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Audits and Accountability in Non-Governmental Organizations

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AUDITS AND ACCOUNTABILITY IN
NON-GOVERNMENTAL ORGANIZATIONS

By

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Abstract

AUDITS AND ACCOUNTABILITY IN NON-GOVERNMENTAL ORGANIZATIONS

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Non-Governmental Organizations (NGOs) are becoming increasingly important as providers of development assistance in the Global South. As these organizations are gaining in importance, accountability concerns have grown. NGOs are considered to be accountable to a range of stakeholders, including funders, foreign governments where work is being performed, and the local communities being served. In spite of these concerns, there has been little research on the effectiveness of specific accountability mechanisms. This study empirically tests one such mechanism, the Single Audit, required by the United States for organizations that receive federal grant funding. Unfortunately, it is found the results of the Single Audit have no effect on future funding decisions of USAID. This study only tests one accountability mechanism, and further research is necessary to understand both the uses and limitations of the Single Audit, as well as the effectiveness of other accountability mechanisms.

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Dedication

To my father, Dennis Retzl, who taught me life is much more satisfying when you enjoy your work.

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Chapter 1

Introduction

Non-governmental organizations (NGOs) have quickly become major actors in the provision of development assistance. Specifically, since the end of the Cold War, national governments are devoting increasing resources to NGOs to perform tasks that were historically performed by governments. This is due to several reasons: government agencies conceding they lack the ability to reach the local populations as effectively as NGOs, the perceived success of NGOs in reducing poverty in areas where they work, governmental concession that policies aimed to reduce poverty through market-oriented policies are not adequate to address poverty concerns, and the growth of transnational NGOs (like World Vision or Oxfam) with adaptive and fast-acting capabilities that are quicker and more effective at resource delivery than governments (Smillie 1997). Additionally, NGOs filled a void left by states in the Global South as governments struggled to provide basic social services for their populations, as occurred during the 1980s and 1990s in Latin America, East Asia, and Eastern Europe (Haggard and Kaufman 2008). The rapid growth of NGOs around the world caused one scholar to note, “Indeed, we are in the midst of a global ‘associational revolution’ that may prove to be as significant to the latter twentieth century as the rise of the nation-state

was to the latter nineteenth” (Salamon 1994, 109).

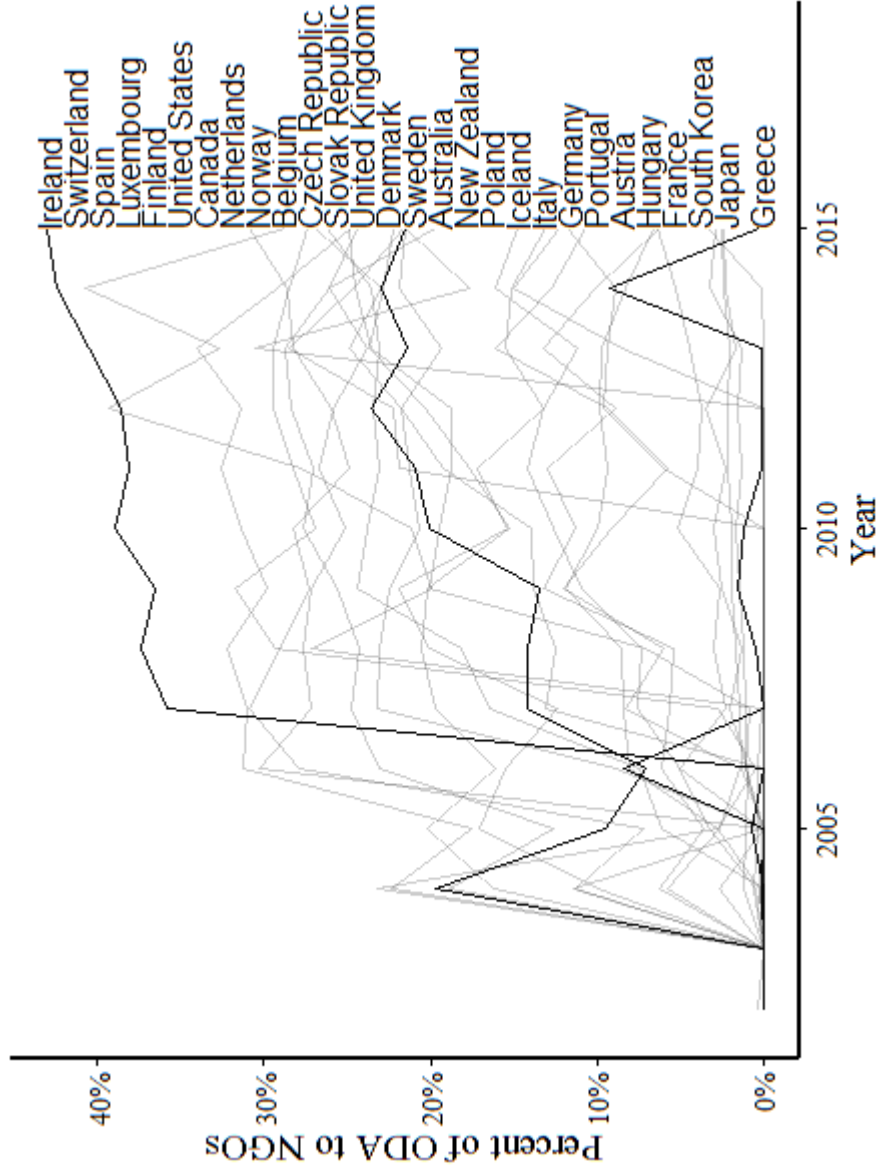
To demonstrate the importance of NGOs, Figure 1.1 provides the trends in government Official Development Assistance (ODA) provided to NGOs from 2002 to 2015 (the most recent available at the time of this writing). The data is obtained from the Organisation for Economic Co-operation and Development’s (OECD) Creditor Reporting System, which reports foreign assistance that is channeled to and through NGOs by each member country. Unfortunately, the data available is considered “notoriously unreliable” (Agg 2006), but remains the only consistently collected data on foreign assistance and NGO involvement available over a sustained period. An example of this is that it is unclear if many of the OECD countries began using NGOs in approximately 2004, or if this is when these countries began reporting these expenditures. Additionally, the data is only available back to 2002, so funding of NGOs prior to this year is unknown.

Figure 1.1 indicates the countries that provide the highest proportion of its ODA to NGOs (Ireland), the median OECD country (Denmark), and the lowest (Greece).¹ These countries are highlighted in darker gray/black. The figure also suggests many OECD countries funnel increasingly greater proportions of its aid budget to NGOs since 2002. But there is also significant fluctuation in this finding as well. Additionally, while the United States does not provide the highest proportion of foreign assistance to NGOs, it does provide the highest absolute amount.

Recently, the United States Agency for International Development (USAID) noted the importance of NGOs in United States development assistance efforts.

¹Determined based on 2015 percentages.

Figure 1.1: ODA Provided to and Through NGOs



Source: OECD (2017)

(NGOs) have an important role to play in the effort to conceive new approaches to development, and USAID recognizes them as an integral component of the emerging paradigm that envisions, tests, and deploys the new ideas and technologies that are expanding the boundaries of what's possible (USAID 2013, 4).

Figure 1.1 and this quote leaves little question as to the importance of NGOs as providers of development assistance. However, what is often problematic is understanding what organizations are NGOs.

NGOs can take any number of forms. Because there is no universally recognized definition of an NGO, it is often defined based on the needs of the researcher (Willetts 2011). Mathews (1997) believes the label includes groups as small as neighborhood associations or as large as global advocacy groups (like Amnesty International). Tvedt adopts a definition of NGOs that is just as broad: it is an organization that is not controlled by a state and is non-profit in nature (1998, 12). With such a large population to draw upon, studies of NGOs can easily become overwhelming for a researcher. A more detailed discussion of the definitional difficulties of NGOs is found in chapter 2.

With the increasing presence of NGOs, questions are emerging as to how effective they are in providing aid. Smillie (2000) worries NGOs are too heavily influenced by donors, resulting in an NGO simply becoming a contractor of the donor, rather than focusing on the best interests of the communities they are serving. However, studies investigating this claim have not found support for it. Specifically, in a study of European NGOs that was co-financed by the European Union, Gilles and Yontcheva (2006) find NGOs provide aid primarily based on the needs of the beneficiaries and are not simply strategic actors acting on behalf of their donors. The authors conclude “on the whole, NGOs seem relatively immune to strategic

interests and seem to keep up their promise of being advocates of the poor and vulnerable” (Gilles and Yontcheva 2006, 16).

With increasing government funding provided to NGOs, scholars are beginning to devote attention to their performance. As government funding is being funneled to these organizations, there are concerns that the qualities that made NGOs attractive initially (the flexibility, innovation, and inclusion of neglected populations) could be diminished (Edwards and Hulme 1995). Others are concerned that NGOs have significant power to inform constituencies and influence policy without having much responsibility to answer for their actions (Collier 2007). This directly questions how, and to whom, are NGOs accountable? Current research bemoans the lack effective accountability mechanisms for these organizations, but to date, there is a lack of studies of the effectiveness of the present systems.

Following the work of Grant and Keohane, accountability “implies that some actors have the right to hold other actors to a set of standards, to judge whether they have fulfilled their responsibilities in light of these standards, and to impose sanctions if they determine that these responsibilities have not been met” (2005, 29). As this definition suggests, accountability entails demonstrating how an organization is meeting its responsibility to a group of stakeholders (Grant and Keohane 2005). However, in the case of NGOs, oftentimes funding agencies and/or individuals are rarely able to exert any control once money has been provided (Slaughter 2003); as such, accountability is attenuated. Clark questions, “To whom should (NGOs) be accountable? To their board of trustees, to their governments, to donors, to their staff, or to their project partners” (1991, 73)? Najam (1996) believes there are three accountability concerns for NGOs: to funders, beneficiaries, and themselves. Winters (2010)

agrees with this, but removes the internal accountability aspect.

When looking specifically at the relationship between funding governments and NGOs, the type of accountability mechanism found most often is a financial one, but this unfortunately has resulted in “little more than filing some perfunctory reports and being subject to an occasional audit” (Wenar 2006, 14). Extant research has done very little to determine if those audits and reports are being used by funding agencies when allocating money to NGOs. The common consensus is that it is not (Wenar 2006; Winters 2010). This is unfortunate because audit reports can provide important information to governments and other funding agencies regarding the financial and programmatic activities of an NGO.

This study understands and agrees there are several accountability relationships present for NGOs in international development. Especially important is the relationship between NGO and the beneficiaries of its services. However, these accountability mechanisms are more often informal and organization-specific, making it difficult to test in a Large-N study.² Because current research provides scant testing of accountability mechanisms in general, and because audits are formalized and legally required for many NGOs, this dissertation seeks to systematically understand the role and effectiveness of audits as an accountability mechanism. It is done with the caveat that formal audits are only one piece of a much larger accountability puzzle.

The accountability relationship between a funding government and an NGO can ensure the appropriate and effective use of funds. As a recent government scandal revealed, the

²This is unfortunate because Tassie, Murray, and Cutt (1998) determine non-formal evaluation processes are viewed as more important and accurate than formal mechanisms (like audits). The authors conclude formal processes are more ceremonial in nature because both sides (the evaluator and evaluated) know the results will not impact future funding decisions.

importance of accountability cannot be understated. On January 25th, 2015, The United States Agency for International Development (USAID) suspended funding to International Relief and Development (IRD) for serious misconduct relating to financial management and program performance (USAID 2015*c*). IRD denies any wrongdoing. However, the organization has been cited in the news for several years relating to questionable practices (Chandrasekaran 2011; Higham, Schulberg, and Rich 2014).

Among the questionable activities IRD engaged in was paying excessive compensation and benefits to the founder and CEO, as well as the founder's wife (Higham, Schulberg, and Rich 2014). Additionally, reports are surfacing that IRD used grant funding to pay \$1.1 million for parties and employee retreats (Higham 2015*b*). One news article even noted an outside auditor identified \$1.8 million in grant expenses that were either unsupported or were not expended in accordance with grant provisions (Young 2015).

Within this context, independent auditors reviewed these expenditures each year during a mandated A-133 audit (also known as the Single Audit). In the United States, all agencies (governmental and non-governmental) that expend a certain dollar amount of federal grant funding are required to complete a specific type of audit. It is more focused than a financial audit and scrutinizes how the recipient organization spent grant funding. It ensures grant dollars are spent in accordance with the funding agency's requirements. Since 1997, the results of these audits are submitted electronically to the Federal Audit Clearinghouse and are available to the public. It is from this governmental database that NGO funding amounts and audit results are obtained.

The legislation that requires the Single Audit does so for federal grant funding from any

agency. As such, the Department of State, Department of Commerce, and other federal agencies have reported audit results. To analyze NGOs in international development, only those NGOs receiving funding from USAID are included in this study. Certain grant funds from the Departments of State and Agriculture are provided to NGOs to engage in international development activities, but because of difficulties obtaining a complete sample of these projects, those are omitted for this study.

Organization of the Dissertation

There are a number of ways that NGOs can be accountable. Certain accountability mechanisms can be enforced by external parties, but other mechanisms are privately enforced (i.e. the use of certifications). Still other accountability mechanisms can be internal processes and procedures that are unique to each NGO. This dissertation does not believe one is better or more important than any other. However, audits are often cited as one of the only formal accountability mechanisms present for NGOs, but little research exists regarding its effectiveness. As such, this study seeks to understand the role and effectiveness of audits as an accountability mechanism. Based on the work of Wenar (2006), it is hypothesized that audit results will have little effect on future funding decisions.

While many governments are providing funds to NGOs to complete international development projects, this research will focus only on those organizations that receive funding from the United States government. Expanding this to more countries, while beneficial, may prove to be impossible due to the unavailability of data. Expanding this to NGOs that

receive private donations to fund their operations would also be interesting to include, but the audit mechanism may not be as effective as it is within NGOs receiving funding from the United States government. This is because, while it is currently unclear whether government officials and/or employees spend much time reviewing audit reports, it can be reasonably assumed that ordinary citizens spend even less time before making donations. Additionally, the NGOs reliant on non-governmental money are not required to complete specific audits mandated of those agencies receiving money from the United States government.³

The dissertation is organized as follows. Chapter 2 provides a general review of the international development and foreign assistance literature, with a special focus on the emergence of NGOs. This includes an exploration of theories to explain the growth of NGOs, as well as the history of these organizations. The chapter concludes with a discussion of the unique challenges presented due to the increasing role of NGOs in international development (of which, questions of accountability are included).

Chapter 3 discusses the theoretical framework of the dissertation. Oftentimes, in the NGO accountability literature, tenets of good governance are discussed. However, this is in the context of multiple accountability relationships and how best to be accountable to each. When analyzing the role of audits in the accountability process, there is clearly a principal-agent relationship occurring. Principal-agent theories are discussed in this chapter, but a much more interesting question is why did the Single Audit emerge in 1984. Previous to this, federal grants were audited, but with less cohesion to other federal grants and were

³Not only are these organizations not required to conduct a Single Audit, they would not be able to even if they desired. This is because the testing done during the Single Audit is determined based on the grant received and is specific to the grant. At best, non-federally supported NGOs could seek consultants to evaluate how well the organization is doing in meeting its mission.

a larger burden to the recipient organization. This study recognizes rationalist theories that inform principal-agent approaches, but also believes that constructivist theory assists in understanding how and why a specific accountability mechanism came to existence.

Chapter 4 provides a thorough examination of the Single Audit process as readers may be unfamiliar with it. This chapter details when a Single Audit is required, what is mandated of the auditor and recipient organization, as well as the types of information that can be obtained from it. Using the Single Audit data available from the Single Audit Clearinghouse, Chapter 5 explores the descriptive statistics of the dataset. This chapter provides a clearer understanding of the NGOs receiving federal funding, as well as the number of grants awarded and total grant expenditures. It also provides information about the types and prevalence of audit findings.

Chapter 6 tests whether audit findings reduce future funding to NGOs. Most organizations do not report federal funding throughout the entire dataset. This suggests many NGOs only occasionally apply for, and receive, federal grants to support its mission. Because of this sporadic funding, the analysis uses a selection model. Developed by Heckman (1974), it is common within political science literature. First, a probit model predicts the likelihood an NGO reports funding in a given year. This estimate is then included as an independent variable in the full panel model. As hypothesized, Single Audit findings have no effect on future funding decisions from USAID. The chapter examines why this is, ultimately concluding the data USAID desires is not available within the Single Audit.

The final chapter summarizes the findings from the previous chapters. It suggests ways to improve the data available to funding agencies and provides avenues for future research.

While the Single Audit does not appear to influence future funding decisions of USAID, it is hoped the study will prompt future studies of specific accountability mechanisms. Those deemed effective can then be studied for positive qualities for emulation and ineffective mechanisms can be re-evaluated and/or re-imagined.

Chapter 2

The Rise of NGOs in Development Assistance

NGOs are becoming increasingly important actors in international development and foreign assistance. Some view them as the solution to the problem of directing aid to the populations most in need, while skeptics view them as covert advocates for a donor country's policies. As NGOs are not formally tied to any government or physical boundary, these organizations are in a unique position to offer solutions to problems that have been very difficult for states to overcome, specifically as it relates to development.

Oftentimes, researchers will use the term civil society, of which an NGO is a subset within a larger group. However, like many terms in this study, there is no universally accepted definition. Civil society is often defined as the group of non-official and non-governmental organizations that exist either formally or informally. This definition aligns closely with Tocqueville's notion of free associations with which people engage (1835). The other commonly used definition of civil society is the collection of all NGOs, which operate alongside government and corporate actors (Scholte 2011). This definition is used today by scholars and policy practitioners, with civil society actors viewed as service deliverers or advocates for policy issues (Salamon et al. 1999). In either definition, a single NGO is a unit

within the larger civil society context.

Prior to examining the role of these organizations in development assistance, the term itself requires definition.¹ Unfortunately, this is not an easy task, nor is it for the “intellectually squeamish” (Simmons 1998, 83). Credit for the widespread usage of the word nongovernmental organization is often given to the Charter of the United Nations (Chapter 10, Article 71). While no definition is provided in the charter, many can agree that at a minimum, an NGO is non-governmental in nature and does not seek profits (Tvedt 1998; Paul 1991). Providing a bit more specificity, Makuwira states that NGOs are “organizations that work for the aid and development of others, without direct profit for themselves” (2014, 5). These minimum threshold definitions allow for an exceptional number of organizations, including organizations as disparate as Parent-Teacher Associations, neighborhood Little Leagues, and major environmental organizations like Greenpeace and the World Wildlife Fund.² While not a formal definition, Lewis and Kanji (2009) suggest that NGOs have traditionally been known as providers of basic services to individuals/groups in need or as advocates for policy changes. A more workable definition of NGO, at least for the current purpose, is a “larger and more professionalized (civil society organization) that aims to deliver benefits not to their own members but to the wider community” (UNRISD 2000, 92).

The definitional problem posed by the term NGO is further exacerbated by the numerous acronyms present in the NGO literature. To separate traditional NGOs (if there is such a thing) from those involved in the development process, the acronym NGDO (Non-

¹Although the phrase non-governmental organization dominates the subfield, not all agree with its usage. The resistance to the term is due to the negative wording, indicating more of what an NGO is not, rather than what it truly is (Weyers 1980).

²To further illustrate the need for an appropriate definition, Charnovitz (1997) states the Crusaders in the Medieval Period and pirate groups in the seventeenth and eighteenth century could be considered NGOs.

Governmental Development Organization) is sometimes employed (Townsend, Porter, and Mawdsley 2002; Fowler 1998, 1997). To differentiate those NGOs that operate in an international setting, the acronym INGO (International Non-Governmental Organization) is used (Agg 2006; Boli and Thomas 1997). NGOs that work with global issues, such as environmental challenges or the global economy, are sometimes referred to as TNGOs (Transnational Non-Governmental Organizations) (Syracuse University 2015). Table 2.1 provides an overwhelming number of related acronyms for organizations that are generally considered to be the same as, or subgroupings of, NGOs. Not all are common, but the list is provided to demonstrate the numerous terms used to describe similar organizations.

Additionally, many “NGO pretenders” (Fowler 1997) have emerged, which appear to be a legitimate organization, but are actually created for subversive reasons. Fowler (1997) provides fifteen separate such designations, including BRINGOs (Briefcase NGOs, those that are no more than an NGO that has a well-written proposal), GRINGOs (Government-Run and Initiated NGO, an NGO set up by a government that works to counter the activities of actual NGOs operating in a recipient country), and MANGOs (Mafia NGO, a criminal NGO that operates to provide security, money laundering, or other illicit services). While these acronyms are intended to remedy the definitional uncertainty of the term NGO, oftentimes it only serves to add additional acronyms to a subfield awash in them. The NGO literature could heed the cautionary advice from scholars in the democratization subfield:

This literature faces a major dilemma in the proliferation of concepts and terms, many of which mean approximately the same thing. The consequence, once again, can be growing scholarly confusion (Collier and Levitsky 1997, 450).

To co-opt Collier and Levitsky’s (1997) phrase, the NGO literature could be understood as

Table 2.1: Acronyms for NGOs

AGNs	Advocacy Groups and Networks
BINGOs	Big International NGOs
BONGOs	Business-Organized NGOs
CBOs	Community Based Organizations
CSOs	Civil Society Organizations
DONGOs	Donor-Oriented/Organized NGOs
Dotcause	Civil society groups that mobilize support through the internet and social media
ENGOs	Environmental NGOs
FANGOs	Fake NGO (an NGO that is used as a for ulterior motives)
GDOs	Grassroots Development Organizations
GROs	Grassroots Organizations
GSCOs	Global Social Change Organizations
GSOs	Grassroots Support Organizations
IAs	Interest Associations
IDCIs	International Development Cooperation Institutions
INGOs	International NGOs
IOs	Intermediate Organizations
IPOs	International /Indigenous People's Organizations
LDAs	Local Development Associations
LINGOs	Little International NGOs
LOs	Local Organizations
MOs	Membership Organizations
MSOs	Membership Support Organizations
NGDOs	Non-Governmental Development Organizations
NNGOs	Northern NGOs
NPOs	Non-Profit Organizations
PDAs	Popular Development Organizations
POs	People's Organizations
PSCs	Public Service Contractors
PSNPOs	Paid Staff NGOs
PVDOs	Private Voluntary Development Organizations
PVOs	Private Voluntary Organizations
QUANGOs	Quasi-Governmental Organizations
RWAs	Relief and Welfare Organizations
SHOs	Self-Help Organizations
SNGOs	Southern NGOs
TIOs	Technical Innovation Organizations
TNGOs	Trans-National NGOs
VDAs	Village Development Associations
VIIs	Village Institutions
VNPOs	Volunteer Non-Profit Organizations
VOs	Volunteer Organizations

Source: Najam 1996; Fowler 1997; Lewis 2001; Lewis and Kanji 2009

“NGOs with Adjectives.” Oftentimes, the acronyms for NGOs only serve a narrow purpose for the researcher and do not contribute to a better understanding of how these organizations operate in reality (Fisher 1997).

The definitional difficulty poses another significant problem in determining the number of NGOs that are in existence. This is especially true as it relates to NGOs that operate in the field of international relief and development. There is currently no “official” database of NGOs in existence, and certainly not one that accounts for all types of internationally focused organizations. The Union of International Associations publishes an annual Yearbook of International Organizations which lists the current number of IGOs and NGOs in existence. However, the organization admits that it may be omitting numerous entities, especially those that exist virtually. That said, the most recent data suggests there are currently 60,272 NGOs in existence, compared to 7,757 IGOs. If the number of “dead, inactive, and unconfirmed organizations” is excluded, the number of NGOs drops to 30,950 (Union of International Associations 2015). Another estimate of the total number of NGOs can be obtained from the NGO Branch of the United Nations Department of Economic and Social Affairs (ECOSOC), which reports 22,879 NGOs are registered or seeking consultative status with the organizations. Those NGOs that have not registered are not included in that number.

This discussion is provided only to illustrate the study of NGOs includes an alarming number of organizations, and as of yet, there is no organizational structure to the literature. Hence, it is very important for a study of NGOs to define exactly what the focus is, and clarify the boundaries of the research. While believing that an organizational scheme for

NGO research is past due, this dissertation does not attempt to provide one. Instead, it focuses on a specific subset of NGOs: those organizations that are not governmental or corporate that receive funding from a donor government to provide development and/or relief assistance.³

Definitional ambiguity aside, it is logical that NGOs can have a significant impact on a myriad of issues. The World Bank notes that Civil Society and NGOs have the power to shape a global policy discourse as they engage with, or challenge, governments and intergovernmental organizations (World Bank 2009, 2). Examples of this are provided by Willetts (2011) who discusses NGO successes in advocating and campaigning for causes as diverse as global debt forgiveness, bottle feeding babies, and the Millennium Development Goals. White also provides a sympathetic understanding of NGOs, noting these organizations can create “bonds of friendship” between members in foreign countries, mold public opinion through the creation and dissemination of information, and exert pressure on governments to change policies or actions (1951, 10-14).

However, not all agree with the privileged status afforded to NGOs. Halliday (2001) believes too many scholars and practitioners bestow unearned praise on these organizations. Instead, any analysis must demonstrate an NGO’s influence in creating change. This is especially true when NGOs are given credit for altering the actions of state actors. While focusing on the concept of Global Civil Society, Munck (2002) believes the term includes a

³Without delving too deep into the literature of the difference between development and relief, a common distinction is that development is a long-term process that encompasses many different issues and seeks to address the root cause of poverty and inequality, whereas relief is seen as an immediate fix to a specific problem (e.g. sending food to an area experiencing famine) (Casey 2016). While it is agreed there is a substantial difference between these two aims, it is noted that donor governments use foreign assistance for both types of activities. As such, the two are combined together in the present research.

myriad of disparate organizations (in both form and belief), but are all included together. Similarly, the current study of NGOs suffers from what is called “presentism,” or the belief that current phenomenon is historically unique. This leads to the criticism that NGOs are “made to explain too much on too weak a foundation” (Munck 2002, 352). These criticisms do not suggest NGOs are non-existent, but rather question the influence attributed to them. In spite of this, governments continue to fund NGOs. The following section explores why this is and further investigates the role of NGOs in the development process.

The Role of NGOs in Foreign Assistance

Smillie (2000) notes numerous reasons why governments began providing funding to NGOs at the end of the Cold War. First, countries dramatically reduced development assistance amid taxpayer demand for greater effectiveness of aid. Both citizens and governments believed NGOs offered an appropriate way to downsize and privatize aid. Additionally, donor countries were willing to admit the difficulty of reaching the populations most in need of development assistance, along with the recognition that NGOs would be better able to target these populations. Also, donor countries traditionally targeted aid at improving recipient countries overall economic indicators, but began to realize that poverty would not be eliminated solely through market-oriented strategies. Coincidentally, there was an overall feeling that NGOs had success in addressing both the causes and symptoms of poverty. Finally, several NGOs grew to transnational organizations and were thought to be better equipped to quickly adapt to changing circumstances as opposed to governments.

Similarly, Tendler (1982) provides a list of narratives (sometimes referred to as Articles of Faith) NGOs employ to describe and differentiate themselves from governments. These help to understand why governments fund NGOs. First, NGOs are better able to reach the poor through targeted assistance. Second, for the beneficiaries of assistance, NGOs allow for a more participatory process, allowing those in need an ability to determine what they want and how to go about obtaining it. Third, in what has been described as process versus outcome, NGOs provide the poor with a process to get out of poverty, whereas governments simply aim assistance at macro-level solutions (such as economic development) which often does not reach the poor. Fourth, and similar to the previous, NGOs work directly with the poor (individual-to-individual) whereas governments are seen to work directly with the recipient government (state-to-state). Fifth, because NGOs are small and work directly with the poor, these organizations can be flexible in the provision of assistance and can experiment with novel approaches to aid. This is contrasted with governments, which are under pressure to provide a certain amount of funding each year and feel pressure to show quick results. Sixth, because NGOs work directly with individuals (and not within the State bureaucracy), they have the ability to improve and strengthen local institutions. This can assist in the development of a pluralist society. Finally, NGOs can help a greater number of people at a lower cost due to the commitment of the organization, the ability to use volunteers, and the lack of inefficiencies noted in government bureaucracies.

Smith and Lipsky (1993) notes several reasons why a government would contract services to a non-profit agency (like an NGO). First, contracting may be cheaper because NGOs are not subject to the same civil service hiring requirements of the government. Second,

contracting may offer more flexibility. Specifically, the government bureaucracy is much harder to alter its course than an NGO may be; especially if that it is already completing a similar service. Relatedly, contracting allows a government to limit its growth while still extending services to a larger population.

While NGOs may sell themselves with these characteristics, Tandler (1982) is not wholly convinced by the argument that NGOs are a better alternative than governments. At times NGOs are able to be what the previous authors describe. At other times, these organizations operate with the slowness and inflexibility that generally typify governments. There has been very little testing of the benefits of using NGOs, which means accepting any and/or all of the claims assumes a great deal with very little supporting evidence.

Theories of the Emergence of NGOs

As NGOs are basically non-profit organizations, there are several economic theories which hypothesize why NGOs exist. Most of the theories focus on the limitations of both the government and for-profit companies, and explain how NGOs exist to cure these deficiencies.

One theory to explain the existence of non-profit organizations is public goods theory. It states that governments only provide a level of public goods to satisfy the median voter (Weisbrod 1975). If there is a significant number in the minority that believe a higher level of service is necessary or optimal, a non-profit organization (or an NGO) can provide the service that is deemed lacking, or it can mobilize efforts to draw attention to the deficit in service provision. The United Nations Development Programme (UNDP) (1993)

subscribes to this theory, believing that NGOs are often viewed as a gap-filler for insufficient government-provided social services, especially those governments that have undergone structural adjustment programs. Public goods theory may explain the occurrence of domestic organizations, but does not seem to offer any explanatory value to explain the rise of NGOs in donor countries that receive government funding for development assistance.

Another theory to understand the existence of non-profit organizations focuses attention on the limitations of private industry. Contract failure theory posits that non-profit agencies exist because of a difficulty in a consumers ability to determine the quality of a good or service (Nelson and Krashinsky 1973). For-profit agencies, with their profit-driven motive and focus on increasing shareholder wealth, may create suspicions of the quality of the service provided (e.g. its concern for providing a quality product is subservient to the profits derived). A non-profit agency, lacking the profit-making motive, may be more attractive and trustworthy to consumers. Nelson and Krashinsky (1973) use the example of daycare centers to illustrate contract failure theory. The authors hypothesized that because of the difficulty of evaluating the quality of various daycare centers, parents would overwhelmingly choose non-profit agencies. This was due to a belief that a for-profit daycare would exploit the difficulty of assessing quality and provide inferior service. While this theory may help to explain why a government would contract with an NGO rather than a corporation, it too does little in providing provide an appropriate explanation for why governments provide funds to NGOs.

A third theory is the subsidy theory which posits that nonprofit organizations are shaped by government policy, either through the tax system, through direct spending (e.g. grants),

and/or through regulations (Rose-Ackerman 1986). Most often, the theory focuses on government policies related to the tax deductability of donations, but also often includes tax exemption from property and sales taxes, as well as decreased postal rates (Weisbrod 1988). The theory suggests these policies direct non-profit organizations into certain activities that are deemed worthy by a government (e.g. health, education, poverty alleviation, etc.). This theory would be effective for studies investigating the types of NGOs that receive funding or answering whether NGOs alter their focus to receive federal funds, yet it does not help in understanding why governments are giving the money.

A fourth theory to explain the creation of non-profit organizations is the consumer control theory (Ben-Ner 1986). This framework begins with the citizens (or consumers) and assumes when there is information asymmetry, consumers can take control by forming non-profit organizations. In this way, any surplus profits made by the non-profit can then be redistributed back to the members (in the form of lower prices, greater quantities, etc.) rather than padding the profits of a for-profit corporation. This theory is admittedly complimentary to the contract failure theory discussed previously (Ben-Ner 1986), but the types of non-profits that it pertains to would be more limited (i.e. co-ops being the most obvious example). Unfortunately, this framework also offers little explanatory power in the current analysis, but may be beneficial in understanding how NGOs form in recipient countries.

Makuwira (2014) provides what is described as a Political Science Theory for the understanding of NGOs. Specifically, the theory posits that NGOs are similar to political parties, as both are separate from the state and market, and both have limited accountability to a specific constituency. In spite of the limited accountability, both NGOs and political parties

provide for the needs of a much broader audience beyond only the members and/or employees of the organization. This theory can provide for an understanding of NGOs and the environment they operate within, but does not provide utility in understanding why NGOs became prominent in development assistance.

Unfortunately, the theories above provide little understanding why donor governments give funds to NGOs for development assistance. While the theories previously listed suggest that NGOs exist as a way to “fill-in” the limitations of either governments or for-profit companies (Johns Hopkins Institute for Policy Studies 1996, 2), none adequately explain why NGOs emerged as providers of development assistance. Understanding the history of NGOs in the development process provides keys to understanding their growing importance. The following section details the history of NGOs in development assistance. First, a general history is presented and is then followed by the history of NGOs within the United States and Europe.

History of NGOs

Charitable organizations have a long history of completing international work. Seary (1996) states NGOs emerged in the nineteenth century due to economic, political, and technological advancements. The growth of the middle class in the nineteenth century allowed more people the time, resources, and education necessary to take part in voluntary associations. Also, the Congress of Vienna and the Treaty of Paris, both occurring in 1814 with the intent of restoring a long-term peace on the European continent, resulted in several European

countries agreeing to meet at regular intervals. This did not specifically engage NGOs, but brought forth an internationalism required for cross-border NGOs. Finally, advancements in technology allowed for improved communication across national borders. This combination led to an increase in citizen congresses designed to improve relations between countries and advance economic interests of all involved.

Smith (1990) traces the beginning of NGOs to the 1600s, claiming the first non-governmental assistance was provided for both religious evangelization and cultural promotion purposes. Additionally, these first NGOs were often funded by home governments or operated with their support. And, while many of these organizations have disappeared, some are still in existence. Of the 205 largest NGOs engaged in assistance in Latin America, Africa, the Middle East, and/or Asia in 1980, approximately 10% originated between 1798 and 1912 as missionary or religious organizations (Smith 1990).

Another scholar identified seven historical periods of NGOs, dating back to 1775 (Charnovitz 1997). The first period, “Emergence,” occurred from 1775 to 1918. During this time, NGOs took the form of issue-oriented groups that attempted to influence policymaking in issues as diverse as abolishing slavery, international peace, international workers rights/unions, and human trafficking/prostitution. While it would be disingenuous to claim all strides made were due to NGO activities, NGOs attempted to influence governmental policies.

The second period of NGO involvement occurred from 1919 to 1934 and is characterized by engagement. Specifically, during this time, NGOs worked with Inter-Governmental Organizations (IGOs) to address specific issues. At times, this meant working to bring issues to the attention of governments; at other times this meant working directly with governments

in search of a solution. The third period occurred from 1935 to 1944. This was a period of disengagement between NGOs and governments, mostly due to the outbreak of World War II. Following this was a period of formalization (1945-1949). It saw the birth of the term NGO, and its formal status within the then-new United Nations system.

The following period of NGO involvement (1950-1971) can be described as underachievement. While NGOs attempted to work on numerous issues, mainly involving human rights, they were hampered by the outbreak of the Cold War and the dominance of national interests. The sixth period, from 1972 to 1991, saw an “intensification” of NGO involvement in IGOs. NGOs during this time broadened their scope to include a number of issues, including environmental concerns, women and childrens issues, population concerns, and food scarcity. The final period noted by Charnovitz (1997) occurred from 1992 and was still ongoing at the time of his publication. This period is characterized by empowerment, with NGOs gaining even greater access and influence.

It would be unfair to critique Charnovitz (1997) for his lack of clairvoyance, but perhaps NGOs have entered an eighth period that began sometime in the 2000s. This new period is marked by criticisms of NGO activities (Lewis and Kanji 2009). Many, including several NGOs themselves, are concerned the independence that originally made NGOs attractive has been eliminated and been replaced with strong ties to governments (Casey 2016; Lewis 2001). Additionally, donor governments are deciding to directly fund recipient governments again. The hope is that recipient governments will take ownership of poverty reduction and service delivery within their borders (Mosse 2005). Still, NGOs are being heavily utilized for contracted services where recipient governments are weak, specifically in strategic areas that

have recently experienced turmoil, like in Iraq and Afghanistan (Lewis and Kanji 2009).

While Charnovitz (1997) is often cited as the authoritative history of NGOs, his analysis focuses on NGOs operating within IGOs. The history of NGOs operating as development assistance providers really emerged after World War II (for reasons that will be discussed shortly).⁴ Initially, after World War II, NGOs targeted disaster and short-term poverty relief. Beginning in the 1970s, NGOs implemented more structural approaches due to perceived lack of progress in poverty alleviation. These approaches sought to move beyond treating the symptoms and address the causes of poverty.⁵ This also coincided with the emergence of the Washington Consensus and its stress on smaller government. The result was a surge of funding to NGOs to take the place of programs once directed at donor governments. Edwards and Hulme note that prior to the end of the Cold War, NGOs were considered minor welfare providers; however, at the end of the Cold War, NGOs became “the *preferred channel* for service provision, in *deliberate substitution* for the state” (emphasis theirs) (1996A, 4). And as the neoliberal agenda of decreasing the size of government gained prominence, NGO welfare provision became necessary to remedy gaps in public services (Agg 2006). However, this became a self-fulfilling prophesy, as the services offered by NGOs did not allow governments to create much needed, efficient state-run social safety-net programs and forced the

⁴The following traces the history of NGOs from the perspective of donor governments. There is a literature focusing on the development of Southern NGOs as well. Due to the heavy focus of this dissertation on NGOs who receive funding from donor governments, which are primarily based (or have significant operations) within the donor country, the history of Southern NGOs is outside the scope of this work. However, these NGOs, much like their Northern counterparts, are heavily influenced by the history, culture, and politics of the country and region in which they are located (Lewis and Kanji 2009).

⁵The Chinese proverb “Give a man a fish and he will eat for a day; teach a man to fish and his family will eat for a lifetime” is often used to delineate between relief and development. Prior to the 1970s, most organizations involved in the aid process (NGOs included), were “giving fish.” Beginning in the 1970s, development became a focus for donors, resulting in teaching the local communities how to fish. Most recently, the proverb has been amended to add, “Restructure the fishing industry and a community will be transformed.” This addition reflects current aid priorities and strategies (Casey 2016).

developing governments to rely on continued NGO service provision (Pearce 2000).

In the second half of the 1990s, the efficiency and effectiveness of large NGOs was questioned, often by the NGOs themselves. While this seems counterintuitive, the criticism by NGOs was out of a concern they would lose the role as government monitors and instead become contractors of the donor governments (Agg 2006). Also at this time, large NGOs began losing funding to small NGOs that engaged local communities, as private donors and governments perceived these smaller organizations to be the most effective at achieving aid goals (Agg 2006). This concern with efficacy led many larger NGOs to implement more business strategies. Presently, NGOs are beginning to seek partnerships with for-profit companies, international organizations, and governments more than they had in the past, with the hope of drawing upon the mutual advantages of each (Casey 2016). These partnerships may be beneficial for the donors and the NGOs, but often incorporate more stakeholders into the process, creating even more accountability relationships that must be maintained. There is a concern the recipients of aid will be de-emphasized, in order to ensure that an NGO is meeting its responsibilities to its partners.

In the United States context, the government did not utilize NGOs much in its international endeavors until the outbreak of World War II. At the beginning of the war, the United States was neutral. However, the government realized that relief organizations set up to help victims in allied nations were useful in funneling aid without violating international conventions of neutral nations (Smith 1990). Later, the United States provided subsidies to NGOs to provide relief assistance to the USSR after the war. These activities sought to strengthen capitalistic forces in the Soviet Union and pressure the country toward a more

liberal economic policy (Smith 1990).

At the end of World War II, the United States increased its usage of NGOs for several reasons. First, numerous governments needed assistance, specifically in Western Europe and the former European colonies that were now important to the United States' economic and security interests. As a result of the large number of countries requiring assistance, the assistance of NGOs was sought. Second, Congress believed NGOs would be more effective at targeting aid dollars to those most in need. If the money was provided bilaterally, it would be given to another government and many (especially former European colonies) were plagued by poor administration or corrupt officials. Multilateral assistance was also less attractive because, although the United States provided a significant portion of the funding, other donors (i.e. the Soviet Union) exerted influence as to where the money would be spent. Lastly, NGOs provided an effective channel to dispose of surplus agricultural inventories. During the war, the United States guaranteed high prices for crops to stimulate production. After the war, the United States kept the price supports to prevent a collapse in agricultural prices. This resulted in significant inventories that needed to find a use (Smith 1990).

Additionally, many recipient countries welcomed NGO assistance. Nationalistic sentiments in many countries found accepting NGO assistance was more politically palatable than was accepting direct assistance from the United States government. This feeling became even stronger in the 1960s and 1970s as recipient governments became wary of any United States assistance, fearing CIA subversive activities that might follow the assistance (Smith 1990).

In 1973, the United States passed the Foreign Assistance Act of 1973. This act explicitly

stated “development should be carried out to the maximum extent through the private sector, including those institutions which already have ties in the developing areas, such as educational institutions, cooperatives, credit unions, and voluntary agencies.” The result was that while significant funding was provided to NGOs based in the United States, development assistance was also given to NGOs based in recipient countries, but this was (and continues to be) mostly done through the Inter-American Foundation and the African Development Foundation (Korten 1991).

NGOs were not immune from the events of September 11th, 2001. The invasion of Iraq and Afghanistan, and the massive amount of reconstruction necessary, led to NGOs competing with private corporations for projects that were traditionally completed by NGOs (Stoddard 2003). This includes infrastructure, education support, clean water, and health-care services. Additionally, USAID declared that foreign assistance can be used to fight the war on terrorism by focusing on states that have already, or are nearing, collapse (Clad 2003). This post-9/11 mindset has led some observers to note a “securitization of aid” is occurring (Macrae and Harmer 2003, 10), in which NGOs must adapt if they wish to continue to receive funding.

Overall, the United States government sought the assistance of NGOs to advance foreign policy concerns both before and after the Cold War. NGOs worked alongside the government, and often with governmental support. The experience of European NGOs is similar.

Immediately after the devastation of World War II, many European countries primarily became aid recipients, not donors. This meant what little money was available for foreign aid activities was provided by the government and not given to NGOs. As European countries

recovered from the war, many had strong interests in maintaining influence over their colonial territories. As such, assistance to NGOs was limited until the mid-1960s. When governments did begin to provide funding to NGOs, there were two main purposes. First, donor countries desired to create a humanitarian image of themselves for ex-colonial territories because the European powers were viewed as overlords. NGOs assisted with this re-imagining because they provided a buffer between the European donor governments and the former colonies (Smith 1990).

Also, in 1961 the United Nations General Assembly declared the 1960s as “The Development Decade.”⁶ As part of this, the General Assembly adopted a goal that donor governments should contribute approximately one percent of their national incomes toward development assistance by 1970. This meant many European countries would be providing assistance to non-former colonies. NGOs were believed to be more flexible and could react quicker to provide assistance in areas that a donor government had little previous experience (Smith 1990).

The growth of Norwegian NGOs mirrors that of the generalized European account provided by Smith (1990). Norwegian NGOs first emerged in the 1960s as the government sought to cooperate with them more in the aid process. The main purpose was for the “Internationalization of Norwegian society” (Tvedt 1998, 46). The number of NGOs increased in the 1970s as governments increased the amount of funding available, while also increasing the amount NGOs could charge for management and administrative expenses. Tvedt (1998) notes this is because NGOs were believed to be more flexible than the Norwegian Agency for

⁶This was done at the urging of many newly independent countries that became a relatively influential force.

Development Cooperation (NORAD), as well the ability of NGOs to reach more individuals through targeted grassroots policy (rather than operating through official State Channels of the recipient country).

The historical role of NGOs in the foreign assistance process has an observable impact on the current aid practices in the United States and Europe. The United States primarily provides resources that are meant for immediate relief from the symptoms of poverty, most often through the provision of agricultural goods. European countries and citizens have a greater awareness and appreciation for the structural and political dimensions that underlie poverty, due primarily from their colonial experience. As such, the development assistance is targeted at longer range poverty alleviation projects (Smith 1990).

Currently, there is another divide between the United States and European donor countries. European countries are advocating a “consensus model” of aid, whereby the donor and recipient government interact more directly. The donor governments provide additional aid and recipient governments agree to focus the money on programs that have international support (like the Millennium Development Goals). Future aid allocations are then based on the performance and progress toward agreed-upon goals. Instead of this collaborative approach, the United States continues to fund programs it sees as beneficial, such as health programs, and relies heavily on conditionalities (Agg 2006). While the consensus model has the potential to eliminate government-funding for NGOs, the program-based approach advocated by the United States has the potential to provide a windfall to an NGO that positions itself appropriately.

The history of NGOs in Japan is much different than that of the United States or Euro-

pean countries. There were very few NGOs in Japan until the late 1980s and early 1990s. Those that did exist were considered public interest corporations. These organizations received funding from the government through noncompetitive and non-transparent processes. Then, in the late 1980s, Japan relaxed the legal requirements to form an NGO and increased funding to organizations promoting international understanding. While this time period coincided with economic growth and increased globalization, Reimann (2003) claims the reason for the increased presence of NGOs in Japan is due to pressures of international norms of “participatory development.”

In terms of answering the question of why engage NGOs, both the United States and European experience is similar. While not a theory of NGOs, Tvedt (1998) and Smith (1990) posit that NGOs receiving federal funding operate because governments allow them to. NGOs are seen to be tools that advance a donor country’s foreign policy goals. This could be to soften the image of a former colonial power or to avoid suspicions of donor country interference in domestic, recipient-country policy matters. While a norm-based explanation provides utility in the Japanese case of NGO development (Reimann 2003), strategic interests of donor countries after World War II is likely the source of the norm, and as such, state-centric theories may best explain the increasing importance of NGOs. Depending on the proclivities of the researcher, NGOs could be seen to fit within a theory of realism and viewed as a tool of hegemonic interests (Townsend, Porter, and Mawdsley 2002). Alternatively, through the theoretical lens of liberalism/neoliberal institutionalism, NGOs offer a way to allow cooperation among states because of their ability to bring together like-minded individuals and groups around the globe.

Furthermore, the funding of NGOs by governments could be viewed as a case of comparative advantage. Governments have an advantage in generating revenues and establishing certain benefits as rights (versus privileges). However, the size of states, and the accompanying bureaucracy, makes it difficult as the deliverer of services. There is also a “crisis of confidence” on the part of many people that states are currently unable to provide solutions to the social issues confronting the worlds poor (Salamon 1999, 341). NGOs, conversely, have the ability to exploit underutilized resources (like volunteer time or private contributions) and confer a certain credibility and trust due to the fact they are not seeking a profit and are engaged in more grassroots activities. Similar to this last point, NGOs, by virtue of their non-profit nature, are believed to embody the values of altruism with a focus on helping individuals solve group problems. This allows NGOs to encourage “empowerment and involvement” amongst recipients of services, rather than simply receiving a handout (Johns Hopkins Institute for Policy Studies 1997).

While there is a cooperative relationship between NGOs and governments, this does not indicate equality between the two parties. Casey (2016) believes a donor government functions as a monopsony, or the only purchaser of what an NGO is selling. This creates an imbalance of power, with the government wielding power over the NGO. Additionally, NGOs do not wield significant power in determining aid priorities. That responsibility lies largely with powerful states, multinational corporations, the Bretton Woods Institutions, and intergovernmental bodies like the United Nations. NGOs can be viewed as “influential stakeholders” (Casey 2016, 218), but lack true decision-making ability at the highest levels.

Criticisms of Government-Funded NGOs

There are concerns about the effectiveness of NGOs operating in the field of international development. Unfortunately, there is a significant gap in the literature, as many are concerned but there are few formal studies that analyze the value provided by NGOs. There is even concern that individual NGOs operating within the same issue area can work in opposition to other NGOs in the same field (Johns Hopkins Institute for Policy Studies 1996).

In an example of this, Petrikova (2015) researched three NGOs in El Salvador that focused on issues of child labor. Through interviews and observation, the author discovered there was very little collaboration between the NGOs, let alone a realization that the others existed. It is concluded the effectiveness of the NGO's work is weakened because of a lack of coordination, small scale of projects, increased transaction costs, duplication of efforts, and NGOs operating with conflicting goals (which the author describes as "cross purposes"). Ultimately, the author believes there is little chance of future collaboration, as each NGO's approach to eradicating child labor is a result of its main donor's ideology, rather than the needs of the beneficiaries.

Similarly, Ramachandran and Barder (2013) note that after the 2004 tsunami, which devastated coastal areas along the Indian Ocean, there was a significant NGO presence in the area. Unfortunately, coordination between NGOs was poor, resulting in ineffective or harmful service delivery. In India, victims received numerous pieces of cookware, but actually needed shelter. NGOs also did not share medical records of patients they had seen, but it was noted that an alarming number of children were becoming ill. After some investigating,

it was found three separate NGOs were providing immunizations in the area and the children received the measles vaccine three times in a short period.

In another study that analyzed the effectiveness of NGOs in the Global South, Arellano-Lopez and Petras (1994) find that from the early 1980s to the 1990s, the number of NGOs in Bolivia grew rapidly as a response to an influx of foreign aid to assist with poverty alleviation, as well as structural adjustment programs decreasing the government's funding of social programs. Most of the NGOs sought to address social problems created or exasperated because of the absence of state institutions. However, the authors argue there is little evidence to support the belief NGOs are better able to target the poor than are state agencies, and in Bolivia's case, the NGOs were unable to reach the poorest individuals.

Applicable to all the previous examples, there is an overall concern that with the emergence of NGOs, and the lessening role of the state, humanitarian aid will weaken recipient state's political institutions. This may be done by damaging political accountability and lessening the responsibility of these governments to their citizens (de Waal 1996). Instead of providing services to its citizens, governments act more as a general contractor of NGOs.

As a "contracted agent" of the state, a major concern of NGOs is their accountability to the local populations they serve. This is especially true as NGO budgets may be increasingly funded through government contracts and grants, possibly resulting in an NGO shifting focus away from activities to advance the lives of those in need and focus on the programs of the funding government. Gilles and Yontcheva (2006) determine this is not occurring, with NGO assistance in the Global South determined by the needs of the people rather than the interests of the donor. Still, as NGOs receive increased funding from governments, the

funding agencies are pressuring the NGOs to show quantifiable results quickly. Unfortunately, this conflicts with what has made NGOs historically successful (the ability to build local capacity in communities in which they work). This is generally the result of long-term action and may not be easily identifiable using quantitative metrics (Clark 2005).

The increased funding to NGOs created another problem, it has increased the number of NGOs operating in the Global South. This growth has outpaced the increases in government funding of these types of organizations. As a result, NGOs are placing a larger emphasis on fundraising. Alone, this is not problematic. Unfortunately, some NGOs are increasingly focused on where the next donor can be found instead of how it can more effectively (and efficiently) help those in need (Dichter 1999).

One author believes the true problem with NGOs is that they are not working in coordination with recipient states. Cotton-Betteridge (2015) argues that NGOs would be more effective if they worked with governments to ensure the needs of the people are being met appropriately (without duplication of efforts among NGOs) while also ensuring the recipient state benefits from more long-term capacity and/or infrastructure improvements. The author considers this an “emerging norm” within good governance principles (Cotton-Betteridge 2015, 3), but in actuality, it is only a suggestion for how NGOs should operate.

While the idea seems intuitive, it does not stand to reason that countries in need of vast amounts of assistance would have the governmental capacity (to say nothing of the potential for corruption) that would be needed to coordinate all NGO activities in the country. Instead, the onus does seem to be on NGOs to work alongside, or at least inform other NGOs, of work being done in the same area. This is especially true when the services have the potential to

overlap. However, this need not be a new norm, but would seem to fit well within an aspect of accountability and good governance. A more complete review of the accountability and good governance literature is provided in the subsequent chapter.

Conclusion

There are several key points that are worth reiterating. As noted previously, current theories explaining the existence of NGOs involved in development assistance are lacking. Most hypothesize that NGOs are created to fill a void left by either government or business. But this does not agree with the history of NGOs, which receive extensive governmental support and seemingly do not compete with government services and/or agencies. Instead, based on the histories of NGOs in the United States and Europe after World War II, NGOs appear to be tools to advance a donor country's interests. These interests vary from internal cost saving measures to external reputational concerns from recipient countries.

Most disappointing is the lack of studies pertaining to the effectiveness of NGOs that perform international development services. This lack of research is alarming because the commonly believed "advantages" that NGOs have over governments remain untested. As it is, NGOs remain key players in the field of development assistance. Of specific concern is how NGOs are accountable to their multiple stakeholders. There are numerous of accountability relationships present in an NGO, especially one funded partially or entirely by governmental funds. The following chapter explores this accountability conundrum, and discusses one specific type of accountability mechanism, the financial audit.

Chapter 3

Audits and Accountability

There are many similarities between accountability relationships between International Organizations (IOs) and NGOs. Primarily, there are questions as to whom the organization is accountable. For a specific type of IO, the multilateral development banks (MDBs), accountability mechanisms take different forms but are intended to address up to four accountability concerns: promote transparency in the agency's operations, allow greater participation by those affected, provide an opportunity for investigation of claims brought forth by individuals impacted by the organization's projects, and increase the credibility of the organization (Suzuki and Nanwani 2005). These four concerns are most likely present in NGO accountability mechanisms, but for MDBs, these concerns are all internal to the organization. MDB member states, or even non-state actors, can influence these accountability mechanisms, but these remain internal to the organization. Conversely, NGOs are also subject to external accountability mechanisms, whether these originate with funders and/or laws within which the organization operates. These accountability mechanisms grow in number as an NGO works across national boundaries. In this case, it may be subject to accountability relationships in both the home country and the country it is doing work.

This chapter analyzes the accountability relationships present for NGOs. First it discusses the difficulties of defining accountability, as well as determining which accountability relationships are present for NGOs. Next, the chapter analyzes differing theories of NGO accountability, arguing rationalist and constructivist theories are complimentary and necessary in understanding accountability mechanisms. Finally, the chapter discusses a specific accountability mechanism for NGOs based in the United States that receive federal grant funding: the Single Audit. An analysis is presented tracing the origins of the Single Audit Act in the United States back to the creation of the Government Accountability Office (GAO) in 1921. A conclusion is presented to summarize the findings of the chapter.

Defining Accountability

Defining accountability poses a similar problem as defining an NGO; there is no shortage of definitions or conceptions about what accountability entails. Tvedt astutely notes, “The problem of accountability is difficult because the present popularity of the word is surpassed only by the lack of agreement about its meaning” (1998, 157). Similarly, Tan and von Schreeb (2015) state without an accepted definition of accountability, attempting to hold another accountable is the equivalent of a race without declaring terms of the competition. The true irony for accountability is, because it is such a complex idea, any methods attempting to strengthen it within an organization results in a simplification to a bare minimum checklist of items to complete (Ghere 2013).

Among the numerous definitions available, Grant and Keohane suggest that accountabil-

ity “implies that some actors have the right to hold other actors to a set of standards, to judge whether they have fulfilled their responsibilities in light of these standards, and to impose sanctions if they determine that these responsibilities have not been met” (2005, 29). A “skeletal but serviceable” understanding of accountability includes standards the agent is expected to meet, availability of information that principals can determine if the performance of the agent is satisfactory, and the ability to sanction (i.e. attaching costs for failure to meet the performance standards) (Buchanan and Keohane 2006, 426). These definitions imply an upward accountability, or one between an NGO and a funding government. The government has the ability to sanction an NGO for improper or ineffective use of funds. Unfortunately, those that benefit from the services lack the ability to sanction an underperforming NGO, which is oftentimes the sole provider of the service being provided.

Most agree that when examining accountability, as it pertains to NGOs, there are concerns both for the funders (upward accountability) and beneficiaries (downward accountability) (Najam 1996; Winters 2010). Some believe NGOs are even accountable to themselves (Najam 1996).¹ A simple definition of accountability could be understood as one individual/organization in a social relationship offering an account of their actions to another party (Dubnick and Frederickson 2011). This definition is dangerously close to using the word it is defining, so a more complete and formal definition is, “A set of governance mechanisms that encompasses the propensity of individuals to act in accordance with what they perceive to be the legitimate expectations of others (or the expectations of others whose claims are regarded as legitimate)” (Dubnick and Frederickson 2011, xvi).

¹While this may be true, this type of accountability relationship relates more to the employee/employer or manager/board of directors. It is important, but has little value for the present analysis.

This definition is vague, but can be useful. It suggests that NGOs are accountable to other groups they perceive have expectations of them. This can include funding organizations, beneficiaries of services, donors, partner NGOs, etc. Yet, it limits the number of accountability relationships, as those not perceived to have “legitimate expectations” are excluded. This is important, as some have attempted to broaden the scope of accountability to nearly limitless bounds.²

The World Association of Non-Governmental Organizations (WANGO)³ organized the 2007 World Congress of NGOs. Out of this conference, the Toronto Declaration of NGO Core Values was adopted, which states NGOs should first be accountable to the populations served. It also lists other potential accountability relationships with “funding agencies, the government, staff and volunteers, members, partner organizations, and the public at large” (World Congress of NGOs 2007). With this list, it is hard to imagine a person and/or group to which an NGO is not accountable. On its face, this is an unreasonable expectation. Also, while the Core Values are positive ideals to strive for, the World Congress of NGOs or WANGO have no authority to sanction NGOs that do not live up to these standards (except for possibly removing them from membership).

Unfortunately, as it relates to NGOs that receive funding from a donor government, even when an NGO is able to work with a donor agency to define the accountability mecha-

²A comprehensive exploration of the definitions of accountability would be as exhausting and unexciting to read as it would be to write.

³WANGO is an organization of NGOs, universities, and businesses with the mission to unite NGOs. It is an attempt to provide a mechanism to increase dialogue between NGOs so that each organization is not operating in a silo. The organization was incorporated in 2000. The concept of uniting NGOs to create efficiencies and share experiences is promising. Currently, however, it is too young of an organization to determine if it will have far reaching impacts on NGO activities. A quick perusal of the United States and United Kingdom member organizations found on the organization’s website (www.wango.org) reveal a lack of the large NGOs (The Bill and Melinda Gates Foundation, Oxfam, Plan International, etc.). For the organization to be truly successful, it would reason it needs these major players in the NGO system.

nism present, the relationship between NGO and beneficiary is overlooked (O'Dwyer and Boomsma 2015). These difficulties with NGOs have led some to claim that accountability is the "Achilles heel" of NGOs (Lewis and Kanji 2009). Often overlooked is the downward accountability relationship between the NGO and the beneficiary (Lewis and Kanji 2009; Wils 1995; Behar and Oakley 1995). As an example, interviews with NGO officials in Peru indicated that all were able to identify upward accountability relationships, those with donors or funders; significantly fewer mentioned the accountability relationship between the official's organization and its beneficiaries. Even more telling, separate officials from the same NGO sometimes had differing conceptions of who the beneficiaries of their services were (Buffardi 2017). Oftentimes these multiple accountability relationships are complicated by the international nature of the NGOs work. For example, a funding government provides a grant to a domestic NGO with operations in foreign countries. That NGO begins work in another country and must respect the laws and customs of the recipient country. The NGO must also be sympathetic to the needs of the population served in the recipient country. Finally, the NGO must report back to the donor country the results of the effectiveness of the grant program. This crossing of borders and the number of actors involved complicates the accountability process.

However, the multiple accountabilities present in NGOs are not unique to these types of organizations. For-profit companies also have multiple accountabilities (e.g. consumers, government, shareholders), yet NGOs are seemingly the only type of organization that are under constant pressure to demonstrate how it responds to these multiple responsibilities (Makuwira 2014). Unfortunately for NGOs, there is no feedback mechanism in the devel-

opment process that is equivalent to the private sector (a company will go out of business if it does not listen to its customers) or the public sector (a politician will be voted out of office if they do not listen to their constituents).⁴ The complexity of the concept, coupled with the absence of key accountability relationships, led researchers to complain, “If one wanted to design an accountability-averse system it could easily be modeled after the current development approach” (Steiner and Hanks 2016, 5).

The increase in accountability to the funders is not always a positive occurrence. As Desai and Howes (1995) note, increasing demands for information for the funders is beginning to place a significant burden on the management of NGOs. Funders are increasing the demands about programmatic outcomes while also providing little or no feedback on the information reported by the NGO (whether it is status reports or year-end statements of expenditures). An interesting corollary that is not currently being investigated is how funding organizations are accountable to the NGOs they fund.

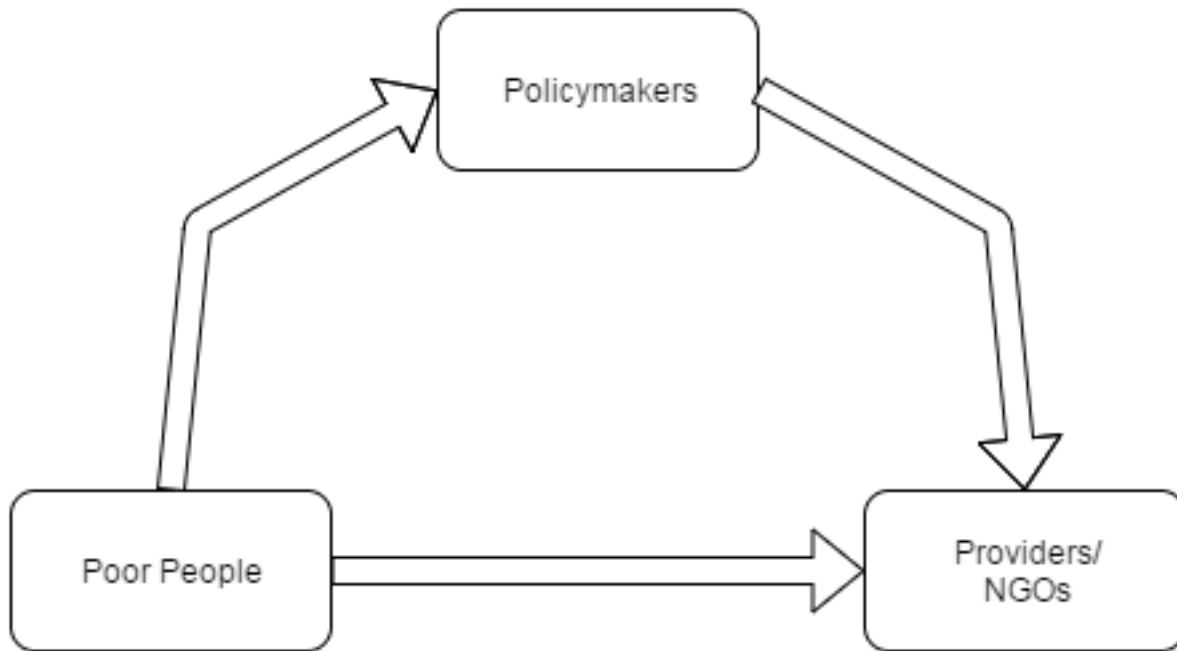
Beyond these difficulties, there are questions as to when accountability “occurs” (Schillemans and Bovens 2011; Tan and von Schreeb 2015). Early scholars debated whether accountability should occur after an action, subjecting the accountable party to a reward or

⁴There is at least one scholar who does not believe NGOs should be expected to be accountable to its beneficiaries. Uphoff (1995) states NGOs operate more closely to organizations in the private sector, who are only accountable to the Board of Directors and shareholders. Instead of being responsible for helping solve a societal ill, an NGO’s primary concern is to remain fiscally solvent and keep its doors open. To support this statement, the author claims if the beneficiaries of NGOs were able to dictate how much of a good or service an NGO provided, as well as when it was provided, the NGO would soon go out of business. Ultimately, to Uphoff, the fiduciary relationship between an NGO and its funder is greater than its obligation to those it was designed to help because without funding the NGO would collapse. This line of argument is fundamentally flawed. It assumes there can only be a single accountability relationship for any organization. For-profit organizations primary concern is to increase shareholder wealth, but that does not mean it is not accountable to a government (e.g. product safety, lawful employment practices, appropriate incorporation documents/procedures, etc.) or even to the consumer. If it is not clear that for-profit companies are accountable to the government, look to the example of Enron (the company sought to maximize shareholder wealth, but did so by circumventing laws). Certain accountability relationships may be stronger than others, but that does not suggest that weaker relationships do not exist.

punitive action (Finer 1941) or if the concept is better understood as a collaborative process that implies continual observation and cooperation (Friedrich 1940). More recently, researchers suggest that differences in understandings of accountability can be understood as an American and European divide (Schillemans and Bovens 2011). Most American policymakers and academics view accountability as a normative concept that is considered to be a positive quality. In this sense, accountability is a set of standards to evaluate behavior (e.g. an NGO must be accountable for their actions). In European and Australian contexts, accountability is a more specific mechanism that is used to explain and justify actions (e.g. an NGO must provide evidence for its actions, be open to questions from those it is accountable to, and ultimately withstand judgment for those actions). Whereas the American conception of accountability is more vague and implies a continual/active process, the European understanding is more specific and suggests a process that occurs after a certain amount of time. Ebrahim (2003) and Makuwira (2014) believe the timing of accountability is dependent on the actual instrument used. Accountability tools (e.g. disclosure statements, performance assessments/monitoring and evaluation, social audits, and certification systems) occur ex-post facto, while processes (e.g. participation, self-regulation, and complaint response systems) occur in real-time. The debate over the occurrence of accountability confuses practitioners and scholars alike, making the concept more elusive to understand.

To alleviate this confusion, Figure 3.1 depicts a simple accountability relationship for NGOs, governments, and recipients of services that is included in the 2004 World Development Report of the World Bank. This simplified model assumes NGOs are accountable to its beneficiaries either through direct communication (a short route) or by petitioning

Figure 3.1: Simple Accountability Relationship



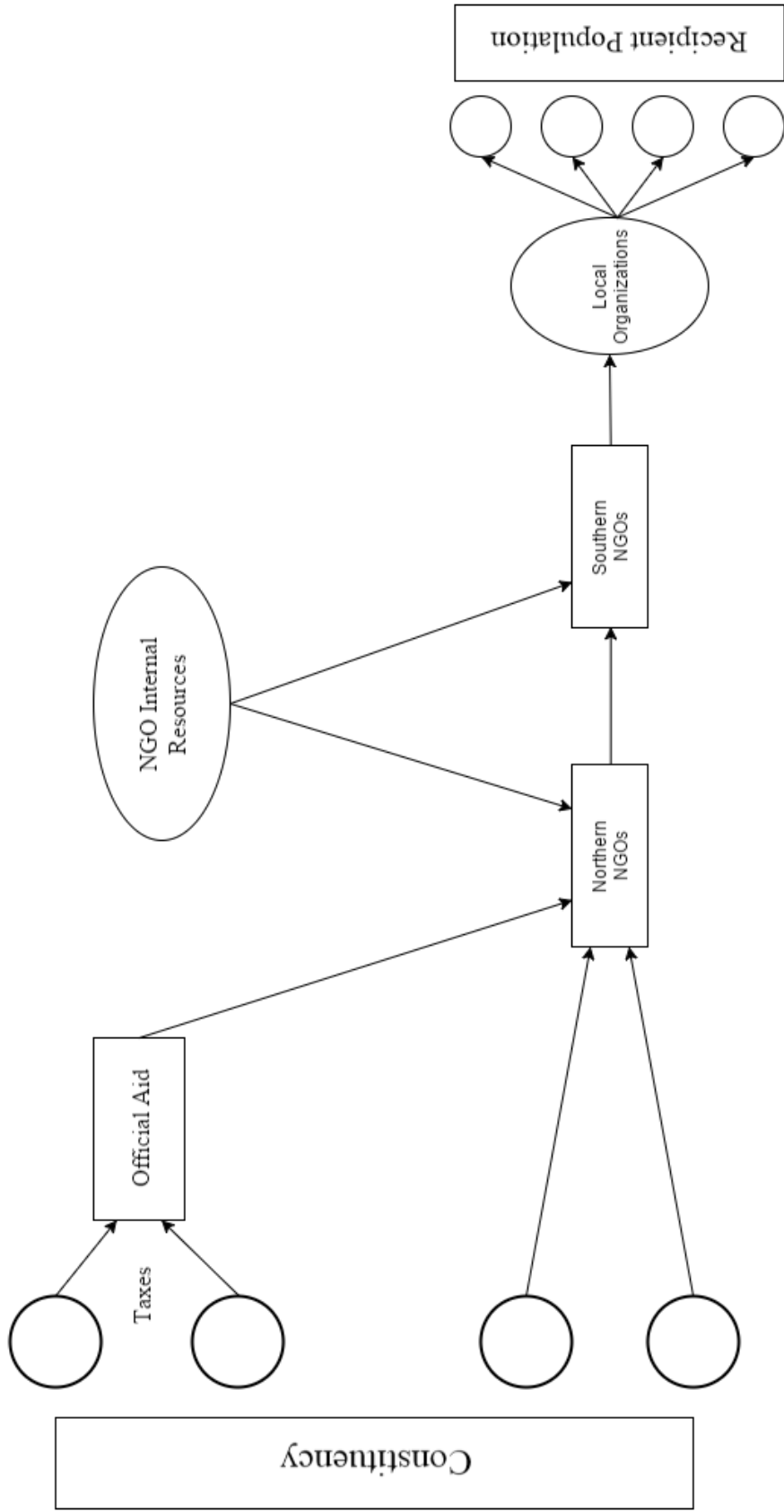
Source: World Bank (2004)

policymakers to pressure an NGO to make changes (a long route). On its face, this model is plausible; however, it assumes NGOs have a mechanism to receive and act upon feedback received from beneficiaries or those receiving services have a significant enough voice with their local policymakers to enact change. The former is plausible, but the latter is highly unlikely. With little opportunity for feedback to either policymakers or an NGO, those in need may not receive the services they need, which may lead to ineffective use of funds by NGOs (Pritchett 2015).

Similarly, Figure 3.2 provides a more nuanced depiction of the accountability relationships present in the aid chain.

While it can also show all the steps where aid dollars change hands, it is helpful to visualize

Figure 3.2: NGOs in the Development Assistance Chain



Source: Fowler (1997)

the number of potential accountability relationships present when NGOs become involved and where the breakdowns can occur. Beginning with citizens in a donor country that pay taxes, the tax dollars are budgeted and transferred to an NGO by the governmental aid agency. Those funds may be given to another local NGO in the target country where it finally reaches the intended target population. Unfortunately, when money is transferred to another organization, often the funding organization takes an “administrative fee” for processing the payment to another. This has the effect of reducing the total amount that ultimately reaches the intended beneficiaries.

The increased distance of the recipients of aid to the donor government is illustrated well by Figure 3.2. While NGOs serving these populations may have a feedback mechanism for the recipients of services, most likely any significant changes that need to be made to maximize the effect of aid will have to be directed at the donor government (so it can re-direct, re-distribute, and/or change the scope of the project). It is this deficiency that has led the World Bank (2004) to lament the lack of accountability between the beneficiaries of NGO services in recipient countries and policymakers in donor countries. Unfortunately, this communication is not occurring. NGOs tend to focus on project completion and activities that are directed by the funding government so as to qualify them for future project opportunities (Fowler 1997).

There are no easy answers to solve the accountability dilemma faced by NGOs. As noted above, NGOs face pressures from many stakeholders: internal employees, managers, executives, boards, external funders, and beneficiaries. These pressures can only be managed, but never resolved (Edwards and Hulme 1995; Karns, Shaffer, and Ghere 2011). However,

especially important in the context of managing multiple accountabilities is management's equal devotion to each (Park 2014). Without such commitment, multiple accountabilities can still co-exist, as long as the demands of each do not conflict. The difficulty arises when the interests of a stakeholder of an NGO conflicts with the interests of another stakeholder. Unfortunately, historically this has resulted in the interests of the more powerful stakeholder taking precedence over the weaker party (Fujita 2013; Park 2014).

When analyzing accountability relationships and mechanisms, it is important to evaluate each separately before comparing to others. Through this process, one can understand how and why it came to be and the importance assigned to it. The following section explores theoretical frameworks to assist in this analysis. Subsequent sections use these frameworks to understand a specific accountability mechanism used by the United States government.

Rationalism or Constructivism

There are numerous accountability considerations present in any NGO, and the academic focus on NGO accountability is a relatively recent occurrence. Because of this, there remains questions of why the interest in accountability, as well as whether a specific theory can help us understand its emergence. Two theories offer the most promise: rationalist and constructivist theories. Oftentimes, these theories are considered to compete with one another. The ontological basis of rational theories is the individual, whether a person or a state; whereas constructivists do not separate the individual from the social context within which they operate (Fierke 2013). Rational theories, like principal-agent theory, suggest

that accountability relationships are best understood as a way to ensure that NGOs (i.e. agents) are operating according to the wishes of the funders (i.e. principals). Constructivist theory argues accountability relationships have emerged from an accountability norm and have grown in significance due to social factors. The short answer to which is better suited to explain the emergence of accountability is, it depends. Specifically, the answer changes based on which accountability relationship one is analyzing, as both may be beneficial in understanding the phenomenon.

Constructivist literature stresses the power and influence of norms⁵ within international relations. However, norm-based arguments have not always been the domain of constructivist literature. Early realist writers wrote about the roles of ideas and norms within the confines of state interests. Carr (1939) conceived pure realism as most closely akin to a Hobbesian state of nature, and elements of utopianism needed to be incorporated to soften this reality. These utopian influences form the basis of what Carr considered norms (although, the term international morals is used). Morgenthau (1967) also wrote about norms. He believed a powerful state's power allows it to do what it pleases, while less powerful countries attempt to constrain that behavior by creating appropriate rules of conduct (e.g. norms) for actors in the international system.

The field of international relations began to turn away from norm-based arguments in favor of more economic models, including only those variables that were able to be quantitatively measured. Because norms do not lend themselves well to measurement, its use in international relations theory vanished for some time (Finnemore and Sikkink 1998). Norms

⁵A norm can be defined a “standard of appropriate behavior for actors with a given identity” (Finnemore and Sikkink 1998, 891).

re-emerged during the scholarly research in regimes (Krasner 1981), and since then have steadily increased in prominence, especially in constructivist literature. Although the label “constructivism” can have any number of connotations, for Ruggie it means that one is willing to accept “norms, identities, and meaning” when studying international relations while still adhering to the concepts of scientific rigor found in other theories (1998, 884).

The problem for constructivists is understanding how norms cause change in the world. Park and Vetterlein (2010) argue a norm emerges due to its own historical antecedents, particularly out of norm contestation (because it is circular, this concept will return shortly). The norm then stabilizes and thereby increases its legitimacy. Finally, norm contestation occurs, where actors disagree about the implementation or underlying assumptions of the norm. If the norm is altered in a significant way through these discussions, the cycle begins again.⁶

What is also important to note is how the norms for Finnemore and Sikkink (1998) and Park and Vetterlein (2010) differ from Carr (1939) and Morgenthau (1967). The former argue norms (re-)emerge from norm entrepreneurs; the latter believe norms are the result of state interests. Additionally, although only implied in the discussion above, constructivists view norms as causal (Wendt 1999, 82). For a realist, norms do not cause anything but are a reaction to power.

Constructivist approaches to understanding accountability mechanisms have provided important insights into the form and structure of these instruments, as well as how they

⁶Finnemore and Sikkink (1998) provide a life cycle of norms (e.g. emergence, acceptance, and internalization) that is often cited in literature. While this framework is useful, Park and Vetterlein (2010) suggests norms travel through a more cyclical process and is thereby open to a greater range of alteration of norms throughout time. Finnemore and Sikkink’s framework is linear in nature and is restrictive in what occurs if a norm is contested after internalization.

develop over time (Park 2010). This theoretical framework may even be beneficial in understanding individualized accountability mechanisms present in each organization, specifically as it relates to downward accountability (where there is more ability to tailor practices). This is where constructivist approaches are most useful, in identifying how a specific norm influenced an outcome within a specific organization through the use of case studies (Hulme and Fukudu-Parr 2009; Diaz-Bonilla and del Campo 2010; Vetterlein 2010).

Rational approaches to understanding accountability are state-centric and suggest accountability mechanisms for NGOs exist due to demands of states and the desire to monitor NGO activities. This literature is based around agency theories, in which a principal (the state) wishes to insure agents (NGOs) are operating according to the principal's wishes. Simply, when a principal delegates to an agent, information asymmetries arise, as does the possibility of opportunistic behavior on the part of the agent. Both risks arise because of potential differing interests of the two parties, which may lead to the agent withholding valuable information from the principal. As a result, principals often create mechanisms to ensure agents are faithfully performing the agreed upon duties. These mechanisms may tie funding to performance targets, or include an audit of financial transactions.

Out of rational approaches comes definitions of accountability that highlight this relationship between principal and agent (Grant and Keohane 2005; Buchanan and Keohane 2006). While audits have a definite principal (funding agency) and agent (funded organization), when applying agency theories to development assistance, it omits several accountability relationships that exist in an NGO context (Szporluk 2009). Most glaring is the absence of downward accountability toward the population serviced by an NGO. Even if it were

explicitly required by the funding organization to be accountable to the local stakeholders, it is doubtful the principal-agent accountability relationship could be overcome in favor of the NGO-local population relationship. This results in increased efforts on the part of NGOs to meet the demands of their funders at the expense of meeting the needs of the local stakeholders (Townsend, Porter, and Mawdsley 2002).

There are several difficulties that can present themselves in a principal-agent relationship. The desires of the principal and the agent may conflict, as well as the fact that it can be difficult and/or expensive for the principal to verify what the agent is doing (Ross 1973; Eisenhardt 1989). Another problem, particularly in the present research, is a lengthy “chain of delegation” from the desires of a government (the principal) to the actual actions of the agent (Nielson and Tierney 2003, 242). For example, the President may desire a specific outcome that must first be conveyed to Congress so appropriate funding can be allocated. Then, that policy goal must be accurately relayed to a federal agency (e.g. USAID) which must inform the NGO. Finally, the NGO must act upon that information. It is a more complicated version of the schoolyard game “telephone.”

Within agency theories, those actions undertaken by an agent that are undesirable by the principal are considered agency slack. This slack takes two forms. Shirking occurs when an agent minimizes the effort it puts forth on the principal’s behalf, while slippage occurs when the agent shifts policy away from the principal’s desired goals and realigns its actions with its own preferences (Hawkins et al. 2006). Applying this to NGOs engaged in development, shirking occurs if an NGO receives funds for democracy promotion, but does not put forth its best efforts. Slippage would occur in the same scenario if the principal desired democracy

promotion in a certain country, but the agent instead chose to use the funding for poverty alleviation.

To prevent agency slack principals have several options, none of which offer absolute assurance an agent is acting as agreed on behalf of the principal. Most often, principals can only observe the outcome of an agent's actions, making it difficult to determine intentional misconduct from influences outside of the control of the agent that affected the outcome. Detailed contracts can be drafted between the two parties; however, it is unlikely a contract will cover all contingencies. Another option is monitoring (including audits), but this is costly. To reduce costs and reduce slack, principals might invest more time and resources upfront on screening and selecting agents that are less likely to engage in questionable behavior (Kiewert and McCubbins 1991). In the case of NGOs with multiple competing principals (e.g. funding agencies and private donors), an agent may develop or enter into an accountability mechanism that provides reputational signaling to principals, such as through an accountability club⁷ (Gugerty and Prakash 2010).

This study analyzes the effect of audit results on future funding flows. As it relates to rationalist theories, there is no question an audit represents a principal-agent relationship. This does not suggest constructivist approaches have no value in understanding the phenomenon. A rationalist approach accepts the audit as it is, without questioning why it took

⁷A current trend for NGOs to demonstrate internal policies to outside stakeholders is through joining voluntary accountability clubs (Gugerty and Prakash 2010). These clubs create standards of behavior upon which members agree and enforce compliance amongst each other. There are numerous "accountability clubs" in existence, some of the more notable are the CHS Alliance (formerly Humanitarian Accountability Partnership International), the Sphere Project, and the INGO Charter. While these types of self-regulating bodies are gaining popularity and show promise in highlighting the importance of accountability relationships (especially those responsibilities to local beneficiaries of NGO services), there is concern that a one-size-fits-all accountability standard is difficult to achieve for organizations whose only similarity may be they are organized as an NGO (Crack 2014).

its current form. A constructivist approach assists in illuminating why and/or how an audit requirement emerged. The following section briefly describes the specific audit analyzed in this research. This provides the basis for the subsequent section, which traces the history of the audit back to 1921.

Accountability and the Single Audit Act

The specific type of audit tested in this study is the Single Audit, required by law for organizations that expend a specified amount of federal grant dollars during the year.⁸ This requirement came out of the Single Audit Act of 1984 (“the Act”) and provides uniform guidance for audits regardless of the federal agency from which the money is coming. This audit is in addition to, and differs from, a financial statement audit. Prior to 1984, each federal agency was responsible for providing guidance on how to review its federal grants for compliance. Because of this segmented approach to reviewing activity, there were often numerous audits performed each year within organizations that received federal monies from different government agencies. Due to a lack of coordination between federal, state, and independent auditors, this situation simultaneously led to overlapping efforts and gaps in audit coverage (Broadus and Comtois 1985).

However, the Act was not the United States government’s first attempt to ensure federal dollars were being expended properly. In 1971 the Office of Management and Budget (OMB) released Circular A-102 (*Uniform Administrative Requirements for Grants to State*

⁸There are numerous requirements for Single Audits, a more complete description of what this entails is included in the following chapter.

and Local Government). This circular meant to standardize the audit process for organizations that receive federal assistance. As the title suggests, this did not include non-profit organizations. In 1976, the OMB issued Circular A-110 (*Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*) which required appropriate financial and administrative processes to ensure effective financial management to meet grant conditions, maintain compliance with terms and conditions of the funding government agency, and assure timely resolution of any audit findings. Unfortunately, neither circular was adequately implemented (Hardiman et al. 1990), leading to pressures for a more formalized accountability mechanism which culminated with the Single Audit Act of 1984.⁹

In 1980, the OMB reported a quarter of the total local government expenditures were funded through federal grants, or approximately \$89 billion. This led the General Accounting Office¹⁰ (GAO) Comptroller General to declare, “The need for accountability over such large expenditures is critical and both the Congress and executive departments rely heavily on audit oversight to ensure that funds are spent as intended and to prevent fraud, waste, and abuse” (U.S. Government Accountability Office 1982).

The Single Audit Act of 1984 listed four main purposes. First, it attempted to improve financial management of state and local governments as it relates to federal funding. Second, it established uniform requirements for audits of federal funding provided to state and local

⁹Interestingly, the Single Audit Act itself was considered an “experiment” even by one of its co-sponsors in the House of Representatives. Congressman Jack Brooks stated that if the act does not meet expectations, Congress would explore other options of ensuring proper audits of federal programs (Journal of Accountancy 1985).

¹⁰In 2004, the General Accounting Office’s name changed to the Government Accountability Office, which it maintains up to the writing of this study.

governments. Third, the Act promoted the efficient and effective use of audit resources. Finally, it sought to ensure federal agencies providing funding to state and local governments rely upon and use the audit work required under the Act. The rationale behind the Single Audit is that it is more cost effective than a grant-by-grant audit. However, this is gained at the expense of a detailed audit of a majority, or all, of the grants. To overcome this, the intent of the Single Audit was to replace the audit of each grant with one that emphasizes a review of an organization's internal controls (U.S. Government Accountability Office 1982). The rationale is that if there are strong internal controls (as defined by tests suggested by the federal government), the likelihood for grant compliance is increased. In addition to tests of the internal control environment of the auditee, substantive compliance testing is required for each grant program that is considered major.¹¹ As such, each Single Audit includes components of three separate audits within one report: the financial audit, the internal control environment, and compliance testing of major programs (Broadus and Comtois 1985). Furthermore, out of the Act came a concept of a "dual client" relationship, where independent auditors had to consider both the audit client and the federal agency(ies) overseeing the audit (Hardiman et al. 1990). This concept has led to several articles about the role of the auditor in the principal-agent relationship (Antle 1982; Watts and Zimmerman 1983; Audit Quality 2005; Shapiro 2005).

Much of the background work to draft a bill was completed by the GAO, which is a

¹¹Major program identification is not a complicated process, but is one that involves numerous steps. While this topic is explored further in the following chapter, identifying major programs is not pertinent to the current topic. Suffice it to say that not every federal grant an organization receives annually is audited. It is for this reason internal control testing is so important. And, if internal controls are considered to be lacking in some way, the auditor will most likely include more federal grants as major programs and complete additional testing on them.

government agency that investigates how the federal government spends tax dollars. During the drafting of the Single Audit Act, the GAO's Comptroller General stated to a group of government auditors:

In the past few years, we have seen an increased interest in governmental auditing as never witnessed before. Public officials, legislators, and citizens are asking whether funds are being spent properly, in compliance with laws and regulations, and free of fraud and abuse. They also want to know whether government programs are being managed efficiently and effectively (Staats 1980).

While the demands of citizens and public officials for assurance related to how federal monies are being spent by non-federal organizations suggest a principal-agent relationship, the first sentence is curious. What has been driving the increased interest in governmental auditing? Concern over how the federal government is spending its money, specifically the effectiveness and efficiency of its programs is hardly a recent occurrence. Previts and Brown (1993) trace these concerns back to the beginning of the 20th century. Additionally, the authors note that in the 1960s, articles in the *Journal of Accountancy*¹² began to discuss the increase in federally-funded grant programs.

The interesting theoretical question is not why the Single Audit Act, but why the Single Audit Act *in 1984*. The answer to the first question is clearly to hold recipients of federal grants accountable to the donors. This is clearly an example of principal-agent theory. The answer to the second question is much more interesting and requires a constructivist approach to understanding the history that lead up to the passing of the Act in 1984. As noted above, accountability in spending taxpayers dollars by the United States government has a longer

¹²This is the journal published by the American Institute of Certified Public Accountants (which is the primary trade organization for Certified Public Accountants).

history than 1984, instead stretching back to the beginning of the 20th century. If a principal-agent approach were the best theoretical framework, one would hypothesize an accountability mechanism like the Single Audit would have occurred much sooner. The following section traces an accountability norm in the United States, beginning with the creation of the GAO in 1921. It demonstrates the importance of both organizational leadership and the fiscal context in the passage of the Single Audit Act.

The GAO and Early Attempts at Governmental Fiscal Accountability

Leaders have great influence over the actions of an organization and the direction it pursues (Cox 1969; Retzl 2016). The Comptroller General of the GAO has significant discretion to form the organization to their personal vision. This is due to employees underneath being conditioned by the leader's views and aspirations (Mosher 1979), coupled with the long duration for which the Comptroller General serves (a single, 15 year term). These two items suggest the Comptroller General has a sufficient amount of time to develop and implement their plan, as well as ample time for subordinates to understand, internalize, and act in accordance to that plan. This section provides a brief history of the GAO culminating with the passage of the Single Audit Act in 1984, with a specific focus on how the organization's leaders understood the accountability norm embedded in the GAO to explain why the Act came about when it did.

The Budget and Accounting Act of 1921 created the GAO as the national public au-

ding agency. It is an agency under the United States Congress and is responsible for investigating the use of federal funds by the government. There are seven areas for which the GAO is responsible: audit the accounts and activity of the federal government and report those findings to Congress, prescribe accounting principles and standards, settle claims by and against the government, perform legal activities related to financial transactions, collect debts, provide special assistance and/or investigations as requested, and manage the accounting records of the government (Brown 1970). The GAO ensures accountability of financial transactions of other federal government agencies, but the nature of it is largely determined by the Comptroller General.

Prior to the GAO, the fiscal activities of the government were monitored and controlled in two ways. First, Congress passed acts that were very specific about how money was to be spent. Second, at key points in the expenditure process an official would verify and approve the transaction. This process proved to be inadequate as the appropriation acts allowed for little flexibility and official review was often circumvented (Brown 1970).

The first Comptroller General of the GAO was J. Raymond McCarl. His conception of the accountability norm was based largely on compliance. He served from 1921 to 1936 and his vision for the GAO was to become the “administrative master of government expenditures” (Schulsinger 1956, 3). To do this, McCarl believed all disbursements of funds should be reviewed by the GAO. This led to a significant disagreement between the agency and other government agencies, as oftentimes expenditures were denied by the GAO. Additionally, because of the extremely large number of disbursements the GAO wished to review, it soon became backlogged. By 1945, there were approximately 35 million expenditure vouchers

awaiting review (Mosher 1979). During McCarl's tenure, these reviews focused on the legality of expenditures and whether supporting documents were completed correctly. It did not include a review for the efficiency or effectiveness of those expenditures (Mosher 1979).

Fred Brown succeeded McCarl, but he only remained in the position for 1 year, from 1939 to 1940. He was succeeded by Lindsay Warren (1940-1954), who sought to broaden the impact of the GAO. Warren's conception of accountability was more broad and cooperative than his predecessor. Instead of having auditors review all financial transactions, Warren moved the GAO toward a "comprehensive audit program," which was intended to be similar to commercial audits of the time. This meant auditors took a more holistic view of an agency and examined management policies and controls. These reviews attempted to improve both when necessary, rather than simply analyzing every fiscal transaction. When transactions were reviewed during a comprehensive audit, oftentimes auditors strategically chose vouchers to review that were deemed to have a higher risk of error (Schulsinger 1956).

Comprehensive audit procedures included several steps. The first was a review of applicable laws and regulations to determine the intent of how money was to be spent, which transitioned to a review of the agency's policies to ensure these conformed to the laws and regulations. Following this was a review of internal controls to provide assurance that transactions were accounted for properly, as well as an analysis of account balances to ensure these were accurately stated. Next was a review of the effectiveness of the funds expended. Finally, any deficiencies noted in the process were communicated to the agency and Congress for correction (GAO 1953).

Additionally, during Warren's tenure as Comptroller General, he sought to increase co-

operation between the GAO and other federal agencies. Under McCarl, the focus of the GAO was voucher reviews. These reviews were unpopular with other agencies and often put the GAO at odds with many agencies. Additionally, McCarl believed the GAO was an autonomous office and did not engage Congress frequently. Warren, who was a member of the House of Representatives, sought to more actively engage with Congress. This resulted in increased reports to Congress and GAO assistance to congressional committees (Trask 1996).

Another impetus for this cooperation came as Warren believed the current accounting practices in the United States government were lacking (Mosher 1979). However, he also realized the GAO could only suggest changes, whereas the day-to-day maintenance of the government's accounting system was the responsibility of other agencies. Additionally, a Congressional report noted the GAO, the Treasury Department, and the Bureau of the Budget (which later became the Office of Management and Budget) required similar information from government agencies. The report suggested a single report be produced that satisfied everyone (Trask 1996). In 1947, these three agencies announced a collaborative venture called the Joint Accounting Improvement Program (JAIP). Leadership was provided by the GAO, and the goal was to provide accounting system guidelines for all federal agencies while also allowing for sufficient flexibility to meet the needs of each individual agency. In 1950, Congress passed the Accounting and Auditing Act of 1950. This act urged the continued operations of JAIP and provided the legal backing for the GAO to continue with comprehensive audits (rather than expenditure voucher reviews).

In 1954, Warren announced his resignation from the position of Comptroller General

due to health reasons. In his resignation letter, he noted the creation of JAIP and the consolidation of the comprehensive audit were highlights of his term. Unfortunately, his successor supported only one of these programs.

Joseph Campbell was nominated and confirmed as the subsequent Comptroller General in 1955. Campbell's understanding of the accountability norm was a blend of both McCarl and Warren's beliefs. Like Warren, Campbell supported comprehensive audit procedures and expanded it so the GAO did not need to audit all programs but could select those with the greatest risk to the government. Part of this stance may be due to Campbell's experience as an independent auditor. He described the GAO as "the public accounting agency of the Federal Government" (Mosher 1979, 138). He also viewed his office to be one of police officer, not collaborator. Because of this, he did little to expand JAIP or even collaborate with other organizations. While JAIP did not vanish during his term, the heads of the member agencies did not meet between 1959 and 1966 and engaged in very few projects (Trask 1991).

Like McCarl, Campbell believed the GAO should be independent of other agencies. To maintain the independent nature of the organization he believed to be vital, collaboration with other Federal agencies was discouraged. This belief even funneled to a federal bowling league. Concerned the relationships forged during this activity would impede independence of his auditors, Campbell once asked an employee who participated in the bowling league if he wanted a career as a bowler or accountant. The GAO team immediately withdrew from the league (Trask 1996). Similar to Warren, Campbell resigned in 1965 prior to his term expiring due to health reasons. His tenure resulted in an increasing role of the comprehensive audit within the GAO, but also a significant decline in collaboration with other agencies.

In 1966, Elmer Staats was confirmed as the new Comptroller General, filling the vacant seat left by his predecessor's resignation. Staats' conception of accountability was one of collaboration with other agencies. He also believed in moving beyond accountability as strictly a compliance process toward evaluating whether the outcomes of federal expenditures met expectations. One of his first acts was to revive the JAIP partnership that had been neglected under Campbell, and shortly thereafter renamed it the Joint Financial Management Improvement Program (JFMIP). Additionally, the chairman of the Civil Service Commission was invited to participate in the hopes this involvement would lead to the recruitment of financial managers throughout the federal government (the Civil Service Commission oversaw the hiring process). Later in the same year, the group persuaded President Lyndon Johnson to release a memorandum to each federal agency requesting the improvement of financial management practices in accordance with the standards proposed by the GAO and to work with the Civil Service Commission to further develop each agency's professional employees (Mosher 1979).

Another major departure from Campbell's to Staats' tenure was the move away from the comprehensive audit toward program evaluation. The comprehensive audit was modeled after commercial audits at the time. It looked more holistically at the agency under examination and focused on riskier areas. Program evaluations may still focus resources on risky areas, but the scope of work was more narrow. During a program evaluation, auditors review transactions related to a specific program undertaken by the agency, not the transactions of the agency as a whole. This change was due partly to Staats' own objectives for the GAO, as well from requests from Congress and the Presidency. Prior to his confir-

mation as Comptroller General, Staats was the Deputy Director of the Bureau of Budget. While in this position, President Lyndon Johnson directed the Bureau of Budget to oversee the implementation of a form of program evaluation (called the Planning-Programming-Budgeting System or PPBS). Under Staats' leadership, program evaluations accounted for approximately one-third of the total GAO reports (Mosher 1984).

Additionally, Congress became more interested in evaluating the results of programs it funded. In 1967, the Economic Opportunity Act required the GAO to review and report on the effectiveness of federal poverty reduction programs. This resulted in approximately 50 GAO reports pertaining to federal poverty programs in 1969 (Trask 1991). The Legislative Reorganization Act of 1970 stated that when directed by Congress, Congressional committee, or its own initiative, the GAO will evaluate the results of government programs. These laws and Staats' proclivity toward program evaluation led to major changes to the structure of the GAO. The organization even created new divisions to work exclusively with these projects.

The initial push for the Single Audit Act began during Staats' tenure as Comptroller General. With increasing federal funding to state and local governments during the 1960s, there was a need for uniform auditing guidance. The GAO, with the assistance of a task force of federal agencies, state and local governments, and auditors, released a document titled *Standards for Audits of Government Organizations, Programs, Activities, and Functions*. This was published by the GAO in 1972 and emphasized evaluating compliance with laws as well as reviewing the efficiency of expenditures and the effectiveness of the program (Trask 1991). These requirements became known as the "Yellow Book" standards.¹³

¹³Based on an interview with a GAO Assistant Director, the name came about not because of the color of the book, but because individuals working on it wanted to call it the "Golden Rules of Accounting." Elmer Staats believed this was too presumptuous so the other members of the group settled on the "Yellow

Later, in 1978, the JFMIP (of which the Comptroller General chairs) reported federally assisted programs experienced significant overlap of audit procedures and very little coordination between the various auditors (JFMIP 1978). The JFMIP recommended what it called a “Single Audit,” which it described as an audit that is conducted by one auditor to determine whether the recipient complied with all its grant requirements. Importantly, the Single Audit applied the Yellow Book requirements to audits of non-federal agencies. The JFMIP also suggested the creation of a federal agency to oversee the collection and dissemination of these reports to the appropriate funding agencies. In 1980, the JFMIP announced a Single Audit Steering Committee to discuss difficulties and potential solutions of the new program. The steering committee members included a representative of the JFMIP, other federal agencies, representatives from cities and counties, as well as a private auditors (JFMIP 1980). In 1984, Congress enacted the Single Audit Act, codifying the requirement that governmental agencies receiving federal grant assistance obtain a single audit of all grant expenditures. In 1990, the requirements of the Single Audit Act were expanded to include non-profit organizations that receive federal funding through the issuance of Office of Management and Budget Circular A-133.

This history of the Single Audit Act suggests the beliefs and actions of GAO Comptroller Generals are a contributing factor to the emergence of the Single Audit Act, but does not wholly explain it. The first Comptroller General, J. Raymond McCarl focused his energy on reviewing individual expenditures of Federal agencies and staffed the GAO to further this goal. Lindsay Warren distanced the GAO from “voucher audits” toward the comprehensive

Book,” which was considered to be close enough to gold (GAOWatchBlog 2014).

audit. This provided the GAO the opportunity to examine expenditures and agencies more holistically than previously. Additionally, Warren advocated cooperation amongst Federal agencies. Both of these stances moved the GAO closer to the Single Audit.

Joseph Campbell continued the GAO's push for the comprehensive audit, but also halted the inter-agency cooperation present during Warren's tenure. Because the Single Audit Act was proposed by the JFMIP, it is unlikely this occurs during Campbell's time as Comptroller General. Finally, Elmer Staats oversaw the GAO and reinstated cooperation amongst Federal agencies. Additionally, Staats moved the GAO toward program evaluation instead of comprehensive audits. There are major differences between the Single Audit and program evaluations (the latter are intended to determine how effective the spending was, whereas the former only examines whether the expenditures were spent in accordance to the grant requirements). This difference will be important in subsequent chapters examining the usefulness of Single Audits to federal agencies. However, the decision to move forward with the Single Audit was to provide "reasonable assurance that federal funds were properly safeguarded and spent for authorized purposes" as efficiently as possible (U.S. Government Accountability Office 1979*b*). Program evaluations would require multiple audits, as each funding agency would mandate its own. Under the Single Audit, if a federal agency still had concerns after reviewing the Single Audit report, it could investigate further. In this way, both the benefits of the Single Audit and program evaluation could be realized. However, as will be noted in future chapters, this tension between a review of program effectiveness versus a holistic review of an organization's controls may severely limit the usefulness of the Single Audit for federal agencies.

Table 3.1: Federal Grants-in-Aid to State and Local Governments

Fiscal Year	Amount (Billions of Dollars)
1950	2.4
1955	3.0
1960	6.9
1965	10.9
1970	22.6
1975	48.4
1980	86.7

Source: Greenspan 1975; Weidenbaum 1982

This history suggests a movement toward the Single Audit Act, but does not fully explain why it occurred when it did. For that, the political and fiscal context present at the time is important to understand as well. While it is unlikely the cooperation necessary to bring forth the Single Audit would occur under Joseph Campbell, there is still a question as to why it occurred with Elmer Staats as the Comptroller General. The remainder of the section examines this question.

After the end of World War II, the United States Government devoted increased grant funding to state and local governments. In 1950, approximately \$2.4 billion dollars was provided to these governments. By 1970, this increased to \$22.6 billion and \$86.7 billion by 1980. Table 3.1 illustrates this increasing trend of federal grant funding to state and local governments. By 1980, federal agencies funded approximately 1,100 programs that provided money to state and local governments (U.S. Government Accountability Office 1979b).

With this increased funding, questions of accountability were raised. This desire is noted

in the previously discussed Economic Opportunity Act of 1967 and the Legislative Reorganization Act of 1970. The calls for accountability only got louder, resulting in a GAO report covering the period from 1974 to 1977. In it, the GAO gathered a convenience sample of 73 state and local governments. The report found that approximately 80% of the recipient organizations' \$3.7 billion in grant funding was not audited. Furthermore, some organizations were subject to no audits whereas one experienced over 50 separate reviews during the time period. All but one organization the GAO included in its report lacked a sufficient auditing of its grant expenditures (according to what the GAO determined to be sufficient) (U.S. Government Accountability Office 1979*a*).

Another report by the GAO examined the grant audit process of private accounting firms. The GAO concluded these firms do a satisfactory job performing financial statement audits but lack the necessary skills and/or knowledge to adequately audit federal grants. Major gaps in the work performed included substandard audit procedures and inconsistent reporting of audit findings to either the auditee or the funding agency (U.S. Government Accountability Office 1977).

Concerns over this lack of accountability of grant recipients was also voiced by the Comptroller General to Congress when he was called to appear to discuss problems with grant auditing. Comptroller General Staats discussed the many issues related to the then current methods of auditing grant recipients: disjointed audit efforts and the ineffectiveness of the Federal government to ensure organizations are audited properly (U.S. Government Accountability Office 1979*b*). In his remarks, Staats presented an early version of the Single Audit framework.

Again in 1982 the Comptroller General¹⁴ returned to Congress to discuss the status of the Single Audit. In his prepared remarks, Comptroller General Bowsher noted significant progress toward a Single Audit, but also noted difficulties in transitioning federal agencies, recipient governments, and external auditors to the proposed framework. The difficulties noted stemmed primarily from a lack of understanding of the process and purpose of the new standards (U.S. Government Accountability Office 1982). During his comments, Bowsher explicitly recommended Congress temporarily refrain from considering legislation related to the Single Audit. Because of the confusion surrounding the Single Audit from funding agencies, recipients, and auditors, any legislation might be met with frustration because of misunderstandings with the intent of the legislation and a lack of details that could be provided. Interestingly, in a 1984 statement, Comptroller General Bowsher still had similar concerns, but believed a Congressional Act could clear up confusion and assist in the full implementation of the Single Audit (U.S. Government Accountability Office 1984).

As noted previously, the Single Audit Act was passed in 1984. The above history of the lead up to the act, as well as the roll of the GAO and the Comptroller General, highlights the importance of leadership. However, leadership of the GAO was a necessary, but not sufficient condition, to bring forth the Single Audit Act. The funding context, brought about by increased federal funding of state and local governments, led to calls for increased accountability. Ultimately, the funding context created the need for an accountability mechanism, and the GAO offered its solution. This solution was created in consultation with other agencies, but the Comptroller General's influence led to that collaboration and ultimately

¹⁴Elmer Staats' term ended in 1981 and he was replaced by Charles Bowsher.

the Single Audit framework. Placed within the previously discussed theoretical context, principal-agent theory assists in understanding the need for the accountability mechanism (increased funding of non-federal organizations brought increased demands for accountability), but constructivist approaches of tracing the norm over time provides an explanation of why that mechanism took the form it did.¹⁵

Are Audits Effective Accountability Mechanisms?

Provided the history of the GAO and the evolution of Single Audit requirements, a looming question is whether audits are effective accountability mechanisms. Ideally, audits would include information that all interested parties would find useful. Additionally, this information would be easily understood and found within the audit report. In practice, audits are often shrouded in mystery, either because the user of the report is untrained in what to look for or does not understand what audits actually entail. This section analyzes the accounting literature to understand how audit reports are used to gain a better understanding of whether the Single Audit should be expected to be a useful accountability mechanism. The literature suggests differences in use between knowledgeable users and those unfamiliar with how the information is presented. Additionally, if audits are one of the only sources of information available, the reports are more valuable than when there is a significant amount

¹⁵There may be questions as to why the GAO was analyzed here and not the Office of Management and Budget (OMB). The OMB issues the guidance for auditors to follow when completing the Single Audit, so it could be argued this agency should be the focus of the chapter. Both the GAO and the OMB were created by the Budget and Accounting Act of 1921; however the OMB is tasked with preparing the President's budget to Congress and evaluate the effectiveness of federal programs. One of the main tasks of the GAO is to establish audit standards for the federal government. It is through this task the GAO is the more appropriate focal point of this chapter. However, an interesting project would be to review the history of the OMB to determine how much influence it had on the Single Audit Act.

of additional financial information for an organization.

Common perceptions of what an audit entails is a major obstacle to the appropriate understanding of the information in an audit report. Porter (1993) calls this the audit expectation gap, which is the gap between what society's expectation is for an auditor and what is actually received. Oftentimes, interested parties believe auditors look at every transaction of a company or investigate more fully the claims of management. Unfortunately, auditors only have a set amount of time to complete an audit (due both to budget constraints and external deadlines). This requires the audit team to review only those transactions that are over a certain dollar amount, those deemed to be risky, or a sample of items. Whereas the public believes auditors do an exhaustive review of an organization's financial transactions, in actuality, auditors do only so much work as to provide them with enough confidence to believe the data reported is materially correct.¹⁶

Additionally, research suggests many users of audit reports do not substantively review the reports for important information. Gray et al. (2011) determined that most users of audited financial statements only looked to determine if the report includes an unqualified audit opinion (the most desirable audit opinion an auditor can provide) and which audit firm completed the audit. These users did not review the information beyond the first few pages of the audit report, all of which is completed by the auditor and does not contain specific information regarding the auditee. More troubling, the authors found non-professional investors did not review the audit report and instead opted to obtain financial information

¹⁶Materiality, to an auditor, suggests that items under a certain dollar threshold would not impact the conclusions drawn by a reader of the audit report. For example, if a company with a billion dollars of revenue neglected to include \$100 in accounts receivable, the auditor would most likely overlook this error and not require the company to correct its financial statements. The difference between \$1 billion dollars and \$1 billion one hundred would not change any conclusions drawn about the company.

from secondary sources (Gray et al. 2011).

Not all studies offer such a bleak outlook on audits. In fact, several studies have found information provided by auditors is being used by the interested parties. Hammersley, Myers, and Shakespeare (2008) conclude stock prices of companies lower upon disclosure of internal control deficiencies required by the Sarbanes-Oxley Act. Furthermore, the severity of the price drop is dependent upon the severity of the deficiency reported: the more serious the deficiency, the greater the price drop. Similarly, Ashbaugh-Skaife et al. (2009) state internal control deficiencies reported as part of Sarbanes-Oxley compliance result in higher costs of credit (in the form of higher interest rates) than companies that have no control deficiencies.

In a more nuanced study of Sarbanes-Oxley compliance, Beneish, Billings, and Hoder (2008) separate internal control deficiencies into two categories. Those required to be reported under Section 302 of the Sarbanes-Oxley Act, and those required under Section 404. Section 302 disclosures are compulsory for all entities and only need to be reported by management (i.e. there is no auditor involvement). Section 404 disclosures are only required of larger public companies and require management to report on internal control deficiencies and auditors to review and opine on these disclosures. In the study, deficiencies in Section 302 reports were associated with lower stock prices and higher borrowing costs. Those deficiencies noted in Section 404 reports had no effect on either stock prices or the cost of credit. Furthermore, for smaller public companies that were not required to comply with Section 404, the relationship between reported deficiencies and adverse consequences was stronger than for the larger companies that needed to comply with both requirements. The authors conclude the larger companies operate in an environment with greater financial

data available. Investors seeking information on the smaller companies have fewer options and are therefore reliant on the scant data that is available (Beneish, Billings, and Hodder 2008).

The requirements imposed by the Sarbanes-Oxley Act are an interesting comparison to the Single Audit. Both are independent of, but related to, the more widely known financial statement audit. Based on the studies noted, arguments could be made as to why the Single Audit would or would not be effective. Returning to Beneish, Billings, and Hodder (2008), when information is unavailable from other sources, federal agencies might look to the Single Audit as important information to help monitor recipients of grant funding. When other reports or information is available, the Single Audit might be overlooked and only considered an exercise in compliance. Furthermore, extending Gray et al. (2011), it is unknown how knowledgeable the federal agencies are into the nuances of the Single Audit, which can determine if these agencies even open the report.

In the case of USAID, as will be further discussed in Chapter 6, program reviews often occur and are carried out either by USAID or an evaluative arm of the State Department. Because of this additional information about the activities of NGOs and other grant recipients, there is the potential to overlook the Single Audit Report. However, these program reviews do not focus exclusively on the NGO's activities. Instead, the focus of the review is the project the NGO is working within, and may only be a small part of that project. The studies above suggest when information is widely available about a company, Sarbanes-Oxley compliance data may not be used. With NGOs, beyond the interactions of USAID with the organization, the Single Audit could be the only other piece of information available.

Conclusion

This chapter began with a discussion of the difficulty in defining accountability. Most definitions stress the importance of a specific type of accountability relationship, the one between a funding and receiving organization (i.e. upward accountability). While this research focuses on an upward accountability mechanism (the audit), an oftentimes neglected relationship is between NGO and the local populations benefiting from the services. It is important to reiterate the number of accountability relationships present for an NGO that works across international borders. Figure 3.2 illustrates this concept, but it is also important to note the complexity added to these relationships as NGOs are working internationally and must be sensitive to the laws and customs of each country.

The chapter continued by discussing which is the more appropriate theoretical framework for which to analyze accountability mechanisms in NGOs. It is argued that rationalist theories, like principal-agent theory are applicable for obvious reasons. Funding organizations, like donor governments, are the principal and NGOs receiving money from the funder is the agent. There are many concerns in a principal-agent relationship, primary among those is the determination if the agent is dutifully acting in good faith on behalf of the principal. Of the two types of agency slack described in the chapter, Single Audits have the greater possibility of discovering slippage. This is because the compliance supplement provides what are allowable activities for a specific grant. These audits do not ask the auditor to assess how efficiently the agency is working on behalf of the funding agency or how effective the work is. However, even with audits, decreasing agency slack is difficult. Lyne, Nielson, and Tierney (2006) describes how the United States created and funded an agency (the Inter-American

Foundation) to promote local social development projects in Latin America. However, despite monitoring by the government, the agency pursued activities that were outside the interests of the government.

The chapter also argued constructivist theoretical approaches are beneficial as well. Whereas rationalist theories assist in understanding the current accountability structure between NGOs and funding governments, constructivist theories aid in understanding how those accountability mechanisms evolved to the current form. Using this constructivist approach, this chapter then traced an accountability norm in the United States beginning in 1921 with the creation of the Government Accountability Office (formerly the General Accounting Office). It argues the Comptroller General exercised significant discretion in the direction of the GAO, but this leadership alone was not sufficient to create an accountability mechanism to hold non-federal organizations receiving grant funding from the federal government accountable. Leadership did help shape the process, but the context of increasing federal dollars provided to non-federal organizations increased the demand for accountability. It is concluded that leadership, in conjunction with the fiscal context, resulted in the creation of the Single Audit and the ultimate passage of the Single Audit Act of 1984.

The chapter concluded with an investigation of whether the Single Audit should be an effective accountability mechanism. The Sarbanes-Oxley Act of 2002 provides an interesting comparison to the Single Audit, as both are independent, but related to the financial statement audit. The public use of disclosures required by Sarbanes-Oxley are dependent on the sophistication of the user and the other available data. Applying this to the Single Audit, it is unknown how sophisticated the federal agencies are as it relates to the Single Audit.

However, at least in the case of USAID, there is very little additional information for which to judge the actions and performance of NGOs.

The remaining chapters in this study analyze the effectiveness of the Single Audit in holding NGOs receiving USAID funding accountable. The following chapter provides a more detailed description of the Single Audit prior to analyzing whether audit results impact future funding decisions.

Chapter 4

The Single Audit

The United States has not always required audits of federal monies given to other organizations (public or private). The Single Audit Act of 1984 requires audits of states, local governments, and tribal organizations that receive grant funding to administer federal programs.¹ To assist external auditors in completing the audits of federal programs, the Office of Management and Budget (OMB) issued Circular A-128 in 1985. This defines the procedures an auditor should perform when completing a Single Audit. It was later rescinded and replaced in 1990 by OMB Circular A-133, “Audits of Institutions of Higher Education and Other Non-Profit Organizations.” This circular expanded the requirements to non-profit organizations. These A-133 audits, hereafter referred to as “Single Audits,” provide information for the federal government, auditees, and citizens to determine how federal money is being spent.

These audits are not intended to conclude how efficiently the recipient organization has spent federal dollars. Instead, Single Audits only determine if the money spent was done so in a manner that is allowable under the federal grant, as well as if all applicable laws were

¹The use of grant funding is important here. USAID and even NGOs might subcontract services. If this is done through a contract and not a grant, Single Audit rules do not apply. The concluding chapter explores this more, but it is an important distinction to make. Because of it, this research does not investigate accountability requirements for USAID contractors.

followed. Additionally, not all federal grants require a Single Audit. There are numerous guidelines set forth that dictate which federal money gets audited, if at all. This chapter describes the Single Audit process, beginning with the determination whether a Single Audit is necessary, describing the audit itself, and the reporting that occurs once the audit is complete.

Conditions Requiring a Single Audit

When an organization applies for, and receives, a federal grant, the grant agreement includes a Catalog of Federal Domestic Assistance (CFDA) number. It is a five digit number; the first two numbers correspond to a specific agency or department of the United States followed by a dot and a three digit number. This three digit number indicates a program administered by the applicable agency. So, CFDA number 19.345 relates to the Department of State's (19) international programs to support democracy, human rights, and labor (345).

At the end of each fiscal year, the recipient organization organizes all of the federal grant money expended² by CFDA number and provides this list to its auditors. The auditor is an accounting firm or individual practitioner that has been hired by the recipient organization. If the organization received more than \$500,000 from federal sources, it is required to have a Single Audit.³ The auditor examines the listing of federal money drafted by the recipient

²Oftentimes, grant funding is provided over multiple years. Instead of having a large audit at the end of the grant period, the Single Audit is designed to audit grants based on how much was spent in the past year. For large grants, this may mean it is audited annually for several years.

³Those receiving less can elect to have a Single Audit, but are not required to do so. This might occur if the recipient organization met the threshold one year, fell below the audit threshold the subsequent year, and anticipated an increase in funding the third year to put it over again. The organization would not be required to have an audit the second year, but could elect to have one for consistency.

organization, and based on the total grant dollar amount received, will classify the grants as either Type A (large) or Type B (smaller dollar amount) programs.⁴ Generally, Type A programs are audited once every three years. Additionally, for each Single Audit, auditors must examine at least 50% of total grant expenditures for the past year.⁵

The Audit

The OMB, with guidance from the federal agencies, provides compliance supplements for many CFDA numbers to inform auditors of the applicable audit procedures for grants qualifying for a Single Audit. Although not all grants require it, there are fourteen compliance topics that may be applicable during a Single Audit: activities allowed or unallowed, allowable costs, cash management, Davis-Bacon compliance, eligibility, equipment and real property management, matching/level of effort/earmarking, period of availability of federal funds, procurement and suspension and debarment, program income, real property acquisition and relocation assistance, reporting, subrecipient monitoring, and special tests and provisions. In addition to these tests, auditors are to test and conclude upon the internal control structure of the organization. These test if the organization's policies and procedures are effective at ensuring compliance with the grant, as well as providing reasonable

⁴For organizations that have between \$300,000 and \$100 million in federal grant expenditures in a given year, Type A programs are grants with .03% of total grant expenditures, not less than \$300,000. For organizations with federal expenditures between \$100 million and \$10 billion, Type A programs are grants that comprise .003% of total grant expenditures, not less than \$3 million. If a recipient organization expends more than \$10 billion in federal grant money in a single year, Type A programs comprise of .0015% of total federal expenditures, not less than \$30 million. If a grant program does not qualify as a Type A program, it is automatically considered Type B.

⁵The selection of Type A and B programs is more complicated than provided here. There are risk assessments for both the recipient organization, as well as individual grant programs. To learn about the actual Single Audit rules as they pertain to audits of grants, see OMB Circular Number 133, specifically section 520 (http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised.2007.pdf).

preventative measures against fraud and/or a misallocation of funds.

Like financial audits, Single Audits are not intended to provide 100% assurance the recipient organization adhered to the grant requirements. However, the auditor develops tests to determine whether there is reasonable assurance the organization spent grant funds appropriately. Assuming no transgressions are found within the recipient organization, the auditor will provide an unqualified audit opinion on the organization's compliance with grant requirements. If the auditor determines the organization violated the grant agreement, an audit finding will be presented. This can then be elevated to a significant deficiency or material weakness based on the severity of the finding. The Public Company Accounting Oversight Boards (PCAOB) Auditing Standard No. 5 defines a material weakness as a "deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a **reasonable possibility** that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis" (emphasis is theirs). A significant deficiency is a "deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting" (PCAOB 2014).⁶

A simple example may better illustrate the concept of audit findings. Assume an organization receives one federal grant, the Food for Peace Development Assistance Program from USAID, and the amount expended on the grant during a given year qualifies the organization for a Single Audit. Based on the compliance supplement, unless otherwise explicitly allowed

⁶For clarification, all material weaknesses and significant deficiencies are audit findings, but not all audit findings are material weaknesses or significant deficiencies.

by USAID, the organization is not to use the military to distribute, handle, or allocate food commodities. However, the auditors determine the organization did use military forces to distribute food. This would result in an audit finding, which means the auditors found a violation of the grant agreement. The auditors can choose to elevate this audit finding to a material weakness or a significant deficiency.

Assume the organization only used military forces to distribute food one time, but quickly learned of the violation and enacted policies and procedures to ensure it would not occur again. The auditor reviews this and determines the audit finding should be elevated to a significant deficiency, but not a material weakness, because the organization learned of the violation through internal means and put measures in place to prevent future occurrences. However, assume the organization used military forces to distribute food multiple times and when the auditors brought it to the attention of the organization, management was unaware this was prohibited. The auditor may choose to elevate the audit finding to a material weakness, indicating the internal control structure (e.g. policies and procedures) were so lacking that it allowed for a continual breach of the grant conditions. What is extremely important to note, and pertinent to the present study, is that it is at the discretion of the auditors what audit findings remain only findings and which become material weaknesses or significant deficiencies. However, the reporting of all types of audit findings provides the federal government with information regarding the activities of an organization who receives grant funding. As such, audit findings are a type of accountability mechanism for an organization receiving federal funds. The federal government could use this information to inform future grant funding decisions.

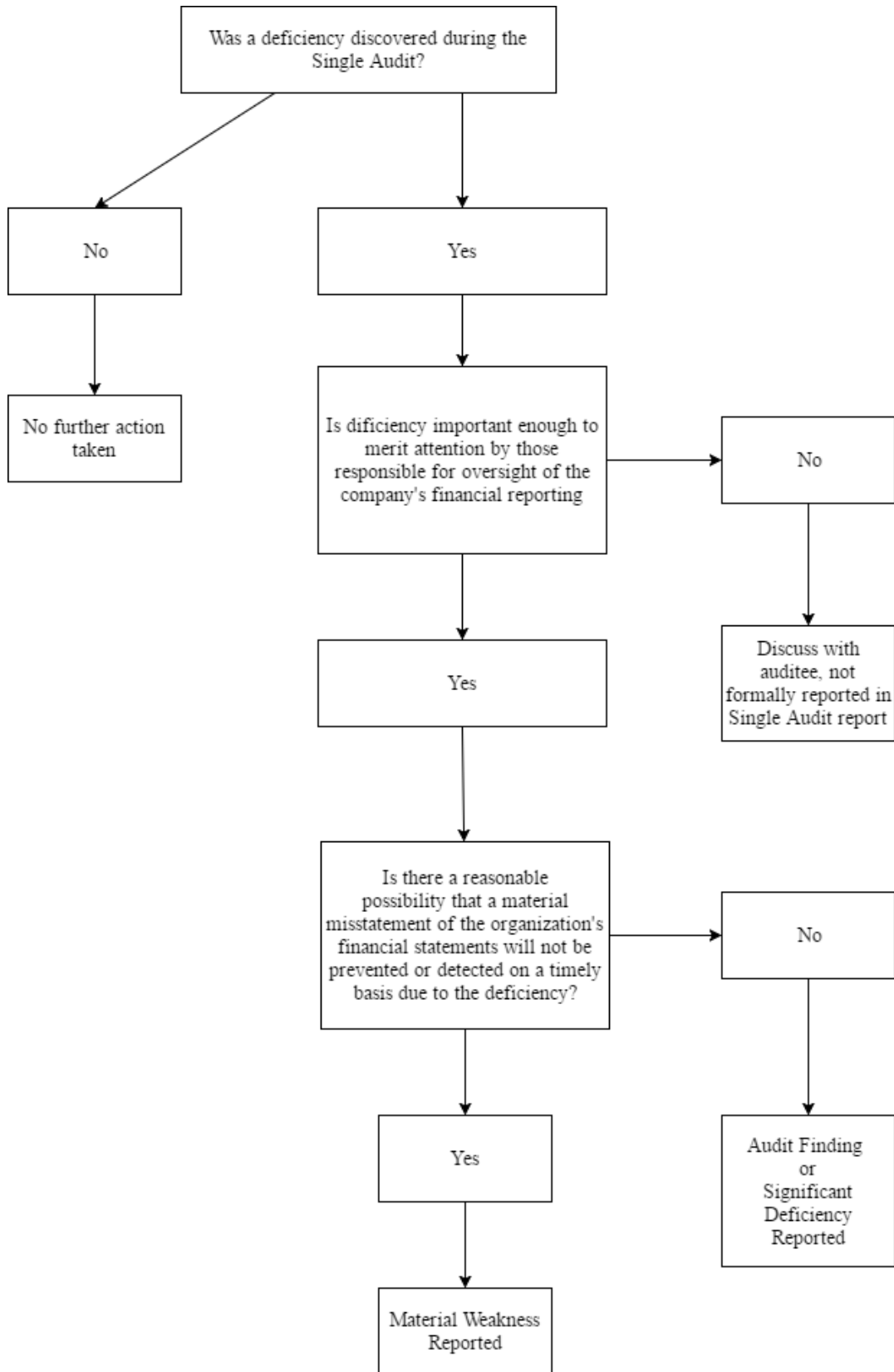
Additionally, if auditors report audit findings, they must also determine if there are any questioned costs that must also be reported to the federal government. Returning to the hypothetical organization, assume the auditors determine management used grant funds to purchase new cars for all of the board members, totaling \$300,000. This would be a violation of the grant agreement and would result in an audit finding (most likely a material weakness). Additionally, the auditors would report to the federal government that there were \$300,000 of questioned costs (indicating costs that do not qualify as acceptable under the grant). This is another piece of information the United States government can use to hold recipient organizations accountable for grant funding received. See Figure 4.1 for a logic model of the Single Audit reporting process.

Reporting Results

At the conclusion of the Single Audit, once all testing is completed, the auditor uploads the results to the federal government. This includes information pertaining to the grant expenditures for the current year, the grants audited, whether any audit findings were discovered (and if they were elevated to a material weakness or significant deficiency), as well as whether there were any questioned costs related to grant expenditures. This data is submitted and available publicly on the Federal Audit Clearinghouse website (<https://harvester.census.gov/facweb/Default.aspx>).

Other scholars have used the data available through the Federal Audit Clearinghouse to determine the types of non-profit agencies receiving grant funding and the distribution of

Figure 4.1: Single Audit Reporting Process Logic Model



federal grants by state (Jalandoni, Petrescu, and Green 2005). The authors note another potential use of the data is program analysis and assessment, which is what this research is arguing for. Nevertheless, some researchers are hesitant to rely on data derived from audits. Avina (1993) claims there are two problems with external evaluations (like the Single Audit described above). First, the time constraints present in an audit may only allow for a superficial understanding of an organization, and thus may miss organizational problems. Also, external auditors may not have the influence to enact changes needed within an organization. For this research, the former conclusion could influence the results of an audit (and thus, the audit results), whereas the latter is an internal matter and not the responsibility of an independent accounting firm (i.e. if the external auditor had influence to make changes within the organization, they would no longer be independent).

The larger concern pertaining to audits is a finding from Tate (2007) that a non-profit agency is likely to change auditors if its auditor indicated problems within the organization.⁷ This could indicate “opinion shopping” on behalf of non-profit agencies (i.e. changing auditors when they report deficiencies within an organization), and if true, is a much bigger problem for any analysis that includes audit findings. Unfortunately, determining why auditees change auditors is a much larger project (and one that is outside the scope of the current research). While opinion shopping may be occurring, it could also be that auditees switch auditors for cost concerns, internal policies that mandate auditor rotation, changes in leadership, personality clashes between auditors and staff, etc.

Keating et al. (2005) find that generally smaller audit firms (non-Big 4 accounting firms)

⁷Interestingly, this finding only received one sentence in the entire research. If opinion shopping is really going on, it presents a major legitimacy problem for audit reports and auditors.

conduct A-133 audits, and suggests that because of this, there is variation in audit findings depending on the type and size of an audit firm. The logic model at Figure 4.1 provides latitude for auditor discretion, which may vary significantly between audit firms, or even partners within the same firm. Because of the sheer number of organizations requiring a Single Audit each year, completing these all by a single federal organization is not feasible without substantial increases in federal auditors to carry out the work. But even that would still likely result in non-uniform audits as regional offices, led by different managers, would cause variability in audit findings and regulation interpretation.

Unfortunately, this variability is inevitable. It is also widely reported in the accounting literature, whether it be due to audit firm size (Davidson and Neu 1993; Blokdiik et al. 2006), audit firm tenure (Johnson, Khurana, and Reynolds 2002; Simmons, Costigan, and Lovata 2009), client characteristics (Lawrence, Minutti-Meza, and Zhang 2011), or even different auditors within the same audit firm (Li et al. 2017). Of the NGOs reporting expenditures from USAID grant sources in this study, there are approximately 425 accounting firms completing their audits. Nine audit firms completed more than 100 audits in the dataset, while most only completed a few. So, while little can be done to control for these audit firm differences, it is important to know these inconsistencies are likely present.

Conclusion

This chapter provided a description of the Single Audit process and the potential accountability information it can contain for the Federal Government. The process begins

when an NGO incurs a certain level of expenditures of federal funds. The amount that triggers a Single Audit has increased over time, but it is currently required for organizations that expend at least \$500,000 in funding obtained from federal agencies in a given year. It is important to note the Single Audit does not provide a report on the effectiveness or efficiency of expenditures. If an NGO receives funding to improve literacy in a foreign country, the Single Audit will not determine if it was effective in doing so. Instead, it provides a level of assurance about whether the organization spent the funding in accordance with grant requirements.

Any deviations from grant requirements are communicated through audit findings. The audit firm engaged to complete the Single Audit has substantial discretion in determining the severity of audit findings reported (i.e. whether to elevate a finding to a significant deficiency or a material weakness). These are ordered, from least to most severe, as audit findings, significant deficiencies, and material weaknesses. In addition to auditor discretion in findings, prior research suggests there is variability in the audit reports completed by various firms, which can be attributed to differences between audit firms (size, staffing, number of years an audit firm has conducted the audit, etc.).

The following chapter discusses the data made public from Single Audits and explores how USAID funding is distributed to United States-based organizations, as well as how that money is provided to NGOs.

Chapter 5

The Single Audit and Accountability:

Descriptive Statistics

After an auditor and auditee complete the Single Audit, the results are to be uploaded to a federal website (the Federal Audit Clearinghouse). From here, it is possible to obtain the results of an individual audit or all audits from a given year, beginning in 1998 and continuing to 2016 (as of the writing of this chapter). Unfortunately, because auditees have nine months to report audit results not all of fiscal year 2016 data is available. As such, this study includes data up to 2015. This chapter proceeds as follows: first is a description of the variables included in the dataset available from the Federal Audit Clearinghouse, following is descriptive analyses of the dataset, and the conclusion summarizes the findings.

Description of Variables

The Single Audit provides information regarding how an auditee spent federal grant funding. For this research, Single Audit results assist USAID keep NGOs accountable to the projects the agency is funding. As such, it is hypothesized that increased audit findings will

result in reduced future funding flows from USAID. The remainder of this section provides the variables that are included in the study to test this hypothesis.

Amount Funded

The dependent variable in this study is the amount expended by NGOs from USAID, as obtained in the Federal Audit Clearinghouse. The amount is reported as the total dollars expended by an NGO in a given year, not the total grant award. While this may seem like a semantic difference, the distinction is important. Assume an NGO receives a grant of \$1,000,000 to provide educational programs in a foreign country. The grant award is to enable the organization to provide these services over three years. If the Single Audit report provided only the amount awarded, a problem would arise as to how to report this grant (does it all get reported in the first year, does it get equally split up over the life of the grant, etc.) By reporting the total expenses related to the grant in any given fiscal year, there is more transparency in the process. Given the hypothetical grant, if the NGO expends \$1,000 the first and last year, and \$998,000 the middle year, there is a greater likelihood of including the middle year in that year's audit testing and less focus on the first and last year (which frees up auditor time to audit other programs/grants that were more significant in that given fiscal year).

The Federal Audit Clearinghouse provides audit information for each grant in which there is current fiscal year expenditures. For this study, all grants are aggregated at the NGO-level to provide an annual total for each organization. In the dataset, approximately 36% of the observations are NGOs that expended money from a single USAID grant. Conversely, the

largest number of grants reported in a single year was by CARE USA, which reported a total of 590 separate grants from USAID in 2005.

In terms of what this means for the actual audit, when determining Type A and B programs (see footnote 2 in Chapter 4), grants are aggregated by CFDA number within which the grant is identified. So, in the case of CARE USA, all 590 grants from USAID might be audited as a single program. This may be problematic as USAID tracks grant expenditures/results by project (e.g. individual grant), whereas the auditors aggregate all the grants when conducting audit tests. This discrepancy in focus for the grant funder versus the auditor may mean the attention an auditor provides an individual grant is not sufficient for the needs of the funding organization.

For this study, the amount expended is adjusted to be reported in 2010 dollars. This transformation is completed using the Consumer Price Index, as obtained from the World Development Indicators published by the World Bank. Additionally, it is presented as the natural logarithm of amount funded to provide for a more normal distribution. Finally, it is assumed that prior year NGO expenditures are predictive of current year expenditures. Because of this, a one year lagged variable is included as an independent variable in Chapter 6.

Audit Report Findings

There are numerous data points in a Single Audit report that relate to audit findings. First, an auditor could issue a reportable condition. As noted in Chapter 4, a reportable condition is a deviation from the grant requirements by the funded organization. This may

be as small as a minor departure from the grant requirements or as large as expending funds on unallowable items.¹ If a reportable condition has the potential to result in a material misstatement of the grant, or there is a possibility the finding could result in a material error not being detected, the auditor can elevate the finding to a material weakness. This decision is at the discretion of the auditor. Finally, if an auditor determines that federal grant funds were spent on unallowable activities, they will report “Questioned Costs.” This is the estimate of the total grant dollars that were spent on unallowable activities by the auditee. If this occurs, the auditor will issue a reportable condition. Most likely, this will be elevated to a material weakness.

For this study, all of these are separate dichotomous variables. If one or more reportable condition(s), material weakness(es), and/or questioned costs are reported, the variables are coded 1. If there are none, it is coded 0. There may be multiple reportable conditions and material weaknesses reported for a given audit year. Unfortunately, the dataset put forth by the United States government does not provide this granularity of detail for material weaknesses.² Also, for some years the total amount of questioned costs are reported, which would allow for a continuous variable to be included in the analysis. However, this is not consistent throughout the entire period covered. Consequently, a dichotomous variable is

¹It is worth reiterating that even disclosing a reportable condition is done at the discretion of the auditors. If a departure from the grant requirements is considered to be so insignificant (what is insignificant is the auditor’s discretion), it may only be noted in the audit file and mentioned to management. This audit discretion creates a problem in the principal-agent relationship as the auditor may not report information to the principal that is of significant interest. This could be especially problematic if the auditee is engaging in activities that stray from the intention of USAID, but the auditor deems the infraction to be minor and does not report it.

²The dataset does provide the ability to determine how many reportable conditions are reported for each grant of the auditee. This allows one to calculate the total number of reportable conditions, both the cumulative number and unique findings (oftentimes, a reportable condition may be a deficiency that overlaps many grants or the entire organization). However, it is impossible to know which reportable conditions are elevated to material weaknesses and which are not without reviewing the actual audit report.

used here as well. For reportable conditions, material weaknesses, and questioned costs, the variables in the final model have been lagged for two years. This is done because once a fiscal year is over, the auditors have nine months to file the Single Audit report with the Federal Audit Clearinghouse. Because of this overlap, the earliest USAID could review the reports would be approximately 9 months after the current year fiscal year began. This would be too late to make any significant changes in funding decisions in the current fiscal year.³

Other Control Variables

It is likely that external factors also impact funding flows from USAID to NGOs other than audit findings; unfortunately, there is no extant literature to draw upon. However, the amount of funding USAID devotes to development projects annually will likely impact NGO funding. Every year USAID releases project funding for the year and compiles it into a report titled *U.S. Overseas Loans and Grants: Obligations and Loan Authorizations*. Funding commitments from 1998 to 2015 are obtained from this report (USAID 2016). It is hypothesized that as project funding increases, so too will the available money to NGOs, which will translate to larger award amounts. This variable is reported in 2010 dollars and included as the natural logarithm to create a more normal distribution.

Similarly, conflicts and subsequent recovery efforts in an affected country may increase funding flows to NGOs working in those countries. During the time frame covered by this study, both the Iraq and Afghanistan Wars commenced and ended, from 2003 to 2011 and 2001 to 2014, respectively. These years are dummy coded with a one for each conflict.

³In the final model presented in Chapter 6, different time lags of these variables were attempted with no changes in the results.

Additionally, included in the datafile with Single Audit information from the Federal Audit Clearinghouse, there is a variable that provides the name of the grant. Oftentimes for USAID projects, the auditors provide a brief description in this field.⁴ For example, in 2015, an NGO received grant funding for “Landmine Activities for Victims of Conflict.” Using this variable, if in any year the NGO received funding for a project that included the country name “Iraq” or “Afghanistan,” it was coded 1. If those country names were absent, it was coded 0. An interaction term was created with the dummy variable for the Iraq and Afghanistan wars and the dummy code for whether the NGO was responsible for projects in those countries. It is hypothesized that during the years of each conflict, NGOs doing work in those countries would experience increases in grant funding from USAID.⁵

There is a notable amount of data included with each Single Audit Report, but interestingly there are very few studies that use this dataset. Upon review of the literature for this study, none were found using this dataset to analyze USAID funding decisions. Because of this, the remainder of the chapter provides various descriptive analyses.

⁴Unfortunately, often the auditors do not include any identifiable information in this field, so tracking an entry to a specific grant and country is impossible.

⁵In preliminary analyses, variables that controlled for the political party in power at any given time was included. Dichotomous variables were included for years where the Republicans controlled both houses of Congress (1998-2000, 2003-2006, and 2015), as well as years the Democrats controlled both houses of Congress (2007-2010). The reference group was years where the House of Representatives and Senate had majorities from different parties. Additionally, a dichotomous variable for years that a Republican was President was included (2001-2008). None of these variables were significant predictors of NGO funding, significantly altered the results, or increased the explanatory power of the model. In the interest of a more parsimonious model, these variables are not included in the final model presented in Chapter 6.

Table 5.1: Total Amount Funded by USAID to all Organization Types, 1998-2015

Type of Entity	Amount Funded	Percent of Total
State	2,360,855,600	2.55%
County	68,892,500	0.08%
Municipal	12,840,500	0.01%
Township	348,300	0.00%
School District	4,757,700	0.01%
Independent Education Agency	68,353,100	0.07%
Native American Tribe	1,742,900	0.00%
U.S. Territories	1,374,500	0.00%
Unknown	763,630,600	0.82%
NGOs	89,531,816,681	96.46%
Total	92,814,612,381	100.00%

Note: All amounts presented in 2010 dollars.

Descriptive Statistics

During the period from 1998 to 2015, the United States government provided nearly \$93 billion in grant funding to various United States-based agencies that reported Single Audit results, and over \$89 billion to NGOs (see Table 5.1). This represents a total of 7,307 entity-years for all organizations, and 5,672 entity-years for NGOs. A caveat is necessary regarding this data; the Single Audit is required for organizations that are based in the United States. This information would not include funding to NGOs that are based in foreign countries or provided to foreign governments.⁶ That said, of the money that USAID provides to organizations based in the United States, nearly all of it is funneled to NGOs.

The federal government further classifies the entity types listed in Figure 5.1, including

⁶Unfortunately, it is not possible to determine how much USAID provided to non-United States NGOs during this same period. USAID is not precluded from providing funding to non-US based NGOs, but the funding may come in forms other than grants. As such, this funding would be subject to other requirements and not the Single Audit.

Table 5.2: Total Amount Funded by USAID to NGO Organization Types, 1998-2015

Type of NGO	Amount Funded	Percent of Total
902 - Hospital	9,401,935	0.01%
903 - Housing Organization	1,082	0.00%
904 - Instit. for Higher Ed.	18,325,992,474	20.47%
905 - Transit Organization	16,668,277	0.02%
907 - Utility	99,744,249	0.11%
908 - Social Services	26,193,625,132	29.26%
909 - Other Organization	44,886,383,532	50.13%
Total	89,531,816,681	100.00%

Note: All amounts presented in 2010 dollars.

non-profit agencies. Table 5.2 provides detail as to how the \$89 million provided to NGOs was distributed based on the type of work the organization completes. “Non-profit other organizations” received approximately 50% of total NGO funding, with nonprofits engaged in social services receiving 29% of the total. As the name implies, “other organizations” is a catchall category for NGOs that do not fit neatly within the other categories. The grant descriptions listed by the Federal Audit Clearinghouse suggest these NGOs provide agricultural assistance, promote democracy, support womens rights issues, increase awareness of the arts, as well as provide legal and policy assistance to targeted countries. Those organizations listed as “social services” entities provide food assistance, educational supports, etc.

While higher education institutions comprise approximately 20% of the total amount of NGO expenditures, it is misleading for two reasons. First, the federal government includes private universities (like Harvard or Vanderbilt) as nonprofits, whereas state-run universities

(the University of Iowa or the University of Nevada, Las Vegas) are coded as state entities (and not included in the totals in Figure 5.2).⁷ Each are engaged in similar activities and future research looking at the funding of NGOs could analyze if the United States government considers there to be a meaningful distinction between the two. This would inform whether subsequent analyses should include state schools with private schools, remove both, or keep them as they currently are.

The other misleading aspect of private universities is that in 2005 Johns Hopkins University reported grant expenditures of \$9,352,100,000 for a single grant. Additionally, in 2013, the Lebanese American University reported grant expenditures of 3,021,035,936. Removing these grants from the 2005 and 2013 higher education totals reduces the total percentage of funding to private universities to approximately 6%. This increases the total percentage of NGOs coded as social service and other organizations to 33% and 60.5%, respectively.

The intention of the Johns Hopkins University grant is unclear from the single audit reports. The CFDA number is 98.200 (which does not appear to be a commonly used identifier), and is titled “Cooperative Agreements.” A search of USAID projects with Johns Hopkins University did not explicitly reveal what project this grant funded. There was a major project in Malawi related to behavioral change to prevent HIV/AIDS (USAID 2005). A specific document reporting the total grant amount from USAID is unable to be located, but the best guess is the project relates to this. Similarly, the grant to the Lebanese American University is vague. The CFDA number listed is 92.001 (USAID Foreign Assistance for Programs Overseas) and the field that could provide a grant or program name only lists

⁷The Nevada System of Higher Education received \$1,045,080 in funding from USAID from 2004 to 2013. It is unclear which university received the grants or what the funding was used for. The grant title listed was simply USAID Foreign Assistance for Programs Overseas.

“Development Assistance Programs.” Upon investigation, the purpose of the grant is to create a scholarship program for students in Lebanon to attend post-secondary school. It is a private school that operates under a charter from the University of the State of New York.

Table 5.3 presents similar information as Table 5.2, but provides the year-by-year expenditure data by NGO type. Notice the consistent expenditure amounts for both “Other Organization” and “Social Services,” as well as the large expenditure amounts in “Institutes for Higher Education” in 2005 and 2013.

As seen on Table 5.3, but even more evident in Figure 5.1, the total amount of USAID funding to NGOs has increased steadily from 1998 to 2009. Then, NGO reported expenditures flatten out until 2015. Again, after removing the \$9 billion and \$3 billion grants to Johns Hopkins University and the Lebanese American University, respectively, the spikes in 2005 and 2013 are removed. Figure 5.2 displays this information. NGO expenditures are represented by the square plots. The figure also includes the obligations USAID committed to foreign assistance (the circle plots) that were obtained from the report titled *U.S. Overseas Loans and Grants: Obligations and Loan Authorizations*.

Figure 5.2 is informative for many reasons. First, it provides a comparison of total funding provided for foreign assistance by USAID and the total expenditures reported by NGOs. The total funding from USAID includes funding to all sources (not just United-States based governments and organizations). For this reason, the information contained in Figure 5.2 will not agree to the data presented at Table 5.1. While USAID obligations increased from 1998 to 2015, the increase is not as consistent as the relative steady increase reported by NGOs. Second is the semantic difference in what is visualized. USAID obligations represents the

Table 5.3: Annual Amount Funded by USAID by NGO Organization Type, 1998-2015

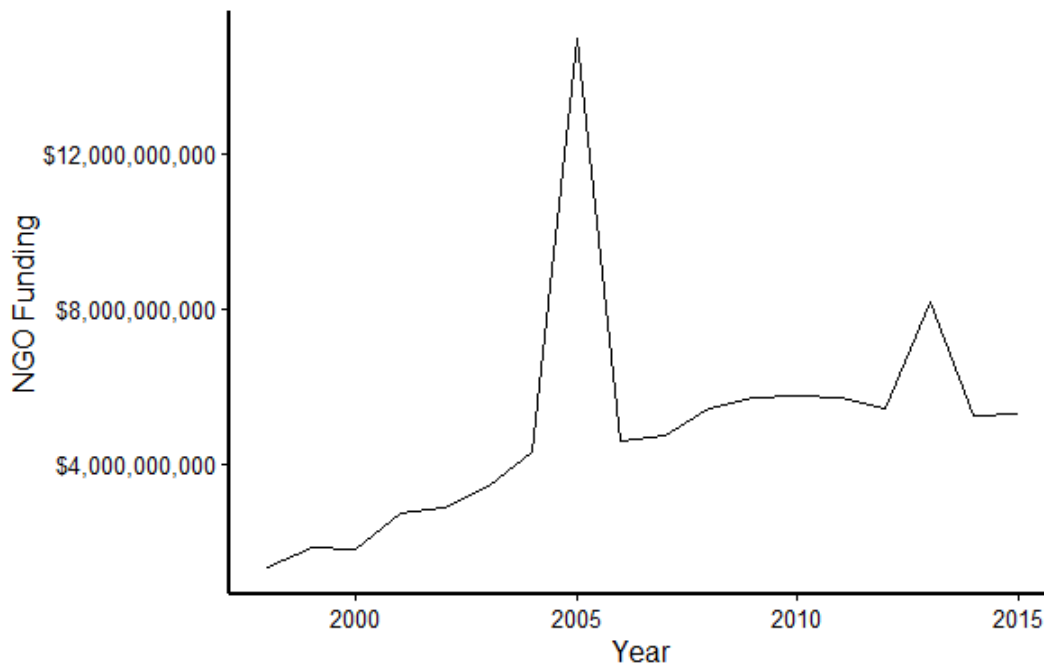
Type of NGO	1998	1999	2000	2001	2002	2003
902 - Hospital	139,128	112,975	1,100,981	613,535	525,398	159,872
903 - Housing Organization	0	0	0	0	0	0
904 - Instit. for Higher Ed.	196,290,599	183,925,600	129,994,524	208,703,463	206,376,821	81,655,326
905 - Transit Organization	0	0	0	0	0	376,990
907 - Utility	6,503,802	4,923,466	5,374,668	7,175,835	5,649,055	8,822,664
908 - Social Services	422,456,610	690,682,097	741,746,862	1,080,364,021	1,049,695,595	1,473,603,494
909 - Other Organization	713,739,402	977,620,063	954,073,945	1,452,912,906	1,593,469,026	1,861,812,732
Total	1,339,129,541	1,857,264,201	1,832,290,980	2,749,769,760	2,855,715,895	3,426,431,078

Type of NGO	2004	2005	2006	2007	2008	2009
902 - Hospital	270,373	38,329	8,883	1,172,487	151,949	132,174
903 - Housing Organization	0	0	1,082	0	0	0
904 - Instit. for Higher Ed.	218,917,794	10,648,521,029	236,707,907	253,520,386	256,223,567	262,886,426
905 - Transit Organization	0	0	0	2,001,901	2,004,523	2,060,068
907 - Utility	7,608,772	6,656,994	7,819,379	6,131,152	2,858,019	2,110,717
908 - Social Services	1,729,572,854	1,588,641,340	1,649,762,084	1,620,244,870	1,925,217,624	2,071,483,657
909 - Other Organization	2,355,195,958	2,708,417,804	2,703,245,693	2,843,107,102	3,256,264,728	3,383,829,785
Grand Total	4,311,565,751	14,952,275,496	4,597,545,028	4,726,177,808	5,442,720,410	5,722,502,827

Type of NGO	2010	2011	2012	2013	2014	2015
902 - Hospital	82,313	831,192	140,158	699,170	1,601,649	1,621,369
903 - Housing Organization	0	0	0	0	0	0
904 - Instit. for Higher Ed.	323,265,449	328,555,057	385,312,590	3,441,210,099	480,592,859	483,332,978
905 - Transit Organization	2,425,079	638,477	2,701,250	1,928,635	2,170,226	361,128
907 - Utility	2,283,086	971,158	2,060,693	4,856,941	7,642,191	10,295,657
908 - Social Services	2,184,955,079	1,886,749,859	1,718,809,098	1,442,494,603	1,386,165,353	1,530,980,032
909 - Other Organization	3,251,516,068	3,505,288,068	3,342,203,347	3,302,857,716	3,391,601,896	3,289,227,383
Grand Total	5,764,527,074	5,723,033,811	5,451,227,136	8,194,047,164	5,269,774,174	5,315,818,547

Note: All amounts presented in 2010 dollars.

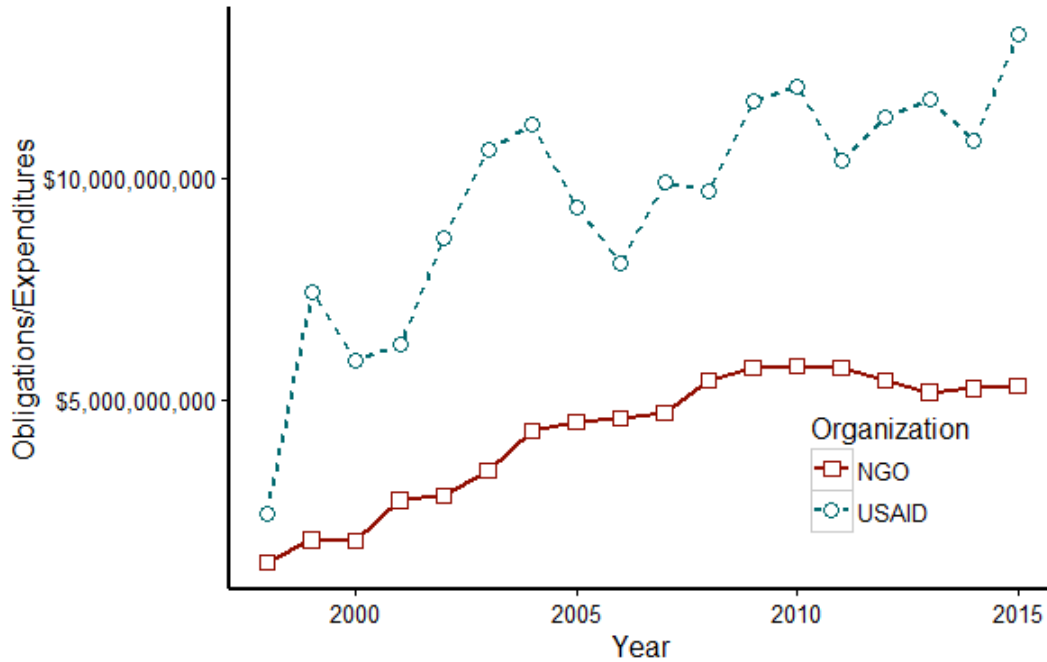
Figure 5.1: NGO Funding from USAID, 1998-2015



amount of funds USAID authorized for projects in a given year; however, those funds may be expended in a future year. USAID (2015*b*) defines an authorization as “a binding agreement that will result in outlays, immediately or in the future.” Whereas the authorization of funding may have occurred in 2005, the actual expenditures may not occur until years later. The amount provided in audit reports and visualized by the NGO line are the actual expenditures of NGOs for a given year (not the amount that was authorized or granted by USAID). This results in a figure that is slightly unintuitive, but does provide a useful reference point to see the trend of total USAID and NGO funding.

In addition to an increase in total funding to NGOs, Figure 5.3 indicates that USAID is, on average, increasing the number of NGOs it funds every year. There is a decrease in the

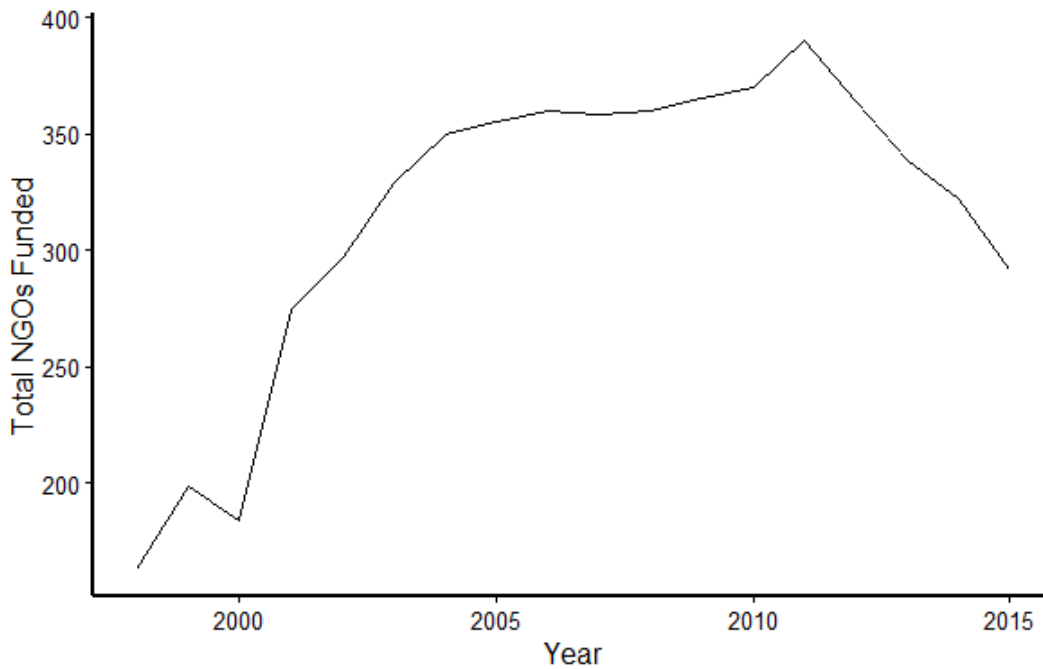
Figure 5.2: USAID Obligations and NGO Expenditures per Year
 (Without 2005 Johns Hopkins University &
 2013 Lebanese American University Award), 1998-2015



total number of NGOs reporting expenditures beginning in 2012. However, the decrease does not suggest a decreasing relevance of NGOs in USAID funding decisions, especially because the expenditures over this time remained flat. As recently as 2013, USAID reiterated its support of NGOs, recognizing them as an “integral component of the emerging paradigm that envisions, tests, and deploys the new ideas and technologies that are expanding the boundaries of what’s possible” (USAID 2013).

To provide further information pertaining to how NGOs are being utilized by USAID, Table 5.4 provides the aggregate monies provided by USAID and expended by NGOs. The information in columns titled “Number of NGOs Funded” and “Total Expended” were pre-

Figure 5.3: Number of NGOs Funded, 1998 - 2015



viously presented but provided again for convenience of comparison. The “Mean Expended Amount” column indicates a steady increase over the duration of data available, while the median expended amount stays relatively flat throughout all the years. Similarly, the mean grants awarded also trends upwards during the period covered and the median grants awarded remains flat. These findings suggest that while there was little change to most NGOs, the higher funded organizations (in terms of both dollars and grant awards) received increased funding each year. Also of note, the mean expended amount in 2005 and 2013 are slightly skewed because of the large Johns Hopkins and Lebanese-American University grants, respectively. Removing those two multi-billion dollar grants reduces the 2005 mean expended amount to \$12,704,406, while the 2013 amount is reduced to \$15,259,620.

Table 5.4: Descriptive Statistics of NGOs Funded by USAID

Year	Number of NGOs Funded	Total Expended	Mean Expended Amount	Median Expended Amount	Mean Grants Awarded	Median Grants Awarded
1998	163	1,339,129,541	8,215,519	1,411,424	7.4	2
1999	199	1,857,264,201	9,332,986	1,545,168	7.5	2
2000	184	1,832,290,980	9,958,103	1,540,526	8.3	3
2001	275	2,749,769,760	9,999,163	1,558,148	9.8	3
2002	297	2,855,715,895	9,615,205	1,534,054	10.6	3
2003	329	3,426,431,078	10,414,684	1,317,469	9.9	2
2004	350	4,311,565,751	12,318,759	1,313,800	10.3	2
2005	355	14,952,275,496	42,119,086	1,402,110	12.1	2
2006	360	4,597,545,028	12,770,958	1,251,772	11.5	2
2007	359	4,726,177,808	13,164,841	1,317,774	11.1	2
2008	361	5,442,720,410	15,076,788	1,120,599	11.9	2
2009	365	5,772,502,827	15,678,090	1,141,476	11.1	2
2010	370	5,764,527,074	15,579,803	1,038,076	10.6	2
2011	390	5,723,033,811	14,674,446	800,765	10.3	2
2012	364	5,451,227,136	14,975,899	1,088,630	11.2	2
2013	339	8,194,047,164	24,171,231	1,193,687	9.0	2
2014	322	5,269,774,174	16,365,758	1,589,224	8.9	2
2015	292	5,315,818,547	18,204,858	1,785,698	9.0	2

Note: All amounts presented in 2010 dollars.

Table 5.5: Total Funding By NGO, 1998-2015

NGO	Amount Expended
Johns Hopkins University	\$ 13,067,241,703
Catholic Relief Services	4,723,317,443
Family Health International	3,639,678,997
Cooperative for Assistance and Relief Everywhere (CARE)	3,311,458,630
Partnership for Supply Chain Management	3,188,630,285
Lebanese American University	3,057,888,611
Research Triangle Institute	2,766,237,095
World Vision	2,585,779,540
International Relief and Development	2,558,552,461
Management Sciences for Health	2,501,928,348

Note: All amounts presented in 2010 dollars.

In total, there were 862 NGOs funded by USAID from 1998 to 2015. A total of 21 NGOs expended over one billion dollars during that period; another 78 NGOs expended at least \$100 million. Table 5.5 provides an overview of the 10 NGOs that reported the largest expenditures. Many of the NGOs included on the list are recognizable organizations (like Catholic Relief Services or World Vision), while some are more obscure.

Finally, Table 5.6 provides aggregate audit information for all the NGOs in the dataset. The information in columns titled “Questioned Costs,” “Total Reportable Conditions,” and “Total Material Weaknesses” are dichotomous for each NGO year. This means that in 2005, there were 47 NGO single audit reports that disclosed questioned costs, 84 that reported a reportable condition, and 21 that elevated those reportable conditions to material weaknesses. The columns “Total Findings Reported,” and “Total Unique Findings” are aggregations of all information in the audit reports. From the data, it appears that total audit findings

Table 5.6: Descriptive Statistics of Audit Findings of NGOs Funded by USAID

Year	Questioned Costs	Total Reportable Conditions	Total Material Weaknesses	Total Findings Reported	Total Unique Findings
1998	20	30	8	304	73
1999	27	35	8	377	99
2000	14	33	8	395	109
2001	33	42	7	685	125
2002	25	45	8	1,060	123
2003	31	66	14	1,898	171
2004	36	70	18	1,612	176
2005	47	84	21	1,794	216
2006	49	99	32	5,783	270
2007	44	99	27	5,030	283
2008	59	93	22	7,796	299
2009	44	93	26	5,189	235
2010	43	72	17	2,640	180
2011	38	82	18	1,759	199
2012	38	58	20	2,095	191
2013	37	60	10	1,247	137
2014	17	57	4	1,385	141
2015	26	52	3	677	93

reported increase tremendously in 2006 and hover around the same level until 2009. At that time, it returns to previous levels. However, none of the other columns experience a large increase in 2006. The remainder of the columns suggest that audit findings increase from 1998 to 2008/2009, and then begin receding. This pattern mirrors the number of NGOs funded during the period (see Table 5.4 and Figure 5.3). The growth in total findings reported from 2006 to 2009 is likely due to a small number of NGOs that receive a large number of grants from USAID and the auditors assigned the finding(s) to all grants.

Conclusion

This chapter provided descriptive statistics of the Single Audit dataset, but several interesting conclusions emerged from the analysis. First, there is a steady increase in the total expenditures reported by NGOs, from USAID funding sources, from 1998 to 2009. From 2009 to 2015, the annual expenditures reported flatten out. Similarly, the number of NGOs reporting USAID-related expenditures increased from 1998 to 2011. Instead of flattening out, the total number of NGOs funded decreased from 2012 to 2015. Third, the data suggests that increases in funding only affected a small number of NGOs, with most organizations receiving modest grant awards (both in number and amount). Finally, the information contained in the audit reports of NGOs suggest many instances of organizations falling short of grant requirements. How this impacted future funding amounts will be determined in the subsequent chapter.

Chapter 6

The Single Audit and Accountability: Results of the Model

The number of NGOs engaging in international development activities has increased in the past decades. Some of these organizations are primarily funded by governments, either local or foreign, to provide needed services, while others are funded through donations. Chapter 2 discussed this growth and highlighted a prominent theme in the literature, a lack of accountability of these organizations to the populations it serves and to its funders. Using constructivist theory, Chapter 3 traced the creation of a certain accountability mechanism, the Single Audit, that emerged in the United States in the 1980s. Chapter 4 more fully explained the Single Audit Process and the information that could be obtained from such a report and Chapter 5 provided descriptive statistics of the Single Audit data available. This chapter is the culmination of the previous chapters, seeking to answer the question of whether the information in the Single Audit effects future funding decisions of USAID when distributing money to NGOs.

The chapter proceeds as follows, the model used in the analysis is first presented. Because of the nature of the data, the final results are presented using a selection model, which

first calculates a value that represents the likelihood an NGO would receive funding in a given year. It then incorporates this value as an independent variable in the final panel model. Next, the results are presented. Interestingly, information in the Single Audit does not influence funding decisions of USAID. A section is presented examining this finding more closely in an attempt to better understand why this might be. The analysis section combines all this data and further situates it in the context of USAID project reporting and the increasing importance of an accountability norm during the Obama Administration. The conclusion summarizes these findings, ultimately suggesting the information contained in the Single Audit, while valuable, is not meeting the needs of USAID and is therefore not a meaningful source of information when making funding decisions.

The Selection Model

One of the difficulties analyzing the current dataset is the sporadic funding of NGOs. Table 6.1 provides the number of years each NGO has an audit report included in the dataset. If an NGO was funded and audited every year covered in the dataset, there would be a total of 18 observations (1998-2015). By far, most of the NGOs in the dataset received funding and were audited only one or two times during the period covered.¹ This table suggests while there are many NGOs that receive consistent funding from USAID, it is much more common for an NGO to be funded for a specific project for a limited number of years.

Because of the structure of the data, completing further analysis is complicated. There is

¹An NGO may have received funding for more years than is reported in Table 6.1. This would happen if it did not reach the expenditure threshold that would trigger a Single Audit in a given year.

Table 6.1: Total Audit Reports per NGO

No. of Years	Total NGOs
1	177
2	117
3	77
4	71
5	56
6	41
7	38
8	32
9	28
10	26
11	19
12	25
13	22
14	11
15	30
16	28
17	29
18	47

a possibility the 177 NGOs reporting only one year of grant expenditures from USAID were found to be fiscally irresponsible and/or incapable to complete the projects for which it was funded. However, it is more likely these NGOs chose to pursue limited funding from USAID. Because of this possibility, this research opts for a selection model based on Heckman (1974) to correct for potential selection bias.

Issues related to sample selection (and the potential bias that can be introduced as a result) are common to statistical analyses. Panel data, by its nature, presents potential selection bias. Often, the source of bias is attrition, but unobserved heterogeneity in the sample population can also be a source (Kyriazidou 1997). In this second case, different preferences or attributes of the individuals/groups in the sample population can be difficult/impossible to measure, but vitally important to the study. Heckman (1974) discusses this difficulty when predicting female wage rates based on survey responses. For women, many self-selected themselves out of the labor market, instead preferring to work in the home. When predicting wage rates, additional procedures were necessary to account for this phenomenon. Furthermore, sometimes the research design and/or the data available introduce selection bias. This can be especially true in cases where there is interest in generalizing to an entire population, but the sample only includes a non-random subset of that population (Wooldridge 2002).

However, this sample selection bias can be overcome by a model introduced by Heckman (1979). Applied here, it first predicts the probability an NGO receives funding using a probit model. Heckman (1979) then suggests inclusion of the inverse Mills ratio from the probit model as another explanatory variable in the primary model. This model is frequently used

in political science. Bonneau and Hall (2009) use a selection model to first understand when challengers enter judicial elections, and then model the relationship between campaign spending and voter participation. Vreeland (2002) used a similar model to determine the effect of IMF programs on labor share. In the study, it is argued the countries participating in IMF programs are inherently different than those that do not. Some of those differences can be observed, but others, like “political will” are not able to be observed. To remedy this selection bias, Vreeland (2002) used a model similar to the one proposed by Heckman (1979). It is from this point that the current research begins.

Commonly, a selection model is used when the dependent variable is missing not at random. In this study, the dependent variable is not missing. It may be absent from the original dataset obtained from the Audit Clearinghouse, but this only indicates the NGO did not expend a sufficient amount of dollars in a given year so that a single audit was necessary. As such, all data is present (but because there was not a single audit, there is no relevant data). However, to disentangle the effects of a positive or negative single audit report, first the conditions when an NGO is predicted to have expended a sufficient level of funding in a given year to initiate a Single Audit must be calculated. This first stage model is discussed below.

It is assumed an NGO that receives funding in one year most likely received funding in the prior year. It is also assumed that as the total number of grants received over the entire duration of the study (1998 - 2015) increases, the probability of reporting funding in a given year increases. Modeling temporal dependence is not as simple as including the lagged dependent variable. Beck, Katz, and Tucker note that without properly accounting

for temporal dependence in logit or probit models, “overly optimistic” inferences will be made (1998, 1261). To remedy this, the authors suggest creating a count variable since the last positive occurrence (in this case, since the last time the NGO received funding). Generally, a cubic spline with three knots is included in the model.² The results of this model are included in Appendix A. Carter and Signorino believe this method is satisfactory, but has resulted in many researchers treating time like a “statistical nuisance” (2010, 272). Similar to Beck, Katz, and Tucker (1998), Carter and Signorino (2010) recommends creating a count variable since the last positive occurrence. This variable is then squared and cubed, with all three included in the model. This technique provides for an easier interpretation of time in the model than does the inclusion of splines. It is for this reason the specification suggested by Carter and Signorino (2010) is included here.³

Given these assumptions, let d_{it} represent an NGO (i) for a given year (t). If the NGO reported expenditures from USAID grants, $d_{it} = 1$; if no funding is reported, $d_{it} = 0$. Using the probability unit (Probit) model, the likelihood of a positive outcome can be notated as:

$$\Pr(d_{it} = 1|\tilde{X}) = \Phi(\tilde{X}\hat{\beta}) \quad (1)$$

The results of the probit model are found at Table 6.2.⁴ As hypothesized, the time since last grant is a significant predictor of a current year grant. The longer the duration since the last

²Beck, Katz, and Tucker (1998) also offer the option of including time dummies instead of cubic splines. This method was not used, as Carter and Signorino (2010) strongly advises against this method in instances with a large number of time periods.

³A number of specifications for the selection model and full panel model are included in Appendix A.

⁴The results provided in Table 6.2 and 6.3, as well as those tables in Appendix A, were produced via the Stargazer R package (Hlavac 2015).

grant, the less likely an NGO will report grant expenditures in the current year. Figure 6.1 displays this probability for ease of interpretation.

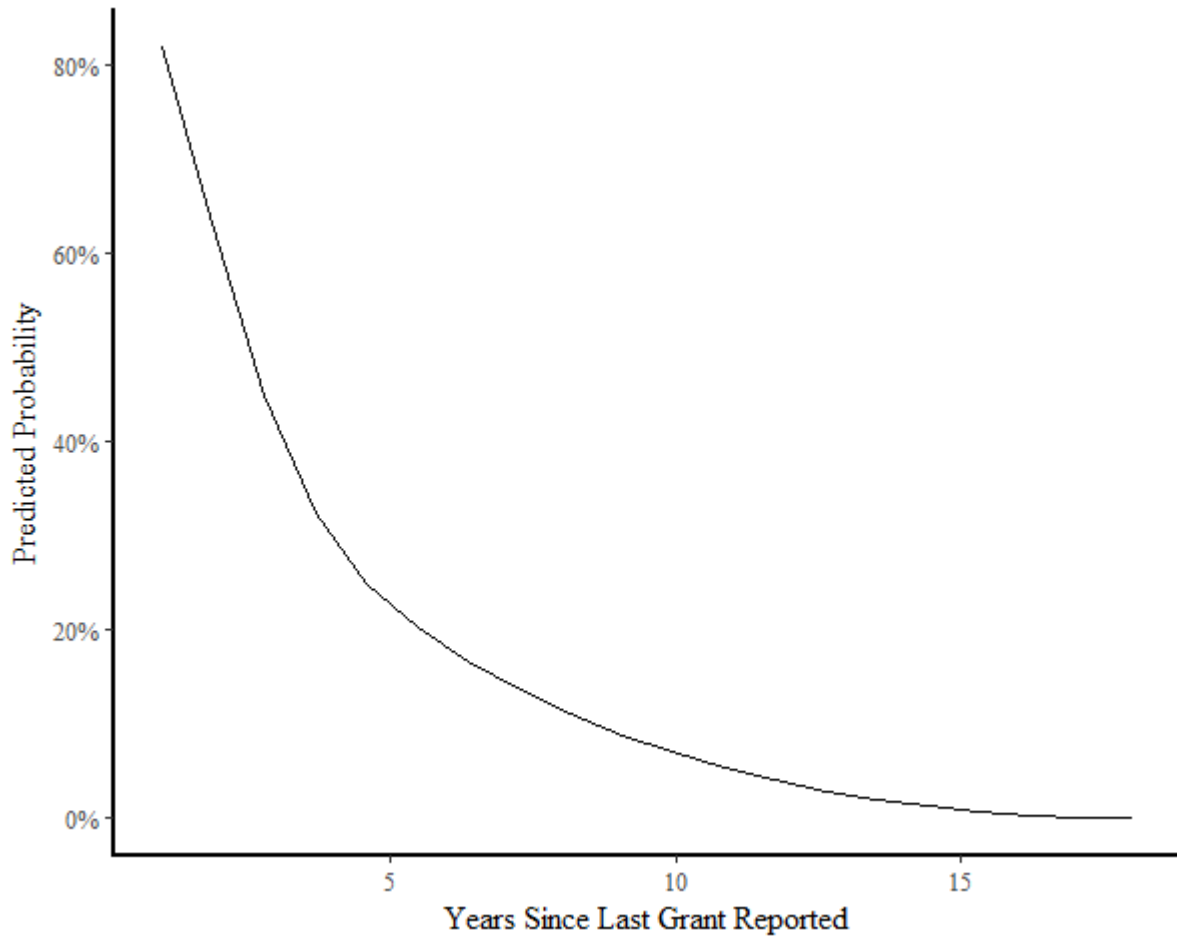
Table 6.2: Results of the Selection/Probit Model

	<i>Dependent variable:</i>
	NGO Funded
Log of Total Grants Received	0.397*** (0.009)
Time Since Last Event	-1.004*** (0.024)
Time Squared	0.117*** (0.004)
Time Cubed	-0.004*** (0.0002)
Constant	0.222*** (0.044)
Observations	15,732
Log Likelihood	-6,054.836
<i>Note:</i>	*p<0.05; **p<0.01; ***p<0.001

Following Heckman (1979), using the coefficients ($\hat{\beta}$) in the probit model, one can calculate the inverse Mills ratio for each NGO year in the sample $\lambda(\tilde{X}_{it}\hat{\beta})$. The inverse Mills ratio represents the probability that an observation is selected into the sample. In this study, the sample are those years where an NGO received funding. The inverse Mills ratio can then be used as an additional independent variable in the linear model to account for the bias introduced because of a non-randomly selected population. Extending this to the linear

Figure 6.1: Probability of Grant Funding

Model Predicted Probabilities.png



model, the final equation is notated as:⁵

$$Y_{it} = \beta_i X_{it} + \alpha_i + \lambda_{it} + \varepsilon_{it} \quad (2)$$

Both fixed- and random-effects models attempt to account for omitted variable bias but make different assumptions in doing so. A fixed-effects model assumes that unobserved individual effects within groups are correlated to the independent variables. Conversely, random-effects models assume that unobserved individual effects within the groups are uncorrelated to the independent variables (Greene 2002). The specification test created by Hausman (1978) can be used to determine whether the fixed- or random-effects model is more appropriate given the data. The null hypothesis in the test is that there is no significant difference between the random- and fixed-effects model, and subsequently, the random-effects is appropriate for use. The alternative hypothesis is there is a significant difference between the two models, suggesting the fixed-effects model is more efficient. The results of the test suggest that the fixed-effects model is more appropriate for this analysis.⁶

Likewise, there is a possibility that an unmeasured phenomenon is occurring over time in the model that is not accounted for in the independent variables. To determine if this is present, an F-test was conducted. The null hypothesis is there is no difference between the models with and without fixed time effects.⁷ For added assurance, the Lagrange Multiplier Test for time effects was conducted.⁸ The results of both tests suggest the model

⁵The equation provided is for a fixed effects model, which is ultimately used in this analysis.

⁶ $\chi^2 = 3508$, $df = 13$, $p < .001$

⁷ $F_{12,13085} = 2.55$, $p < .01$

⁸ $\chi^2 = 20.08$, $df = 1$, $p < .001$

with time fixed effects is the preferable model. Additionally, to test if heteroskedasticity is affecting the model results, the Breusch-Pagan Test was conducted.⁹ This test suggests that heteroskedasticity is present in the model. To account for this, robust standard errors are presented. The results of the final model are found at Table 6.3. Column one reports standard errors, column two provides robust standard errors, and the third column presents clustered standard errors. There is little difference interpreting the results using either robust or clustered standard errors. Appendix B provides an alternative presentation of the results by graphically representing the coefficients and the 95% confidence intervals.

Results

The results of the analysis suggest information contained in the Single Audit reports of NGOs has no effect on future funding flows from USAID. Increasing the lag to three years provides the same results (but are not presented here because it does not change the results presented in Table 6.3). The following section will dig into this non-finding in more detail. However, if Single Audits truly have no effect on future funding decisions of USAID, this represents a disastrously inefficient and high-cost formality imposed on each NGO receiving federal funding. The USAID compliance supplement¹⁰ allows for Single Audit costs to be paid for with grant funding. Independent audit firms and NGOs agree on a price for Single Audit services, but a conservative estimate might be 1% of total grants received. With this assumption, in 1998 (the year with the lowest USAID grant expenditures reported by

⁹BP = 1190.8, df = 25, $p < .001$

¹⁰The current and historical compliance supplements can be found at <https://www.whitehouse.gov/omb/information-for-agencies/circulars>.

Table 6.3: Results of Full Model

	<i>Dependent variable:</i>		
	Log Total Funding from USAID		
	(1)	(2)	(3)
Log Total Funding (Lagged 1 Year)	0.417*** (0.011)	0.417*** (0.015)	0.417*** (0.017)
Log Total Annual USAID Funding	1.572*** (0.403)	1.572*** (0.386)	1.572*** (0.424)
War in Iraq	0.589** (0.196)	0.589*** (0.176)	0.589** (0.193)
NGO Work in Iraq	-0.486 (0.884)	-0.486 (0.947)	-0.486 (1.038)
Iraq Interaction	0.672 (0.898)	0.672 (0.791)	0.672 (0.867)
War in Afghanistan	0.617*** (0.171)	0.617*** (0.140)	0.617*** (0.153)
NGO Work in Afghanistan	2.249 (1.302)	2.249** (0.788)	2.249** (0.864)
Afghanistan Interaction	-0.811 (1.297)	-0.811 (0.603)	-0.811 (0.661)
Annual Grants Received from USAID	0.038*** (0.003)	0.038 (0.022)	0.038 (0.024)
Reportable Conditions (Lagged 2 Years)	0.016 (0.178)	0.016 (0.188)	0.016 (0.206)
Material Weaknesses (Lagged 2 Years)	0.716* (0.335)	0.716 (0.381)	0.716 (0.418)
Questioned Costs (Lagged 2 Years)	-0.413 (0.218)	-0.413 (0.241)	-0.413 (0.264)
Inverse Mills Ratio	-1.458*** (0.133)	-1.458*** (0.138)	-1.458*** (0.151)
Observations	13,984	13,984	13,984
R ²	0.304	0.304	0.304
Adjusted R ²	0.257	0.257	0.257
F Statistic (df = 25; 13085)	228.980***	228.980***	228.980***

Note:

*p<0.05; **p<0.01; ***p<0.001

NGOs), \$13 million was spent to cover audit expenses. In 2013, this estimate increases to \$82 million.¹¹

Other results agree with expectations. The prior year grant expenditures is a significant predictor of current year grant expenditures. Additionally, as overall USAID funding to NGOs increases, so to does an NGO's predicted expenditures. What is surprising is that as the total number of grants reported from USAID increases, there does not appear to be an increase in total expenditures reported (when considering the model reporting robust or clustered standard errors). This may be due to relatively lower expenditures at the beginning of a grant while the NGO is setting up the program. As that grant project matures, the reported costs would rise, but it would also provide time for other mature grants to expire.

For the years when the Iraq and/or Afghanistan conflict were occurring, NGO expenditures increased. This was significant at the $p < .001$ level for both variables. Interestingly, the variable representing if the NGO did work in Iraq is not significant, but it is significant if the NGO completed work in Afghanistan. The interaction between the years of conflict in those countries and if the NGO did work there was not significant. On its face, this suggests that during these conflicts more money was provided to NGOs, but that money was not used to support reconstruction efforts. As noted previously, federal funding to NGOs increased consistently throughout the time period covered. Given this, perhaps this is a valid explanation for the results. More likely though, this is a result of how the variables were coded. To have the indicator present, the auditor or NGO would have to include the country name in the grant description. Upon reviewing the underlying data, this is not occurring regularly.

¹¹A suggestion for future study is to complete a similar analysis for all federal agencies. If these findings hold across all federal agencies, the amount of money wasted on Single Audits would be staggering.

Determining which NGOs actually did work in each country would be extremely difficult, if not impossible. Going out to each NGO's website is a possibility to see if it did work in Afghanistan or Iraq, but because the conflicts are over, the NGOs websites could be updated to reflect current projects and not historical ones done in various countries. Additionally, several of the NGOs are no longer in existence, so even going to a website or contacting someone would be impossible.

To further understand why Single Audit reports have little impact on future funding decisions, the following section examines two NGOs that were barred from receiving future USAID grants due to fiscal mismanagement. These are not formal case studies, and selection of the two organizations were done through a search for NGOs that were suspended from receiving USAID funding for reasons relating to fiscal matters (with the assumption the Single Audits intention would be to learn of these matters). Using this data, as well as observations from both USAID reports and information obtained while compiling the dataset, a clearer picture emerges as to why Single Audits have virtually no effect on future funding flows.

Why Single Audits Have No Influence

If agencies engage in activities that are disallowed by grant agreements, or if there is willful or unaware misdirection of funds, USAID has the authority to suspend or disbar funding to those agencies until it deems the problem has been addressed. According to the United States Office of Government-Wide Policy, suspensions last one year or less and are

generally done when there is an ongoing investigation into wrongdoing. Debarments are generally imposed for a period of three years and occur after a conviction or other legal proceeding against the individual/firm in question (GSA 2016). Looking at agencies that have been suspended or disbarred from future funding may help illuminate why Single Audits do not have the intended effect. As noted in the first chapter, one such organization that was barred by USAID was International Relief and Development (IRD). Another such agency was Academy for Educational Development (AED). Both were suspended or disbarred for financial mismanagement, but looking at the Single Audit summaries, this is not readily apparent.

International Relief and Development

As discussed in Chapter 1, IRD was founded in 1998 to reduce the suffering of vulnerable individuals around the world. According to official documents of the organization, it did this through community stabilization, infrastructure, health, democratic governance, and food programs. By 2010, IRD became one of the largest contractors for USAID projects. In that year, the NGO reported expenditures of nearly \$500 million in USAID grant funding. From 1998 to 2010, IRD reported expenditures of over \$1.7 billion from USAID grants.

Because of the organization's large contracts with USAID, as well as its work in Afghanistan and Iraq, it drew the attention of the development community and the media. Beginning in 2014, the Washington Post began to investigate IRD's work and operating practices. Soon, stories were written suggesting the founder of IRD and his wife, Arthur B. Keys and Jasna Basaric-Keys, received salary and bonuses totaling over \$4.4 million from 2008 to 2012

(Higham, Schulberg, and Rich 2014). Another Washington Post article published in 2015 alleged IRD spent \$1.1 million on employee retreats and parties, justifying it as trainings, employee morale boosting activities, and leadership meetings (Higham 2015*b*). In January 2015, USAID suspended IRD, halting further funding to the organization.

IRD disagreed with the conclusions of USAID and denied any wrongdoing. The NGO dismissed the suspension as simply a way to appease lawmakers who sought more accountability in the foreign assistance process (Anders 2015). In a demonstration to USAID that it took the allegations seriously though, the Board of Directors were replaced and the resignations of several key administrators were accepted, including the Chief Financial Officer and the Chief Administrative Officer (Higham 2015*a*).¹² In June 2015, IRD filed a lawsuit against USAID for violating the Administrative Procedures Act. In it, IRD argued the suspension was due to negative press coverage and not because of any wrongdoing on its part (Anders 2016). Apparently, there was a conflict of interest, as a USAID employee who worked in suspending contractors was also responsible for awarding contracts. USAID rescinded its suspension of IRD soon after the lawsuit was filed. Shortly thereafter, in August 2015, a judge ordered USAID fairly consider any project proposals from IRD and release a statement noting the mistaken suspension (Hsu 2015). That statement was released on August 6, 2015 (USAID 2015*a*).

The effect of the short-lived suspension was severe. IRD reduced its workforce by approximately 350 employees and suffered lost revenue in the tens of millions of dollars (Hsu 2015). IRD survived the suspension, but has since changed its name to the Blumont Group

¹²Arthur Keys and Jasna Basaric-Keys retired in 2014, before the suspension was enforced.

Table 6.4: Single Audit Summary - International Relief and Development

Year	Expenditure Amount	Total Grants	Total Findings	Total Unique Findings	Reportable Condition	Material Weakness
1998	0	N/A	N/A	N/A	N/A	N/A
1999	0	N/A	N/A	N/A	N/A	N/A
2000	316,701	1	1	1	No	No
2001	3,491,156	3	4	2	No	No
2002	10,436,148	7	0	0	No	No
2003	25,731,145	16	1	1	Yes	No
2004	35,725,590	15	1	1	No	No
2005	52,265,226	21	2	2	No	No
2006	86,262,519	26	0	0	No	No
2007	266,762,324	27	1	1	No	No
2008	430,979,261	41	0	0	No	No
2009	338,797,675	55	0	0	No	No
2010	494,631,659	51	0	0	No	No
2011	311,968,158	4	1	1	No	No
2012	153,152,157	3	0	0	No	No
2013	109,548,095	3	0	0	No	No
2014	124,611,434	4	0	0	No	No
2015	113,873,213	8	0	0	No	No

Note: All amounts presented in 2010 dollars.

and relocated the headquarters from outside Washington D.C. to Madison, Wisconsin. The NGO continues to apply for USAID funding to continue providing assistance to refugees and development of infrastructure projects around the world.

Table 6.4 provides the available Single Audit data for IRD. The organization began receiving USAID funding in 2000. In the first year of funding, it received approximately \$300,000, but soon expanded the number of programs and grants it received from USAID. By 2007, IRD expended over \$250 million in federal grants, and by 2010, nearly \$500 million.

From 2000 to 2015, the Single Audit reports indicate IRD engaged three different audit

firms (Rubino and McGeehin Consulting Group in 2000, Raffa P.C. from 2001 to 2014, and Deloitte in 2015). During this time, there were only 11 total reported audit findings. Never was an audit finding elevated to a material weakness, surprising given that IRD engaged in such egregious behavior that USAID suspended it from receiving future funding. Additionally, there were never any questioned costs included in the organization's Single Audit reports.

The lack of audit findings is possibly due to the fact the excessive money spent on compensation and bonuses, as well as lavish retreats and employee training, may not have been improper from an accounting sense. Unless the contracts stipulated a maximum amount that could be spent on compensation and training, and that amount was exceeded (or the grants disallowed these expenses altogether), the auditors would not have reported findings related to excessive expenditures. Additionally, according to IRD, the organization hired an accounting firm to review the expenditures USAID questioned and found that 98% of the expenditures were actually allowable costs (Anders 2016). The Single Audit would not uncover spending that is allowable, but excessive. The reason is simple. At what level of spending does something stop being reasonable and become excessive? It is this gray area that most auditors would not feel comfortable making a judgment. The Single Audit is compliance-based, with either the auditee in or out of compliance. Because of the subjectivity of the decision between reasonable or excessive expenditures, auditors should not be expected to make those decisions without more guidance from the funding agency.

Academy for Educational Development

The Academy for Educational Development (AED) was founded in 1961.¹³ The organization's initial focus was higher education issues within the United States but soon expanded into international issues. During the 2009-2010 fiscal year, AED claimed to oversee projects in 150 countries and reported annual expenditures of \$437 million (AED 2010). However, this same year USAID began an inquiry into AED's financial transactions which initially resulted in a suspension of future USAID funding and ultimately led to its demise in 2011.

From testimony given by Deputy Inspector General Michael Carroll of USAID, AED was accused of corporate misconduct, mismanagement, and a lack of internal controls (Commission on Wartime Contracting in Iraq and Afghanistan 2011). The exact details of what occurred are lacking and the Office of the Inspector General (OIG) for USAID has not released the report publicly.¹⁴ It is believed a whistleblower in Pakistan informed USAID that after a 2008 earthquake, AED rushed to purchase emergency supply kits. In the organization's haste, it overpaid for these kits (and certain staff members may have received a kick-back from the supplier). Allegations of more impropriety came in 2010 on a higher education project in Afghanistan, resulting in increased scrutiny from the OIG. At this time, AED sought the services of Ernst and Young, an accounting and auditing firm.¹⁵ From a review of transactions completed, it was determined AED overcharged USAID \$1,000,000

¹³Because AED is now defunct, obtaining credible background information is difficult. The brief overview presented here is from information obtained from snapshots of the organization's website (obtained via archive.org) combined with background information found on guidestar.com.

¹⁴And from what USAID has told various news sources, the report may not be made public at all (Jamrisko 2011).

¹⁵From the information reviewed, it does not appear this was a Single Audit but rather a consulting engagement for Ernst and Young. Both the 2008 and 2009 Single Audit on file for AED was completed by KPMG.

in Pakistan and remitted this amount back to USAID (Beam 2011). Ultimately, USAID suspended AED's funding, which was the source of most of the organization's revenue. In 2011, AED merged its programs and employees with another USAID-funded NGO, Family Health International, to become FHI360.

While AED admitted overcharging USAID for specific items, there are some who believe the NGO might have been the victim of timing (Beam 2011). In 2010, USAID released an audit report of the same program in Pakistan that AED was accused of purchasing the emergency supply kits in question. In it, the report suggests USAID was not monitoring its contractors appropriately and delegated too much responsibility of the oversight function to others (Office of Inspector General 2010). However, in the summary of findings, the report notes "Security issues were the main cause of poor performance" (Office of Inspector General 2010, 2). Contractors or NGOs are not mentioned. Unfortunately, the report does not provide any additional details into the wrongdoings of AED, and the organization is never identified by name (but it is noted a contractor was removed from the program and the award was given to another NGO).

This 2010 report from USAID also came during a time of a general increase in focus on accountability. In 2009, the OIG issued a report critical of the USAID's suspension and debarment procedures. In it, there is a suggestion that USAID should increase the number of contractor suspensions and debarments, as well as create a new division devoted to such matters (Office of Inspector General 2009). The Commission on Wartime Contracting in Iraq and Afghanistan (2011) notes that between 2003 to 2007, only nine suspensions and debarments occurred. Subsequently, USAID initiated 28 actions against government

contractors in 2011. This increased focus on accountability may be the reason for AED's ultimate demise, rather than due to egregious actions on its part.

Table 6.5 provides the details available for the Single Audits of AED from 1998 to 2009. From the data included in the annual Single Audit reports for AED, one sees a steady increase of USAID-related expenditures from 1998 to 2009. The total number of grants received increased until 2006, and then stayed consistently between 80 to 90 individual grants. The total number of findings was relatively minor at the beginning of the period covered and increased over time to over 80 findings from 2007 to 2009. However, in the years immediately preceding its barring, only one unique finding was reported. This suggests that each grant was assigned the same finding.¹⁶ Also it should be noted this single finding was not considered a material weakness, even in 2009. This is curious because anything that would require AED to return approximately \$1 million dollars to USAID would be serious enough to be considered a material weakness.

The auditors did report questioned costs in each audit report from 2007 until 2009. However, in spite of the questioned costs, the amount expended by AED increased every year until it was barred. This suggests that even though the audit report was providing information that could benefit USAID in understanding problems at AED, funding was not impacted. And, while questioned costs were reported beginning in 2007, the external whistleblower that began the investigation by USAID did not occur until 2008. Part of this could be the delay in completing and reporting the Single Audit, but AED's hiring of an

¹⁶Without seeing the actual audit report, it is impossible to know what this finding was. However, it is likely there was a finding related to internal controls within AED which was prevalent to the organization as a whole, not just a small confined incident related to one of the grants. This finding would then be applied to every grant audited

Table 6.5: Single Audit Summary - AED

Year	Expenditure Amount	Total Grants	Total Findings	Total Unique Findings	Reportable Condition	Material Weakness
1998	95,077,306	54	16	1	No	No
1999	111,485,661	58	10	2	Yes	No
2000	121,174,140	62	2	1	Yes	No
2001	122,159,180	70	0	0	No	No
2002	127,168,013	66	7	1	No	No
2003	142,980,406	76	0	0	Yes	No
2004	186,978,697	89	54	2	Yes	Yes
2005	208,774,634	90	56	2	Yes	No
2006	249,325,440	91	0	0	Yes	No
2007	316,721,983	87	87	1	Yes	No
2008	317,597,243	82	82	1	Yes	No
2009	340,660,982	83	83	1	Yes	No
2010	0	N/A	N/A	N/A	N/A	N/A
2011	0	N/A	N/A	N/A	N/A	N/A
2012	0	N/A	N/A	N/A	N/A	N/A
2013	0	N/A	N/A	N/A	N/A	N/A
2014	0	N/A	N/A	N/A	N/A	N/A
2015	0	N/A	N/A	N/A	N/A	N/A

Note: All amounts presented in 2010 dollars.

additional audit firm to look directly into the issue suggests that AED did not believe the Single Audit provided the necessary information, or the appropriate procedures, to determine the extent of the error.

Also, similar to IRD, it is questionable whether auditors would report findings related to the purchased emergency supply kits. The purchase of the kits appears to be perfectly acceptable; it was the price paid for those kits and possible kickbacks that was unallowable. Assuming the purchase of the kits was allowable based on the grant agreement and the purchase went through the standard process, it is likely the auditors would have concluded the transaction was appropriate. Many will assume that audits will detect instances of fraud if it is occurring, but this is just not feasible. Generally Accepted Auditing Standards (GAAS) guides an auditor's work. AU Section 316 states that auditors must plan and perform audits to obtain reasonable assurance that fraud and/or the financial statements are materially correct. However, the statement continues to declare that detecting all fraud is not possible.

However, absolute assurance is not attainable and thus even a properly planned and performed audit may not detect a material misstatement resulting from fraud. A material misstatement may not be detected because of the nature of audit evidence or because the characteristics of fraud as discussed above may cause the auditor to rely unknowingly on audit evidence that appears to be valid, but is, in fact, false and fraudulent. Furthermore, audit procedures that are effective for detecting an error may be ineffective for detecting fraud.

In this case, because the potential fraud that occurred was from a kickback, the transaction could have gone through all the proper internal control channels of AED and appear to be a reasonable expenditure. There would have been very little evidence of this wrongdoing and the auditors understandably would not have discovered the impropriety. A global 2016

survey of businesses by PwC¹⁷ notes most economic crimes are discovered through internal and external tips, internal audits, investigations surrounding suspicious transactions, and by accident (PwC 2016). Consistent with the findings above, external audits discover only a small percentage of fraud that occurs in organizations.

Analysis

Examining these findings from the standpoint of efficiency and cost, the Single Audit is disappointingly ineffective. Grant funding is being expended and time is lost on an annual exercise that bears little consequence to future funding from USAID. However, these findings are not really surprising. First, recall Figure 5.2. The Single Audit is based on annual expenditures incurred by an NGO. However, USAID reports funding on a project basis. Whereas a USAID project may span several years, USAID reports the total amount awarded in the first year. Conversely, The Single Audit only applies once certain spending thresholds occur. For projects that span several years, the full amount will not appear on a Single Audit report until future fiscal years.

Similarly, the Single Audit naturally takes the auditee as the unit of analysis. USAID regards the project as the unit of analysis in its reviews. This tension results in USAID's increased focus on project outcomes and less on individual NGOs or other partners that are doing the work. The report related to the project where AED purchased the high-cost relief kits never even mentioned the NGO by name, simply referring to AED as "the

¹⁷Formerly known as Pricewaterhouse Coopers, PwC is the second largest accounting network in the United States.

implementer,” “the contractor,” or “a U.S. based nongovernmental organization” (Office of Inspector General 2010).

In a more recent report, the OIG cited inappropriate actions by a USAID contractor. In it, the contractor is named (Tetra Tech ES Inc.) and its deficiencies noted. Tetra Tech funded projects that did not meet program objectives, engaged in hiring subcontractors using non-competitive processes, and did not follow local labor laws. This information was learned due to testing completed by OIG, not from external audit reports. The OIG tested 15 subgrants that were awarded from the primary award to Tetra Tech, totaling \$1.3 million dollars. The final conclusion from the OIG was that all the expenditures were unallowed costs and recommended USAID to investigate if any of this funding could be recovered. Most interestingly, while the report noted questionable performance by the contractor, it focused more attention on the lack of USAID oversight of its contractors (Office of Inspector General 2017).

Another audit report found deficiencies in project management from an NGO that received grant funding to assist a project in Cambodia to support forest management and increase biodiversity. The NGO was identified as Winrock International Institute for Agricultural Development. This organization has audit data for 13 of the 18 years included in the above analysis and expended approximately \$650 million. The OIG completed testing, relying on its own procedures. There was no reference to external audit reports for the four-year, \$20 million project (Office of Inspector General 2016). Either the Single Audits were not beneficial to OIG or the reports were ignored. Whichever is more accurate, the Single Audit appears to be a compliance exercise that is not being subsequently reviewed by the

funding organization.

The System for Award Management website (sam.gov) tracks the individuals and firms that are suspended or disbarred from receiving federal funds. From January 1, 1998 to December 31, 2015 (the time period covered by this analysis), there were 207 individuals and firms suspended and/or disbarred from receiving USAID funding. Of those 207, only 37 were firms.¹⁸ Furthermore, when comparing those 37 firms to the dataset of NGOs that received funding from USAID, only 28 are firms located in the United States and subject to Single Audit guidelines. Many of these firms are for-profit companies receiving contractual funding from USAID. Of the 28 firms that are located in the United States and have been suspended/disbarred by USAID, only one NGO included in the analysis was suspended/disbarred by USAID. That NGO is AED. IRD was not included in the list because its suspension was legally overturned.

This limited population of NGOs that have been suspended/disbarred by USAID makes any further analysis impossible and fruitless.¹⁹ There still remains a possibility that Single Audit findings increase the likelihood of a review by USAID. However, as noted previously, the unit of analysis of the reviews completed by USAID are projects, not contractors, making this analysis impossible as well.

Both AED and IRD claimed to be victims of an overzealous application of accountability. One of President Barack Obama's first actions was to release a presidential memorandum

¹⁸This is important to note as both a firm and an individual from that firm can be suspended or disbarred from receiving USAID funding. This would guard against an individual engaging in questionable activities, getting caught, and then moving to another firm without any penalties for its actions.

¹⁹With additional cases of suspension, a hazard model could assist in determining if increased audit findings lead to increased scrutiny and potential suspension/disbarment. However, this is impossible with only one case.

that aimed to strengthen accountability of government contractors.

In addition, today I'm announcing that part of this deficit reduction will include reforms in how government does business, which will save the American people up to \$40 billion each year. It starts with reforming our broken system of government contracting. There is a fundamental public trust that we must uphold. The American people's money must be spent to advance their priorities – not to line the pockets of contractors or to maintain projects that don't work.

Recently that public trust has not always been kept. Over the last eight years, government spending on contracts has doubled to over half a trillion dollars. Far too often, the spending is plagued by massive cost overruns, outright fraud, and the absence of oversight and accountability. In some cases, contracts are awarded without competition. In others, contractors actually oversee other contractors. We are spending money on things that we don't need, and we're paying more than we need to pay. And that's completely unacceptable (Obama 2009).

In support of a conclusion drawn in Chapter 3, the President of the United States declared that contractor accountability was to be a priority. Through the actions of leadership, changes were made and AED and IRD were subjected to an increased level scrutiny than both may have been prior to the Obama presidency. Supporting this claim is also the fact that funding to contractors peaked in 2010 and then began to decrease in subsequent years (see Table 5.3). Soon after President Obama promised accountability and a review of the contracting process, funding to NGOs decreased.

Unfortunately, as this chapter has demonstrated, the United States continues to neglect an important accountability mechanism in the Single Audit. If the information obtained from the Single Audit is not beneficial, the government could change the mandate to ensure the proper testing procedures and/or information is reported. If the Single Audit is deemed to provide little information above the additional procedures that government agencies, especially USAID, are completing to monitor contractor payments, then removing the

restrictions would free up time and resources for the grant recipients. These resources could then be placed back into the projects the grant funding is intended to support.

Conclusion

Using a selection model that first predicted whether an NGO would receive funding from USAID, and incorporating the inverse Mills ratio into the full model, it was found that results from the Single Audit have no effect on future funding decisions of USAID. Two examples of NGOs that faced allegations of fiscal impropriety were discussed. In the case of IRD, the Single Audit reports indicated little evidence of inappropriate behavior whereas with AED, the Single Audit report included several years of questioned costs. However, in neither case could evidence be found suggesting the Single Audit was consulted by USAID. The allegations against IRD stemmed from articles in the Washington Post. AED's wrongdoing was exposed by a whistleblower.

Furthermore, in the instances of IRD and AED, it is unlikely the Single Audit would have uncovered those instances of wrongdoing. IRD spent money on allowable costs related to training and meetings, but was accused of spending too excessively. Unfortunately, the Single Audit or the auditors would be unable to determine what constitutes "excessive" without clear guidance from the funding organization. In the case of AED, the fraud that occurred because of kickbacks was only uncovered through a whistleblower. Short of the guilty individual(s) coming forward to admit wrongdoing, the Single Audit would have extreme difficulty discovering this as well.

These shortcomings of the Single Audit suggest changes should be made to either re-examine the procedures that make up the Single Audit to make them more beneficial for the funding agency or remove the requirement altogether. Organizations spend a significant amount of time and money preparing for, and undergoing, the Single Audit. Those resources could be better directed toward the organization's mission if the Single Audit provides no tangible benefit.

In 2009, President Barack Obama promised the American people to hold government contractors more accountable. It is a noble goal, but subjecting these organizations to unnecessary and unused accountability mechanisms does not advance this cause. With the other processes in place at USAID (primarily the internal monitoring and reviews by the Office of the Inspector General), the Single Audit appears to be an unused accountability mechanism in place only for accountability's sake.

Chapter 7

Conclusion

This research originated from the curiosity of the truth of the claim from Wenar that NGO accountability has been “little more than filing some perfunctory reports and being subject to an occasional audit” (2006, 14). While this statement may be true, especially considering the results of this study, there are few studies that actually tests those “perfunctory reports” and/or “occasional audits” to determine if the accountability mechanism is having the intended effect. The push for NGO accountability in academic literature is not new (however, much of this focuses on the lack of accountability to those receiving the services of the NGO). In practice, USAID began to focus on accountability after the rapid increase of funding to NGOs during the 2000s, likely the result of the conflicts in Iraq and Afghanistan.

The specific accountability mechanism tested in this report is the Single Audit. It is required for all United States’ organizations that receive and expend a certain level of federal grant funding. This study specifically focused on USAID’s funding of NGOs since 1998 to determine if the information available in the Single Audit influenced future USAID funding decisions. Unfortunately, the study found the information in the Single Audit does not have

a significant influence on funding decisions of USAID. This chapter reviews the conclusions drawn from each chapter and presents avenues for future research.

Synopsis

The introductory chapter illustrated the increasing proportion of foreign assistance funneled to and through NGOs. While many countries use NGOs sparingly (Greece, Japan, and South Korea), other countries are providing greater proportions of their aid budgets to these organizations (Ireland, Switzerland, and Spain). With this increased funding to NGOs, calls for accountability have grown.

Chapter 2 provided an overview and history of NGOs, especially those organizations involved in development assistance. It is noted the term non-governmental organization is a very broad term and implies any number of agencies. Generally, it is up to the researcher to define what an NGO is. This research defined an NGO as an organization that is not a governmental agency or a for-profit entity. This is a very broad definition, but is further limited to those organizations that receive funding from USAID.

The chapter also explored the theories of NGO emergence. Many believe NGOs exist to fill a void in services that are not provided by either a government or a corporation. However, the history of development NGOs suggests these organizations were used to advance donor countries' interests. In spite of the increased prominence of NGOs in development assistance, many of the perceived beneficial aspects that NGOs offer over direct government funding (e.g. the NGO can operate much closer to the population being served) have not been extensively

tested. In the studies that do examine NGO effectiveness, mixed results are reported.

Chapter 3 analyzed theoretical perspectives of accountability. It asserted there is an obvious principal-agent relationship occurring with governmental funding of NGOs for development assistance projects. As such, the principal (government agencies that provide funding) need to find ways in which to monitor the performance of agents (the NGOs receiving the funding). The Single Audit is one way a principal can obtain information about the agent's activities. It is found principal-agent theories provide explanations as to why accountability mechanisms emerge, but do little to explain why these processes take the form it does. To assist in this understanding, constructivist approaches compliment rationalist theory in understanding why the accountability mechanism came to be when it did, as well as why it developed as it did.

Using constructivist approaches to understand the evolution of the GAO that culminated in the passage of the Single Audit Act of 1984, Chapter 3 concluded that leadership matters, but so too does context. The first Comptroller General organized the agency to review all federal government disbursements. Subsequent Comptroller Generals moved the GAO away from the disbursement reviewer model and toward a more contemporary audit or program evaluation. Additionally, various Comptroller Generals embraced inter-agency cooperation, which was vital to the creation of the Single Audit. The chapter concluded both rational and constructivist approaches are necessary to understand the origin of the Single Audit. The Comptroller General was important in bringing about the Single Audit concept and its ultimate form (understood through constructivist theory). However, it occurred during a time of increasing federal expenditures that were provided for grants to State and Local gov-

ernments, resulting in increased calls for accountability (best explained through rationalist theory).

Chapter 4 provided an overview of the Single Audit Process, from the perspective of the auditor, auditee, and the government. The purpose of the chapter was to familiarize interested individuals as to the Single Audit process, but it also suggested the severity (or occurrence) of reported audit findings are done at the discretion of the auditor. This can result in inconsistency in Single Audit reports, as one firm may be very strict and another more lenient.

Chapters 5 and 6 reported data from the Federal Audit Clearinghouse, a repository of Single Audit reports dating back to 1998. From an analysis of the dataset, the expenditures reported by NGOs from USAID grants steadily increased from 1998 to 2009 and flattened out until 2015 (the last year of the analysis). The total number of NGOs reporting expenditures followed a similar trajectory. Large discrepancies in how NGOs are funded were noted. A few organizations receive a large number of grants and grant funding, while most only receive a few grants and relatively little money. This inconsistency in grant funding resulted in a large number of NGOs reporting funding for only one or two years during the entire dataset. This could suggest a number of NGOs only use USAID funding to supplement their budget, but also might indicate that many NGOs ineffectively used grant funding and had funding revoked. This uncertainty posed a problem when analyzing the data. To overcome this inconsistency in funding, Chapter 6 used a selection model based on Heckman (1974). In doing so, the first model predicted the likelihood an NGO would receive funding. This predicted likelihood was then included in a model attempting to understand the predictors

of federal funding.

Ultimately, Single Audit findings had no effect on future funding decisions of USAID. This held for a number of types of findings, ranging in severity from minor infractions to material weaknesses. Upon further investigation, this finding is intuitive when analyzing the type of evaluation data USAID collects. NGOs operate within a larger project. USAID reviews the effectiveness of the project as a whole, with NGOs being only a small portion of that analysis. However, it is not clear as to why USAID would not use information from the Single Audit to keep NGOs accountable, as the data is readily available. Furthermore, the one NGO that USAID barred from future grant funding (AED) had a history of reportable conditions disclosed in its audit reports, but in only one year were these elevated to material weaknesses. This was six years before it was suspended. The suspension of AED appears to be driven more by the appearance of wrong-doing than auditor documented misconduct.

This research failed to demonstrate how results from the Single Audit effect future funding decisions of USAID. In spite of this, it is difficult to call the Single Audit a “perfunctory report” or “an occasional audit.” To the auditors who spend time conducting these audits, and the resources expended by auditees to prepare for such an audit, these reports do provide valuable information to interested individuals. Additionally, there is a possibility that USAID does use Single Audit reports as a starting point to investigate NGO activities, but this study found no indications this is occurring. The following section addresses items for future research that are related to this study. However, to pursue this same topic further, future researchers might consider interviewing individuals with USAID to understand how their organization uses the Single Audit, if at all.

Future Research

This study suggests two avenues of future research. The first is to continue to analyze the effect of Single Audit results on future funding decisions of United States agencies. The Single Audit is not a USAID requirement, but instead a requirement for any non-federal, United States' organization that receives federal grant funding. As such, a similar analysis is possible for all other government agencies. Perhaps other federal agencies utilize the Single Audit more effectively than does USAID. By identifying these organizations, researchers can begin to understand how to leverage the information in the Single Audit in the funding process. If future studies find little emphasis is given to the Single Audit by any federal agency, the discussion can pivot to whether the Single Audit is an undue burden on recipient organizations with no purpose being served.

Similarly, a future analysis could study how USAID holds contractors accountable. The Single Audit only applies to recipients of grant funding. Some USAID contractors are awarded contracts, not grants. This is a minor difference, but it is enough of a difference that the Single Audit does not apply. A future study could analyze these organizations and determine what accountability mechanisms, if any, apply to contractors and determine if the process is effective.

There is also a possibility the Single Audit is not being used by USAID for accountability information, but that it still has a beneficial effect to organizations being audited. Psychologists study the impact of accountability mechanisms on the actions of those being held accountable. Social facilitation theory (a subset of social motivation theory) suggests the presence of a person or entity with the ability to pass judgment on another individual is

enough to change behavior of the watched party. This is due to a desire to present oneself favorably to the observing party (Geen 1991). Numerous studies confirm this finding (Muth et al. 2017; Bateson, Nettle, and Roberts 2006; Lerner and Tetlock 1999). If the Single Audit is perceived by grant recipients to be an important accountability mechanism to the funding organization, it is hypothesized there would exist a desire of recipients of USAID grants to be held in high esteem by the agency. This could result in improved record-keeping, grant compliance, and audit outcomes. A study of this nature would require a number of interviews with grant recipients to determine their perceptions of the use of Single Audit results by USAID and would be an interesting advancement of the current research.

There is even research to suggest internal reputational concerns may be influencing NGO activities. Gent et al. (2015) finds the reputation of an NGO is an important factor for funders when making decisions where to give money. Unfortunately, this focus on reputation can hinder NGO activities as the organization must focus efforts to maintain its reputation, resulting in a prioritization of “observable progress even if it is at the expense of the long-term mission” (Gent et al. 2015, 457). The Single Audit may be different, as it focuses on compliance with funding requirements and not with project outcomes.

The other avenue is to research other specific accountability mechanisms in existence, either in the United States or in other countries. As it pertains to USAID, future studies could examine the audits and special reports drafted by the Office of the Inspector General. This is a related, but separate, entity that oversees the effectiveness of USAID programs. According to the organizational chart of USAID, the Office of the Inspector General for USAID does not report to, or through, the Administrator of USAID. Instead, the Office of

the Inspector General reports directly to the Secretary of State.

The reports published by the Office of the Inspector General are the same reports briefly discussed in the analysis section in Chapter 6. It is possible the information contained in these reports drive accountability conversations within USAID. However, as noted, these reports primary focus is not on NGO or contractor activities. Instead, it is on the progress toward the goals of the overarching project, of which, the NGO might only be a small piece. These reports appear to be designed to hold USAID accountable for results of its programs, which in turn could make USAID more stringent in holding NGOs accountable.¹

Outside the United States, Australia introduced the “Making Performance Count” program in 2014. The intention is to ensure foreign assistance is “responsible, affordable, and sustainable” (Department of Foreign Affairs and Trade 2014). To do so, the Australian Government put forth a performance framework that applies to all levels of the aid chain: there are 10 targets the government seeks to address, performance benchmarks are developed to measure the effectiveness of programs, and a performance monitoring system works to ensure programs that are not successful are canceled while effective ones receive additional funding. All three would be interesting studies, but the last one holds the most promise for researchers. Does Australia commit to its performance monitoring system and reduce funding for ineffective programs? An important corollary is how does Australia determine ineffectiveness in its foreign assistance program.

In Norway, granting organizations are responsible for reviews of its grants. These reviews are guided by a Grant Management Manual, with each review being unique. This type of

¹If this is true, the question still remains, what is that accountability mechanism for NGOs or contractors if not the Single Audit?

review is similar to program evaluation employed by the GAO in the 1970s and 1980s (see Chapter 3). Whereas the Single Audit is great in achieving efficiencies due to a standardized process, Norway's review system is beneficial in evaluating the results of project expenditures. However, a report by the Norwegian Agency for Development Cooperation (NORAD) notes these reviews vary in quality (2017). Future research could look more closely at these reviews, determine what makes a high quality review, and then examine if these reviews have an impact on future funding decisions from the Norwegian Government.

The immediate goal of this study was to determine if a single accountability mechanism is utilized effectively by USAID. Unfortunately, this does not appear to be occurring, representing a waste of time and resources for auditors and grant recipients. The longer-term goal is to encourage future scholars to move beyond calls for NGO accountability and test the effectiveness of specific mechanisms. In this way, foreign assistance can be more productively distributed and citizens in donor countries can be comforted knowing their tax dollars are being utilized effectively and efficiently.

Appendix A: Various Model Specifications

This appendix provides the results of a number of different model specifications. All models display similar results to the one presented at Table 6.3, providing further support for the conclusions drawn in Chapter 6.

Non-Selection Pooled Model

Table A1 displays the results of a fixed effects model with clustered standard errors, but does not include a selection component. Similar to the model at Table 6.3, neither audit findings, nor questioned costs are significant predictors of future funding decisions of USAID. This model was not selected to be the final model included due to questions about whether NGOs self-selected out of receiving USAID grant funding, or if the NGOs did not receive funding due to conscious decisions from USAID not to provide the organization money.

Preliminary Selection Model

Vreeland (2002) completed a study using a selection model to first predict whether a country would participate in IMF program, and then use the Inverse Mills Ratio in a full model to determine the effect of IMF program on labor. In doing so, the author actually

Table A1: Results of Non-Selection Model

	<i>Dependent variable:</i>
	Log Total Funding from USAID
Log Total Funding (Lagged 1 Year)	0.510*** (0.007)
Log Total Annual USAID Funding	0.234 (0.239)
War in Iraq	0.201* (0.082)
NGO Work in Iraq	-0.714 (0.888)
Iraq Interaction	0.861 (0.902)
War in Afghanistan	0.795*** (0.117)
NGO Work in Afghanistan	2.136 (1.308)
Afghanistan Interaction	-0.749 (1.303)
Annual Grants Received from USAID	0.037*** (0.003)
Reportable Conditions (Lagged 2 Years)	0.123 (0.178)
Material Weaknesses (Lagged 2 Years)	0.657 (0.337)
Questioned Costs (Lagged 2 Years)	-0.362 (0.219)
Observations	13,984
R ²	0.296
Adjusted R ²	0.249
F Statistic	459.749*** (df = 12; 13098)
<i>Note:</i>	*p<0.05; **p<0.01; ***p<0.001

completed two selection models, one for country's entering into IMF programs and another for remaining. This logic is intuitive, as countries are likely to participate in IMF programs over multiple years. Grant recipients have more freedom in participation to USAID grants. There are numerous applications that are necessary (if applying for several grants), and the projects supported by the grants can vary in total time.

Vreeland (2002) makes an assumption that is applicable to this study: previous participation will influence future participation. The results at Table A2 presents a preliminary selection model. It hypothesizes that NGOs receiving grant funding in the previous year have an increased likelihood of reporting grant funding in the current year (both included as dichotomous variables). It also hypothesizes the more grants an NGO receives from 1998 to 2015, the more likely an NGO will receive funding in a given year.

Table A2: Results of the Preliminary Selection/Probit Model

	<i>Dependent variable:</i>
	NGO Funded
NGO Funded (Lagged 1 Year)	1.689*** (0.030)
Log of Total Grants Received	0.337*** (0.010)
Constant	-1.790*** (0.026)
Observations	14,858
Log Likelihood	-5,143.746

Note: *p<0.05; **p<0.01; ***p<0.001

Table A3 displays the results of the OLS model. The first column reports the standard errors and the second column reports clustered standard errors.

Unfortunately, based on the research of Beck, Katz, and Tucker (1998), using a lagged dependent variable does not adequately account for temporal concerns in panel data with a binary dependent variable. The results of these models are included here only for reference purposes.

Wooldridge (1995) Model

A potential way to deal with the temporal component of the selection model is to apply a procedure suggested by Wooldridge (1995). Here, instead of using panel data, the researcher breaks apart the dataset by year and fits a probit model for each year included in the dataset. In the present research, that results in 18 probit models (a separate model for each year from 1998 to 2015). Removing the time component, these models only include a running total of grants received to date as the independent variable. The results of all 18 models are not displayed; instead, only the probit model displaying the 2015 results is presented (see Table A4).

Then, Wooldridge suggests running a pooled OLS model, the results of which are presented at Table A5. The first column reports the standard errors and the second column reports clustered standard errors. Unfortunately, tests for multicollinearity suggested high levels of multicollinearity is present in the data (Variance Inflation Factor (VIF) = 81.67 for Log Total of Annual USAID Funding, 79.09 for an NGO Dummy, 48.59 for the year 2000,

Table A3: Results of the Preliminary Full Model

	<i>Dependent variable:</i>	
	Log Total Funding from USAID	
	(1)	(2)
Log Total Funding (Lagged 1 Year)	0.714*** (0.026)	0.714*** (0.050)
Log Total Annual USAID Funding	1.395*** (0.404)	1.395*** (0.408)
War in Iraq	0.591** (0.196)	0.591** (0.184)
NGO Work in Iraq	-0.778 (0.886)	-0.778 (0.920)
Iraq Interaction	0.849 (0.900)	0.849 (0.776)
War in Afghanistan	0.587*** (0.171)	0.587*** (0.148)
NGO Work in Afghanistan	1.725 (1.305)	1.725* (0.766)
Afghanistan Interaction	-0.442 (1.300)	-0.442 (0.596)
Annual Grants Received from USAID	0.034*** (0.003)	0.034 (0.021)
Reportable Conditions (Lagged 2 Years)	0.101 (0.178)	0.101 (0.194)
Material Weaknesses (Lagged 2 Years)	0.588 (0.336)	0.588 (0.388)
Questioned Costs (Lagged 2 Years)	-0.375 (0.218)	-0.375 (0.254)
Inverse Mills Ratio	2.464*** (0.306)	2.464*** (0.539)
Observations	13,984	13,984
R ²	0.301	0.301
Adjusted R ²	0.253	0.253
F Statistic (df = 25; 13085)	225.849***	225.849***

Note:

*p<0.05; **p<0.01; ***p<0.001

Table A4: Results of the Selection/Probit Model - Wooldridge (1995)

	<i>Dependent variable:</i>
	NGO Funded
Running Total of Grants Received	0.002*** (0.0004)
Constant	-0.550*** (0.048)
Observations	874
Log Likelihood	-517.460
<i>Note:</i>	*p<0.05; **p<0.01; ***p<0.001

32.29 for the NGO Work in Afghanistan, 31.00 for the Afghanistan Interaction, and 20.21 for the year 2001). Because of the multicollinearity concerns, this model is presented for informational purposes only.

Beck, Katz, and Tucker (1998) Model

Beck, Katz, and Tucker (1998) suggest modeling time in logit or probit panel models by creating a count variable. This variable counts the periods since the most recent occurrence in question (in this study, it is the time since an NGO last reported grant funding). This count variable is used to either create time dummies or include with cubic splines, normally with three knots. Caution is necessary if choosing to include the dummy variable if there are a large number of time periods (Carter and Signorino 2010). Because of this, the model reported at Table A6 includes the cubic splines.

Using these estimates, the Inverse Mills Ratio is included in the full panel data. These

Table A5: Results of Full Model - Wooldridge (1995) Model

	<i>Dependent variable:</i>	
	Log Total Funding from USAID	
	(1)	(2)
Log Total Funding (Lagged 1 Year)	0.631*** (0.007)	0.631*** (0.017)
Log Total Annual USAID Funding	-2.018*** (0.420)	-2.018*** (0.424)
War in Iraq	0.041 (0.200)	0.041 (0.193)
NGO Work in Iraq	0.261 (0.831)	0.261 (1.038)
Iraq Interaction	-0.231 (0.883)	-0.231 (0.867)
War in Afghanistan	-0.359* (0.176)	-0.359* (0.153)
NGO Work in Afghanistan	1.750 (1.269)	1.750* (0.864)
Afghanistan Interaction	-1.159 (1.290)	-1.159 (0.661)
Annual Grants Received from USAID	0.017*** (0.002)	0.017 (0.024)
Reportable Conditions (Lagged 2 Years)	-0.022 (0.166)	-0.022 (0.206)
Material Weaknesses (Lagged 2 Years)	0.223 (0.309)	0.223 (0.418)
Questioned Costs (Lagged 2 Years)	-0.236 (0.202)	-0.236 (0.264)
Inverse Mills Ratio	-3.879*** (0.131)	-3.879*** (0.151)
Observations	13,984	13,984
R ²	0.645	0.645
Adjusted R ²	0.644	0.644
F Statistic (df = 25; 13958)	1,014.588***	1,014.588***

Note:

*p<0.05; **p<0.01; ***p<0.001

Table A6: Results of the Selection/Probit Model - Beck, Katz, and Tucker (1995)

	<i>Dependent variable:</i>
	NGO Funded
Log of Total Grants Received	0.412*** (0.009)
Cubic Spline 1	-4.560*** (0.147)
Cubic Spline 2	-11.272*** (0.558)
Constant	3.983*** (0.269)
Observations	15,732
Log Likelihood	-6,247.865
<i>Note:</i>	*p<0.05; **p<0.01; ***p<0.001

results are reported at Table A7. The first column reports the standard errors and the second column reports clustered standard errors.

Through these different selection model specifications, it is important to note the consistency of the findings. The only departure in the models is in the results of the Wooldridge (1995) Model at Table A5. In it the Afghanistan variables are significant. The audit variables (reportable conditions, material weaknesses, and questioned costs) were not significant in any of the models, nor is it significant in the final model reported at Table 6.3. This appendix should provide further evidence the findings hold among the various specifications of the selection model.

Table A7: Results of Beck, Katz, and Tucker (1995) Model

	<i>Dependent variable:</i>	
	Log Total Funding from USAID	
	(1)	(2)
Log Total Funding (Lagged 1 Year)	0.442*** (0.010)	0.442*** (0.016)
Log Total Annual USAID Funding	1.894*** (0.405)	1.894*** (0.431)
War in Iraq	0.575** (0.196)	0.575** (0.191)
NGO Work in Iraq	-0.540 (0.882)	-0.540 (1.031)
Iraq Interaction	0.675 (0.896)	0.675 (0.859)
War in Afghanistan	0.718*** (0.171)	0.718*** (0.151)
NGO Work in Afghanistan	2.237 (1.298)	2.237* (0.875)
Afghanistan Interaction	-0.885 (1.293)	-0.885 (0.669)
Annual Grants Received from USAID	0.038*** (0.003)	0.038 (0.024)
Reportable Conditions (Lagged 2 Years)	-0.034 (0.178)	-0.034 (0.206)
Material Weaknesses (Lagged 2 Years)	0.681* (0.335)	0.681 (0.416)
Questioned Costs (Lagged 2 Years)	-0.380 (0.218)	-0.380 (0.260)
Inverse Mills Ratio	-1.284*** (0.123)	-1.284*** (0.145)
Observations	13,927	13,927
R ²	0.307	0.307
Adjusted R ²	0.259	0.259
F Statistic (df = 25; 13028)	230.989***	230.989***

Note:

*p<0.05; **p<0.01; ***p<0.001

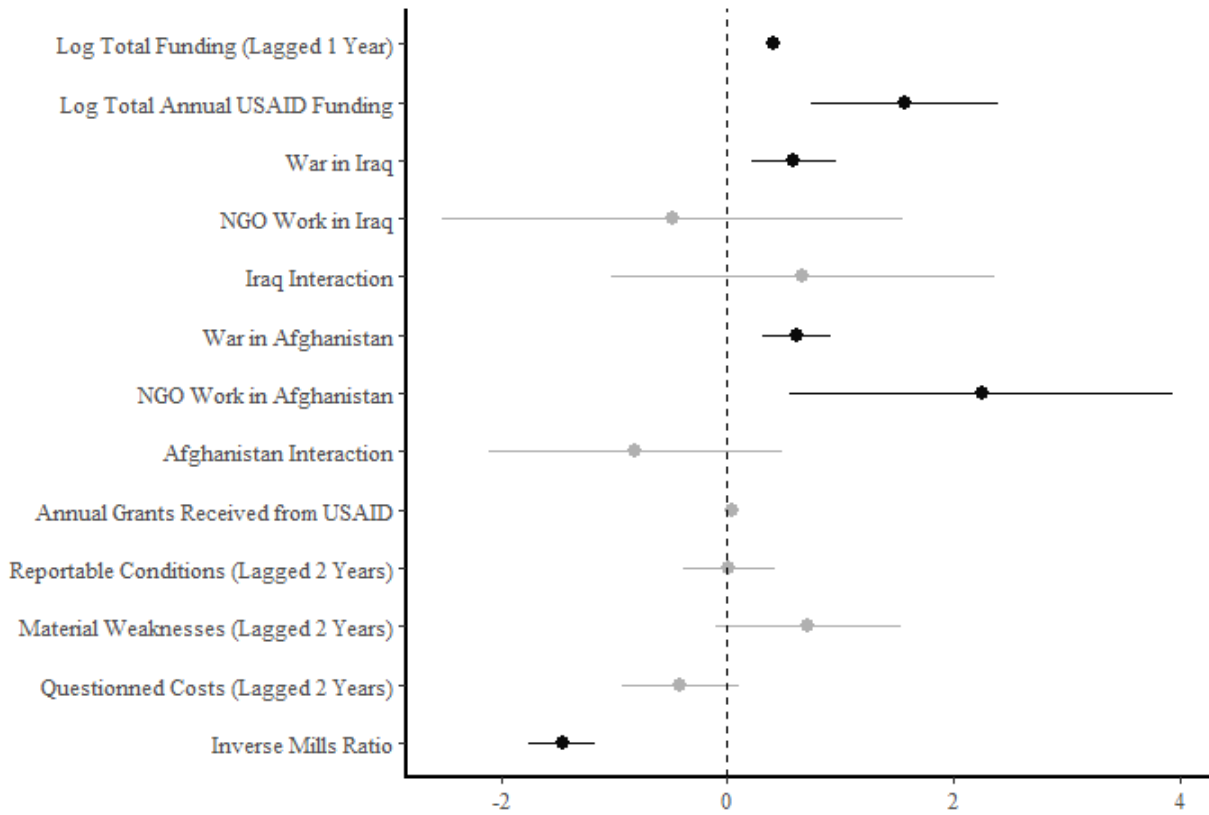
Appendix B: Additional Model Details

Many authors believe there is an over-reliance on p -values in statistical work. Rothman (1978) asserts that p -values overemphasize the significance of findings while neglecting effect size. This can be especially problematic in cases of very large sample sizes, where statistical significance may be present but the effect size is very small. The opposite can occur with small sample sizes. Gardner and Altman (1986) agree with Rothman (1978), stating that instead of hypothesis testing, analyses should more appropriately focus on parameter estimation.

Early debates regarding p -values and confidence intervals occurred in journals of medicine, where the argument is made that effect sizes between groups is a greater priority than statistical significance. Additionally, each study that demonstrates a promising result is replicated several times to provide greater assurance of the conclusion. However, the conversation is not limited to medical journals. The American Statistical Association released a statement in 2016 which cautions against placing too much emphasis on p -values (Wasserstein and Lazar 2016). The journal *Basic and Applied Social Psychology* is no longer printing articles that include any sort of “null hypothesis significance testing procedures,” including F -, p -, and/or t -values (Trafimow and Marks 2015).²

²*Basic and Applied Social Psychology* also prohibits the use of confidence intervals for much the same reason. The editors assert that confidence intervals are often misunderstood to indicate that the actual value of the parameter of interest is 95% likely to be within that range. In actuality, the confidence interval indicates

Figure B1: Parameter Estimates with 95% Confidence Limits



Cognizant of these warnings, Figure B1 is a regression coefficient plot, where the dots represent the value of the regression coefficient and the lines show the 95% confidence interval. The variables represented by dark gray lines are variables that are statistically significant in the model located at Table 6.2, whereas the variables represented by a light gray line are non-statistically significant items. This form of presentation is respectful of both the political science convention of providing significance testing, while also presenting parameter estimates for each of the variables in an easily understandable format.

that given an infinite number of samples, 95% of the confidence intervals generated would include the observed parameter.

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Young, Jeffrey. 2015. "Probe of Suspended USAID Contractor Deepens." *Voice of America*
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EDUCATION

- 2012-Present University of Nevada, Las Vegas, Las Vegas, Nevada
Ph.D, Political Science
Dissertation Title: Audits and Accountability in Non-Governmental Organizations
- 2010-2012 University of Nevada, Las Vegas, Las Vegas, Nevada
Master of Arts, Political Science
Thesis Title: Ask What Your Country Can Do For You: Social Spending and Satisfaction with Democracy in Latin America
- 1999-2003 Clarke University, Dubuque, Iowa
BA with highest honors in Political Science, Accounting, and Finance

PUBLICATIONS

- Retzl, Kenneth J. 2016. "Good Governance within the World Bank: Assessing Recent Reforms" (with Jonathan R. Strand). *Development and Change* 47 (3): 415-445.
- Retzl, Kenneth J. 2015. "The Inter-American Development Bank: Poverty Alleviation and the Millennium Development Goals." In *Global Economic Governance and the Development Practices of the Multilateral Development Banks*, eds. Susan Park and Jonathan R. Strand. London: Routledge.
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Retzl, Kenneth J. 2013. "The Curious Candidacy of Jon Huntsman" (with David Damore). In *The 2012 Nomination and the Future of the Republican Party: The Internal Battle*, ed. William J. Miller. Lanham: Lexington Books.

RECENT CONFERENCE PRESENTATIONS

"Accountability as Auditability: Audit Results and USAIDs Project Funding of NGOs," presented at the Western Political Science Associations Annual Meeting in Las Vegas, NV, April 2-4, 2015.

"Regional Development Banks and Progress toward the Millennium Development Goals," presented at the International Studies Association Annual Convention in Toronto, Canada, March 26-29, 2014.

"Good Governance within the World Bank: Assessing Recent Reforms" with Jonathan Strand, presented at the International Studies Association Annual Convention in Toronto, Canada, March 26-29, 2014.

"Mapping and Analyzing Food Security in Turkey," presented at the Annual Meeting of the Pacific Northwest Political Science Association in Vancouver, Canada, October 17-19, 2013.

"Implicit Gender Bias in State-Sponsored Judicial Performance Evaluations: A Preliminary Analysis of Colorados JPE System, 2002-2012" with Rebecca Gill, presented at the Midwest Political Science Association Annual Conference in Chicago, IL, April 11-14, 2013.

"Ask What Your Country Can Do For You: Social Spending and Satisfaction with Democracy in Latin America," presented at the International Studies Association-West in Pasadena, CA, October 19-20, 2012.

ACADEMIC AWARDS

- | | |
|------|--|
| 2015 | UNLV Department of Political Science Professional Development Travel Grant |
| 2014 | UNLV's Institute for Latin American Studies Research Grant |
| 2014 | Liberal Arts PhD Student Summer Faculty Research Grant |
| 2014 | Graduate and Professional Student Association Research Grant |
| 2011 | Graduate and Professional Student Association Research Grant |

UNIVERSITY SERVICE

- 2011-2012 Student Technology Advisory Board, College of Liberal Arts Representative
- 2011-2012 Graduate and Professional Student Association, Department of Political Science Representative
- 2010-2011 Graduate and Professional Student Association, Department of Political Science Representative

RELATED EXPERIENCE

- Summer 2016 Inter-university Consortium for Political and Social Research (ICPSR) Summer Quantitative Methods Training Program - Item Response Theory
- Summer 2015 Inter-university Consortium for Political and Social Research (ICPSR) Summer Quantitative Methods Training Program - Analyzing Panel Data
- 2014-2015 Research Assistant, Department of Political Science, NSF-Funded Project: Implicit Bias in Judicial Performance Evaluation Programs
- 2013-2014 Instructor, Department of Political Science, University of Nevada, Las Vegas
- 2012-2013 Research Assistant, Department of Political Science, Project: Implicit Gender Bias in Judicial Performance Evaluation Programs
- 2010-2012 Graduate Assistant, Department of Political Science, University of Nevada, Las Vegas

OTHER EXPERIENCE

- 2015 - Present Coordinator III, Research Department, Clark County School District, Las Vegas, NV
- 2009-2010 Audit Manager, Wipfli LLP, Madison, WI
- 2008-2009 Audit Consultant, CUNA Mutual Insurance Company, Madison, WI
- 2003-2008 Senior Accountant, Baker Tilly Accountants and Advisors (Formerly Virchow Krause, LLP), Madison, WI

