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ABSTRACT

Since 1982, the Congress has expressed concerns regarding voluntary agency use of an accountability for Federal refugee reception and placement grant funds. The Refugee Assistance Extension Act of 1986 requires increased financial and program reporting by the voluntary agencies. An assessment undertaken to evaluate the adequacy of this reporting reveals that Congressional concerns over fund use have not been effectively addressed. Financial reports provide insufficient assurance that funds are spent in compliance with applicable laws and regulations and within the terms of the cooperative agreement. Current limitations allow voluntary agencies to maintain cash balances of as much as one year's expenditures. Reports to the Congress have not provided an accurate description of the proportion of Federal funds used for direct refugee assistance. Among the findings are the following: (1) the financial reports are inadequate for full accountability; (2) current limits on fund balances may not be reasonable; (3) reports do not accurately identify funds spent on direct services; and (4) the appropriateness of the federal contribution is still unknown. Modifications of reporting requirements and audit responsibilities will better serve Congressional and State oversight of the reception and placement programs. Data are provided on three figures. Appendices list the voluntary agencies, present comments from the American Council for Voluntary International Action, and name the major contributors to this report. (BJV)

United States General Accounting Office

GAO

Report to Congressional Requesters

March 1989

REFUGEE PROGRAM

Financial Accountability for Refugee Resettlement Can Be Improved

NSIAD-89-92

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

National Security and
International Affairs Division

B-220996

March 17, 1989

The Honorable Joseph R. Biden
Chairman, Committee on the Judiciary
United States Senate

The Honorable Jack Brooks
Chairman, Committee on the Judiciary
House of Representatives

Public Law 99-605 required us to conduct an audit of the funds expended under the Department of State's refugee reception and placement program. This report discusses (1) the financial reporting requirements set out in the above and earlier legislation, (2) efforts by the Department of State and voluntary agencies to meet those requirements, (3) the adequacy of the requirement intended to limit federal fund balances, and (4) further actions which we believe would strengthen financial accountability.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of State; the U.S. Coordinator for Refugee Affairs; the concerned voluntary agencies; and other interested parties.

Frank C Conahan

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

Since 1982, the Congress has expressed concerns regarding voluntary agency use of and accountability for federal refugee reception and placement grant funds. The Refugee Assistance Extension Act of 1986 requires increased financial and program reporting by the voluntary agencies and GAO audits of the refugee reception and placement program for fiscal years 1986 and 1987.

GAO assessed whether the financial reports prepared by the voluntary agencies adequately accounted for the use of federal funds and whether they accurately identify the proportion of funds used for direct services to the refugees.

Background

Since the passage of the Refugee Act of 1980, the Congress has passed other provisions to resettle refugees as quickly as possible to encourage refugee self-sufficiency. Under one of the federal programs established to accomplish this objective, the Department of State awards per capita grants to 12 voluntary agencies with 400 to 500 affiliates to provide core services, such as food, clothing, shelter, and employment assistance during the refugees' first 90 days in the United States. During 1987, these voluntary agencies resettled over 62,000 refugees and received about $36.6 million in federal per capita grant funds.

The Refugee Assistance Extension Act of 1986 (P.L. 99-605) increased financial and program reporting by the participating voluntary agencies and required them to file quarterly and annual financial reports. The intent of the new reporting requirements was to improve voluntary agency financial accountability for the use of federal funds. In their quarterly reports, the agencies were to identify their per capita grant income and expenditures for the period. The agencies were also required to identify the proportion of administrative versus direct service costs in their annual program reports. Other legislation requires that federal funds be spent in a timely manner to assure that per capita funds are either expended or returned to the federal government. These requirements are implemented through cooperative agreements between the voluntary agencies and the Department of State.

Results in Brief

Congressional concerns over the use of reception and placement grant funds have not been effectively addressed. Financial reports provide insufficient assurance that funds are spent in compliance with applicable laws and regulations and within the terms of the cooperative agreement. Current limitations allow voluntary agencies to maintain cash balances of as much as one year's expenditures. Reports to the Congress have not provided an accurate description of the proportion of federal funds used for direct refugee assistance. Modifications of reporting requirements and audit responsibilities will better serve congressional and State oversight of the reception and placement program.

Principal Findings

Financial Reports Inadequate for Full Accountability

The current quarterly financial reports contain inconsistent data and cannot be used to make meaningful comparisons of program costs among the voluntary agencies. Also, the cooperative agreements do not require the voluntary agencies to prepare annual financial statements audited in accordance with generally accepted government auditing standards (GAGAS). Amending the agreements to require annual financial statements audited in accordance with GAGAS would provide the government with greater assurance that federal fund expenditures comply with applicable laws and regulations and are within the terms of the cooperative agreements.

Current Limits on Fund Balances May Not Be Reasonable

In the past, voluntary agencies have accumulated large cash balances when federal support for large numbers of refugees exceeded resettlement costs. The cooperative agreements now require voluntary agencies to spend funds within 12 months after the fiscal year in which they are awarded to prevent the accumulation of federal funds. Although GAO agrees that excessive cash balances are unlikely to occur at current refugee arrival rates and the current per capita grant level, the 12-month spending limitation would not prevent the retention of large federal fund balances under other circumstances. GAO believes the voluntary agencies need reasonable operating cash balances to provide continued refugee services in the next fiscal year. However, these federal cash balances should be limited by reducing the maximum period in which funds may be expended after the fiscal year awarded, from a full year to 6 months.

Reports Do Not Accurately Identify Funds Spent on Direct Services

The voluntary agencies prepared reports to the Congress on their use of funds for direct services and administration, using differing methods and assumptions to classify such costs. Because the agencies have significantly different organizational structures and operations, uniform definitions of direct and administrative costs are not feasible. However, without an agreed upon set of cost definitions for each agency, reports cannot be accurately interpreted. Agreed upon definitions designed to reflect each agency's organization and operation will permit more accurate assessment of whether the agency is providing maximum direct benefits with minimum administrative burden.

Appropriateness of Federal Contribution Still Unknown

Routine financial reporting has not provided reliable data on the total cost of refugee reception and placement to serve as a basis for measuring the appropriateness of the federal contribution. The reports are not likely to provide the needed basis because of the difficulty of gathering complete and consistent cost data from the voluntary agencies and their participating affiliates. However, some voluntary agencies have conducted special cost studies to develop resettlement cost data. These studies are incomplete and limited in scope, and cannot provide a representative basis for analyzing how much federal per capita grants supplement the agencies' funds. If information on the appropriate level of federal support is desired, a special study may be necessary.

Actions Considered by the Congress

In 1988, the House of Representatives passed H.R. 5037, which was supported by GAO. A similar Senate bill (S. 2605) was not passed. GAO supports congressional reconsideration of the language of section 7(c) of H.R. 5037, the Refugee Resettlement Extension Act of 1988, which would have required

- voluntary agencies to submit audited annual financial statements to the Secretary of State, including a schedule of revenue and expenditures under reception and placement grants or contracts;
- the audits to be conducted in accordance with generally accepted government auditing standards and to assess compliance with the terms of the grant or contract; and
- any affiliate agency receiving at least $100,000 in assistance passed down from a voluntary agency to submit similar audited statements.

Matter for Consideration of the Congress

GAO further supports the amendment of section 412 (b)(1)(A) of the Immigration and Nationality Act to state that funds provided to agencies under such grants and contracts may only be obligated or expended during the fiscal year in which they are provided or the subsequent 6 months.

Recommendation

GAO recommends that the Secretary of State require the Director, Bureau for Refugee Programs, to provide definitions of administrative and direct service costs tailored to the circumstances of each voluntary agency, so that their use of federal funds for administrative activities and direct services to refugees can be evaluated.

Agency Comments

GAO requested official comments from the Department of State and the American Council for Voluntary International Action (InterAction) on a draft of this report. State did not provide official comments, but officials responsible for the program provided informal comments. GAO modified its recommendations based on State's informal comments. InterAction's written comments are printed in appendix II.

State officials and Interaction generally agreed with our findings. InterAction expressed concern about the additional costs of GAGAS audits, and State said that if additional costs were involved, they would want to assess benefits gained. GAO evaluated a cost estimate provided by InterAction and determined that it was not representative of GAGAS costs. GAO maintains that GAGAS should provide needed assurances without a significant change in auditing costs.

Both State officials and InterAction noted that excessive agency cash balances do not exist and that they are not likely to accumulate in the future. However, they agreed that reducing the period in which agencies are permitted to spend federal funds to within 6 months of the end of a fiscal year would not interfere with agency operations and would permit sufficient flexibility for unusual circumstances. Because these agencies could still accumulate large federal fund balances if larger numbers of refugees are admitted in the future, GAO believes that a 6-month expenditure limit is warranted.

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Abbreviations

ACNS	American Council for Nationalities Service
AFCR	American Fund for Czechoslovak Refugees, Inc.
CWS	Church World Service
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards
GAO	General Accounting Office
HIAS	Hebrew Immigrant Aid Society
IRC	International Rescue Committee, Inc.
LIRS	Lutheran Immigration and Refugee Service
OMB	Office of Management and Budget
PAIRC	Polish American Immigration and Relief Committee, Inc.
PBF	Presiding Bishop's Fund for World Relief
TYF	Tolstoy Foundation
USCC	United States Catholic Conference
VOLAG	Voluntary Agency
WRRS	World Relief Refugee Services

Introduction

The Refugee Assistance Extension Act of 1986 (P.L. 99-605) established new financial and program reporting requirements for the private nonprofit voluntary agencies under the refugee reception and placement program. The new reporting requirements were intended to improve voluntary agency financial accountability for the use of reception and placement grant funds, a subject of congressional concern since 1982. The new requirements provide that the voluntary agencies

- account for the program cost of refugee reception and placement and
- identify the proportion of funds used for administrative purposes.

Also, the Congress retained a 1982 requirement that the per capita funds are either used or returned to the federal government.

Reception and Placement Program Formally Established in 1980

Although the United States maintained a consistent policy to resettle refugees fleeing persecution in their homelands, it did not establish a federally-supported reception and placement program until 1980. Prior to 1980, the nonprofit voluntary agencies generally provided refugee reception and placement services, with federal assistance provided on an ad hoc basis during crises. When substantial increases in refugee admissions of Indochinese in the mid-1970s financially overtaxed the voluntary agency network, the U.S. government provided financial assistance to the voluntary agencies.

In 1980, after a period of intermittent federal funding for reception and placement services, the Congress enacted the Refugee Act of 1980 (P.L. 96-212). This act created a permanent refugee resettlement program with a systematic procedure for admitting refugees into the United States. The Department of State currently provides for the initial reception and placement of arriving refugees. To accomplish this, State awards per capita grants to voluntary agencies as supplemental funding in support of the private resettlement effort. The Bureau for Refugee Programs, originally the Office of Refugee Programs, was given responsibility for the program.

The Bureau enters into cooperative agreements with voluntary agencies to provide resettlement services, generally during each refugee's initial 90-day reception and placement period. The Bureau's goal is to integrate refugees into American society while providing the tools for self-sufficiency. Resettlement services include placing the refugee in a community with sponsors; providing transportation; obtaining food, shelter, clothing, health care and other basic support; directing the refugee to employment services; and coordinating with other services provided by state and local governments.

Reception and Placement Activities of Voluntary Agencies

The Department of State considers the national voluntary agencies to be vital to the federal government's program, because of their ability to maintain extensive private resettlement networks throughout the United States that enable them to meet constantly fluctuating refugee arrivals. Twelve voluntary agencies (see app. I) currently operate reception and placement programs with a network of over 500 Department of State-approved affiliate offices for delivering services to refugees.[1] During 1987, about 400 affiliates participated in the program, including one voluntary agency with 139 participating affiliates. This extensive network became critical between fiscal years 1975 and 1987, when more than 1.1 million refugees came to the United States, with annual variation from a low of 19,946 in fiscal year 1977 to a high of 207,116 in fiscal year 1980. Figure 1.1 illustrates the yearly fluctuations during this period.

Figure 1.2 shows the size of each voluntary agency reception and placement program by the number of refugee arrivals in 1987.

During 1987, the 12 voluntary agencies received $600 per refugee who arrived from January to September, and $560 for those who arrived from October to December.[2] Figure 1.3 shows the 1987 reception and placement funds received by the 12 voluntary agencies.

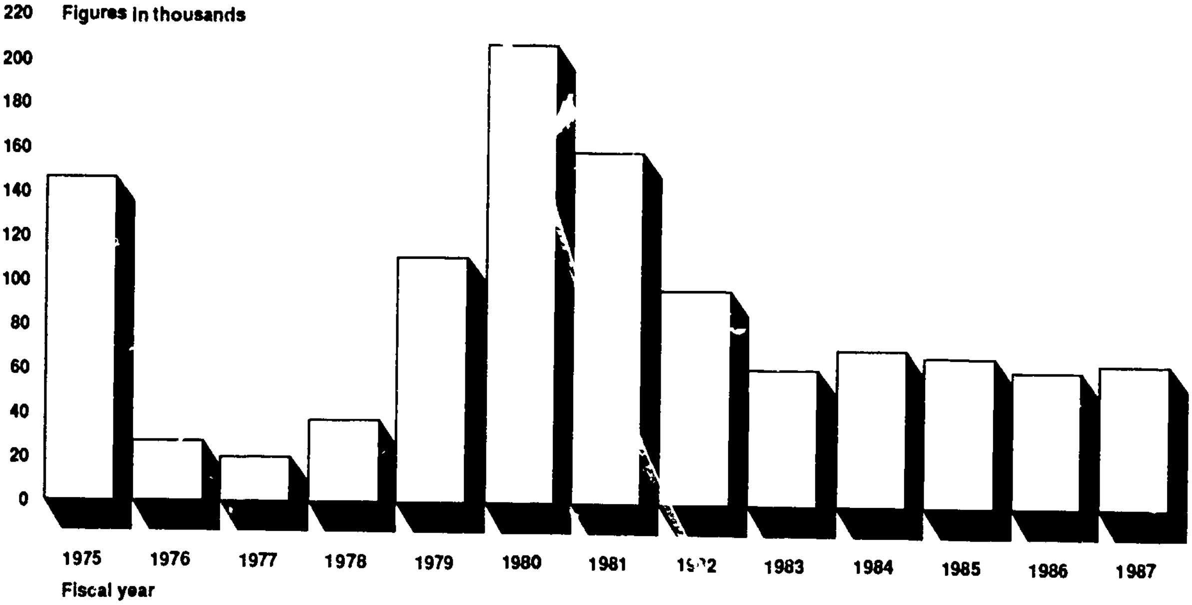
Concern Over Financial Accountability

Prior to passing the Refugee Assistance Extension Act of 1986, the Congress expressed concern over voluntary agency accountability for the use of federal reception and placement grant funds. A 1982 Department of State-contracted study raised the possibility that federal funds were accumulating in bank accounts or being used to pay for overhead structures instead of providing services to refugees. A 1982 House Judiciary Committee report made the following reference to this study:

[1] Voluntary agency affiliate offices include independent agencies contracted for providing resettlement services, affiliated religious organizations, and other regional or subsidiary offices

[2] State provided an additional $40 per refugee during the first 9 months of 1987 to help the voluntary agencies make administrative and operational changes to implement the new financial and program reporting requirements

Figure 1.1: Refugee Arrivals - Fiscal Years 1975-87



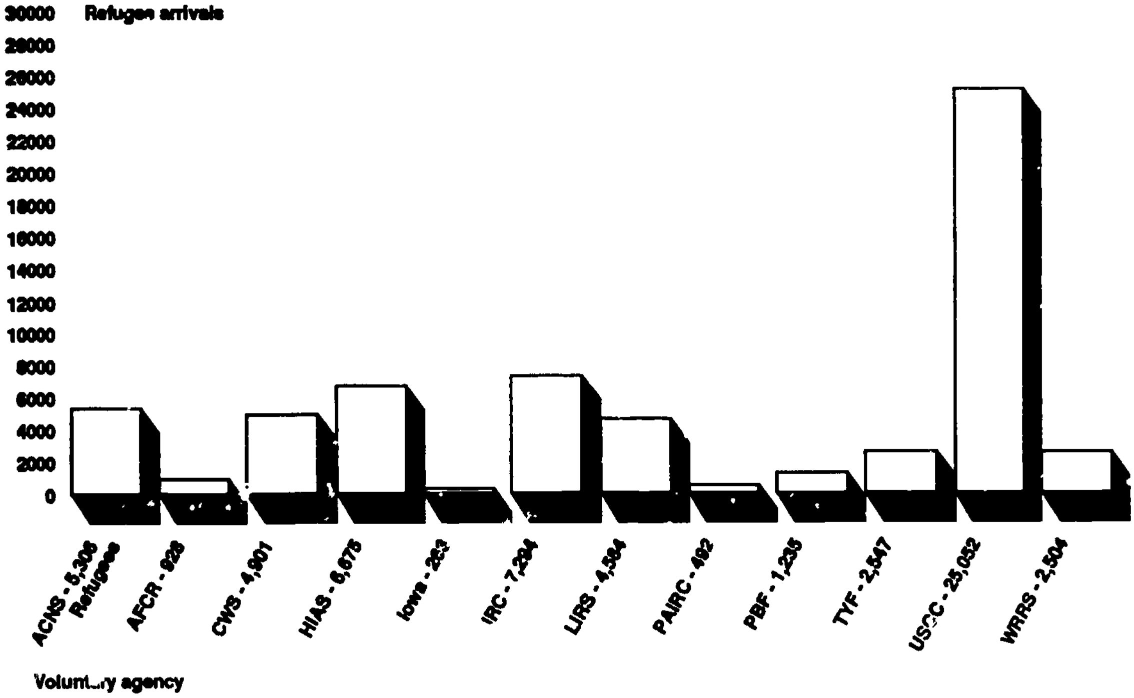
Source U S Department of State Bureau for Refugee Programs

"The Committee is troubled to learn that some voluntary agencies have allowed these reception and placement funds to accumulate in bank accounts . . .Pursuant to the authors' statement that 'there is a need to develop a more specific policy regarding the manner in which these reserves are to be used' the Committee conducted further oversight into the matter and concluded that legislative direction was necessary "

The 1982 Senate report contained similar language. The Congress then passed the Refugee Assistance Amendments of 1982 (P.L. 97-363) to amend the Immigration and Nationality Act. One amendment required reception and placement grant funds to be obligated or expended during the fiscal year provided or the subsequent fiscal year, or such subsequent fiscal period as the Department of State may approve.

The Refugee Assistance Extension Act of 1986 (P L. 99-605) established new financial and program reporting requirements for the private voluntary agencies under the refugee reception and placement program. The reporting requirements include quarterly and annual financial reports from the voluntary agencies to State. In the quarterly reports,

Figure 1.2: 1987 Refugee Arrivals by Voluntary Agency



Source: Voluntary agency quarterly financial reports.

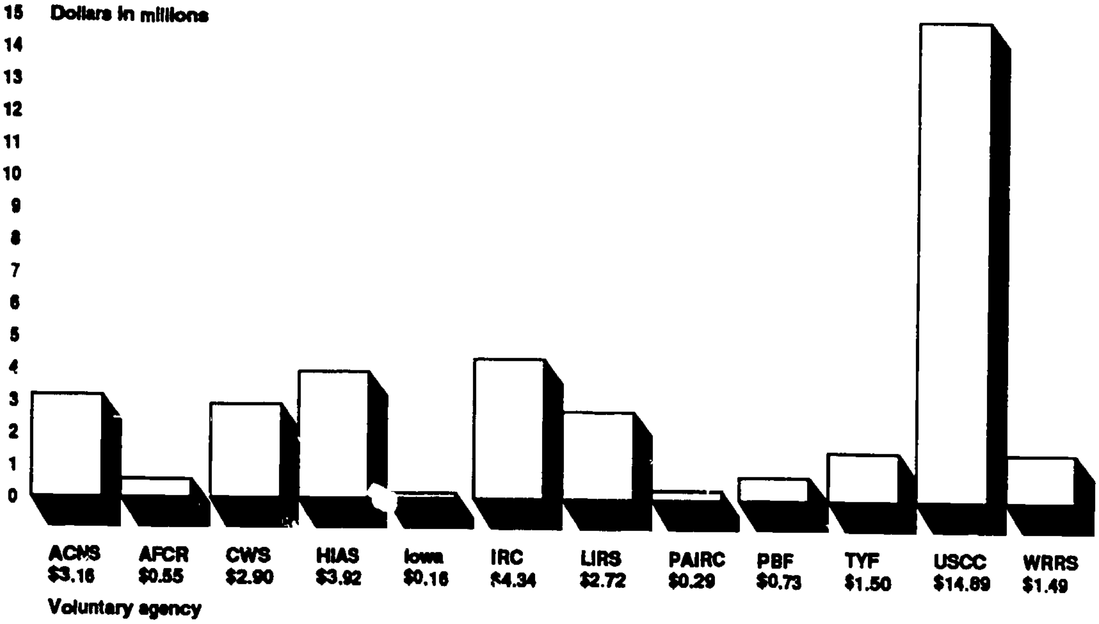
Note: The complete name of each voluntary agency is listed on page 7 and in appendix I.

agencies are required by their cooperative agreements to report the government portion of reception and placement expenditures—the nongovernment-funded portion may be reported on an optional basis—and their per capita grant funds to be received based on refugee arrivals during the period. The annual reports are to include the amounts expended for administrative purposes and for provision of services to refugees. The act further requires State to forward the annual reports to the House and Senate Committees on the Judiciary.

Objectives, Scope, and Methodology

The Refugee Assistance Extension Act of 1986 (P.L. 99-605) required us to conduct a financial audit of funds expended under the Department of State's refugee reception and placement program for fiscal years 1986 and 1987. As agreed with the Subcommittee on Immigration and Refugee Affairs, Senate Committee on the Judiciary, and the Subcommittee on Immigration, Refugees, and International Law, House Committee on

Figure 1.3: 1987 Reception and Placement Grant Funds Received by Voluntary Agencies



Source: Voluntary agency quarterly financial reports.

Note: The complete name of each voluntary agency is listed on page 7 and in appendix I.

the Judiciary, we reviewed the voluntary agencies' financial management and reporting systems to determine if they were producing reliable, accurate, and comparable reports.

Since these new reporting requirements began in fiscal year 1987, our review did not include 1986. We reviewed the effectiveness of these requirements to provide for voluntary agency financial accountability. Specifically, we evaluated

- how effective the quarterly financial status reports are in accounting for federal reception and placement expenditures and identifying total resettlement costs,
- how accurately the annual reports identify the proportion of expenditures used for administrative purposes versus direct refugee services, and
- how the State Department and the voluntary agencies define and report unexpended funds.

We obtained preliminary information on all 12 of the voluntary agencies' financial reporting systems, and then selected 7 of the 12 for further review. We selected seven voluntary agencies to obtain a representative cross-section of religious- and nonreligious-based organizations, as well as agencies with different dollar distributions of 1987 reception and placement grant fund income. We interviewed voluntary agency management and staff responsible for the financial management systems accounting for reception and placement grant funds. We reviewed and tested the 12 agencies' systems used to compile the data necessary to meet the new financial reporting requirements. At the selected agencies, we analyzed and evaluated the extent to which the financial reports were meeting congressional objectives. We also met with three audit firms retained by five agencies.

We also performed audit work at the Washington, D.C., headquarters of the Department of State's Bureau for Refugee Programs and Office of the Inspector General. We interviewed State officials and reviewed pertinent legislation, studies, and other documents on the domestic refugee reception and placement program.

We obtained official comments on a draft of this report from the American Council for Voluntary International Action (InterAction), which is a coordinating group including representatives of the 12 agencies we reviewed. (See app. II.) We also requested comments from the Department of State. Written comments were not provided by State, but officials responsible for the refugee program provided informal comments. We revised our report to reflect these comments as appropriate, and modified one recommendation based on further consideration of the issues raised by the Department of State.

We conducted our work from December 1987 to December 1988 in accordance with generally accepted government auditing standards.

Financial Reports Inadequate for Full Accountability

The Congress has expressed concern regarding the accountability of refugee reception and placement funds. The Refugee Assistance Extension Act of 1986 requires increased financial reporting by the voluntary agencies. However, the financial reports generated in response to the act do not effectively address congressional concerns. For example, the current quarterly financial reports contain inconsistent data and thus cannot be used to compare program costs among the voluntary agencies. State has not effectively monitored the accuracy, comparability, or reliability of the financial data submitted by the voluntary agencies.

In addition, because the majority of voluntary agencies have annual financial audits in accordance with generally accepted auditing standards (GAAS), the agencies do not provide information on whether they spent federal funds according to the terms of the cooperative agreements. Generally accepted government auditing standards (GAGAS) require auditors to assess and report on the agency's compliance with applicable laws and regulations to provide added assurance. Therefore, we believe that audit reports prepared according to GAGAS with separate schedules on the voluntary agencies' reception and placement grant revenues and expenditures would improve the accountability over federal funds.

Quarterly Financial Reports Are Not Comparable

The quarterly reports submitted by the 12 voluntary agencies contain cost information that is not comparable because of varying agency interpretations of cost allocations. Officials of five voluntary agencies told us that they report only on their federal per capita grant fund expenditures. Six agencies attempted to report on both their government- and nongovernment-funded reception and placement expenditures, two of which attempted to include the value of in-kind goods and services provided to refugees. Although the twelfth voluntary agency reported total costs incurred by its headquarters office, it reported only the federal per capita fund reimbursements made to its affiliates and did not report the affiliates' nongovernment-funded expenditures.

The five voluntary agencies reported only on their use of the federal per capita funds because (1) the State reporting format requires only per capita fund data, (2) some agencies believe their use of nongovernment funds is proprietary and should not be publicly reported, and (3) it is difficult and costly for the agencies to gather total cost data from affiliates on a routine basis. Although reporting on only the use of federal per capita funds may seem more comparable than if valuation of in-kind contributions were included, meaningful comparisons on how the voluntary agencies spent these funds still cannot be made. Each voluntary agency makes its own decision on how to use federal funds. For example, some agencies reported the use of federal funds for rent, while others did not.

The six voluntary agencies that attempted to include nongovernment funded expenditures in their reports could not always obtain complete and timely data from all their affiliates. Therefore, the voluntary agency reports to State were often incomplete and thus were not comparable. The two agencies that attempted to include the value of in-kind contributions provided to refugees also lack comparability because of the lack of standards for assigning values, such as for volunteers' time and donated clothing.

The lack of comparability in the voluntary agencies' reported data is further compounded by the differences in how the 400 affiliate offices report their costs to the agencies. The voluntary agencies use different methods (e.g., full or partial cost reimbursement or per capita rates) to fund their affiliate offices and have different reporting systems to compile their quarterly cost data. As a result, the cost data obtained from the affiliates are inconsistent.

State Not Effectively Monitoring Available Financial Data

The Department of State, as the federal agency awarding reception and placement grants to the voluntary agencies, should review the reported financial information to ensure the appropriateness of expenditures. We found, however, that responsible State officials did not effectively review and monitor the voluntary agencies' compliance with the new financial reporting requirements. According to State and voluntary agency officials, State officials did not inquire about the following conditions that we identified in reviewing data reported in the quarterly financial reports.

- One agency did not break out office expenditures according to the standard expense categories provided on the form.
- One agency separately listed inappropriate expenditure items (overseas aid and rent deposit).
- One agency reported per capita grant fund receipts that were substantially less than actually earned, because it did not request all funds to which it was entitled.

- Three agencies reported total costs on the form that required the reporting of only government-funded expenditures and did not use the optional form for reporting nongovernment-funded expenditures.
- One agency developed a form based on its service delivery structure to report reception and placement expenditures.

According to State officials, they lack the staff resources needed to effectively review the financial reports they receive.

Annual Financial Statements Do Not Provide Adequate Assurances

Annual audited financial statements should assure readers that the financial condition of the entity is fairly presented. Under federal programs, the Congress and federal officials also need to know if the programs are being administered properly and if they are conducted according to applicable laws and regulations. The audited financial statements submitted by the voluntary agencies, however, do not always provide these added assurances.

The cooperative agreements require that the voluntary agencies obtain audited financial statements and that the auditors subject grant transactions to the same testing as other financial transactions. They do not require that reception and placement grant revenues and expenses be separately identified or that audits be performed according to GAGAS. We believe that separate schedules of reception and placement revenues and expenses would provide needed information on how the voluntary agencies are using federal funds. GAGAS require auditors to report on their tests of compliance with applicable laws and regulations and on their evaluation of internal controls. Therefore, audits conducted under these standards provide added assurances that federal funds are properly controlled and used for their intended purposes.

The annual financial statements of the 12 voluntary agencies reported on their overall financial condition, and 4 of them included a separate schedule of reception and placement grant revenues and expenses. Only one included reports on agency compliance with laws and regulations and internal controls as required by GAGAS.

Audits Using Government Standards Provide More Accountability

For financial auditing, GAGAS and GAAS are similar, except that the former requires additional reporting. Both sets of standards require the auditor to report on the financial statements. GAGAS, however, also require the auditor to issue a report on internal accounting controls and compliance with laws and regulations.

The primary distinction between the two standards is in reporting requirements—not auditing requirements. For example, both standards require that significant internal accounting controls be evaluated, but GAGAS require auditors to report on their understanding of the entity's control structure and their assessment of control risk. Also, if funds received from federal programs are significant in amount, and noncompliance with laws and regulations would have a material impact on the entity, the auditor would test for compliance with the applicable federal contractual or legal terms, as required under GAAS. GAGAS, however, specifically require that auditors report on their compliance testing with applicable laws and regulations or provide a statement when compliance testing was not required.

If the statements were audited in accordance with GAGAS, State would have added assurance that the funds were spent according to the requirements of laws and regulations covering the program. Certified public accountants follow either GAGAS or GAAS, depending on the requirements of the particular federal program.

Since many voluntary agencies pass per capita funds down to independent affiliates that are not part of the voluntary agency for financial statement purposes, separate reports on and audits of the affiliates may be needed. We believe that affiliates receiving reception and placement funds of $100,000 or more should also be required to have audits conducted according to GAGAS, with separate schedules prepared on their per capita grant revenues and expenses. The $100,000 threshold is consistent with the requirement under the Single Audit Act of 1984 (P.L. 98-502) and provides a basis for ensuring adequate audit coverage of federal funds. If this requirement were applied to 4 voluntary agencies and their 243 affiliates, that resettled about 59 percent of the 62,000 refugees in 1987, 51 of the affiliates would have had audits according to GAGAS.

Congressional Consideration of Revised Audit Requirements

During our work, we suggested changes to the financial reporting requirements to the staff of the Subcommittee on Immigration, Refugees, and International Law, House Committee on the Judiciary. These changes were included in H.R 5037, the Refugee Resettlement Extension Act of 1988, which the House passed. The Senate Committee on the Judiciary reported favorably on a similar bill, S. 2605, however the Senate did not pass the legislation prior to the close of the Congress.

The legislation would eliminate the current quarterly reporting requirement and would require the voluntary agencies to submit audited annual financial statements to the Secretary of State, including a schedule of revenue and expenditures under reception and placement grants or contracts, attesting

- that the federal funds provided under the grant or contract are accounted for,
- that such funds have been expended in accordance with the terms of the grant or contract;
- to administrative and service costs incurred by the agency; and
- to the amount of funds not expended.

Such statements must be audited in accordance with GAGAS and must assess compliance with the terms of the grant or contract. Expenses associated with preparing and submitting such statements may be paid out of funds provided under the grant or contract. Also, the bill would have required any associated agency receiving at least $100,000 in assistance passed down from a voluntary agency to submit similar audited statements.

Although the proposed legislative changes expanded the audit requirements placed on voluntary agencies, they deleted the requirement for us to perform annual financial audits of funds expended under the refugee reception and placement program. This proposed change in audit responsibilities is consist nt with the recent statutory authority given to State's Office of Inspector General. We have been advised by the staffs of the House Subcommittee on Immigration, Refugees, and International Law, and the Subcommittee on Immigration and Refugee Affairs, that the refugee assistance reauthorization will be considered in the 101st Congress.

Conclusions

Quarterly financial reports currently contain inconsistent data and thus cannot be used to effectively make comparisons of program costs among the voluntary agencies. Also, the Department of State is not effectively monitoring the quarterly report data due, in part, to the lack of staff. The present audited annual financial statements do not provide adequate assurances that the federal funds are spent in compliance with applicable laws and regulations and the terms of the cooperative agreement. Audits performed in accordance with GAGAS provide added assurances of accountability for federal funds. We, therefore, support legislation to eliminate the quarterly financial reporting requirement, and to establish a requirement that audits be conducted in accordance with GAGAS, including a separate schedule of the reception and placement grant revenues and expenditures.

Agency Comments and Our Evaluation

We obtained comments on a draft of this report from the American Council for Voluntary International Action (InterAction). InterAction's formal comments are printed in appendix II. Additional oral comments were obtained from InterAction as we considered the issues raised in the written comments. The Department of State did not provide written comments, but officials responsible for the refugee program provided informal comments that have been considered in preparing this report.

Comparability of Quarterly Financial Reports

The voluntary agencies feel that the lack of quarterly report comparability is to be expected in the first implementation year and can be corrected with standardized definitions. InterAction believes these definitions will also result in more accurate financial reports. Although it may be possible to standardize definitions, comparability will not be achieved unless all agencies include the use of nongovernment funds as well as the federal per capita grant. Since the agencies are hesitant to do this, we believe more accountability can be achieved with annual financial statements attested to by independent certified public accounts.

Cost Estimates for Audits Using GAGAS

The voluntary agencies agree that audits using GAGAS could provide added assurance regarding the financial administration of resettlement programs. However, they believe the added cost may result in reduced services. The agencies initially estimated the additional cost for these audits to be $500,000. They were concerned that the added cost of these audits and the reduction of the per capita grant from $560 to $525 could lessen their ability to provide services.[1] The Department of State

[1] State lowered the per capita grant amount for fiscal year 1989 to $525 per refugee

believes that GAGAS would provide beneficial information, but was concerned about the increased cost claimed by the agencies. It wants to ensure that any additional cost is justified by the additional information. It is not our intention to impose an added financial burden on the voluntary agencies.

The voluntary agencies' estimate of $500,000 in additional costs associated with GAGAS audits was based on a verbal estimate from one certified public accounting firm, which was projected to cover all the voluntary agencies. Based on our review, the cost estimate provided by the voluntary agencies was not representative of additional costs incurred by GAGAS audits. Moreover, our experience in reviewing audit requirements and audit activities indicates that additional costs to meet GAGAS, as opposed to GAAS, are minimal. Agencies would save money by eliminating quarterly reports, since collecting detailed cost data from a network of 400 to 500 affiliates on a quarterly basis is expensive.

A representative from the accounting firm that prepared the estimate said that the estimate assumed a "worst case" scenario and should not be used to project cost estimates for other voluntary organizations. After further discussion, they provided us a new estimate of $23,000 to $24,000 for work at the headquarters level of one voluntary agency. This additional cost was attributed to additional work required to perform the audit in accordance with the Office of Management and Budget Circular A-110,[2] not to changing the requirement from GAAS to GAGAS. The voluntary agencies have been required by the cooperative agreements to follow A-110 for several years. Since the additional cost estimates are related to implementation of existing requirements in this case, and our general experience in reviewing audit requirements indicates that additional costs to meet GAGAS, as opposed to GAAS, are minimal, we believe that requiring certified public accountants to perform financial and compliance audits in accordance with GAGAS would result in only a nominal increase in costs.

[2]OMB Circular A-110 requires audits to ascertain the effectiveness of the financial management systems and internal procedures that have been established to meet terms and conditions of the cooperative agreements. Currently, OMB is revising the audit requirements contained in Circular A-110. The new circular, designated A-133, when issued will require, among other things, that audits of nonprofit institutions receiving federal funds in excess of $25,000 be performed in accordance with GAGAS

Current Requirement Would Not Prevent Large Fund Balances

The Congress has expressed concern that voluntary agencies not accumulate and retain large cash balances of federal funds. To address this concern and the statutory requirement, the cooperative agreements require the voluntary agencies to spend all funds accumulated at the fiscal year-end within the next 12-month period or return them to the government. This requirement, however, has not resulted in the return of federal funds to the government. According to the Department of State, the voluntary agencies spend funds on a "first-in, first-out" basis. Thus, any prior-year unexpended fund balances are the first spent in the next fiscal year. In recent years, subsequent year resettlement expenditures have exceeded prior-year carryover fund balances. As a result, federal funds have not been and probably will never be returned under the current requirement.

We believe that the voluntary agencies should be allowed to retain reasonable cash balances to maintain a consistent and responsive resettlement program. The current requirement, in essence, permits a voluntary agency to carry forward a cash balance equal to the amount the agency needs to spend in the following year. We believe a reasonable carry over balance at the end of a fiscal year should be less than one year's needs.

Potential for Surplus Federal Funding Exists

From 1979 to 1982, the large influx of refugees entering the United States resulted in some voluntary agencies receiving more federal funds than needed. In fiscal year 1980, the voluntary organizations processed over 207,000 refugees. During this period, some agencies were able to save money through cost efficiencies realized as they resettled large numbers of refugees with relatively lower overhead costs. Their fixed costs, such as rent and administrative salaries, translated into lower per capita costs as the number of refugees increased. Although resettlement expenditures may exceed the per capita grant amount in many cases, some refugees can be resettled at little cost to the agency.

Voluntary agency officials contend that a buildup of unexpended funds in the current environment is unlikely because the number of refugees processed has decreased to less than 70,000. They also said that since the early 1980s the per capita grant amount has remained about the same while resettlement expenses have increased. While a buildup may not presently be foreseeabl., ·ge numbers of refugees could again be admitted into the United States, and the voluntary agencies could again accumulate large fund balances.

Current Requirement Will Not Limit Balances to Reasonable Amounts

The current law allows voluntary agencies one year to spend funds remaining at the end of the federal fiscal year in which the funds were received (unless otherwise approved by State), or return them to the federal government. The voluntary agencies expend funds on a "first-in, first-out" basis, according to State officials. The agencies maintain that they have no reserve balance because all funds are used within the required 2-fiscal year period.[1] Therefore, the voluntary agencies note that only if year-end balances exceed subsequent-year resettlement expenditures will they be required to return any grant funds to the federal government. We believe this is more than they need.

Reasonable Fund Balances Are Needed

Since refugee resettlement is a continuous effort with fluctuating resource requirements, we believe that the voluntary agencies need to hold reasonable amounts of cash to cover their resettlement expenses. The cooperative agreements between the voluntary agencies and State specify that "...core services shall be provided to any refugee assigned...during the ninety (90) day period after the refugee's arrival in the United States," and allow the use of grant funds beyond this initial period. According to State and voluntary agency officials, most of the resettlement expenditures are incurred during the 3 to 8 months following the refugee's arrival.

Shortening the current period in which the voluntary agencies may use government funds before returning them to State would reduce the cash balance an agency could maintain. For example, if funds received in one federal fiscal year could only be spent during that period and the first 6 months of the following fiscal year, an agency could accumulate no more than one-half of one year's expenditures. The agency could still use the funds for at least 6 months after the refugees' arrival, and retain a reasonable fund balance to assist other refugees before their arrival. Additionally, this would continue to allow agencies some flexibility during the period of greatest influx.

State officials agree with this concept. If State required an annual statement on the unexpended funds as of 6 months following the close of the fiscal year, an audit performed according to GAGAS would provide assurance of the statement's accuracy when determining each agency's compliance with their respective cooperative agreement. If a voluntary

[1]In this report, the term "reserves" describes funds remaining after the second fiscal year in which they may be expended The term "cash balance" refers to any federal grant money remaining once the reception and placement expenses are accounted for at the end of the first fiscal year.

agency's statement indicated unexpended federal funds as of March 31 following the end of the fiscal year in which funds were received, State could require the agency to return the unexpended funds.

Conclusions

Voluntary agencies have accumulated large cash balances in the past. Although a buildup may not occur in the near future, these agencies could still accumulate large federal fund balances if larger numbers of refugees are admitted in the future. The current requirement to spend funds within 12 months after the fiscal year-end has not resulted in the return of any federal funds and permits a cash carryover equal to as much as one year's expenditures. Since refugee resettlement is an ongoing effort with fluctuating resource requirements, we believe the voluntary agencies need to retain reasonable cash balances, but less than those currently possible, to provide continuous service to refugees. The agencies should return excess funds to the government.

Matter for Consideration of the Congress

To modify the period during which funds may be expended, it would be necessary to amend section 412(b)(1)(A) of the Immigration and Nationality Act to state that funds provided to agencies under such grants and contracts may only be obligated or expended during the fiscal year in which they are provided or the subsequent 6 months or such subsequent fiscal period as the Department of State may approve as necessary to provide current services to refugees. We believe such an amendment would better ensure that unneeded cash balances would be returned to the Treasury.

Agency Comments and Our Evaluation

In commenting on a draft of this report, InterAction stated that the Department of State should closely monitor agency cash balances, but it contends that excessive balances do not exist and are unlikely to accumulate in the future. It noted that the federal contribution has declined from $560 to $525 per capita, which is less than the total costs of the voluntary agencies. InterAction also said that no cash reserves exist because all federal grant funds are spent in the required 2-year period.

State said that, although cash balances exist, the agencies do not have reserves and are in compliance with the law. State noted that accumulating funds as a result of a large influx of arrivals does not appear possible in the near future. It expects refugee numbers to remain at current levels.

We agree that a buildup of large cash balances may be unlikely now, but the potential still exists. In the draft of this report, we recommended an alternative approach to limiting cash balances, which was a dollar limit based on a formula to estimate the costs needed for the number of refugees resettled in the busiest fiscal quarter. Both InterAction and State commented that, in their view, a formula approach would be difficult to implement or unrealistic, but some other approach to establishing a limit on cash balances that is less than the current full year's expenditures could be implemented.

Based on these discussions, we modified our recommendation to decrease the period that agencies may spend the federal grant money by 6 months. This approach will still allow agencies to maintain a reasonable cash balance and provide a more reasonable limit on the amount. State agreed that an additional 6 months beyond the end of the fiscal year should ensure full coverage of the agencies' reception and placement costs, with some flexibility for covering unusual circumstances. An InterAction official stated that this should not interfere with the agencies' operations.

Reported Relationship Between Administrative and Direct-Service Costs Unreliable

Under the Refugee Assistance Extension Act of 1986, the voluntary agencies reported, for the first time, the proportion of expenditures covering administrative and direct-service costs. However, because the Department of State did not define administrative versus direct-service expenses, the reports the agencies prepared used different methods and assumptions to classify such costs. Consequently, the current reports cannot be used to evaluate the voluntary agencies' ability—as a group or individually— to minimize administrative costs and maximize direct services provided to refugees.

Congressional Concern Over How Voluntary Agencies Use Federal Funds

The Congress has been concerned about the use of reception and placement funds for the last several years. In 1982, the Congress first became aware of inadequate controls over how funds were spent. At hearings since 1982, the Subcommittee on Immigration, Refugees, and International Law, House Committee on the Judiciary, has inquired about the program's cost effectiveness and has expressed concern that too many federal dollars were used to support overhead structures and not to aid refugees.

The Subcommittee believed that increased voluntary agency financial reporting requirements were needed to facilitate State's ability to exercise effective oversight. In October 1983, the Committee, in proposing further legislation, noted the following:

> "The Committee is convinced, however, that these grants have not and do not provide sufficient assurance of Volag [voluntary agency] accountability For example, Volags today are not required to report back to the State Department on . . . what portion of the total grant award was used for administrative expenses."

The Refugee Assistance Extension Act of 1986 specifically requires the voluntary agencies to transmit to the Department of State annual reports describing ". . . the expenditures made in the year under the grant or contract, including the proportion of such expenditures used for administrative purposes and for provision of services."

State, in turn, is to "promptly forward a copy" of the annual reports to the Senate and House Committees on the Judiciary. State has responsibility for establishing procedures so that voluntary agencies can comply with the financial reporting requirements under the act.

Comparison of Voluntary Agency Cost Data Not Useful

The administrative and direct-service cost data provided by the voluntary agencies for 1987 were inconsistent. State did not provide any guidance to the agencies on what costs to classify as administrative versus direct service. Consequently, the agencies used different methods to arrive at the cost distinctions. Without complete and detailed descriptions of the methods used by each voluntary agency to calculate administrative and direct-service costs, the data provided are of little value.

Nine of the 12 voluntary agencies reported that their proportion of administrative costs ranged from 12.5 to 51.1 percent. Three agencies did not distinguish between administrative and direct service costs.

The voluntary agencies' inconsistent interpretations of the reporting requirement and the lack of guidance from State caused the wide variances of reported administrative costs. The following examples illustrate the different methods and assumptions used by the voluntary agencies to calculate their administrative costs.

- One agency aggregated its quarterly report expenditures under "Headquarters Support Services" for 1987 and reported that amount as administrative costs.
- Two agencies analyzed their headquarters' salary expenses and, based on their knowledge of work performed by agency staff, allocated a proportion of salaries plus associated office expenses to represent administrative costs.
- One agency decided to report only its overhead expenses for 1987.
- Two agencies included administrative expenses of local affiliate offices in their analyses of administrative costs.

State did not provide written guidance defining the expense classifications for administrative or direct-service costs. Without a standard definition of these cost categories, some voluntary agency officials questioned the usefulness of any analysis based on the cost data reported. Voluntary agency officials also said it would be extremely difficult and costly for them and their affiliates to keep the records necessary to report on total administrative versus direct-service costs.

Administrative and Direct-Service Costs Not Readily Distinguishable

Determining the costs of administration versus direct-service is difficult. Under the reception and placement program, the 12 voluntary agencies have different approaches toward refugee resettlement and varied organizational structures to accomplish program goals.

Defining administrative costs requires answers to questions such as:

- Should administrative expenses be considered as only the overhead rate charged by the voluntary agency's parent organization?
- Should administrative expenses include all or only a portion of headquarters expenses?
- Should administrative expenses consist of a detailed breakdown of headquarters as well as affiliate office expenses?

Each question may be answered differently, however, since not all voluntary agencies are part of larger organizations. Some agency headquarters also function as service delivery offices, and office expenses can be considered for direct services, as well as for administration.

Another obstacle to arriving at a clear cost definition is the costs incurred prior to the refugees' arrival. Among other things, pre-arrival services entail communicating with overseas refugee-processing posts; participating in the allocation of refugee cases with other voluntary agencies; recruiting and training sponsors; contacting refugee relatives; preparing and directing resettlement plans; and consulting with federal, state, and local governments. Although these expenses largely involve headquarters administrative staff resources, these functions are considered by the voluntary agencies to be essential for successful reception and placement and thus could be classified as direct costs.

A State official suggested that one method of obtaining administrative costs would be to add the quarterly report's first column labeled "Headquarters Support Services" for the four quarters in the calendar year. Some of the voluntary agencies would disagree. This method oversimplifies the distinction in costs and does not consider the differences in the structures of the voluntary agencies. The national headquarters offices of the small voluntary agencies often deliver direct refugee services, and certain expenses of the larger affiliate offices can be considered as administrative.

Conclusions

Reports to the Congress on the proportionate use of funds for administration versus direct services to refugees are not useful indicators of the voluntary agencies' abilities to minimize administrative costs and maximize services to refugees because they were not prepared consistently. Due to the voluntary agencies' different organizational structures and approaches to providing refugee services, a uniform definition cannot be used to fit all circumstances.

Because of the difficulties in defining administrative versus direct-service expenses, information on the voluntary agencies' proportionate costs can only be obtained on an agency-by-agency basis. Consequently, valid comparisons of the voluntary agencies' abilities to minimize administrative costs cannot be performed. However, we believe that administrative costs could be defined for each voluntary agency so that each agency's use of reception and placement funds can be evaluated.

Recommendation

We recommend that the Secretary of State require the Director, Bureau of Refugee Programs, to provide definitions of administrative and direct-service costs for each voluntary agency, tailored to fit the circumstances of each agency, as a part of the cooperative agreement. Audit reports that include assessments of the expenditures in accordance with these definitions, as would be required under a GAGAS audit, could be used to evaluate each agency's use of federal funds.

Agency Comments and Our Evaluation

InterAction and the Department of State agreed that clear definitions of the types of expenditures included in administrative and direct services are needed. InterAction and State would like to develop definitions that are uniform among the agencies. We believe, however, structural and operational differences will require definitions tailored to each agency.

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Appropriateness of Per Capita Grant Amount Still Unknown

If voluntary agencies reported total costs, including costs reimbursed by private contributions as well as federal funds, the Congress could have a basis for measuring the appropriateness of the per capita grant amount for the refugee reception and placement program. The Department of State tested a quarterly financial reporting format designed to identify total costs (including contributed services) and total income from each source—the per capita grant; other federal, state, and local governments; and private sources.[1] For reports on 1987 costs, State revised the requirement and made it optional to report the use of nongovernment resources, because of the cost and difficulty for the voluntary agencies to routinely gather total cost data.

Six voluntary agencies did not report total costs of reception and placement in their quarterly reports. Agency officials stated that they are reluctant to disclose private cash contributions because they consider this information proprietary. They also said that their local affiliate offices do not have the resources necessary to track all expenses.

Recent cost studies performed by two voluntary agencies also do not provide reliable total cost data because the studies had a limited scope and cannot be projected to other agencies. Consequently, the Congress still has no basis for determining whether the federal per capita amount is appropriate.

Tracking Total Costs Considered Difficult and Expensive

Tracking total reception and placement costs on a routine quarterly basis is difficult, time-consuming, and expensive. Since the 12 voluntary agencies may have 500 or more participating affiliates, many agency officials said it is impractical for them to routinely report total resettlement costs.

The six voluntary agencies that attempted to report total resettlement costs during 1987 found it difficult. According to many agency officials, they believe their time and resources are better utilized providing services directly to refugees, rather than maintaining records on the cost of services provided. Some of their concerns include:

- Funds raised at the local affiliate level are neither sent to nor recorded at the agency headquarters level.

[1] These actions were taken in response to a recommendation in our report Refugee Program Initial Reception and Placement of New Arrivals Should Be Improved (GAO/NSIAD-86-69, Apr 7, 1986), p. 48

- Actual expense data are difficult to obtain since local affiliates are hesitant to disclose other sources of income and how these funds are utilized.
- Agencies that have difficulty reporting on the cost of affiliate-provided services would compare poorly to agencies more capable of full reporting.
- Tracking total costs would increase staffing needs and force affiliates to make trade-offs between providing services to refugees and documenting private contributions.

One voluntary agency official also said that the reduction of the per capita grant from $560 to $525 in fiscal year 1989 further limits the voluntary agencies' resources to hire the additional administrative staff necessary to track total cost information.

Several voluntary agency officials believe that total cost data would show that the federal government actually pays only a small share of total resettlement costs. They do not believe, however, that routine data collection is an effective use of their time and resources.

Studies to Identify Total Costs Are Limited

Voluntary agency officials recognize the need to identify the total cost of resettlement, including the value of in-kind contributions. Two agencies that do not routinely track and report on their total reception and placement costs recently attempted to identify their private resettlement contributions. The results of their cost studies, however, were not intended to be projected to the other voluntary agencies.

The two recent studies tracked all private contributions received, including cash and in-kind goods and services. A 1986 study documented direct assistance provided to 22 refugee family cases resettled by an affiliate office for a 4-month period. Each refugee sponsor kept a log and recorded paid rent and rental deposits; paid and donated food; employment/job search/advising services; skill development; health services; paid and donated clothing; furniture/appliances; utilities paid; tutoring/instructions; household items, including towels, sheets, blankets, clocks, books, toys; and associated case management costs. The study found that the total value of private contributions ranged from $1,281 to $7,776 per refugee case.

The oth voluntary agency performed a cost analysis of private contributio ,119 refugee cases from July 1986 to June 1987. The study found total private donations included

- cash amounting to $951,044,
- goods valued at $1,162,287, and
- volunteer time totaling 195,285 hours.

The results of these studies, however, have limited value in assessing the federal per capita grant contribution because the caseloads at these two agencies do not necessarily represent all voluntary agency resettlement programs. Further, although reception and placement grants are provided on a per capita basis, neither study computed the per capita value of donated contributions. Also, one agency collected study data on a caseload basis, without noting the number of refugees per case.

A Special Study Could Provide a Basis for Measuring the Federal Contribution

Since the voluntary agencies' quarterly financial reports and past studies have not provided reliable data on the total cost of refugee reception and placement, they cannot be used as a basis for analyzing how much the federal per capita grants supplement the agencies' resettlement funds. As an alternative, State could obtain total cost data through a special independent study. Such a study would provide State with information on the range of costs associated with different types of resettlement cases to use as a basis for evaluating the federal per capita grant. Some of the factors that should be considered in developing a study include the refugees' education and skill level, ability to speak or learn English, medical needs, ethnic background, family size, existing ties in the United States, and the cost-of-living at the resettlement location.

Conclusions

Voluntary agencies' routine financial reports and cost studies do not provide a representative basis for analyzing the extent to which federal per capita grants supplement their reception and placement expenditures. Without reliable data on the total cost of resettlement, the Congress and Department of State still do not have a basis for evaluating the appropriateness of the current per capita grant contribution. Instead of gathering total cost data, a study representative of the different types of refugee resettlement cases could be conducted to identify the ranges of costs involved. If the Congress and State want to evaluate the federal contribution to the voluntary agencies' refugee resettlement efforts, such a study would provide an adequate basis.

Agency Comments

InterAction concurred that reliable data on the total cost of resettlement has not been developed. InterAction believes that it would be beneficial to develop such costs for each agency, and to establish a working group with the Department of State to coordinate and summarize study results. State Department officials agreed that the information in such a study would be useful, but questioned whether resources were available to conduct the study.

List of Voluntary Agencies

American Council for Nationalities Service (ACNS)
New York, New York

American Fund for Czechoslovak Refugees, Inc. (AFCR)
New York, New York

Church World Service (CWS)
New York, New York

Hebrew Immigrant Aid Society (HIAS)
New York, New York

Iowa Department of Human Services (Iowa)
Des Moines, Iowa

International Rescue Committee, Inc. (IRC)
New York, New York

Lutheran Immigration and Refugee Service (LIRS)
New York, New York

Polish American Immigration and Relief Committee, Inc. (PAIRC)
New York, New York

Presiding Bishop's Fund for World Relief (PBF)
New York, New York

Tolstoy Foundation, Inc. (TYF)
New York, New York

United States Catholic Conference (USCC)
Washington, D.C.

World Relief Refugee Services (WRRS)
Wheaton, Illinois

Comments From the American Council for Voluntary International Action

InterAction

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November 18, 1988

Frank Conahan, Assistant Comptroller General
U.S. General Accounting Office
Washington D.C. 20548

Dear Mr. Conahan:

The voluntary agencies' response to the GAO draft report entitled Refugee Program: Accountability for Refugee Resettlement Can be Improved is attached for your information.

The voluntary resettlement agencies are credited with the successful placement of over two million persons since World War II. The tradition of providing migration and resettlement services to newcomers to the U.S. began as early as 1943. Much of this success is attributed to the generosity of the American people at large. Voluntary agencies generate understanding and sympathy for their operations and refugee care in general. They offer the dedicated personalities of their volunteers, a human element for which there is no substitute, who are willing to work long hours and under difficult conditions.

In 1980 the United States established a federally funded reception and placement program through Cooperative Agreements with the voluntary agencies to assist large numbers of refugees coming in to the U.S. There have been other instances when a per capita grant was used to assist the resettlement efforts of the U.S. government for example, in 1956 to subsidize Hungarians, in the 1960 s to assist with the Cuban immigration and lastly, in 1972 to subsidize the Ugandan Asians.

In all of these instances, the agencies not only provide contractual core services for the refugees but provide intangible things such as supportive sponsors who can offer emotional support and stability, something refugees need after the trauma of leaving a homeland and coming to a new one.

The partnership engendered between the Bureau for Refugee Programs and the voluntary agencies during the last 9 years is valuable and one in which the agencies feel is necessary to provide the best possible services to refugees. The voluntary agencies stand ready now, as well as in the future, to assist those who are fleeing from persecution in search of basic human rights.

Sincerely,

Rev. Dr. Donald Larsen
Chairman,
Committee on Migration
and Refugee Affairs

InterAction is a membership association of U.S. private voluntary organizations engaged in international humanitarian efforts including relief, development, refugee assistance, public policy and global education

InterAction.
American Council for Voluntary International Action

The voluntary agencies that resettle refugees in America with the assistance of the Federal Government appreciate the opportunity to provide this response to the GAO draft report on the financial administration of resettlement programs. The draft report has been helpful in focussing attention on several important financial reporting issues. While we agree that there is a need to address these issues, we have several important differences with GAO regarding its conclusions and recommendations for corrective action.

The following are our comments on the conclusions and recommendations presented in chapters 2 through 5 of the draft report.

CHAPTER 2 - FINANCIAL REPORTS INADEQUATE FOR FULL ACCOUNTABILITY

See comment 1

We agree that agreements can be made in the standardization of financial reporting formats and the comparability of data. We feel, however, that the problems cited in the draft report are understandable and correctable occurrences to be expected in the first year of implementation of new reporting requirements. The financial reporting procedures already established by the Department of State have formed an acceptable basis for uniform reporting on resettlement programs. With the development and use of standardized definitions for expenditure categories, as recommended by GAO, accurate financial reports can be generated to allow more effective monitoring by the Department of State.

We also agree that audits performed according to Generally Accepted Government Auditing Standards (GAGAS) could provide added assurance regarding the financial administration of resettlement programs. We have welcomed federal audits performed according to these standards because such audits have demonstrated our full compliance with all applicable laws and regulations.

See comment 2

However, we feel strongly that adequate assurance regarding revenues and expenses can be provided by audits performed by CPA firms according to Generally Accepted Auditing Standards (GAAS). Our discussions with CPA firms have determined that specialized GAGAS compliance audit procedures would cost $500,000 in additional audit costs. Particularly costly would be separate GAGAS audits of agency affiliates or sub-offices receiving $100,000 or more in Federal funds.

See comment 3

In our opinion the additional audit procedures that would be required by GAGAS are not warranted by the substantial additional costs involved. The extensive program monitoring of resettlement activities currently performed by the Department of State provides adequate assurance of compliance with applicable laws and regulations. Standardization of financial reporting requirements, together with financial statements audited according to GAAS, will permit the Department of State to effectively monitor use of Federal funds.

Please turn page ...

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CHAPTER 3 - REQUIREMENT TO LIMIT FEDERAL FUND BALANCES NOT FULLY MET

See comment 4

While we agree that the Department of State should closely monitor agency cash balances, we strongly disagree that the agencies now have excess cash on hand or that the potential exists for the generation of excessive cash balances in the future.

See comment 5

As the report indicates, the voluntary agencies resettling refugees in America with Federal assistance have for years incurred costs in excess of the Government contribution. Nevertheless, the contribution of the Government has been reduced from $560 to $525 per capita. Facing these harsh facts, the agencies have been working to reduce costs and have restricted program activities accordingly. To now impose an arbitrary mechanism for establishing cash balances on hand would place undue, unreasonable, and counterproductive administrative and financial constraints on the agencies.

The report correctly points out that all the agencies have expended Federal funds during the two year period required by law. The report incorrectly states that the two-year spending requirement has in some cases resulted in the accumulation of cash reserves. On the contrary, the agencies operate from year to year with current operating cash and do not maintain cash reserves.

See comment 6

As the report recognizes, the nature of the resettlement program dictates the existence of reasonable cash balances. The cooperative agreement between the Department of State and the agencies contemplates that funds are earned and received from the Government when refugees arrive and are expended, not over a three-month period as stated in the report, but over a longer period as needed to properly assist refugees during resettlement. Sufficient operating cash balances must therefore exist at any given time to provide for program administration, direct services and refugee assistance during the next operating period. Under present and foreseeable circumstances, the very real potential exists for the voluntary agencies to experience inadequate cash balances to support current operating needs.

See comment 7

We particularly dispute the usefulness of a formula for determining the reasonableness of cash balances. Such formulas cannot take into account the many factors that affect the administration of this complex program. The organizational diversity among the voluntary agencies and the unpredictability of refugee arrivals prevent the construction and application of a workable formula for determining reasonable cash balances.

CHAPTER 4 - REPORTED RELATIONSHIP BETWEEN ADMINISTRATIVE AND DIRECT SERVICE COSTS UNRELIABLE

We agree that clear definitions of the types of expenditures to be included as administrative and direct service costs need to be derived for each voluntary agency.

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See comment 8

We believe that such definitions need to be developed by each agency and reviewed by a working group made up of representatives from all of the agencies. The working group will review the cost definitions submitted by each agency to ensure the greatest degree of uniformity of definitions among the agencies. The cost definitions can then be submitted for approval by the Department of State.

CHAPTER 5 - APPROPRIATENESS OF PER CAPITA GRANT AMOUNT STILL UNKNOWN

We agree that reliable data on the total cost of resettlement has yet to be determined. We believe that the voluntary agencies themselves can most effectively and sufficiently perform such a study. Moreover, we are eager to demonstrate that total resettlement costs are in fact substantial in relation to the contribution of the Federal Government.

See comment 9

We therefore recommend that, in coordination with a working group of representatives from all of the agencies and the Department of State, each voluntary agency perform a special study to determine its total resettlement costs. These individual studies can then be consolidated into a summation of the total resettlement costs of all the voluntary agencies.

The following are GAO's comments on InterAction's letter dated November 18, 1988.

GAO Comments

1. We concur that the reporting problems cited are understandable. However, we believe that these problems are not fully correctable. Consequently, the reports cannot be made comparable (see page 14).

2. We reviewed the estimate provided and found that it was not representative of GAGAS related auditing costs. (see page 19).

3. We agree that standardization of financial reporting requirements is necessary, but maintain that GAGAS is necessary to provide financial accountability to the Congress and the Department of State (see page 19).

4. References to "excess" cash balances were deleted from our report because we did not intend to label the current cash balances as excessive. However, the current limitations would not prevent unnecessarily large future cash balances as have occurred in the past (see page 21).

5. The original recommendation, to implement a fund balance limitation based on a formula calculation, was changed to amending the legislation to shorten the time period during which the reception and placement funds may be expended (see page 23).

6. We agree that reasonable cash balances are necessary to provide consistent resettlement services and recognize that these services may span more than a 3-month period. Our proposal would allow agencies until March 31 to expend the prior fiscal year grant funds (see page 22).

7. See item 5 regarding the proposal of the formula.

8. We are recommending that the Department of State negotiate standardized definitions with each voluntary agency, but are not specifying the approach most appropriate (see page 28).

9. We recognized that a total cost study could be considered, but did not discuss the need or mechanisms for such a study (see page 31).

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