

GAO

Report to the Ranking Minority Member,  
Subcommittee on Foreign Operations,  
Committee on Appropriations,  
U.S. Senate

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June 1995

# FOREIGN ASSISTANCE

## African Development Foundation's Overhead Costs Can Be Reduced







United States  
General Accounting Office  
Washington, D.C. 20548

National Security and  
International Affairs Division

B-256714

June 2, 1995

The Honorable Patrick J. Leahy  
Ranking Minority Member  
Subcommittee on Foreign Operations  
Committee on Appropriations  
United States Senate

Dear Senator Leahy:

This report, prepared at your request, discusses the African Development Foundation's (ADF) administrative and financial management practices. You were concerned about whether ADF used its resources efficiently and asked that we assess the levels that ADF budgeted and spent on administrative overhead, specifically whether ADF (1) used program funds for administrative expenses, (2) presented reliable data in its budget submissions to Congress, and (3) complied with financial reporting requirements.

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## Results in Brief

During fiscal year 1994, as in prior years, ADF spent more of its budget for headquarters administrative expenses (about 28 percent), than the Inter-American Foundation (IAF), an organization that is comparable to ADF, and other similar agencies spent for such costs. ADF's overhead rate was higher mainly because of higher salaries and greater use of consultants and contractors than were budgeted to carry out headquarters functions. This may have occurred, in part, because ADF's board of directors provided insufficient oversight of ADF activities between 1991 and 1994.

Because ADF's funds are appropriated as a lump sum and not earmarked for program or administrative use, ADF is not bound by statute as to the amount it can spend for administrative overhead. During fiscal years 1991-94, ADF generally spent more for administration and in-country program support and less for development grants than it proposed in its congressional budget submissions. It also exceeded amounts it included in its own budgets for administrative costs and may have exceeded the amount that the Office of Management and Budget (OMB) apportioned to ADF for administrative costs during 1 or more years of this period.

ADF budgetary and cost data presented to Congress and OMB for program management and support (administrative overhead) was not reliable. The

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data was based on unaudited financial statements and an accounting system that was not viable for audit. Further, the data did not always agree with the amounts shown in ADF records or reports to ADF's board of directors, and explanations were not provided as to why actual costs sometimes varied significantly from the budget estimates. Program categories used to present data to Congress and OMB were not consistent in format from year to year, making comparisons difficult; some costs were not properly coded; and narrative justifications did not adequately describe what the costs covered. ADF and OMB have recently acknowledged the problem and taken steps to improve the quality of budget reporting.

ADF did not meet the financial reporting, internal controls assessment, and budget report reconciliation requirements of the Government Corporation Control Act; however, it began steps in 1994 to do so.

In commenting on a draft of this report, ADF's new Chairman of the Board indicated that ADF has already addressed or is in the process of addressing most, if not all, of the problems noted in this report.

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## Background

ADF was created by Congress in 1980 as an independent public corporation to support local self-help initiatives of the poor in Africa. It was patterned after IAF, which provides small social and economic development grants to grassroots organizations in Latin America and the Caribbean. ADF is authorized to prescribe its own rules and regulations for carrying out its functions. It also has authority to execute contracts and agreements, and to employ and fix the compensation of staff. ADF is subject to the Government Corporation Control Act provisions applicable to wholly-owned corporations and has stated that its programs and operations are generally administered in accordance with existing federal regulations.

ADF's charter calls for a seven-member bipartisan board of directors, comprised of five private sector and two public sector members, appointed to 6-year staggered terms by the President with Senate approval. The board is responsible for the Foundation's overall management. This includes establishing policy and monitoring program activities to ensure they are carried out within the framework of legislative authority. The board also appoints a president who manages the day-to-day operations.

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ADF began operations in 1984, and as of September 30, 1994, had funded 415 development grants and 123 research grants in 31 African countries. It had obligated about \$45.4 million for development projects and \$3.7 million for research through fiscal year 1994. Its budgets for fiscal years 1993 through 1995 have remained constant at \$16.9 million. During fiscal year 1994, ADF had a staff of 54 at its Washington, D.C., headquarters and used the services of local country liaison officers, resident evaluators, technical assistance providers, and auditors under cooperative agreements and contract arrangements in 22 African countries.

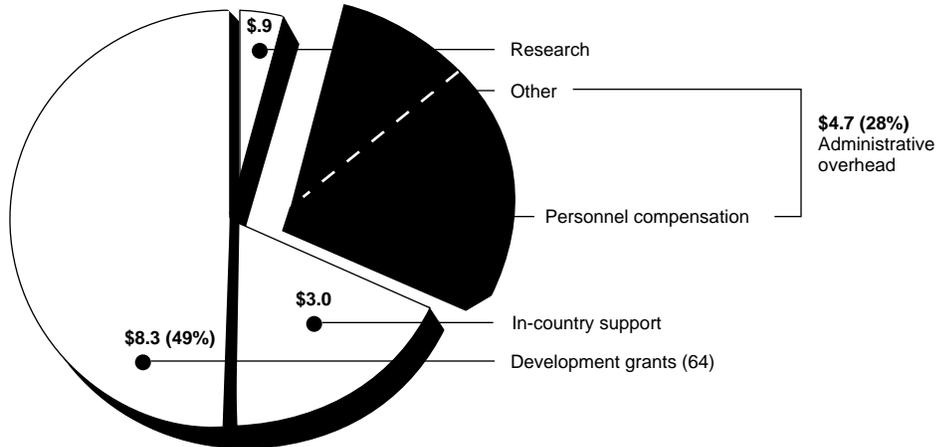
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## Administrative Overhead Is Higher Than Other Similar Agencies

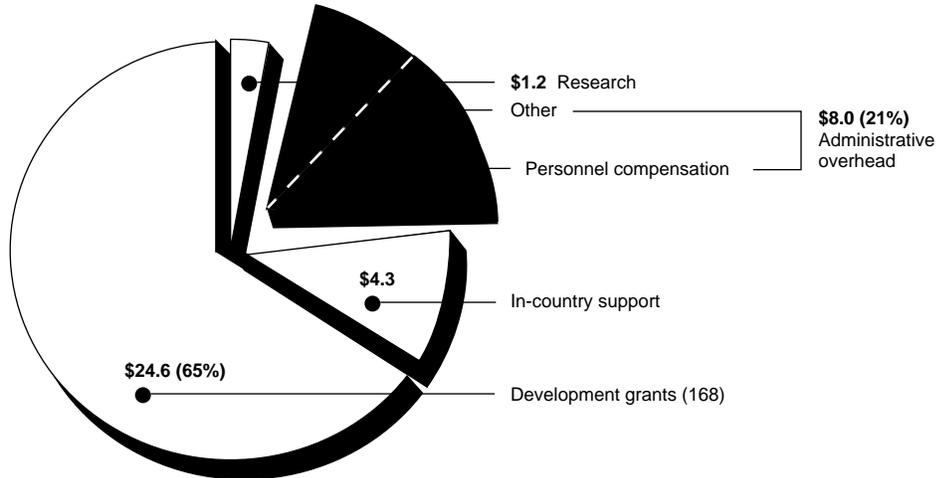
ADF's administrative overhead was significantly higher than other grassroots development organizations. The overhead rate, which generally declined between fiscal years 1984-90 as the size of ADF's budget increased, has remained fairly constant at about 28 percent between fiscal years 1991-94 even though ADF's budget increased from about \$13 million to \$17 million during this period. In comparison, IAF, which administered a budget that was more than twice as large as ADF's (\$38 million versus \$17 million), spent 21 percent or less of its budget for administrative overhead during the period. ADF also spent proportionately more of its budget for in-country support and less for development grants. (See fig. 1.)

**Figure 1: Comparison of ADF and IAF Budget Expenditures, Fiscal Year 1994**  
(Dollars in Millions)

**ADF budget expenditures – \$16.9**



**IAF budget expenditures – \$38.1**



We also found that two other regional development assistance organizations with similar grant making activities but different program delivery systems and accounting policies, the Asia and Eurasia Foundations, which are privately operated under contract funding arrangements with federal entities, had lower overhead rates than ADF.

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During fiscal year 1994, they reported combined program services and administrative overhead of 17.9 percent and 18.3 percent, respectively.

While ADF had less than one-half the overall funding level and spent proportionately less of its budget for development grants than IAF (as shown in fig. 1), it maintained program activity in as many countries as IAF but at a much lower volume per country. Both organizations were active in 22 countries (though ADF had suspended operations in several countries due to turmoil at the end of fiscal year 1994). Whereas the grants awarded by the organizations were of comparable size, the number and total value of grants awarded by ADF per country were less than one-half of those awarded by IAF. During fiscal years 1993-94, ADF averaged about three new development grants and less than \$400,000 per country whereas IAF averaged about seven new grants and more than \$1.1 million per country. In addition, ADF managed a much smaller portfolio of active grants than IAF, including issuing far fewer grant amendments and supplements.

Both ADF and IAF spent a comparatively modest share of their budgets (5 percent versus 3 percent) for a congressionally mandated research program of providing grants to local nationals and funding activities that seek to disseminate “lessons learned” through them, as well as for in-country technical assistance and evaluation. We do not believe that these research and support activities had a material effect on either of their administrative overhead rates since they do not appear to require as much staff supervision as development grants, in part, because they are not audited and they require less reporting and formal review.

The difference between ADF’s and IAF’s administrative overhead costs can be attributed mainly to higher ADF personnel compensation costs. Headquarters personnel compensation is ADF’s fastest growing expense and accounts for about two-thirds of the overhead cost. ADF had higher graded positions than IAF—more than half of its headquarters staff was GS-12 or above—and a higher graded management structure. In their respective program offices, ADF had two regional directors (GS-15) that each supervised three regional managers (GS-13/14) and staff whereas IAF had one vice president (GS-15) that supervised four regional directors (GS-14) and staff. Also, IAF had no counterpart to ADF’s newly established Director of Central Operations (GS-15) and Public Affairs Officer (GS-14).

ADF’s administrative support services costs were also higher than planned or relative to IAF because ADF made significant and frequently unbudgeted use of consultants and contract support staff to supplement the work

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performed by its direct-hire employees. ADF spent over \$400,000 annually for consulting and temporary services during fiscal years 1991-94, or more than double the amount that was budgeted for them. The large majority of this cost was for long-term personal services contractors providing support services ranging from 1 to 4 years. In most cases, these contractors were retained by ADF on a continuous basis through award of successive annual contracts, including some for individuals who were later hired as regular employees. While ADF's legislation<sup>1</sup> authorizes it to make contracts with individuals as necessary to carry out its functions, some contractors were providing services more properly reserved to employees. Several of the contractors who were ultimately hired continued to perform the same jobs they had done before. In addition, OMB confirmed an agreement with ADF in April 1992 that by September 30, 1992, "no contractors will be permitted to perform inherently governmental functions at ADF." While ADF phased down the use of personal services contractors, it continued to use them to perform governmental functions, such as reviewing project proposals and monitoring grants and agreements during all of fiscal year 1993 and into 1994. ADF had released all but two contractors by January 1994 and ADF officials told us in March 1995 that they planned to release those two within several months.

ADF also spent a higher proportion of its administrative budget on travel and transportation than IAF (about 12 versus 8 percent). Much of the difference can be accounted for by the longer distances ADF personnel have to travel and the difficulties in getting to and around African countries. However, ADF travel policies and practices contributed to higher operating costs. For example, ADF records showed that the board of directors, president, and vice president traveled business class by virtue of their position and that staff members who accompanied them also did so without having to make any further justification. Moreover, adequate efforts were not made to defray travel costs by combining tasks to eliminate short trips. ADF has since tightened its travel policies, including improving trip planning and eliminating all business class travel except in cases of medical emergency.

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## Inadequate Board Oversight and Cost Controls Contributed to Higher Overhead

Between 1991 and 1994, ADF's board of directors, due to extended vacancies in its membership, did not provide the oversight necessary to control overhead costs. As shown in table 1, even though four board members agreed to extend their service terms, there were still long periods of vacancy in board membership. Four of the seven board member

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<sup>1</sup>Public Law 96-533, Sec. 506 (a)(5).

positions were vacant for periods ranging from 14 months to 3 years and only one position did not experience a vacancy or need to extend a member's term of service.

**Table 1: Service Extensions and Vacancies on ADF's Board of Directors Between 1991-94**

Position	Extended service period	Vacancy period	Length of vacancy
Chairman	10/89 to 3/91	8/92 to 7/94	23 months
Vice chairman	None	6/92 to 5/94	23 months
Public member	None	None	None
Public member	None	1/93 to 3/94	14 months
Private member	10/93 to 5/94	5/94 to present	Since 5/94
Private member	10/93 to 5/94	None	None
Private member	11/89 to 12/91	12/91 to 10/94	34 months

Until a new board was formed in July 1994, the board had not met at least quarterly, as stipulated in the ADF's board manual. Three out of four previously scheduled meetings (in June 1993 and in February and June 1994) were canceled or delayed because the board could not establish a quorum or lacked a chairman. Also, the last meeting held (in October 1993) before the new board was established was attended by the board's only three members, two of whom were serving on extended appointments. Vacancies in the board's vice chairman and chairman positions had existed since June and August 1992, although one board member was chosen in October 1992 to be acting chairman.

Although we were told that the ADF president did have frequent contact with the existing board members during the period (which appeared to be the case), our review indicated that ADF management did not receive the appropriate attention necessary to ensure that administrative and program support costs were in line with budget estimates and were spent efficiently and effectively.

In addition, while ADF has asserted that it had generally adhered to government travel and procurement regulations, we found that ADF's president had engaged in some practices that appeared to be questionable. For example, he:

- Established a travel pattern that appeared to combine personal and business activity through indirect routing that included frequent stops at a New York residence on official trips between March 1991 and

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- January 1994 without using constructive travel cost (required by travel regulations) as the basis for claiming reimbursement of travel expenses.
- Employed a policy, inconsistent with federal travel regulations, that permitted himself and certain ADF staff to routinely use business-class accommodations without appropriate justification.
  - Acquired a portable cellular telephone that was used primarily for personal business and obtained discounted rates from contract providers of cellular communications and express mail services that created an additional administrative burden on staff to identify and seek reimbursement for personal charges.
  - Retained a consultant on a continuous but largely unbudgeted basis, using six successive personal service contracts and amendments commencing June 1991 and ending January 1994, totaling about \$189,000, for the purpose of developing a new grant audit manual and bookkeeping system for field operations and training for regional managers, country liaison officers, and grantees. ADF officials familiar with implementation procedures for the new manual and bookkeeping system told us they considered the consultant's work to be of marginal value.

Weak budgetary and cost controls also contributed to ADF's high overhead costs. It used an accounting system designed and operated by the National Transportation Safety Board that was not well suited for grant making. Written operating procedures were not current or complete, and certain organizational functions were inappropriate for effective internal control or not clearly defined. For example, ADF's operating manual did not reflect important changes in staff organization, and the delegation of authority to officers of ADF had not been updated since 1985. Also, manual procedures had not been drafted for office director responsibilities, budget preparation, procurement and contracting, property management, and most aspects of ADF personnel and grant program administration. The risk of impropriety was increased by a concentration of certain key functions (including personnel hiring and compensation, travel authorization, and the cash imprest fund) in the Office of the President and management's failure to assess agency internal accounting controls.

An almost complete board has been in place since July 1994 when a new chairman was appointed. In December 1994, the new Chairman told us that the board intended to be more vigorous in its oversight of ADF program and administrative support activities, including cost controls. As of the end of March 1995, it had held five meetings and was actively engaged in selecting a new president and formulating policies and strategies designed to improve ADF's operations.

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## ADF Has Begun Taking Steps to Reduce Administrative Costs

To reduce its administrative costs, ADF terminated several of its long-term personal services contractors in 1994 and plans to terminate the remainder during 1995. ADF officials identified other steps designed to reduce these costs and promote efficiency, including improving and simplifying financial management systems and controls, promoting better communication and working relations between headquarters staff, and providing better training to field staff and grantees.

In response to the executive branch's National Performance Review initiative and OMB guidance, ADF's president appointed a committee in February 1994 to review ADF's operations and structure to find ways to reduce workload and streamline procedures. The review identified opportunities for improving staff efficiency and controlling overhead costs. The ADF president endorsed a number of the committee's recommendations and submitted them in November 1994 to the board of directors for approval. They provided for

- increased delegation of approval authority to lower management levels to permit decisions to be made at the operating level,
- transfer of certain functions to increase operational efficiency and reduce overlap or duplication,
- flexible policies and procedures for grant audits and closeouts,
- improved planning and use of travel and communications services,
- staggered or reduced frequency of reporting by grantees, and
- establishment of criteria for selecting countries for program participation and minimum funding level for efficient operation.

The president did not endorse some of the committee's proposals and did not immediately forward other recommendations for the board's consideration, stating that he intended to further review or seek additional assistance before submitting them. The proposals that were not initially forwarded included realigning, eliminating, or downgrading existing staff positions; making more effective use of existing personnel resources, including less dependence on outside contractors and consultants; reducing priority for representational travel; and improving administration of incentive awards programs.

In December 1994, ADF hired a private consultant (The Mitchell Group) to analyze ADF's organizational structure and staffing patterns. The Group's March 1995 report to ADF focuses mainly on ADF's organization and operating procedures. The report highlights an inefficient management structure with poor communications and confused lines of authority, and

confirmed the existence of weak budgetary discipline and cost controls. ADF's board chairman told us that the board had accepted the Group's recommendations to restructure and downsize ADF and referred them to the staff for implementation.

## Administrative Overhead Excludes In-Country Support Costs

In-country support costs that include liaison and administrative activities, technical assistance, and project evaluation, make up about 18 percent of ADF's budget (compared to 11 percent for IAF), but ADF does not consider any of these costs to be administrative overhead. ADF officials believe the costs for in-country support are an integral part of ADF's unique program concept of capacity-building and fully consistent with its legislative mandate that projects are for grassroots development and that they be designed, managed, and implemented for and by Africans. ADF officials argue that other development organizations are able to achieve lower program overhead ratios by channeling their project funds through various intermediaries or requiring they be spent on foreign consultants and equipment. ADF in-country support costs are principally made up of the following:

- A country liaison officer network of local national development specialists who (1) carry out the day-to-day monitoring of ADF-funded projects in each country in which ADF operates, (2) disseminate information about ADF funding procedures, (3) help screen applicants and evaluate project proposals, and (4) provide technical assistance to applicants and grantees.
- A resident evaluator network through which ADF maintains a cadre of African development professionals who, on a consultant basis, facilitate implementation of ongoing, self-evaluations of ADF-funded projects.
- Recruitment and training of local technical assistance providers who train grantees and field support staff in basic bookkeeping and financial management.

ADF and OMB have debated for years whether the cost of country liaison officers should be accounted for as ADF administrative or program overhead. ADF regards country liaison officer costs, which include ADF-provided office space and equipment and have ranged from 11 to 14 percent of its budget in recent years, to be program-related support and has included them along with research grants and other cooperative agreements as a single cost category in prior budget presentations under "Development studies and technical assistance." OMB clarified the matter by revising the budget format in 1994 so that country liaison officer and

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other program support costs covered by cooperative agreements would be shown as separate line items under an “In-country support” category.

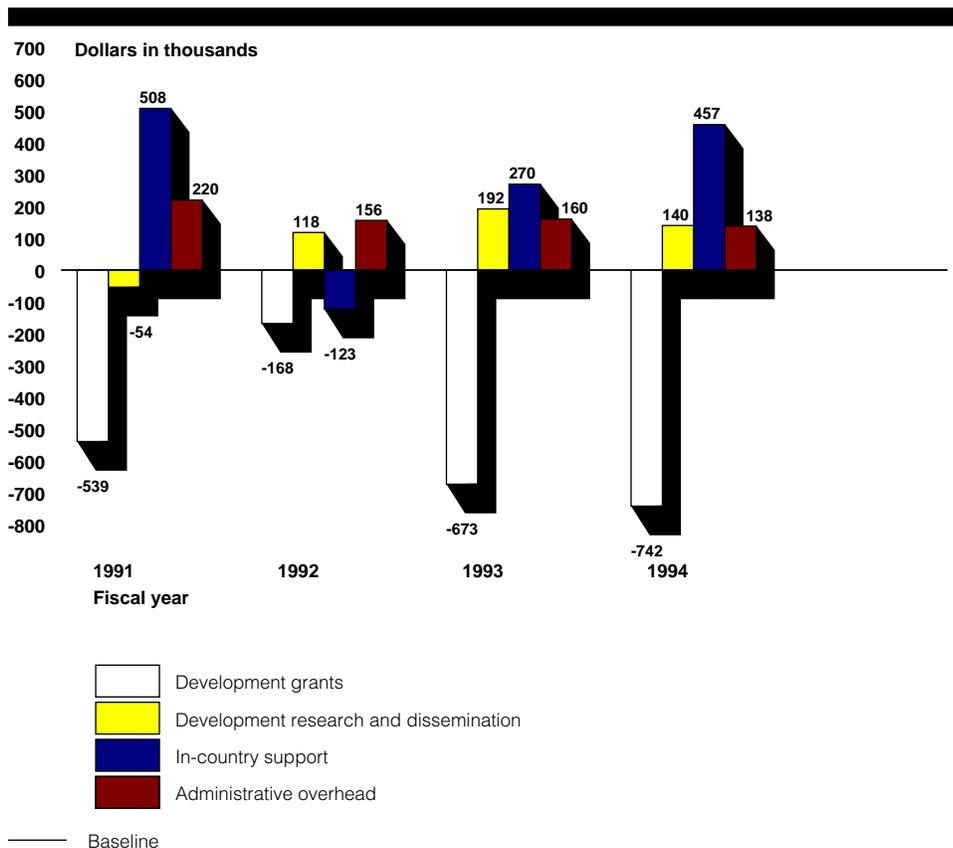
ADF’s in-country support costs nearly doubled from \$1.8 million in 1992 to about \$3 million during fiscal years 1993 and 1994 at a time when ADF’s overall budget increased by 32 percent. The cost increases were primarily for (1) country liaison officers, which ADF officials attributed mainly to expanded country liaison officer staffing and installation of computer and communications equipment in their offices and (2) expanded emphasis on technical training programs for grantees and field support staff, including standardizing the method of providing this assistance so that the cost was accounted for as in-country support rather than charging it to individual projects, for example, “Direct development assistance” (grants), as it was presented in congressional budget presentations. According to ADF officials, grantees needed more training and technical support to ensure maximum project impact. During fiscal year 1994, such technical assistance amounted to \$604,000.

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## Administrative and Program Support Costs Exceeded Budget Estimates

ADF is funded by annual lump-sum appropriations, which do not specify how funds must be spent among cost categories. Although ADF’s appropriations are based on an annual budget estimate and priority agenda that ADF submits through OMB to Congress, the appropriation acts do not earmark funds for specific purposes such as for program or administrative support activities. Each year, the acts state that ADF may use the funds as necessary to carry out its responsibilities. As a result, ADF is not bound by statute as to the amount it can spend for administrative overhead or other support and program purposes. However, while ADF budget and cost controls have been weak and financial reporting generally could not be relied on, we found that actual operating and support costs were higher and development grants were lower than the budget estimates approved by OMB and submitted to Congress for fiscal years 1991-94. (See fig. 2.)

**Figure 2: Budget Shortfalls and Overruns by Major Category, Fiscal Years 1991-94**



Furthermore, we found that ADF does not provide Congress with advance notification for anticipated or actual changes that it makes in allocating the resources it uses for operating expenses and program support costs. However, it does provide Congress with prior notification for proposed individual development grants that exceed \$50,000 and for cooperative agreements and research grants, including major amendments or funding supplements.

OMB apportionments appropriated ADF funds quarterly for administrative expenses and annually for all other expenses. This procedure made about 80 percent of ADF's appropriation available to be spent from the start of fiscal year 1994. The apportionment process is expected to reduce the risk that the funds will be overobligated but does not give OMB control over whether ADF funds are used for program or overhead purposes. ADF budget

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and accounting reports showed that actual administrative expenses were higher than the amount that was originally apportioned by OMB or that was given final budget approval by ADF's president, with overruns that ranged from \$220,000 in fiscal year 1991 to \$138,000 in fiscal year 1994. Federal entities are supposed to seek advance approval from OMB before exceeding their spending authority in any apportionment category. While ADF requested and received higher spending authority for administrative expenses for fiscal years 1993 and 1994, we found no evidence it sought such approval in fiscal year 1991 or for exceeding the higher amount that OMB authorized for this category in fiscal year 1993.<sup>2</sup> In addition, program support costs were significantly higher than the budget estimates during these years, reflecting increased in-country staffing and equipment as well as increased emphasis on research and technical assistance. However, development grant funding was below the targeted levels during each of these years.

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## Budget Reporting Was Unreliable

ADF budget and cost data reported to OMB and Congress in recent years for program management and support were unreliable or not useful for several reasons. First, the cost categories used in the budget presentations were not consistent in format from year to year. ADF's congressional budget presentations summarized program and financing activity by major cost category and object class, but the categories and descriptions used and data supplied did not provide enough detailed information to make year-to-year comparisons of headquarters program management and overseas support costs. For example, the costs were combined in fiscal year 1991, separated into three parts (with a portion of headquarters cost shown separately) during fiscal years 1992-94, divided into two parts in fiscal year 1995, and changed again in the executive branch's proposed budget for fiscal year 1996. Also, research grants and cooperative agreements for in-country support, evaluation, and education and dissemination were merged into a single budget category in prior years and all of the related costs continue to be reported as grants in the breakdown by object classification.

Second, the narrative explanations did not accurately describe what ADF costs were covered in the major program categories. Program narratives did not agree with the funding categories and tended to be misleading. For example, the narrative justification in ADF's recent congressional presentations (1) described in-country support costs under separate programs, (2) discussed the costs of doing business in Africa as

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<sup>2</sup>No apportionment was made during fiscal year 1992 because of a continuing resolution.

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administrative overhead, and (3) understated the proportion of ADF's budget spent on administrative overhead—25 percent versus the actual rate of 28 percent—and did not make it clear that this level of program support excluded in-country costs.

Third, actual costs presented in the budgets did not always agree with amounts shown in ADF's records or reported to ADF's board of directors. For example, the fiscal year 1995 budget presentation showed that actual fiscal year 1993 operating expenses totaled \$4,529,000, whereas ADF's records and its report to the board of directors showed that these expenses totaled \$4,665,000. Budget presentations also understated ADF's use of consulting and other services because personal services contractor costs were improperly shown as "Other personnel compensation" and because ADF records showed that more was spent on consulting services than was shown in the budget presentations. In addition, explanations were not given in the budget presentations as to why actual fund allocation varied significantly from earlier estimates. ADF budget documents did not explain the reasons for the \$673,000 shortfall in development grant funding in fiscal year 1993 and the generally higher than estimated levels of spending for headquarters and in-country program support; nor did they disclose the use of personal services contractors to supplement a direct-hire workforce that resulted in costs that far exceeded the budget estimates between fiscal years 1991 and 1994. Finally, historical funding data presented to ADF's new board of directors in June 1994 for briefing purposes was not consistent; we found that it intermingled budget and actual results data for fiscal years 1991-93.

OMB, in cooperation with ADF and IAF and with our assistance, has partially addressed these problems by developing a standard budget format for ADF and IAF in 1994 that makes it easier to distinguish between program and support elements and make year-to-year cost comparisons between estimates and expenditures. However, ADF and IAF continue to use different object classification codes to account for essentially the same in-country support costs, apparently because of the means used and purposes served in acquiring the assistance services. IAF classifies contracting costs with local organizations for grantee technical assistance and training as "advisory and assistance services" because it considers the services accruing to IAF's benefit; ADF uses cooperative agreements with individuals and classifies them as grants because even though the recipients perform required services, it considers them beneficiaries of ADF program assistance the same as grantees.

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## Financial Reporting Requirements Were Not Met

Under a 1990 amendment to the Government Corporation Control Act (the Chief Financial Officers Act), ADF and other government corporations are required to prepare an annual report to Congress that includes financial statements and an auditor's report on the statements, an assessment of internal controls, and a budget report reconciliation that links the actual amounts that are submitted in the President's budget with program and operating expenses in agency accounting records and financial reports. We recently reported that ADF was the only 1 of 34 government corporations that did not meet the act's financial statement reporting and audit requirements.<sup>3</sup>

ADF officials told us that they had been unaware that ADF was subject to the act's reporting requirements but since learning of it they had hired an audit firm (Coopers & Lybrand) to assist them in complying with the act's financial statement and audit requirements. Coopers & Lybrand commenced audit work in April 1994 but suspended it in August 1994 when it concluded after performing intermittent work that the existing ADF accounting system was not viable or cost-effective for audit. The firm agreed to delay the audit and preparation of financial statements until a new system was completed. ADF had sought approval to install a new budget and accounting system since 1992. The revised audit, expected to include an examination of ADF's financial management reporting system and controls, was scheduled to resume in May 1995.

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## Recommendations

We recommend that the president of ADF, with the board of directors' approval, (1) obtain an independent review of ADF's position classifications and grade structure; (2) provide improved disclosure in budget and expenditure reporting, including explaining the reason(s) for any significant differences in actual results; and (3) annually conduct the management assessment of internal controls and reconciliation of budget reporting required by the Government Corporation Control Act.

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## Matter for Congressional Consideration

If Congress wishes to ensure that ADF funds intended for program purposes are not used for administrative overhead or program support costs, it may wish to impose a limitation on the amount that ADF spends for these costs through the annual appropriation process.

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<sup>3</sup>Government Corporations: CFO Act Management Reporting Could Be Enhanced (GAO/AIMD-94-73, Sept. 19, 1994).

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## Agency Comments and Our Evaluation

In commenting on a draft of this report in March 1995, ADF's Chairman of the Board said that our report focused too heavily on issues that he says have been resolved and did not give sufficient attention to corrective actions that ADF has initiated to reduce its administrative costs and improve its financial accountability. He indicated that efforts to address most, if not all, of the concerns in this report were in various stages of implementation. He pointed out that (1) an entirely new board of directors had been appointed; (2) a new president was being sought; (3) pursuant to a National Performance Review initiative, the ADF's administrative operations were being reappraised; (4) long-term personal services contracting had virtually been eliminated; (5) efforts to update ADF's written policies and procedures were on-going; and (6) a new accounting system was expected to be completed in April 1995.

ADF said that comparisons with IAF and other foundations are inappropriate. While the comparisons may be imperfect, we believe there are sufficient similarities among the foundations to make such comparisons worthwhile and instructive. We also noted that OMB routinely compares ADF with IAF in terms of their program performance and administrative cost.

ADF was also concerned that this report creates the impression that ADF had concealed or misrepresented fiscal data concerning ADF operations. Our analysis shows that between fiscal years 1991 and 1994, ADF's actual administrative support costs were appreciably higher than what ADF had previously budgeted, but we cannot comment on whether ADF's inaccurate reporting was intentional. ADF's comments are presented in their entirety in appendix I.

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## Scope and Methodology

Our review focused on ADF financial administration. To accomplish our objectives, we interviewed ADF officials and examined relevant program, administrative, financial, and legislative documents at ADF headquarters in Washington, D.C. We also interviewed officials of the Asia, Eurasia, and Inter-American Foundations and other knowledgeable development specialists in the Washington, D.C., area and obtained comparative program and administrative information from them. We reviewed budget reporting requirements and financial reporting and internal control requirements. We also discussed these requirements with OMB officials and a private contractor hired by ADF in 1994 to assess its accounting system and assist in the preparation of its financial statements. We did not assess project funding and implementation because, at the time of our review,

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ADF was conducting an assessment to find out what aspects of its program worked well, what did not, and why; however, this assessment had not been released as of March 1995.

We conducted our review between February 1994 and March 1995 in accordance with generally accepted government auditing standards.

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We are sending copies of this report to the Chairmen and Ranking Minority Members, House and Senate Committees on Appropriations, and other appropriate congressional committees; the president of ADF and its board of directors; the Director, Office of Management and Budget; and other interested parties.

Please call me on (202) 512-4128 if you or your staff have any questions concerning this report. Major contributors to the report are listed in appendix II.

Sincerely yours,

A handwritten signature in cursive script that reads "Harold J. Johnson".

Harold J. Johnson, Director  
International Affairs Issues

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## Abbreviations

ADF	African Development Foundation
IAF	Inter-American Foundation
OMB	Office of Management and Budget

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# Comments From the African Development Foundation

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



## AFRICAN DEVELOPMENT FOUNDATION

March 30, 1995

Mr. Harold J. Johnson  
Director, International Affairs Issues  
United States General Accounting Office  
Washington, D.C. 20015

Dear Mr. Johnson:

I am responding to your request for comments on the General Accounting Office (GAO) report entitled "Foreign Assistance: African Development Foundation's Overhead Costs Can Be Reduced". The report is a response to a November 18, 1993 request from Senator Leahy, then Chairman of the Subcommittee on Foreign Operations, Senate Committee on Appropriations. Senator Leahy's original letter asked the GAO to determine whether African Development Foundation (ADF) uses its resources efficiently, and for an assessment of the levels at which ADF budgets and spends its overhead. Apparently, according to the first paragraph of the draft report, this inquiry has been expanded to also include whether ADF complies with financial reporting requirements.

Since Senator Leahy wrote his letter of inquiry, over 15 months have elapsed, and most, if not all, of the concerns and recommendations raised by the GAO in its response have already been addressed by the Foundation as a consequence of a number of factors. These include the appointment of an entirely new board of directors; and at their direction, the thorough examination and reappraisal of the Foundation's administrative operations pursuant to the Government-wide National Performance Review (NPR) exercise. Long-term personal services contracting has been virtually eliminated; ADF travel regulations revised to limit business class travel to cases of medical necessity; a review and update of ADF's written policies and procedures is on-going; and a total reform and computerization of the ADF accounting system for which ADF first sought approval from GSA in 1992 will be completed next month.

As a consequence of these activities, which I shall discuss in more detail in the attached addendum, the Foundation is prepared to continue into fiscal year 1996 with its important mission of providing innovative forms of assistance directly to the grassroots population in Africa, far more efficiently and effectively, with fewer personnel and at a substantially lower cost than had been true in the past.

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See comment 1.

**Appendix I  
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See comment 2.

Though the GAO report briefly alludes to some of these activities, often several pages after its criticism of the practice which has been changed, its overwhelming focus on outdated and resolved issues makes it an inaccurate tool for understanding the Foundation as it currently exists, and undermines the usefulness of the report as an instrument for change. This is underscored by the fact that all four recommendations made at the report's conclusion had been adopted by the Foundation before the first draft was even received from GAO, and are currently in various stages of implementation.

See comment 3.

In addition to its lack of timeliness, we have noted several other shortcomings in the report. These include a number of factual inaccuracies, some of which have already been corrected through constructive dialogue with the report's author; and misleading conclusions drawn from inapt comparisons between ADF's activities and those of other agencies working in development. We have also noted misinterpretations of budgetary information which have unfortunately created the inaccurate impression that ADF has concealed or misrepresented fiscal data concerning ADF operations.

See comment 4.

I will deal with each of these aspects of the report in detail in the attached addendum. I apologize for its length. However, the GAO, in its fifteen month review, covered an array of issues in a manner which the board and staff believe require response to ensure the presentation of a balanced and accurate representation of the Foundation's operations at this critical juncture in the Foundation's history. Therefore, we are hopeful that the GAO will publish this document in its entirety.

If you have any questions concerning the response, please do not hesitate to contact me or the Foundation's staff which provided the information essential to the board's response. Your point of contact on the staff is Paul Magid, the Foundation's General Counsel.

Your attention is greatly appreciated.

Sincerely,



Ernest G. Green  
Chairman of the Board

Enclosures:

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See comment 1.

**I. Timeliness**

**A. Board of Directors** - There are numerous references in the report to an ADF board of directors which, "owing to extended vacancies in its membership, did not provide sufficient oversight of ADF activities." I believe that it is important to emphasize that a six member board has been in place since July 1994 when I was appointed chairman, that the board has held five formal meetings since that time; and has been actively engaged in the selection of a new president and in formulating policies and strategies designed to improve and refine ADF operations. In addition, members of the board have spent a great deal of time at the Foundation, discussing issues with the staff and learning about the details of its operations.

Further, while delays in appointments forced the Foundation to function with less than a full complement of directors from August 1992, when the former chairman passed away, to July 1994, the board operated throughout this period under the formal guidance of Mr. C. Payne Lucas, president of Africare, who was designated by board resolution to carry out the duties of chairman. Though only four official meetings were held during this time, there were frequent phone consultations and written correspondence among board members and with the ADF president. We, therefore, question the draft's image of an inattentive board of directors.

See comment 5.

**B. Long Term Contractors** - The report raises a concern regarding ADF's use of long term contractors who "provid[ed] services more properly reserved to employees". This practice, begun in 1985 with Office of Personnel Management (OPM) and Office of Management and Budget (OMB) concurrence as a cost saving measure, was phased out during 1993, under an agreement with OMB. The remaining long term contractors mentioned in the report, both of whom are due to be released in the next several months, are a Liberian refugee who had previously worked for the Foundation as a Country Liaison Officer, and a translator who provides services on a part time basis.

The contractor cited by GAO for reviewing project proposals and monitoring grants and agreements during FY 93 and 94 was a consultant hired for a three month period in FY 1994 to temporarily replace a Regional Manager who was absent from work during a critical period due to extended illness. As this is an entirely appropriate use of ADF's personal services contracting authority, I question the rationale for referring to it in the report.

See comment 6.

**C. Travel** - ADF's travel policies, and the president's management of them, have been criticized for allowing business class travel "without appropriate

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justification". Until 1993, in accordance with General Services Administration (GSA) and State Department travel regulations, ADF permitted employees in travel status in excess of 14 hours en route to their destination to fly business class provided they gave up layover days to which they are otherwise entitled. Because of the Fly America requirement, most trips to Africa go through Europe and exceed 14 hours in length. Thus, most staff often flew business class up to 1993 when, in response to Government-wide policy discouraging the use of business class travel, ADF began requiring economy class travel, except in cases of medical emergency or where business class travel would result in a financial savings to the Foundation. The policy was recently tightened to exclude all but medical exceptions, making it substantially more restrictive than current GSA travel policies. It applies to all staff members including the president and vice president. While the new board has not traveled to date owing to a decision to defer travel to Africa pending final review of ADF headquarters operations, it extended the economy class policy to itself at its last meeting.

**D. Cost Controls and the Chief Financial Officers Act** - While the report repeatedly criticizes ADF's accounting system, it is disjointed and vague regarding the decisive steps the board and staff have already taken to resolve this long-standing issue.

The old accounting system, administered by the National Transportation Safety Board (NTSB) as a cost saving measure, resulted in numerous problems for ADF because of the lack of similarity between ADF and NTSB operations. Permission to install a new computerized accounting system to resolve the problem was originally sought from GSA in 1992. GSA referred the matter to OMB. After an extensive review by both OMB and Treasury, permission was finally granted in 1994 to install the system. The Foundation has moved with dispatch to do so, and installation will be completed within the next several weeks.

In 1993, the board approved an external review of ADF's financial management system as the basis for preparing financial reports under the Chief Financial Officers Act. After an extensive competitive bidding process, Coopers and Lybrand was contracted in early 1994 to perform the work. However, after a preliminary review, the audit firm recommended delaying the work pending the installation of the new accounting system, in order to make their review more efficient and cost effective. The assessment will be under way within the next several weeks, and the Foundation anticipates filing its first annual report under the Chief Financial Officers Act at the end of the year.

**E. Management Structure** - The Foundation has moved rapidly to use the impetus provided by the National Performance Review (NPR) review to accelerate an on-going process of reorganizing its management structure and

See comment 7.

See comment 8.

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procedures to promote greater efficiency and cost effectiveness. Its actions in this regard have responded to most, if not all, of the criticisms leveled in the report at this aspect of Foundaton operations. While the report makes passing reference to the actions taken, it is presented in such a way as to minimize their impact.

At the time GAO draft was received, the Foundation had already contracted with The Mitchell Group, an international management consulting firm hired with board approval to review ADF operations and organizational recommendations made in the course of the NPR review. Their work began on December 14 and was completed by mid February.

The resultant report calls for a radical restructuring and down sizing of the Foundation, recommending a reorganization and reduction of personnel which will substantially decrease overhead costs and improve ADF's efficiency and cost-effectiveness. The recommendations were favorably considered by the board at its February 28 meeting, and referred to the ADF staff for an implementation plan, which is near completion as of this date.

**F. Budget Categories** - Finally, the GAO draft makes the point several times that the categories used in the ADF budget presentations from FY 1991-'93 are inconsistent with those used for the presentations in FY '94, '95 and '96. This lack of uniformity is offered as an example of poor accounting practices on ADF's part, and to bolster an implication that the Foundation attempted to conceal the true cost of its programs from Congress and OMB.

In actuality, categories used in the budget presentation were the result of extensive discussions with the Office of Management and Budget, which clearly has the final word in such matters, aimed at formulating reports which accurately reflect ADF's unusual, but appropriate, spectrum of expenditures.

More importantly, as your report now notes, the final change, used in the '96 presentation, was the result of a decision by OMB in 1994 to impose a format on both ADF and its sister agency, the InterAmerican Foundation, which OMB believes more accurately reflects the budgets of the two Foundations in carrying out their nearly identical mandates. This renders the issue moot.

**II. Factual Inaccuracies & Inapt Comparisons**

In addition to the fact that many of the issues raised in the draft have been, or are in the process of being resolved, we also noted a number of factual errors and misconceptions in the draft. Some, including misrepresentations of ADF salary levels, were discussed with the draft's author and removed. We are still concerned with remaining inaccuracies which have not been deleted,

See comment 4.

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particularly the draft's characterization of ADF overhead costs, discussion of budget presentation figures, and misleading comparisons to the InterAmerican Foundation and other development assistance organizations.

It is our position that these inaccuracies significantly exaggerate the nature and extent of the so-called "overhead issue", a major focus of the report. They also lend credence to the implication, whether intentional or not, that the Foundation is engaged in fiscal reporting practices which conceal or misrepresent the true cost of its operations.

**A. Inaccuracies**

**1. Contracting and Consulting Services** - In discussing the overhead issue, the draft alleges that ADF "spent an average of \$400,000 annually" for contracting and consulting services to "supplement the work of its direct hire staff" during the period FY 1991-94. Our figures indicate that the average was actually \$318,500. More importantly, we note that the amount declined to \$185,780 in FY '94 and will be even lower in FY '95, demonstrating the extent to which ADF had decreased its reliance on contractors by that date. To retain the report's original \$400,000 figure when confronted with this information, the GAO rewrote the report to include in the figure all funds paid out for service contracts, including carpet cleaning, and computer repair and maintenance costs. Given the Government's emphasis on procuring services in the most economical way possible, criticizing ADF for using economically sensible contracting practices appears gratuitous.

**2. Grant Funding Statistics** - The draft report also contains errors regarding the Foundation's grant funding statistics. For example, the draft report states that the Foundation had a shortfall of \$742,000 in development grant funding in 1994. The report does not state that this apparent shortfall is due to a change in budget categories mandated by OMB at the suggestion of GAO. In actuality, using the same category definitions as were used when the 1994 budget was originally prepared (in 1992), development grant funding actually exceeded the \$9,000,000 budgeted.

**B. Inapt Comparisons (IAF & Eurasia Foundation)**

The draft repeatedly emphasizes that the InterAmerican Foundation's operating costs are lower than ADF's. Two types of expenditures are cited to support this contention, administrative (headquarters) expenses and program support (field) costs.

See comment 9.

See comment 10.

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See comment 11.

**1. Economies of Scale** - While ADF's administrative costs, as a percentage of overall budget, are undeniably higher than IAF's, the report does not touch on the fact that IAF's total budget is over twice that of ADF, allowing for economies of scale which the latter cannot achieve at its level of funding. The impact of such economies is obvious if one looks at the decline in ADF's own overhead rate from 42% in 1985, when it operated at a 4.5 million dollar level, to 28% in 1991 when it received 13.02 million in funding.

See comment 12.

**2. Project Funding Limits** - ADF, unlike its sister agency, operates within a funding limit of \$250,000 per project. Thus, IAF can fund significantly larger projects, with concomitant savings in personnel, travel and communications expenditures, all of which can be as great for a \$25,000 project as for a \$500,000 project. It should be noted that in Africa, at least, small projects often show a higher probability of success than the larger ones.

See comment 13.

**3. Higher Operating Costs** - Travel and communications costs are two of the largest components of ADF's administrative budget. Communications costs (telephone, freight, express mail, etc.) are substantially higher between the United States and Africa than between the United States and Latin America and the Caribbean. This is also true of airfares and per diem. These factors, rather than ADF's use of premium class travel, accounts for the differences between the two Foundations in this area.

See comment 14.

**4. Eurasia Foundation** - The draft also compares ADF's administrative overhead rate to that of the Eurasia Foundation, a new entity wholly funded through AID. In our discussions with the Foundation, we were informed that it primarily provides grants to American institutions of higher education to carry out projects in the former Soviet Union. Many overhead costs, such as travel, communications, and to a large measure personnel, are folded into the grants themselves. Therefore, a comparison of Eurasia's overhead rate to ADF's is misleading.

See pp. 10-11.

**5. In-country Support Costs** - The draft is critical of ADF for spending "proportionally more of its budget on in-country support and less for development grants [than IAF]." It is essential to an understanding of ADF operations to recognize that ADF considers such costs to be *an integral part of development funding, and not as overhead.*

ADF is mandated to work with the poorest of the poor on the most under served and least developed continent. Compared to Latin America, African infrastructure is often poor to non-existent. There are few viable intermediary institutions between ADF and its beneficiaries, such as those through which IAF frequently works. Consequently, ADF assistance is most often provided directly to grassroots groups whose membership is often illiterate, and inexperienced in

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the handling of relatively large sums of money and the implementation of development projects.

As a result, a great deal of time and effort is required to ensure that grantees have the training and technical support necessary to maximize project impact. ADF does this by maintaining country-wide support and training networks of locally available African experts, rather than assigning such experts to each project and building the cost into the grant agreements. While the latter practice would effectively screen such costs from scrutiny, we have found that our country-wide networks are more cost-effective, permit a more consistent level and quality of support, and foster capacity building among African development workers.

The networks include ADF's Country Liaison Officers, participatory evaluation experts, and accounting and other technical assistance providers, all of whom provide essential project development and implementation assistance to all applicants and grantees in every country where ADF operates.

It is these considerations which account for the differences in the percentages of funds devoted to in-country support by ADF (18%) and IAF (11%), which are pointed out in the report.

We should also point out that the doubling of in-country support costs which occurred from fiscal year '92 to '93 was caused in large measure by an accounting decision to shift the reporting of technical assistance funds from the grant category to in-country support.

**III. Misrepresentation of Budget Data**

The Foundation's last, and perhaps greatest concern, is the draft report's presentation of budget data in such a way as to imply that ADF has engaged in misrepresentations in its presentations to OMB and Congress in order to conceal the true costs of its program. *There is no evidence to support this allegation.*

**A. Budget vs. Actual Figures** - Each year, the record shows that ADF reported in its budget presentation the actual amounts spent on each category of its program, as defined by OMB. While it is true that, in many cases, the actual amounts were somewhat different than the amounts budgeted two years earlier, this is a natural expectation, given the uncertainties of budgeting so far in advance. Exchange rate fluctuations, the amounts of the annual federal pay adjustment, staffing patterns and other events which can affect the budget are likely to be unknown at the time the original budget is prepared.

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Other factors affected the difference between budgeted and actual figures. In 1991 and 1992, for example, amounts appropriated for ADF were substantially different from the amounts budgeted and requested, thus rendering comparisons between budgeted and actual amounts for each category relatively meaningless.

See comment 16.

**B. Administrative Support Costs** - Despite these factors, actual administrative support costs have generally exceeded the budget estimates made two years earlier by relatively small amounts. For 1994, for example, the actual administrative expenses were \$4,738,000 - about 5% over the estimated amount, even though the Foundation had absorbed two years' civilian pay raises, costs associated with the decline in the value of the dollar, and more than \$170,000 in costs for a 10-year assessment of ADF's program, which was not contemplated when the budget was prepared. Without the costs of this assessment, the administrative support costs of FY 1994 would be *lower* than the amount budgeted two years before.

See comment 17.

**C. Conclusions Based on Inaccuracy** - The draft report states that ADF's actual administrative support expenses exceeded amounts apportioned by OMB in Fiscal Years 1994 and 1993. *This was not the case.* In 1994, the Foundation, jointly determined with OMB to undertake a 10-year assessment of its program. The cost of this assessment exceeded \$170,000. From the beginning of the year, there had been an understanding between ADF and OMB that, once the amount required became known, OMB would reapportion funds to cover the cost of this assessment. Later in the year, ADF requested and received from OMB a reapportionment of \$150,000 to cover part of the cost of this assessment. ADF's total administrative support expenses for 1994 were actually \$12,000 *lower* than the amount apportioned by OMB rather than \$138,000 higher as GAO alleges. Similarly, in 1993, the figures GAO used for administrative support expenses were preliminary figures which overstated salary costs by more than \$150,000. Actual administrative expenses were some \$26,000 *lower* than the amount apportioned by OMB.

ADF believes the actual total cost figures for ADF presented in the President's annual budget to be as accurate as possible under the circumstances. As indicated above, the figures used by GAO for the 1993 actual administrative expenses were preliminary figures and overstated salaries by a significant amount. Deficiencies in the accounting system and the need to make tedious manual calculations of exchange rate impacts regularly delayed the development of final cost figures at the end of the fiscal year. Occasionally, as indicated in the GAO report, human mistakes in coding led to errors in internal reports such as recording expenses as consulting services rather than support services. These errors were identified and corrected in external reports. As mentioned earlier,

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the Foundation has taken steps to remedy these deficiencies in financial accounting and reporting through its new accounting system and the Coopers and Lybrand review.

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The following are GAO's comments on the African Development Foundation's (ADF) letter dated March 30, 1995.

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## GAO Comments

1. We have included information on actions taken by ADF's new board of directors throughout the report. The board had not specifically addressed matters such as the ADF president's combining of personal and business travel activity and use of cellular telephone and express mail services that contributed to increased administrative overhead, but it was moving quickly to select a new president and review ADF's operating policies.
2. We had previously discussed the preliminary results of our work during the course of our review. Because many of the actions cited by ADF are in various stages of implementation and it is too early to tell how they will be carried out, we have retained three of the four recommendations contained in our draft report.
3. We do not agree with ADF's contention that the draft report contained a number of factual inaccuracies. In some instances, we were able to resolve differences involving presentation and interpretation of ADF budgetary and cost data through discussions with ADF staff and we have modified the report as appropriate to improve clarity. However, in other instances, ADF's claims of inaccuracy did not withstand careful tracing back to source documentation and we stand by our analysis as described below in our detailed annotation of ADF's comments.
4. Our report makes the point that the lack of consistent budget presentations from year to year has been a source of confusion as Congress and the Office of Management and Budget (OMB) have sought to reduce ADF's administrative costs. We also point out discrepancies in the reporting, but we cannot comment on whether ADF's inaccurate and inconsistent reporting was intentional.
5. While the Office of Personnel Management and OMB may have concurred in ADF's use of such contractors starting in 1985, OMB officials subsequently instructed ADF to reduce its use of long-term personal services contractors during the period covered by the report.
6. We have reflected ADF's recent change in policy regarding use of business class for travel in the report. We also modified the report to clarify our point that prior to the policy change, ADF board members, the president, vice president, and travelers accompanying the above were

authorized business class travel by virtue of their position or accompanying status without any further justification.

7. We have modified the report to note that ADF has attempted since 1992 to acquire a new computerized accounting system to replace its existing system, which it found to be unsuitable. We also modified our report to clarify our main point that it was management ineffectiveness, not just the accounting system, that caused weak budgetary and cost controls.

8. We have added information on The Mitchell Group's March 1995 report.

9. In making this comparison, ADF understates the cost of its contracting and consulting services. The amount that ADF said it spent for contracting and consulting services in fiscal year 1994 (\$185,780) and the basis for its average cost during fiscal years 1991-94 (\$318,500) were solely attributable to its use of personal services contractors. ADF did not include the additional cost of services of temporary contract support staff. Our average annual figure of \$400,000 for fiscal years 1991-94 includes both personal service contractors and the cost of services of temporary contract support staff, but does not include the cost of other professional and technical contractual services (such as carpet cleaning and computer repair and maintenance) that ADF reported as "consulting and other services."

10. The report notes that the shortfall in development grant funding for fiscal year 1994 was caused primarily by a change in the method by which ADF accounted for technical training and support that it provided to grantees. The effect of this accounting change was to reduce development grant funding and to increase in-country support cost by the amount that ADF spent for such technical assistance. In fiscal year 1994, this assistance (\$604,000) accounted for nearly all of the shortfall (\$742,000) reported in development grant funding. We have modified the report to clarify this point.

11. We agree in principle that the difference in ADF and the Inter-American Foundation (IAF) administrative overhead rates can partly be explained by economy of scale that is often achievable through larger budgets. As we point out in the report, ADF's overhead rate generally declined as the size of its budget increased between 1984-90; however, we also note that the rate has not declined in the past 4 years even though ADF funding is up by 30 percent since 1991. Further, the report compares not

only the total size but the composition of ADF's and IAF's fiscal year 1994 budget expenditures.

12. Although it is true that IAF is not required to operate within the funding limit of \$250,000 per project that applies to ADF, both its grant awards and the life-of-project costs have been smaller in size than ADF's. During fiscal year 1994, IAF awarded 168 new grants, of which 138 were less than \$100,000 and 7 were \$200,000 or more, with the average value of its active grants being \$131,000; ADF awarded 64 new development grants, of which 29 were under \$100,000 and 13 were \$200,000 or more, with an average active grant value of \$137,000.

13. Our report notes that travel costs are a significant component of ADF's administrative budget and that geographical factors contribute to making ADF's costs higher as a share of its budget than IAF's. Nonetheless, ADF travel policies and practices, which were changed during the course of our review, also contributed to its higher operating costs.

14. Our report points out that the Eurasia Foundation's program delivery systems and accounting policies, as well as those of the Asia Foundation, differ from those of ADF. However, although they are privately run and operate somewhat differently than ADF and IAF, we believe that a cost comparison of their administrative and program services overhead rates merits attention and is instructive because, as U.S.-based regional development assistance organizations, both maintain overseas field offices and their program servicing costs include personnel salaries and benefits, travel, rent, utilities, and communications in their overhead rates.

15. We reported that ADF budget reporting was unreliable. We do not know or imply whether ADF was intentionally misleading in its reporting in order to conceal true program costs. Our comparisons of what ADF budgeted and actually spent on administrative support costs are based on funds that it received, not on what it requested. While events between the time that funds are budgeted and spent can alter any proposed spending pattern, we believe that ADF did not adequately explain why actual costs in some instances varied significantly from its budget estimates.

16. ADF's fiscal year 1994 administrative support costs were not lower than the amount it had previously budgeted. Based on the fiscal year 1994 approved funding level of \$16.9 million, ADF initially estimated that administrative support costs would be \$4.265 million in its fiscal year 1994 congressional presentation submitted in April 1993. ADF revised its

administrative support cost estimate for fiscal year 1994 to \$4.6 million in its fiscal year 1995 budget presentation that was submitted to OMB in October 1993 and to Congress in March 1994. ADF estimated that the 10-year assessment would cost \$130,000 in the October 1993 presentation but did not make clear whether it included this amount in its revised fiscal year 1994 estimate for administrative support. In any case, ADF established a fiscal 1994 operating budget of \$4.6 million that did not include any amount for the 10-year assessment. Ultimately, however, ADF actually spent \$4,738,000, including the cost of the assessment, on administrative support costs in fiscal year 1994, an increase that is more than 10 percent higher than what ADF had budgeted 2 years earlier.

17. ADF accounting records show that operating expenses were higher than the amounts that OMB originally apportioned to ADF in fiscal year 1994 and OMB provided through an increased apportionment in fiscal year 1993. We could not verify whether there had been an understanding between ADF and OMB from the beginning of fiscal year 1994 that OMB would reapportion funds to cover the 10-year assessment costs once they became known, but OMB did subsequently (in September 1994) permit ADF to transfer \$150,000 from its program funds to administrative support to cover the cost of increased actual operating expenses, including the 10-year assessment.

As for fiscal year 1993, OMB originally apportioned \$4,505,000 for ADF operating expenses and raised the amount by \$50,000 to \$4,555,000 at the end of the fiscal year. ADF's final obligation report for fiscal 1993, submitted to ADF's board of directors in June 1994, shows that it spent \$4,665,000 on administrative support costs. A February 6, 1994, budget and accounting report shows administrative support expenditures of \$4,679,000 for fiscal year 1993. The actual reported operating expense figure of \$4,529,000 that was used in the executive branch's budget for fiscal year 1995 (published in January 1994) and ADF's March 1994 congressional presentation appears to have been based on an interoffice memo submitted to ADF's president on January 5, 1994. However, we found no evidence that any reconciliation or adjustment was made that supports ADF's contention that the costs reflected in the cited reports overstated salary costs by more than \$150,000.

ADF's conflicting records and reports and the lack of back-up data to document its financial performance, as described above, considerably complicated our review. ADF acknowledges that numerous problems exist in its accounting system and, as we noted in our report, Coopers and Lybrand suspended its financial statement preparation work in

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August 1994 because it found that the system was not viable or cost effective for audit. Until these matters are corrected, neither Congress nor OMB will be able to rely on the information in ADF's budget presentations.

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