have written policies and procedures related to procurement, travel and program management? a) Do procedures provide for the solicitation of prices for the purchase, rent, and/or lease of fixed assets? b) Is appropriate authorization obtained prior to purchase, rent, or lease of equipment and supplies? c) Are pre-numbered purchase orders used?	2		

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	d) Are procedures in place to provide for formal approval by Officers, Board Directors, or other high level authority of consultant and contract service agreements? e) Are individual projects accounted for separately, to aid in the organization's overall program management?			
3	Does the Organization have written policies and procedures on property management to include: an inventory system to track supplies and equipment; equipment maintence; insurance? a) Are property records maintained which include: 1. descriptions of the property? 2. date acquired? 3. original cost and check number of disbursement? 4. funding source? 5. estimated life? 6. identification number and location of asset? b) Are physical inventories taken periodically and compared to fixed assets records?	3		
4	Does the Organization have written policies and procedures for Human Resource management to include a timekeeping system (timesheet with hours and rates recorded to accounting system) to support labor billed to this Award? a) Are time sheets required of each employee? b) Is the timesheet a pre-printed form? c) What length of time does the timesheet cover? d) Are all entries and signatures on the timesheets in ink? e) Does the employee's supervisor approve the timesheet? f) Are records of vacation, sick leave and compensatory time (if applicable) maintained for employees?	4		
5	If Subgrants are being proposed, does the Organization have written policies and procedures on Subgrant Monitoring.	5		
6	If Subgrants are being proposed, please indicate overall percentage of subgrants to the total amount of the award ________	6		
Part III	**FINANCIAL/ACCOUNTING MANAGEMENT**		**Yes**	**No**
1	What is the ending date of your fiscal year? ________	1		
2	Does the Organization have written policies and procedures on financial management and accounting practices?	2		
3	Does the Organization have an automated accounting system?	3		
4	Can the accounting system show amounts incurred for individual awards and show charges to separate funding sources? Can the accounting system generate reports that show these specific costs incurred for individual awards?	4		
5	Does the organization prepare annual financial statements (Balance Sheet/Income and Expense Statement)?	5		
6	Can accounting system generate reports consistent with the terms and condition of the proposed Award?	6		
7	Does the organization have a system in place to ensure the following: a) that costs incurred under this award are reasonable costs, costs which are generally recognized as ordinary and necessary and would be incurred by a prudent person in the conduct of normal business? b) that costs incurred under this award are allowable costs, costs which conform to any limitations of the award and to governing cost principles? c) that costs incurred under this award are allocable costs, costs which are incurred specifically for the award?	7		
8	Does the accounting system allow for the reporting of Cash and In-kind Contributions (from non-federal sources) i.e. Cost Share?	8		

			Yes	No
9	Does the accounting system allow for the reporting of income or fees earned by the organization under a US federal award?	9		

Part IV	Independent Auditing Firm		Yes	No
1	Has the Organization had been subjected to a financial audit? If YES: **a** Fiscal Year of the most recent financial audit:__________ **b** Please provide a copy of the most recent audit__________ **c** Please provide the name, address, phone number, email address and contact person of the organization's accounting firm. __________ __________ __________ __________	1		

Part V	PAST PERFORMANCE		Yes	No
1	Please provide the following Information on awards or funding received over the past three calender years (if more space is needed, please attach). Please specifically note if funds are U.S. Government funds.	1		

Name of Donor	*Amount*	*Period*	*US Government Funds?*
		Total USG Funds:	

NOTE: US based non-profit organizations or institutions of higher learning receiving a total of $300,000 or more in one year from USG sources are subject to an A-133 audit. Non-US based organizations receiving over $300,000 from USG sources must have an organization-wide audit, similar to the A-133.

			Yes	No
2	Is the organization generally familiar with the existing regulations and guidelines containing the cost principles and procedures for the determination and allowance of costs in connection with U.S. Federally funded projects (OMB Circular A-122 for non-profit organizations; A-21 for educational institutions; FAR 31.2 for "for-profit" organizations)?	2		
3	Is your organization formally excluded (debarred or suspended) from receiving US Government Funding?	3		

Part VI Documentation

For Organizations which do not have a current A-133 audit, please provide a copy of the following documents.

1. The Annual Report
2. Articles of Incorporation
3. Audited Financial Statement
4. Copies of the following Policies and Procedures: Procurement, Travel, Human Resources (including timekeeping and labor distribution), Financial Management and Accounting, Program Management, Subgrant Management (if applicable) and Property Management

Please attach any additional information you believe will be helpful in providing the information requested above or for addressing any special accounting or legal issues. Additional information such as copies of specific policies may be requested at a later date.

Part VI	**Signature**	
	Under penalties of perjury, I declare that I have examined and reviewed the answers to this "pre-award financial questionnaire", and to the best of my knowledge and belief, it is true, correct and complete.	
Please sign Here	Signature of head of organization or his/her designee	Date
	Type Name and Title of Signatory	Provide e-mail address and phone no.
	Signature of head of organization or his/her designee	Date
	Type Name and Title of Signatory	Provide e-mail address and phone no.
2	A list of individuals authorized to sign on behalf of the organization. Please attach a schedule if necessary.	

Part VII	**(Organization Name/Agency) Use Only**			
Review and Approval	Project Officer	Date	Program Director	Date
Funding Source			Award Amount	Award/Grant ID
Comments				

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APPENDIX D: MEPI LOCAL GRANTS PRE-AWARD QUESTIONNAIRE

Appendix 18

Local grants pre-Award Questionnaire

Pre-Award Questionnaire

U.S. - Middle East Partnership Initiative
MEPI

Please Type or Print	Organization Name:		Email address:
	Number and street (or P.O. box if mail is not delivered to street address):	Room/suite	Telephone number:
	City or town, province, state or country, and zip:		Fax number:

Part I	General		Yes	No
1	Type of Organization: ☐ Non-profit ☐ Educational ☐ Government Agency ☐ For-Profit ☐ Other ______	1		
2	Is the Organization incorporated/registered/licensed as a legal entity? a If YES: Place of Incorporation/Registration (State/Country):______ Incorporation/Registration Date:______ b If NO: List parent company/organization name and address OR explain status: ______ ______ ______	2		
3	Does the Organization have a clear understanding of the terms and condition of the proposed Award.	3		
Part II	**ORGANIZATION AND STRUCTURE**		**Yes**	**No**
1	Does the Organization have written policies and procedures related to procurement, travel and program management?	1		
2	Does the Organization have written policies and procedures on property management to include: an inventory system to track supplies and equipment; equipment maintence; insurance?	2		
3	Does the Organization have written policies and procedures for Human Resource management to include a timekeeping system (timesheet with hours and rates recorded to accounting system) to support labor billed to this Award?	3		
4	If Subgrants are being proposed, does the Organization have written policies and procedures on Subgrant Monitoring.	4		
5	If Subgrants are being proposed, please indicate overall percentage of subgrants to the total amount of the award ______	5		

MEPI Tools Page 129 Project Refinement & Award questionnaire

Part III	FINANCIAL/ACCOUNTING MANAGEMENT		Yes	No
1	What is the ending date of your fiscal year? ____________	1		
2	Does the Organization have written policies and procedures on financial management and accounting practices?	2		
3	Does the Organization have an automated accounting system?	3		
4	Can the accounting system (general ledger and supporting documentation) accummulate, segregate and report costs incurred under this Award and/or additional awards?	4		
5	Does the organization prepare annual financial statements (Balance Sheet/Income and Expense Statement)?	5		
6	Can accounting system generate reports consistent with the terms and condition of the proposed Award?	6		
7	Does the organization have written policies and procedures to determine the reasonableness, allowability and allocability of costs?	7		
8	Does the accounting system allow for the reporting of Cash and In-kind Contributions (from non-federal sources) i.e. Cost Share?	8		
9	Does the accounting system allow for the reporting of income earned directly associated to a USG funded program (i.e. Program Income)?	9		

ABBREVIATIONS

GOR	Grants Officer Representative
GPD	Grant Policy Directives
MEPI	Middle East Partnership Initiative
NEA	Bureau of Near Eastern Affairs
OIG	Office of Inspector General
OMB	Office of Management and Budget

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