



**OFFICE OF INSPECTOR GENERAL**  
U.S. Agency for International Development

# Insufficient Oversight of Public International Organizations Puts U.S. Foreign Assistance Programs at Risk

**AUDIT REPORT 8-000-18-003-P**  
**SEPTEMBER 25, 2018**

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## MEMORANDUM

DATE: September 25, 2018

TO: USAID Administrator, Mark Green

FROM: USAID Inspector General, Ann Calvaresi Barr /s/

SUBJECT: Insufficient Oversight of Public International Organizations Puts U.S. Foreign Assistance Programs at Risk (8-000-18-003-P)

This memorandum transmits the final report on our audit of USAID's oversight of public international organizations (PIOs) for your review and comment. Our audit objectives were to (1) describe USAID's approach for overseeing PIOs and any unique authorities underlying that approach; (2) review USAID's efforts to identify, assess, and manage risks before awarding funds to PIOs; and (3) assess USAID's policies, processes, and guidance for managing PIO awards. In finalizing the report, we considered your formal comments on the draft and included them in their entirety in appendix D.

The report contains six recommendations to improve the Agency's processes for risk management and strengthen oversight of PIO awards. After reviewing information you provided in response to the draft report, we consider all six recommendations resolved but open pending completion of planned activities. Please provide evidence of final action for each recommendation to the Audit Performance and Compliance Division.

We appreciate the assistance you and your staff extended to us during this audit.

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## INTRODUCTION

The Syrian civil war and the rise of the Islamic State of Iraq and Syria (ISIS) left 23.5 million people in the surrounding areas in need of humanitarian assistance at the end of 2016, according to the United Nations (U.N.). To respond to this humanitarian crisis, USAID provided a reported \$2.6 billion between January 2012 and March 2018 to large multilateral public international organizations (PIOs)—organizations principally made up of multiple governments or international financial institutions, such as the World Food Programme (WFP), the World Health Organization (WHO), and the United Nations Children’s Fund (UNICEF). Providing humanitarian assistance in areas where there are government and nongovernment combatants and frequently shifting frontlines presented substantial access, security, program implementation, and oversight challenges. To navigate these complexities, USAID depended on PIOs to help implement programs, coordinate the international response to the crisis, and collect data on the needs of people on the ground. USAID’s use of PIOs extends beyond the Iraq and Syria region, with the Agency relying on PIOs to advance its humanitarian assistance and development goals throughout the world.

USAID’s Inspector General testified in July 2016 that implementers and vendors in the region were subject to major fraud schemes.<sup>1</sup> As of January 2018, Office of Inspector General (OIG) investigations in the region have resulted in the suspension or debarment of several dozen individuals and organizations, 20 personnel actions, and the suspension of \$239 million in program funds under investigation. Given the substantial U.S. funding to PIOs conducting critical work in the region, we initiated this audit to (1) describe USAID’s approach for overseeing PIOs and any unique authorities underlying that approach; (2) review USAID’s efforts to identify, assess, and manage risks before awarding funds to PIOs; and (3) assess USAID’s policies, processes, and guidance for managing PIO awards. Since the vast majority of funding to PIOs working in Iraq and Syria was made through the U.S. Office of Foreign Disaster Assistance (OFDA) and the Office of Food for Peace (FFP), the audit focused on how those offices oversee PIO awards and examined how Agency-wide policies affected oversight of PIOs receiving funding to conduct work in Iraq and Syria. Where appropriate, we identified vulnerabilities that were broadly applicable to USAID.

To conduct this audit, we interviewed USAID staff in the Office of the General Counsel, OFDA, FFP, and the Office of Acquisition and Assistance; U.S. Government staff in U.N. locations in Geneva, Switzerland; New York City; Rome, Italy; and Amman, Jordan; staff from all nine PIOs that received USAID awards in Iraq and Syria; and staff from other selected oversight organizations. In addition, we judgmentally selected and examined file documentation for 19 awards funded by FFP and OFDA totaling \$1.56 billion. The awards were made to PIOs for projects in Iraq and Syria between 2012 and 2016. Appendix A contains our full scope and methodology.

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<sup>1</sup> Fraud Investigations Expose Weaknesses in Syria Humanitarian Aid Programs, July 14, 2016, Statement of The Honorable Ann Calvaresi Barr before the Committee on Foreign Affairs, Subcommittee on the Middle East and North Africa, in the U.S. House of Representatives.

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## SUMMARY

Unique provisions of Federal law and international arrangements shape USAID's approach to overseeing PIOs. As part of the Code of Federal Regulations or other transaction authority, these provisions enable PIOs to receive Federal funds with less oversight or fewer restrictions than nongovernmental organizations and contractors, such as requirements on access for audits and investigations. Federal law also limits agencies' ability to seek legal remedies against PIOs. USAID policy calls for classifying PIOs into one of three categories based on their size and history with USAID. All nine PIOs in our audit were assigned to category one, which according to USAID indicates the PIOs were deemed responsible organizations because the Agency concluded that they had been effective at managing Federal funds in the past and thus are eligible for future awards. A category one classification reduces the workload of individual agreement officers because they do not need to make a determination each time an award is made to a PIO.

USAID's Delegated Cooperation Secretariat (DCS), which preapproves PIOs prior to an award, did not always complete rigorous determinations of PIO performance and responsibility. For example, responsibility determinations for three of the nine PIOs were not finalized before awards were made and none of the other six PIO determinations were updated with new information or renewed every two years, as called for in USAID policy. To minimize the risks inherent to working with PIOs, Federal internal control standards call for comprehensive assessments that identify and define risk and inform the design of effective risk response strategies. However, USAID does not require such assessments for PIOs. Instead, USAID relies on PIOs to manage risks, despite lacking an adequate understanding of their oversight capacity. Many PIO oversight offices do not promptly or adequately report fraud, or may lack the independence and resources needed to safeguard or recover funds. USAID acknowledged that DCS has not exercised its full authority to evaluate PIO performance and oversight capabilities or to get involved when nonperformance is identified, mainly because DCS did not have a dedicated team. Instead, DCS's PIO work has been performed by a part-time committee that met as needed or when time allowed. Further, while some awards cited discrete risks, they nonetheless lacked rigor. In particular, the Department of State issued formal guidance in 2008 on identifying and evaluating the risks that assistance programs may benefit terrorist groups, but USAID has not fully leveraged this guidance when assessing PIOs. Because the same policy and practices are broadly applicable, our findings raise questions about whether similar vulnerabilities exist in USAID's PIO awards across the board.

USAID's PIO policy and accompanying processes and guidance do not align with Federal internal control standards. Specifically, USAID policy does not designate the roles and responsibilities of USAID staff assigned to oversee PIOs at the corporate level; describe how USAID can use its influence on PIO executive boards; or emphasize the importance of the Office of General Counsel's role in managing DCS operations. The policy also did not require or outline how the Agency will capture and maintain critical information, or identify lessons learned from USAID employees, on PIO performance.

The Agency acknowledged that its policies for managing and overseeing PIO awards need to be clarified, but revisions to them have been delayed in part due to disagreements among different USAID offices. Policy weaknesses exacerbate the challenges of overseeing PIOs working in nonpermissive, long-term crisis environments such as Syria and Iraq where PIO awards can continue for multiple years—in the case of Syria, continuously since 2012. In such cases, USAID exposes foreign assistance funds to increased risk of fraud, waste, and abuse because the awards were not designed with the internal control standards appropriate for these contexts.

We are making recommendations for the Agency to establish comprehensive PIO policies that codify and clarify the processes for risk management and strengthen oversight of these awards.

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## BACKGROUND

The rise in opposition forces against the Syrian Government in March 2011 escalated to an unrelenting civil war in the years that followed. ISIS's rise to power in the Middle East in the summer of 2014 complicated the crisis and further deteriorated conditions for civilians in Syria as well as Iraq. In October 2014, the Secretary of Defense designated Operation Inherent Resolve as an overseas contingency operation to respond to the growing threat.<sup>2</sup>

Since the start of the crisis through 2016, the U.N. reports that 23.5 million people in Iraq, Syria, and surrounding areas have been left in need of humanitarian assistance. Through PIOs, which can work in nonpermissive areas, and nongovernmental organizations, USAID provides emergency food, healthcare, shelter, water, sanitation, hygiene, and other humanitarian relief services to those affected.<sup>3</sup> USAID funds PIO activities in Iraq and Syria, where internal populations have been displaced, and neighboring countries hosting significant numbers of refugees, such as Jordan, Lebanon, and Turkey. These PIOs track critical situational information, such as the numbers of Iraqis and Syrians in need of assistance, and publish this information in annual Humanitarian Needs Overview and Humanitarian Response Plan reports, which influence how donor countries design and fund humanitarian programs.

OFDA and FFP are largely responsible for disbursing USAID relief funds to PIOs and nongovernmental organizations.<sup>4</sup> Between January 2012 and March 2018, these two

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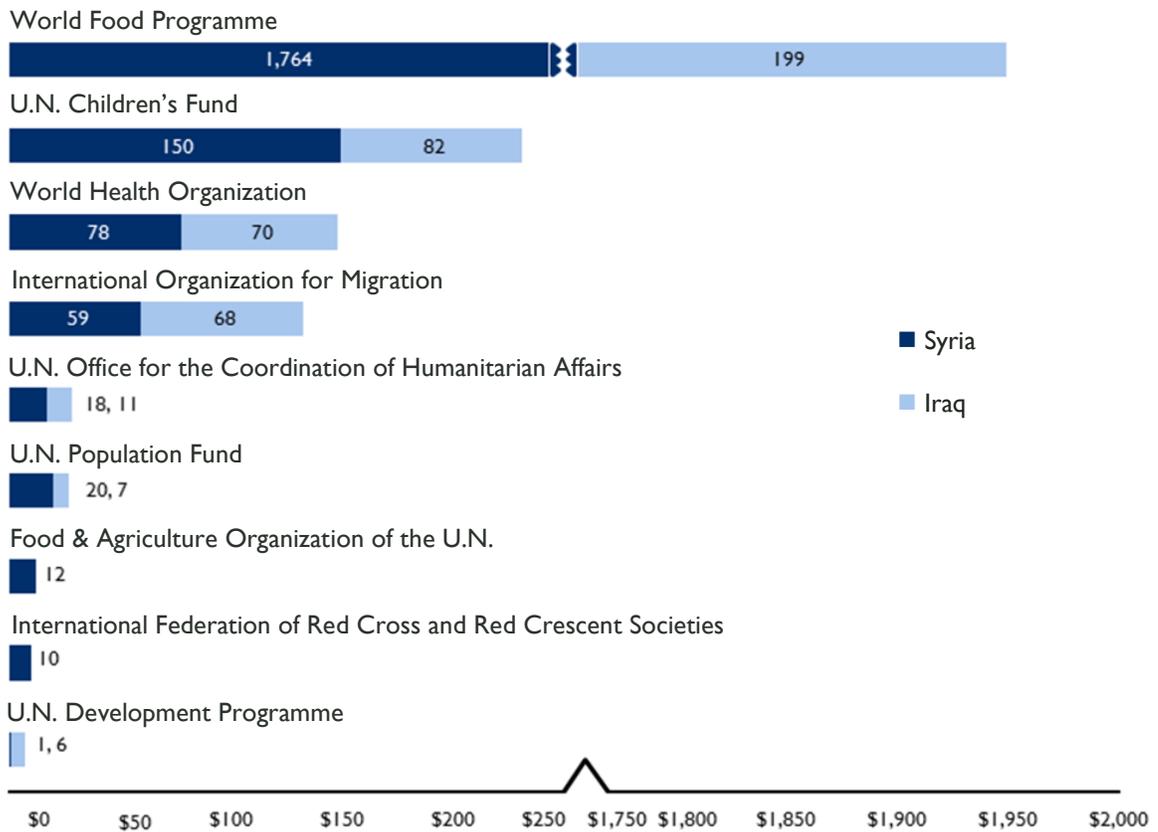
<sup>2</sup> An overseas contingency operation is a U.S. armed forces operation against an opposing military force, or a response to a national emergency declared by the U.S. President or Congress.

<sup>3</sup> PIOs are authorized through U.N. resolutions and permission from the host country to operate in regime-controlled areas, assuming the security situation allows for access. Legally, U.N. PIOs have difficulty working in areas held by opposition forces because the organizations are required to have permission from the host government to expand operations to additional areas.

<sup>4</sup> OFDA leads the U.S. Government response to natural and man-made international disasters and is charged with saving lives, alleviating suffering, and reducing the social and economic impact of disasters. FFP works with a number of PIOs and nongovernmental organizations, including WFP, to reduce hunger

offices obligated a combined \$4.6 billion in humanitarian assistance funding. This included \$2.6 billion going to nine PIOs working in Iraq and Syria, with the remaining \$2 billion going to nongovernmental organizations (see figure 1).<sup>5</sup> The majority of funding to PIOs in Syria and Iraq was disbursed by FFP for assistance in Syria (see table 1).

**Figure 1. OFDA and FFP Funding to Nine PIOs in Iraq and Syria From January 2012 to March 2018, in Millions**



and malnutrition and ensure that safe and nutritious food is available to, accessible to, and well utilized by all individuals at all times to support a healthy and productive life.

<sup>5</sup> From January 2012 to March 2018, USAID contributed nearly \$15 billion to the nine PIOs in our sample for a variety of projects worldwide, which includes the funding for Iraq and Syria. Our audit fieldwork focused on Iraq and Syria funding from January 2012 to December 2016. During that period, \$1.83 billion had been obligated to these nine PIOs. We selected a sample of awards totaling \$1.56 billion. We are providing updated financial information in this report for informational purposes, as the increases in funding are significant and time has elapsed since we began collecting funding data.

**Table 1. PIO Funding Disbursed Through OFDA and FFP, in Millions**

<b>Country</b>	<b>OFDA</b>	<b>FFP</b>	<b>Total</b>
Syria (January 2012-March 2018)	\$359	\$1,753	\$2,112
Iraq (January 2014-March 2018)	257	187	444
<b>Total</b>	<b>616</b>	<b>1,940</b>	<b>2,556</b>

Source for figure 1 and table 1: OIG analysis of 66 OFDA and FFP award agreements from January 2012 through December 2016 and additional OFDA and FFP funding obligation information from January 2017 to March 2018.

Overseeing implementers and managing risks in nonpermissive environments is challenging for USAID because staff are not present where most humanitarian assistance activities take place. Over the past decade, the U.S. Government Accountability Office (GAO), the U.N.'s Joint Inspection Unit, and other oversight groups have reported concerns related to oversight, including a failure among U.S. agencies to conduct comprehensive assessments of fraud risks and serious weaknesses in U.N. agencies' internal audit functions and ability to investigate fraud.<sup>6</sup>

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## **UNIQUE AUTHORITIES UNDERLIE USAID'S OVERSIGHT MODEL FOR PIOS**

USAID oversight of PIOS differs from its oversight of nongovernmental organizations, contractors, and other implementing partners. USAID's awards to U.S. nongovernmental organizations and contractors generally follow rigorous regulations that subject them to penalties and remedies for nonperformance. Due to Federal law and other international arrangements, less stringent rules apply to USAID's awards to PIOS. Furthermore, USAID's policy for PIO awards does not have strict requirements on internal control, monitoring, and access for audits and investigations.

### **Federal Law Provides Flexibility for USAID Awards to PIOS**

Applicable law allows for flexibility when making awards to PIOS. Specifically, the Foreign Assistance Act Section 635(b) allows USAID to make awards to PIOS under other transaction authority (OTA).<sup>7</sup> Further, the Code of Federal Regulations (CFR)<sup>8</sup>

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<sup>6</sup> Reports from GAO include: (1) Syria Humanitarian Assistance: Some Risks of Providing Aid Inside Syria Assessed, but U.S. Agencies Could Improve Fraud Oversight (GAO-16-629), July 2016; (2) World Food Program: Stronger Controls Needed in High-Risk Areas (GAO-12-790), Sept. 2012; (3) UN Internal Oversight: Progress Made on Independence and Staffing Issues, but Further Actions Are Needed (GAO-11-871), Sept. 2011; and (4) UN Office for Project Services: Management Reforms Proceeding but Effectiveness Not Assessed, and USAID's Oversight of Grants Has Weaknesses (GAO-10-168), Nov. 2009. Reports from the Joint Inspection Unit include: (1) Fraud Prevention, Detection and Response in United Nations System Organizations, 2016; (2) State of the Internal Audit Function in the United Nations System, 2016; (3) Review of the Management of Implementing Partners in United Nations System Organizations, 2013; and (4) The Investigations Function in the United Nations System, 2011.

<sup>7</sup> An "other transaction" is not defined in policies at USAID, but according to GAO, other transactions "generally, do not follow a standard format or include terms and conditions required in traditional mechanisms, such as contracts or grants." Further, other transactions allow Federal agencies to

gives USAID discretion over whether to apply parts of the Uniform Guidance for Federal Awards to PIO awards, as long as application of the CFR would not conflict with the U.S. Government's international obligations or a foreign government's laws.<sup>9</sup> However, USAID policies do not identify specific international obligations that may prohibit application of certain parts of the CFR.

In addition, Federal requirements aimed at ensuring implementer integrity do not apply to PIOs. For example, in making awards to contractors and U.S. nongovernmental organizations, agencies must generally include more precise and verifiable requirements related to (1) internal control, (2) record retention and access, (3) remedies for noncompliance and poor performance, and (4) cost principles. Generally, the Federal Acquisition Regulations (FAR) and CFR offer authoritative policies and procedures to guide Federal officials when making awards and establish firm rules around specific types of contracts, grants, and cooperative agreements.<sup>10</sup> No such Governmentwide guidance exists for making awards to PIOs.

USAID Office of General Counsel stated Federal and international law and the U.S. Government's international treaty obligations limit the Agency's ability to seek legal remedies against PIOs. In general, PIOs are immune from suits arising out of their operations.<sup>11</sup> But PIOs may expressly waive PIO immunity from suit, judicial process, and searches in a particular proceeding, for example, through the terms of an award.

Like USAID, other Federal agencies have flexible authorities in various statutes, including OTA. However, unlike USAID—which has no statutory limitations on its flexible authorities—generally these agencies can only use these authorities within narrowly defined circumstances prescribed by law. For example, the Department of Transportation's OTA is limited to specific public transportation research and development projects; the National Aeronautics and Space Administration's (NASA) OTA is limited to joint research and development when research does not directly benefit NASA; and the Department of Defense's (DOD) OTA is limited to prototype projects and research and development with conditions such as entities being required to provide half of project funding when DOD determines it is practicable.

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“customize their other transaction agreements to help meet project requirements and mission needs.” Source: Use of ‘Other Transaction’ Agreements Limited and Mostly for Research and Development Activities (GAO-16-209), January 2016.

<sup>8</sup> For this report CFR will always refer to 2 CFR 200, commonly referred to as the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, or simply the Uniform Guidance.

<sup>9</sup> 2 CFR 200.101(c). Federal rules for grants and cooperative agreements to nongovernmental organizations are in 2 CFR 200 parts A to E.

<sup>10</sup> Requirements for these types of awards are primarily described, in detail, in the FAR for contracts or in 2 CFR 200 and USAID policies for grants and cooperative agreements.

<sup>11</sup> The International Organizations Immunities Act provides that PIOs, their property, and their assets enjoy the same immunity from suit, from any form of judicial process, and from searches to the same extent that foreign governments enjoy immunity. PIO assets are also immune from confiscation under the act.

Along with these limitations, NASA and DOD developed guidance governing the use of OTA. DOD's guidance sets the tone for using OTA:

“[OTA] eliminates the safeguards inherent in using the standard statutory and regulatory contract language and clauses, [i]ndividuals using this authority should have a level of responsibility, business acumen, and judgment that enables them to operate in this relatively unstructured environment. These individuals are responsible for negotiating agreements that equitably reflect the risks undertaken by all parties to the agreement, using good business sense and including appropriate language to further the Government's interest.”

To better distinguish and govern its PIO awards, USAID established Automated Directives System (ADS) 308, a policy series that requires, to some extent, each PIO award to include provisions on allowable costs, audits and records, and prohibitions against terrorist financing. While these mandatory provisions are meant to protect USAID investments, current USAID policy does not adequately define key terms or stipulate the verification actions that USAID must take.

## **USAID Oversight of PIOs Differs From Its Oversight of Other Implementers**

The Delegated Cooperation Secretariat per ADS 308—USAID's policy on PIO awards—calls for classifying PIOs into one of three categories and making responsibility determinations. The DCS is a unit at USAID made up of Agency representatives from different offices and bureaus.<sup>12</sup>

Category one typically includes large international organizations that have undergone due diligence to determine that they have a history of responsibly managing Federal funds. Category two PIOs are typically smaller and receive less frequent USAID funding. Category three PIOs have been determined by DCS to need special restrictions or are not eligible for funding.

DCS decides which category a PIO will fall into. This category dictates which USAID unit or individual will conduct the responsibility determination. A responsibility determination assesses a PIO's suitability for managing Federal awards through a document review of the PIO's past performance; compliance with the terms of funding agreements with USAID; audited financial statements, policies, and procedures; and the status of any adverse audit findings. For a category one PIO, DCS determines a PIO's suitability for managing awards. For category two PIOs, an agreement officer conducts the responsibility determination each time an award is made.

As a result of procedures created in ADS 308, there are key distinctions with how PIO awards are managed compared to awards to other implementers (see table 2).

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<sup>12</sup> DCS has existed since at least July 21, 2011, when ADS 308 was revised and included the role of preparing responsibility determinations for category one PIOs.

**Table 2. Illustrative Distinctions in Regulations of PIOs vs. Other Implementers, by Oversight Area**

<b>U.S. Nongovernmental Organizations, Contractors</b>	<b>PIOs</b>
<b>Applicable award regulations</b>	
Federal regulations in 2 CFR 200 (for nongovernmental organizations) or the FAR (for contractors) establish mandatory guidelines for Federal agencies when making acquisition awards.	There are no mandatory Federal regulations for awards to PIOs. Instead, USAID wrote its own policy governing awards to PIOs—ADS 308—which does not include a clear description of the legal authorities governing PIO awards.
<b>Initial due diligence decisions about an organization</b>	
Individual agreement officers and contracting officers must determine an organization’s responsibility in managing a Federal award before an award is agreed on and funded. (FAR 9.104; 2 CFR 200.205)	For category one PIOs, DCS makes a shared determination on a PIO’s suitability and responsibility that the agreement officer uses when making awards. (ADS 308.3.1.2(a))
<b>Internal oversight</b>	
Internal oversight is emphasized but relied on to a lesser degree than independent audits and investigations. (2 CFR 200.303; FAR 3.10)	Per USAID, each PIO’s internal oversight mechanisms are heavily relied on for conducting financial audits, performance audits, and investigations, but these mechanisms are not described in USAID policy.
<b>Audits and access to records</b>	
U.S. Government has access to records and can audit at will. (2 CFR 200.336 and 2 CFR 200.503; FAR 4.7 and 42)	Generally, USAID has more limited access to records and cannot audit. This access may be negotiated by including a provision to each award. (ADS 308.3.14 and ADS 308mab)
<b>Corporate governance</b>	
No U.S. Government representation on executive boards.	Per USAID, the U.S. Government is represented on governing and executive boards for some PIOs, but this governance is not described in USAID policy.
<b>Performance requirements</b>	
For nongovernmental organizations, USAID must ensure performance expectations are achieved (2 CFR 200.328). Contractor past performance is evaluated and captured for future funding decisions (FAR 42.15).	DCS makes best effort to consider quality of past performance and compliance with awards, but policy does not require capturing or preparing past performance reports. (ADS 308.3.1.2)
<b>Remedies for nonperformance</b>	
Conditions and causes for taking actions like suspending and debarring are established. (2 CFR 200.207 and 2 CFR 200.338-339; FAR 9.4)	No description in ADS 308 for remedies against PIOs beyond moving a PIO into a new category designation. (ADS 308.3.1.2)
<b>Compliance concerns</b>	
A central USAID unit can suspend or debar individuals or organizations from receiving funds from the U.S. Government through a formalized dispute resolution process.	ADS 308 does not outline the authority for a formal centralized unit that will address systematic performance issues with actions through suspension and debarment.

Source: OIG analysis of Federal regulations and USAID policy.

Categorization is one PIO oversight mechanism USAID uses that is distinct from all other types of award implementers. All nine PIOs in our audit were assigned to category one, which according to USAID indicates the PIOs were deemed responsible organizations because the Agency concluded that they had been effective at managing Federal funds in the past and thus are eligible for future awards. A category one classification reduces the workload of individual agreement officers because they do not need to make a determination each time an award is made to a PIO.

While USAID oversight authority for PIO awards starts with ADS 308, different roles and responsibilities throughout the award cycle—from pre-award due diligence to corporate governance at PIO headquarters—can be generalized into six phases (see table 3).

**Table 3. PIO Oversight Phase, Governing Authority, and Purpose**

PIO Oversight Phase	Authority	Purpose
1. Agency policy and procedures for making awards to PIOs	ADS 308	Provides rules for all awards to PIOs.
2. Central unit for PIO pre-approval	DCS	Conducts pre-award due diligence by classifying PIOs into one of three categories and prepares responsibility determinations for category one PIOs.
3. Operational units policies and procedures for making awards	Individual bureaus, offices, missions <sup>a</sup>	Outlines specific steps and actions to make awards, design activities, and provide funding to PIOs.
4. Activity monitoring during award execution	Agreement officer, agreement officer representative, field teams <sup>b</sup>	Depending on operational unit, different roles interact with PIO field-level staff on the performance of activities established in an award.
5. Reliance on PIO internal and external oversight throughout award execution	PIO internal controls	PIO internal and external oversight groups conduct audits, investigations, inspections, and evaluations of awards that USAID cannot do.
6. U.S. Government influence and involvement in PIO governance	Interagency representation	Sometimes as a member of PIO governing bodies and executive boards, the U.S. Government can influence how PIOs are managed.

Source: OIG analysis.

<sup>a</sup> For our audit, these offices include OFDA and FFP.

<sup>b</sup> For our audit, field teams refer to a Disaster Activity Response Team deployed by USAID with representatives from OFDA and FFP.

USAID emphasized that, for U.N. PIOs, it relies on their systems of internal oversight, as called for in arrangements such as the Single Audit Principle. This principle subjects each U.N. PIO to agreed-upon external and internal oversight, usually through an internal audit unit and a designated external auditor. The aim is to avoid having each member country conduct audits of U.N. agencies.

In terms of corporate governance, USAID stated it has influence at the highest levels of some PIO management structures because U.S. Government representatives sit on the

boards of some PIOs, particularly U.N. agencies—a type of governance that does not exist for contractors and nongovernmental organizations.

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## **USAID HAS NOT COMPREHENSIVELY IDENTIFIED, ASSESSED, AND MANAGED PIO RISKS**

Federal internal control standards call for agencies to manage risks through comprehensive assessments that include identifying risks and designing effective risk response strategies.<sup>13</sup> However, USAID did not require such assessments for PIOs. Furthermore, DCS, which preapproves PIOs, did not always conduct rigorous responsibility determinations before a funding office made an award. Instead, USAID relied on PIOs to manage risks, despite lacking an adequate understanding of their oversight capacity. When we found elements of risk in some award documentation, the risk was not comprehensively assessed, such as the risk of terrorists benefiting from U.S. foreign assistance.

### **USAID Has Not Defined Risks or Required Risk Assessments for PIOs**

Federal internal control standards call for agencies to define risk tolerances; identify and analyze risks, including the potential for fraud; and design an appropriate risk response. Other components of a comprehensive risk assessment process include aligning processes to goals and objectives, selecting mitigating controls, monitoring risks, and communicating and reporting on risks and risk mitigation activities.

USAID has some official policies and guidance outlining methods for assessing risk, but generally these are not specific to assessing risks at PIOs<sup>14</sup> (see table 4).

**Table 4. Formal USAID Methods on Assessing Risks**

<b>Methods</b>	<b>Description</b>	<b>Requirement</b>
Uniform Risk and Internal Control Assessment (ADS 596 mandatory reference)	The Agency’s process for outlining various internal risks specific to bureaus and offices. Includes a rating system for each risk based on its likelihood and magnitude; and risk responses, which can be acceptance, avoidance, reduction, sharing, or transfer.	Relates to complying with annual Federal Managers Financial Integrity Act requirements to certify internal controls. USAID bureaus and offices are required to complete.

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<sup>13</sup> The Comptroller General under Section 3512 (c) and (d) of Title 31 of the United States Code is required to issue Federal internal control standards, which are outlined in Standards for Internal Control in the Federal Government (GAO-14-704G), September 2014.

<sup>14</sup> CFR 200.101(c) states that USAID may apply 2 CFR 200.205 requirements on the review of risk posed by applicants, unless doing so would be inconsistent with international obligations or foreign law.

<b>Methods</b>	<b>Description</b>	<b>Requirement</b>
Public Financial Management Risk Assessment Framework manual (ADS 220)	A manual and related reference section that provides guidance for defining and assessing risk when making awards directly to a foreign government. Establishes a detailed process with guidance on how to assess risks before making an award.	Relates to government-to-government direct assistance awards. Missions are required to conduct the risk assessment before funds are passed to a foreign government.
Country Development Cooperation Strategy (ADS 201)	Calls for missions to develop a country-specific plan for implementing programs that broadly requires risk factors to be considered in the design of a nationwide strategy covering all activities.	Relates to development program awards in a specific country where USAID has a presence. Individual missions and offices are required to complete.

Source: OIG analysis.

Furthermore, official USAID PIO policies and processes do not include requirements for defining risk tolerances; identifying risk categories such as fraud, terrorism, and oversight capacity; or assessing risks that may affect PIO programs. Additionally, for the awards we examined, elements of risk management were not applied for the following reasons:

- ADS 201 policies are applied at the level of individual missions or offices, and during emergencies OFDA, FFP, and any other operational unit managing emergency assistance do not have to comply with project and activity design, which includes project monitoring, evaluation, and learning plans that outline in general terms the importance of analyzing risks.
- USAID humanitarian funding through OFDA and FFP is tied to the International Disaster Assistance funding account,<sup>15</sup> which means humanitarian assistance awards do not have to follow certain CFR award requirements, including a requirement on assessing risk. With that said, PIO agreements, no matter what type of funding is used, do not have to follow the CFR.

Humanitarian assistance can be provided during a standalone or series of short-term and long-term disasters. However, USAID has not set time or funding thresholds that would trigger a more formalized risk management process. For example, in Syria and Iraq, USAID awards to PIOs now span more than 6 years and total \$2.6 billion without a formal process for identifying and assessing risk.

Inadequate assessments of PIO risk, and risk in general, has been a longstanding issue for USAID. In July 2011, GAO recommended that USAID conduct risk assessments in its

<sup>15</sup> Section 491 of the Foreign Assistance Act authorizes International Disaster Assistance. According to USAID, there is no distinction “between short-term or long-term events,” and authorization for International Disaster Assistance “is based on a recognition by Congress that flexibility is needed to program humanitarian assistance.” ADS exemptions from International Disaster Assistance activities are not unique to PIOs but apply generally to all funding by OFDA and sometimes FFP.

award process for a large PIO in Afghanistan.<sup>16</sup> In July 2016, GAO similarly recommended that USAID conduct such assessments for nongovernmental organizations addressing the Syria crisis.<sup>17</sup>

While most Federal regulations generally do not apply to PIOs, the Office of Management and Budget's (OMB) Circular A-123 outlines enterprise risk management practices and responsibilities that nonetheless require prudent safeguards of Agency activities and operations with an integrated and coordinated risk management process as well as strong and effective internal control.<sup>18</sup> In addition, other international donors defined risk categories in advance and assessed risks at individual PIOs when making awards to PIOs. For example, the United Kingdom's (U.K.) Department for International Development (DFID) produces public and nonpublic risk-based assessments, which inform future funding at PIOs (see appendix B).<sup>19</sup> According to USAID, future risk management will cover PIO issues when enterprise risk management activities are finalized by an Agency workgroup.

## **USAID's Preapproval Process for PIO Awards Was Ineffective for Managing Risks**

Under ADS 308, USAID established DCS with a requirement to preapprove category one PIOs. However, ADS 308 and the DCS charter fall short of requiring assessments of PIO past performance; instead they state that performance should be considered. Further, ADS 308 requires responsibility determinations to be conducted on an ongoing basis, but the policy does not specify how often and when they should occur. DCS's charter states that assessments should be done every 2 years. Lastly, USAID's policy does not name DCS as the Agency's focal point for PIO oversight issues.

The awards we examined did not always provide evidence that DCS conducted comprehensive or valid responsibility determinations. For example, responsibility determinations for three of the nine PIOs were not finalized before awards were made, and none of the other six PIO determinations were updated with new information or renewed every 2 years. Each responsibility determination that was completed focused on summarizing background information and did not include the elements of a risk assessment, such as identifying risk categories, recommending mitigating controls, and monitoring or verifying broad PIO compliance with mitigating controls.

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<sup>16</sup> Actions Needed to Improve Accountability of U.S. Assistance to Afghanistan Government (GAO-11-710), July 2011.

<sup>17</sup> Some Risks of Providing Aid Inside Syria Assessed, but U.S. Agencies Could Improve Fraud Oversight (GAO-16-629), July 2016.

<sup>18</sup> OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, was updated and reissued on July 15, 2016, and requires, among other things, for the Agency to take an organizationwide look at risk management. As part of addressing this requirement, in August 2017 USAID revised a governance charter for the risk-management council which oversees internal controls, as outlined in ADS 596mab.

<sup>19</sup> DFID is a United Kingdom government department founded in 1997 to lead the U.K.'s work to end extreme poverty. The goal of the department is to build a "safer, healthier, more prosperous world for people in developing countries and in the U.K. too."

As a result, the majority of PIO awards that we reviewed, totaling over \$1.58 billion, were made without a completed or updated responsibility determination and without comprehensive risk assessments or adequate assessments of PIO performance.<sup>20</sup> Because the same policy and practices are broadly applicable, our findings raise questions about whether similar vulnerabilities exist in USAID's PIO awards across the board.

When DCS conducted a responsibility determination, it relied on publicly available information to analyze the PIO's performance. DCS did not consider internal information provided by USAID field staff responsible for performance monitoring or by USAID staff in PIO headquarters locations conducting corporate governance oversight. Based on interviews we conducted, negative perceptions exist throughout USAID as to DCS's role and the rigor of its activities. Specifically, some USAID officials responsible for PIO oversight and governance believed DCS was not effective at completing its full responsibilities. Further, USAID staff at PIO headquarters in Geneva, New York City, and Rome told us they were not aware of DCS responsibilities for oversight, had never seen responsibility determinations, or had never heard of DCS.

In addition, DCS did not fully coordinate with or evaluate all reports from external sources such as the Organisation for Economic Co-operation and Development (OECD),<sup>21</sup> DFID, and GAO. These organizations identify a range of program risks applicable to USAID's funding of PIOs—notably, OECD's reports on corruption, DFID's multilateral and internal PIO assessments, and GAO's framework on assessing fraud risk.

USAID acknowledged that DCS has not exercised its full authority to evaluate PIO performance and oversight capabilities or to get involved when PIO nonperformance is identified, mainly because DCS did not have resources for a dedicated PIO team. Instead, DCS's PIO work has been performed by either a part-time committee that met as needed or General Counsel staff when time allowed. While our interviews and review of DCS meeting minutes indicated that DCS intended to follow up on PIO issues and conduct new responsibility determinations, it has yet to take such actions.

Instead, DCS continued to make responsibility determinations without reviewing all available information—including adverse information that we obtained from PIOs and PIO oversight units on the nine PIOs in our sample. Specifically, DCS did not identify and analyze 73 reports on potential performance weaknesses related to risk management, internal control, or project activities: 51 publicly available PIO internal audit reports in the Middle East region and 22 reports from other PIO oversight groups,

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<sup>20</sup> To determine if a responsibility determination was valid we conducted two tests. First, we determined which awards were signed after a responsibility determination was marked final, signed, and dated. Some awards were signed before the responsibility determination was completed because the award was made before the responsibility determination was signed or it was still in draft. Second, we verified if an award was made no more than 2 years after the responsibility determination was signed, to align with the DCS charter guideline that a responsibility determination be done every 2 years. Some awards were signed that relied on responsibility determinations that were over 2 years old.

<sup>21</sup> According to OECD's website, the organization was founded in 1961 to "promote policies that will improve the economic and social well-being of people around the world." It currently has 35 member countries and is headquartered in Paris, France.

such as the U.N.'s Joint Inspection Unit, Board of Auditors, and Office of Internal Oversight Services. By approving PIOs without conducting due diligence, DCS may have established a higher level of trust for each PIO than what was warranted. Ultimately, USAID offices continued to fund some PIOs despite external sources and the PIOs themselves identifying adverse performance.

## **USAID Relied on PIOs to Manage Risks Without Adequately Understanding Their Oversight Capabilities and Major Risks**

USAID relied heavily on PIO internal controls and oversight offices for important aspects of oversight, such as to monitor performance; identify, assess, and respond to risks; and perform fiduciary responsibilities—controls called for in Federal internal control standards.<sup>22</sup> However, external PIO oversight offices reported that PIOs have not implemented critical controls, and internal oversight offices generally do not conduct financial audits of specific programs funded by USAID or produce sufficient fraud reporting.<sup>23</sup> According to PIO oversight offices, generally PIOs lacked the investigative capability and capacity to ensure funds are safeguarded, including the capability to recover funds lost due to fraud. PIO oversight offices varied in terms of staff assigned to audit and investigate and the funding received (see table 7 in appendix C). Some offices also lacked the resources to process allegations of fraud, much less investigate those allegations. According to one PIO investigator, investigations were often limited to staff harassment issues because the investigation office did not have enough investigators to take up more complex cases like fraud. Additionally, PIO oversight offices might lack independence, a basic control principle for effective oversight. For example, according to PIO documentation, all audit and investigation units reported to heads of the PIO (see table 8 in appendix C), but DCS has not contacted oversight offices to analyze if this is appropriate.

We identified three major weaknesses with DCS, which taken together heighten the risk of fraud, waste, and abuse of USAID funds. First, DCS responsibility determinations have not included a comprehensive assessment of PIO oversight offices—in part because DCS does not have the resources, clear authority, and mandate to conduct such assessments. USAID's understanding of PIO oversight and major risks was further limited by other policy and procedural gaps because ADS 308 does not require awardees to report serious criminal misconduct, such as fraud, sexual exploitation and abuse, and theft to USAID. For example, WFP did not contact USAID—typically WFP's largest donor around the world—about serious allegations of fraud and concerns with internal controls. When WFP responded to USAID's request about these concerns, USAID was not satisfied because the information was insufficient, or initially WFP did not adequately investigate the allegations. Since these events unfolded, WFP's oversight

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<sup>22</sup> "PIO oversight offices" refers to the oversight groups relevant to individual PIOs we audited. Some oversight offices are external and provide oversight across multiple U.N. agencies. Other oversight offices are internal and provide oversight of one specific PIO. See appendix C for more information.

<sup>23</sup> Conclusion based on reviewing PIO's publicly available audit and oversight reports. We reviewed 51 in total and found only 1 PIO that conducted and published financial-type audit reports of a local field office related to the scope of our audit. An official for another large PIO oversight office commented that the office does not conduct financial audits on specific donor grants for local operations.

office has committed to provide more routine risk management and oversight updates to USAID. In contrast to PIO awards, fraud reporting is a requirement for awards under the Uniform Guidance, i.e., 2 CFR 200.113, for grants to U.S. nongovernmental organizations. According to USAID, the Agency is exploring the possibility of negotiating fraud reporting requirements in future PIO awards.

Without the disclosure of suspected and identified serious criminal misconduct or a comprehensive understanding of PIO oversight capabilities, USAID cannot be assured risks like fraud were mitigated in the programs it funded. Information on problematic vendors, subpartners, subcontractors, employees, or other parties is critical to understanding and mitigating risks of serious criminal misconduct.

Second, DCS has not assessed the policies and procedures PIOs rely on to mitigate risk. For example, three PIOs explained they developed a risk management approach that relies on a risk register to identify and mitigate risks at the corporate level, the country operating level, and the specific activity level with mitigating controls assigned to specific staff. However, one of the PIOs stated it does not share its risk register with member states, including USAID, because it is a management tool. U.N. PIOs also rely on oversight groups, such as the Joint Inspection Unit, Board of Auditors, and Office of Internal Oversight Services, or crosscutting oversight initiatives like the Harmonized Approach to Cash Transfer and Global Marketplace, to help mitigate risk.<sup>24</sup> One non-U.N. PIO relies on Trace International Certification, a paid service that any organization can use to screen vendors.

Finally, USAID has not leveraged DCS to influence PIO boards or U.S. interagency decisions on issues like U.N. reform. USAID representation in Geneva, New York City, and Rome appears to be delegated to offices responsible for programming funds, like OFDA and FFP, and not to a centralized and crosscutting Agency oversight entity.<sup>25</sup> U.S. Department of State officials are interested in pushing a U.N. reform agenda and holding the U.N. more accountable, which a strong centralized DCS could help accomplish.<sup>26</sup>

## **Award Documentation That Cited Discrete Elements of Risk Lacked Rigor**

In some cases, award documentation identified discrete risks—particularly risks posed by terrorist groups that seek to benefit from USAID assistance. However, award documentation did not always provide evidence that PIO mitigating controls were rigorously examined by USAID to determine if controls were designed appropriately

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<sup>24</sup> The Harmonized Approach to Cash Transfer is a framework some U.N. agencies use to assess governments and nongovernmental organizations that receive transfers of funds through U.N. programs. The Global Marketplace is a common vendor procurement portal across the U.N. that sets requirements for vendors based on different thresholds of funding they receive. Both are examples of crosscutting internal controls U.N. agencies use to mitigate risk.

<sup>25</sup> USAID has not developed position descriptions for some staff, a policy on how oversight will be applied through PIO headquarter positions, or the roles and responsibilities for providing PIO corporate oversight and influence.

<sup>26</sup> In written comments after the draft report was issued, USAID stated that it is also interested in holding the U.N. more accountable.

and operating as intended, as would be done in comprehensive risk assessments. For 6 of the 19 awards we reviewed, USAID staff used elements from the Department of State’s 2008 guidance on the risk terrorists might benefit from foreign assistance to conduct award-specific, regional, or global risk due diligence, which the Agency believed mitigated the risk of terrorist groups benefiting from USAID’s humanitarian assistance.<sup>27</sup> However, for 13 of 19 awards, there was no due diligence that the risk was rigorously assessed because USAID stated the risk was low or not applicable, or because the process for assessing the risk was not standardized across the Agency (see table 5).

**Table 5. PIO Awards Without Due Diligence That Examined Risks of Terrorists Benefiting From USAID Assistance**

Office	Sampled Awards	Awards Without Due Diligence	Funding Amount of Awards Without Due Diligence
<b>OFDA</b>	15	11	\$129,433,900
<b>FFP</b>	4	2	567,423,765
<b>Total</b>	<b>19</b>	<b>13</b>	<b>696,857,665</b>

Source: OIG analysis.

According to USAID attorneys, when and how due diligence is conducted is at the discretion of individual bureaus and offices; there was no Agency-wide policy on how the Department of State guidance should be applied. FFP developed several methods that covered the Syrian regional response and briefly examined terrorism risk mitigation steps that a PIO identified for its projects.<sup>28</sup> OFDA conducted due diligence for four PIO awards before funds were made to PIOs. The OFDA due diligence relied on assurances from U.N. organizations that they would not assist problematic groups. Regardless, neither FFP’s nor OFDA’s due diligence indicated (1) if USAID determined each PIO risk management step was appropriate and sufficient to mitigate risk, (2) how the PIO’s risk mitigation steps were or would be verified, and (3) who at USAID would monitor the PIO’s compliance with the risk mitigation. Federal internal control standards call for risks to be analyzed with appropriate responses assigned to risks to ensure controls are mitigating risk.

Despite the Department of State’s 2008 guidance providing a model for assessing the risk that terrorists could benefit from assistance, USAID has not established a formal, complete policy that establishes rigorous requirements for how funding offices should examine this risk. Without a formal policy requiring a verifiable risk mitigation plan for staff responsible for oversight, USAID is potentially exposing itself to abuse of its funds in PIO programs.

<sup>27</sup> Award-specific due diligence means the context and activities of a single award are examined, and USAID relies on assurances based on the PIOs’ own assessments. Regional due diligence examines various implementers, awards, and activities in a given fiscal year all in the same country or region around some risk mitigation measures a PIO will take. Global due diligence briefly examines, by country, the key activities, implementers operating, and the PIO stated risk mitigation measures. Global due diligence is only done for a 2-year fiscal cycle.

<sup>28</sup> FFP conducted due diligence in fiscal year 2012 and then again in two biennial periods with global due diligence for fiscal years 2014 through 2017 (no due diligence was found for fiscal year 2013).

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## **USAID POLICIES ON MANAGING PIO AWARDS DID NOT ALIGN WITH INTERNAL CONTROL STANDARDS**

USAID's PIO policies and accompanying processes and guidance lacked the rigor called for in Federal internal control standards.<sup>29</sup> Specifically, the policies did not establish and codify clear authorities, roles, and responsibilities and standards for properly managing and overseeing PIOs. They also did not require or outline how the Agency will capture, maintain, or disseminate critical information, including lessons learned from field-based employees on PIO performance. These weaknesses intensify the challenges USAID faces for overseeing PIOs, especially in nonpermissive and long-term crisis environments such as Syria and Iraq.<sup>30</sup>

### **USAID Has Not Clarified and Codified Policies for Managing and Overseeing PIO Awards**

Federal internal control standards for creating an internal control environment call for establishing clear authorities, roles, and responsibilities for managing and overseeing PIO awards. However, USAID policy does not designate the roles and responsibilities of USAID staff assigned to oversee PIOs at the corporate level; describe how USAID can use its influence on PIO executive boards; or emphasize the importance of the General Counsel's role in managing DCS operations. USAID's PIO award documentation demonstrates the problem of not having such controls. For example, the agreement officer's official designation letters for 18 of 19 awards we examined pointed to ADS 303, a USAID policy related to nongovernmental organization grants—which some program staff believed were similar to PIO awards—and cooperative agreements.<sup>31</sup> In other words, the letters hold agreement officer's representatives accountable for complying with ADS and CFR rules and regulations, which USAID attorneys said do not apply to PIO awards. The legal authority USAID relied on to make PIO awards was also unclear in award documentation and ADS 308. According to one Office of Acquisition and Assistance official, some awards were made using other transaction authority, but a DCS attorney said OTA was not used at all.

The Agency acknowledged that its policies for managing and overseeing PIO awards need to be clarified, but revisions to ADS 308 have been delayed in part due to

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<sup>29</sup> GAO calls for agencies to establish and document their award management structure, responsibility, and authority.

<sup>30</sup> For simplicity, we refer to the events in Iraq and Syria as a long-term crisis. There are multiple terms and definitions for different long-term crises. For example, a 2015 USAID-funded report, *The State of the Humanitarian System*, notes that a chronic complex emergency is not a "sudden-onset natural disaster" but rather an event "characterized by long-standing conflicts, weak governance and severe poverty." Other U.N. documentation on the Iraqi and Syrian humanitarian response use the term "protracted crisis." Finally, ADS 251.6 defines a "complex emergency" as "a disaster, usually of long term duration, that includes a combination of humanitarian, political and military dimensions which hinders the provision of external relief."

<sup>31</sup> A letter for one award was not provided because it was not in the award files.

disagreements among different USAID offices. Notably, Office of Acquisition and Assistance officials stated the Agency has not designated an office or official responsible for signing PIO awards and managing their execution across the Agency. These officials further stated they do not want contracting officers or agreement officers to sign future PIO OTA awards because their warrants are unique to contracts, agreements, or grants. They suggested that a new class of authority be created for PIO awards—with roles, responsibilities, and training distinct from those for contracts and grants—to improve signatories' ability to properly manage PIO awards.

In the meantime, ADS 308—which does not require a risk assessment or oversight adjustments based on prior PIO performance—is insufficient for establishing oversight that would safeguard funds awarded to PIOs. Instead, complying with ADS 308 is largely an exercise to periodically prepare responsibility determination memos for the file. The current oversight model is not articulated to explain the roles and responsibilities of various offices and staff, like that of USAID officials in Geneva, New York City, and Rome, where the major PIOs operating in Iraq and Syria are headquartered.

Furthermore, some PIOs and USAID staff we spoke with also welcomed oversight mechanisms, such as building more oversight into awards or centrally funding oversight at PIOs. Staff from one PIO stated willingness to fund fraud prevention and risk mitigation, as long as USAID negotiated the donor requirements ahead of time. The process and roles and responsibilities for negotiating changes to typical oversight approaches are further not articulated in ADS 308.

## **USAID Has Not Systematically Leveraged Available Information To Make Informed Decisions When Working With PIOs**

Federal internal control standards call for management to communicate quality information internally and externally, have access to relevant and reliable information, and establish monitoring activities to help inform future decisions. However, USAID has not developed a formal centralized structure or system—independent of the influences from funding offices like FFP and OFDA—that would easily allow staff who manage PIO awards to share timely, complete, and accurate information about PIO performance. As a result, staff cannot efficiently (1) address poor PIO performance by enforcing standard provisions attached to each award or elevating issues through PIO corporate channels when issues are widespread, or (2) collect and analyze PIO performance information to use for future awards.

Furthermore, none of the nine PIOs had been recategorized under ADS 308 to require more oversight—even after performance concerns for some PIOs were brought to USAID's attention. For example, our Office of Investigations identified performance concerns related to WFP and urged FFP to improve its oversight of the PIO to address identified concerns. FFP staff reiterated the “three lines of defense” at WFP, which

outlines an internal control environment.<sup>32</sup> However, without internal monitoring and performance data, USAID cannot know if the controls were designed appropriately and working as intended. Regardless, USAID has not provided evidence that it used our investigative findings or PIO internal audit and investigative findings to enforce standard provision clauses in PIO awards that allow direct audits of USAID funds. One USAID official assigned to a PIO headquarters commented that having a centralized USAID unit that gathers performance information from the field is important and could help identify and mitigate risks. Although USAID had influence at PIOs, there were not clear action plans for improvements that should be made to better manage risks.

## **USAID’s PIO Awards Related to Long-Term Crises Were Particularly Vulnerable to Risks of Fraud, Waste, and Abuse**

According to OFDA, its approach to making awards aims to expedite needed funds to conflict or disaster zones, typically for the short term. However, in contexts like Syria and Iraq, PIO awards can continue for multiple years—in the case of Syria, continuously since 2012. In such cases, USAID exposes foreign assistance funds to increased risk of fraud, waste, and abuse because the awards were not designed with the internal control standards appropriate for these contexts.

For Syria and Iraq, OFDA and FFP staff followed an informal process for making awards to PIOs, with information that was scattered across many systems, generally unorganized, and difficult to access.<sup>33</sup> Ultimately, the 19 PIO awards we tested did not comply with OFDA and FFP requirements or best practices for strong internal controls that we identified (see table 6). Essential principles for Federal internal control standards include documenting the internal control system, i.e., the award process; establishing clear authorities, roles, and responsibilities; ensuring risk management and control activities are implemented; and retaining documentation and records.

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<sup>32</sup> The three lines of defense is a catchphrase U.N. agencies use to describe the internal control environment at various agencies. According to the Joint Inspection Unit’s 2016 report, *The State of the Internal Audit Function in the United Nations System*, the first line of defense is around internal control activities, the second line is management oversight, and third line is independent assurance and advice.

<sup>33</sup> After the audit’s exit conference on February 22, 2018, FFP provided updated policy documents and process flows for making awards to some PIOs. The documents and process flows were not updated, available, or referenced by FFP during the audit testing and fieldwork phase. FFP commented that they updated these documents based on preliminary results of the audit and requests for clarity from staff.

**Table 6. OFDA and FFP Funding Without Evidence of Internal Controls, 2012 to 2016**

Key Control	OFDA: 15 awards totaling \$191,580,394		FFP: 4 awards totaling \$1,374,323,765	
	Control was operating	Award funding without control operating (\$)	Control was operating	Award funding without control operating (\$)
<b>Required by OFDA/FFP's Process Flows</b>				
Correspondence with PIOs documented by operational unit	9 out of 15	30,675,900	0 out of 4	1,374,323,765
Operational unit assessed appropriateness of funding a PIO	0 out of 15	191,580,394	3 out of 4	505,648,600
<b>Best Practice<sup>a</sup></b>				
PIO awards process formally documented	0 out of 15	191,580,394	0 out of 4	1,374,323,765
Funding unit asked PIOs about risks in their programs	0 out of 15	191,580,394	0 out of 4	1,374,323,765
PIO subvendors vetting process was reviewed <sup>b</sup>	NA	NA	0 out of 4	1,374,323,765
Consultations of a technical expert on fraud	0 out of 15	191,580,394	0 out of 4	1,374,323,765
Documented review of audits or investigations conducted by PIO oversight bodies	0 out of 15	191,580,394	0 out of 4	1,374,323,765

Source: OIG analysis.

<sup>a</sup> The best practices we identified are based on our examination of concepts and requirements applicable to contracts, grants, or cooperative agreements, and essential principles for Federal internal control standards. Some standards include documenting the internal control system, i.e., the award process; establishing clear authorities, roles, and responsibilities; ensuring risk management and control activities are implemented; and retaining documentation and records. Appendix A further discusses our methodology for developing these best practices.

<sup>b</sup> We were particularly interested in USAID's ability to vet WFP grants because of concerns with WFP subvendors noted by our Office of Investigations. This was a key control we expected to see, but neither OFDA nor FFP included it as a step in its policies and procedures for making awards to PIOs.

According to USAID, frequent turnover of short-term OFDA staff further complicated efforts to provide oversight of awards. Frequent turnover could also affect document retention and knowledge on how to provide oversight, as we reported in the past.<sup>34</sup> Furthermore, OFDA and FFP noted they simply lacked the resources and technical competency to build in some best practices, like consultations with fraud experts.

<sup>34</sup> Issues surrounding frequent staff turnover were also reported in OIG's audit, Assessment and Oversight Gaps Hindered OFDA's Decision Making About Medical Funding During the Ebola Response, January 24, 2018. In this report, OIG recommended that USAID establish handover policies and procedures for members of the Disaster Activity Response Team to provide consistency, continuity of operations, and institutional memory. We recently closed the recommendation after the Agency formalized procedures to guide outgoing and incoming response team members through the handover process.

Regardless, OFDA and FFP both acknowledged that their award processes for PIOs could be better aligned to internal control standards for awards going forward.

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## CONCLUSION

USAID's work with PIOs has helped advance U.S. humanitarian assistance and development goals around the world. However, with USAID's broad authority comes great responsibility to carefully balance award-making flexibility in situations like Syria and Iraq with the imperative of safeguarding the billions of taxpayer dollars made available to PIOs. The nonpermissive areas where USAID operates around the world create a perfect storm for bad actors to take advantage of these weaknesses and divert foreign assistance funds and aid from the millions of people who need it most. Accordingly, more action is needed to develop policies and procedures for managing PIO risks, clarifying authority for making PIO awards, carrying out work in long-term crisis environments, and dealing with suspected or identified fraud. Until USAID transforms and codifies its control environment to properly assess, mitigate, and oversee risks, it will continue to miss opportunities to more efficiently and effectively manage PIO awards and avert fraud, waste, and abuse.

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## RECOMMENDATIONS

We recommend that USAID take the following actions:

1. Develop a comprehensive risk management policy for assessing and mitigating risk for PIO awards. The policy should inform staff on risk tolerances and risk categories; provide a framework and guidance on how and when to assess risks, develop risk responses, and assign mitigating controls based on risks; and clearly communicate roles and responsibilities for carrying out risk management across the Agency.
2. Establish a dedicated, centralized entity with the authority and resources to assess and address (1) PIO performance, (2) PIO internal oversight effectiveness, (3) other crosscutting PIO oversight methods, and (4) oversight units operating across multiple organizations, using information from across the Agency.
3. Develop a comprehensive policy that outlines (1) what authority—for example, other transaction authority—will be used to make each PIO award and (2) what corresponding rules and regulations apply, to include the roles and responsibilities for individuals and offices responsible for award management.
4. Direct the Office of Foreign Disaster Assistance to (1) review and define its processes for making awards to PIOs to carry out work in long-term crisis environments and (2) update policies to ensure they include standards of internal control related to documenting the internal control system, analyzing risks, designing control activities, and documenting transactions by retaining records.

5. Direct the Office of Food for Peace to (1) review and define its processes for making awards to PIOs to carry out work in long-term crisis environments and (2) update policies to ensure they include standards of internal control related to documenting the internal control system, analyzing risks, designing control activities, and documenting transactions by retaining records.
6. Establish requirements for PIOs to notify USAID of suspected and identified serious criminal misconduct in activities funded by USAID to include unlawful actions taken by employees, subpartners, subcontractors, vendors, or other parties. The requirements should specify the process for reporting and criteria for what to report.

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## **OIG RESPONSE TO AGENCY COMMENTS**

We provided our draft to USAID on July 19, 2018, and on August 16, 2018, received its response, which is included as appendix D. The Agency concurred with all six of our recommendations and broadly described the steps it is taking or plans to take over the next several months to strengthen its oversight of PIOs. We acknowledge management decisions have been made on all recommendations and consider them resolved but open pending completion of planned activities.

We appreciate the Agency's attention to our recommendations and will continue to monitor its actions in implementing them and any other related developments.

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## APPENDIX A. SCOPE AND METHODOLOGY

We conducted our work from October 2016 through July 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this audit were to (1) describe USAID's approach for overseeing PIOs and any unique authorities underlying that approach; (2) review USAID's efforts to identify, assess, and manage risks before awarding funds to PIOs; and (3) assess USAID's policies, processes, and guidance for managing PIO awards.

To address the audit objectives, the audit team reviewed ADS 308, USAID's policy on awards to PIOs. Then the audit team interviewed key USAID staff involved in overseeing and funding PIOs and reviewed regulations and GAO reports to identify key differences between awards to PIOs compared to nongovernmental organizations and contractors. Through additional USAID interviews with OFDA, FFP, General Counsel, Office of Acquisition and Assistance, and PIO staff, the audit team determined how USAID oversees PIOs beyond the roles or responsibilities described in ADS 308.

To assess how USAID identified, assessed, and managed risks before funding was awarded to a PIO, we examined the PIO awards process. We requested PIO award policies, procedures, and process flows from OFDA and FFP. However, process flows provided by OFDA and FFP did not provide sufficient detail to allow the audit team to test the award process. Key elements were missing in ADS 308 and office process flows, such as the identification of roles, responsibilities, controls, and systems. Furthermore, the process flows were not accurate and complete with all steps described. It was only after conducting field interviews with the Disaster Activity Response Team and PIO staff in Amman, Jordan, and detailed interviews with OFDA and FFP staff, that the audit team could construct a process flow that covered the process for making awards to PIOs for each funding office. The audit team's documented walkthrough of the process was further confirmed by OFDA and FFP on May 5 and May 10, 2017, respectively.

After finalizing the OFDA and FFP process flows, we developed control testing questions to determine if controls were designed, implemented, and operating effectively for USAID to identify, assess, and manage risk before awarding funds to PIOs. These questions were based on the actions OFDA and FFP said they were taking in the process flow as well as best practices asserted by the audit team. Criteria for these best practices included regulations applicable to awards to some non-PIO implementers. Specifically, prior to awarding competitive grants and cooperative agreements, 2CFR200.205(b) requires that the Government review risks posed by applicants by considering items such as reports and audit findings. In addition, 2CFR200.318(h) states that the Government should consider contractor integrity and records of past performance. In both 2CFR200.308 and ADS 303.3.11.c(2), there are requirements for the approval of subawards. Lastly, there is a major emphasis on the Government

assessing fraud risk and implementing control activities in accordance with GAO's Standards for Internal Control in the Federal Government. These questions became the basis on which the audit team reviewed the adequacy of USAID's internal controls to manage awards to PIOs.

To examine USAID's policies and procedures for making awards to PIOs and overseeing PIOs, we reviewed PIO funding awarded in Iraq and Syria between 2012 and 2016. The audit team requested documentation for all PIO awards in Iraq and Syria, which totaled 68 awards made to nine PIOs from January 2012, when the Syria crisis began, to December 2016. In sum, the 68 awards totaled \$1.83 billion to PIOs for work in Iraq and Syria. The vast majority of that funding came from FFP and OFDA. The two offices were responsible for 66 out of the 68 awards and \$1.81 billion of funding to PIOs. The audit team decided to exclude two awards from the analysis—one from the Middle East bureau, and one awarded by the USAID mission in Jordan—because testing one award from each of those offices would not give the audit team sufficient evidence as to how those offices function in regard to awarding funding to PIOs. In this report we include the total value of funding to PIOs in Iraq and Syria from January 2012 to March 2018, which totaled \$2.6 billion. During the same time period, PIOs received a global total of nearly \$15 billion from USAID, which included the funding we tested for Iraq and Syria.

We used a judgmental sampling methodology to select awards for testing from the 68 awards we were provided. To efficiently cover the maximum amount of funding in the fewest number of awards, we selected the largest award from seven out of nine PIOs and all awards over \$30 million. We did not include two PIOs in our award testing sample because they received minimal funding at the time of our audit. Our judgmental sample further selected the most recent award to each PIO. Finally, if the PIO was awarded funds in both Iraq and Syria, we ensured one award from each country was selected. This selection method gave the audit team a test sample of 19 awards total:

- 7 awards to PIOs working in Iraq (out of 22). This sample covers \$199,538,000 out of \$251,963,000 in the audit universe for OFDA and FFP, which is 79.2 percent of the amount awarded in Iraq.
- 12 awards to PIOs working in Syria (out of 44). This sample covers \$1,366,366,159 out of \$1,560,360,561 in the audit universe for OFDA and FFP, which is 87.6 percent of the amount awarded in Syria.

The 19 awards in the sample constitute \$1,565,904,159 out of \$1,832,622,361 awarded to PIOs working in Iraq and Syria, or 85.4 percent.

Using the sample selected and the PIO award process flows, the audit team developed 71 internal control test questions for FFP and 70 for OFDA to determine if controls were designed, implemented, and operating effectively in the award processes. Since we used a judgmental selection methodology, the results cannot be projected to all of the awards. They are limited to only the awards tested.

To test the effectiveness of the DCS unit, the audit team reviewed all PIO responsibility determinations for the nine PIOs in our scope and written by DCS to determine if they

constituted comprehensive risk assessments based on established criteria. Additionally, we reviewed the ADS and internal DCS documents to determine if the unit was following established procedures, and we interviewed DCS members responsible for writing the responsibility determinations. The audit team also reviewed external oversight reports produced by GAO, U.N. organizations, and foreign governments, as well as PIO oversight work products and annual reports, to determine if DCS captured relevant information from those reports. Review of the external and internal oversight products also allowed us to draw conclusions about the functioning of PIO oversight organizations. To gain additional understanding of how PIO oversight offices function, the audit team traveled to and interviewed PIO oversight staff based at PIO headquarters in Geneva, New York City, and Rome.

The audit did not rely on computer-processed data for information significant to the findings. We verified all funding amounts to PIOs by obtaining 68 electronically scanned original awards and the last financial-related modification through December 31, 2016, showing maximum funding amounts, to establish that PIOs received \$1.83 billion in obligations for work in Syria and Iraq. All grant files and other information relied upon was received in physical or electronic form, and not through means that involved computer-processed data or computer-generated information such as a financial report or database summary.

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## **APPENDIX B. EXAMPLES OF ASSESSMENTS OF PIOS CONDUCTED BY OTHER INTERNATIONAL DONORS**

Many international donors conduct assessments of multilateral institutions, i.e., PIOS. The two following examples illustrate generally how the United Kingdom's Department for International Development and the European Union's European Commission assess PIOS. Additionally, the Joint Inspection Unit, an oversight agency of the U.N., prepared a report titled *Donor-Led Assessments of the United Nations System Organizations* that summarizes the types of donor-led assessments across the U.N.

**Example 1.** DFID conducts a large public assessment of all of its large multilateral partners via the Multilateral Development Review. The most recent version was published in 2016. The purpose of the Multilateral Development Review is to assess (1) the overall strength of individual multilateral institutions and (2) how closely each organization's goals match with the goals of the U.K., to determine if the organizations are worthy of U.K. funding. DFID ranks each multilateral organization as weak, adequate, good, or very good in those two areas. According to the latest review report, if organizations fail to meet the U.K.'s high standards for performance, "their funding is at risk." Therefore, DFID uses the report to evaluate if institutions will be funded in the future. To conduct the 2016 assessment, DFID reviewed publicly available information from the multilateral organizations, external evaluations and reviews, and feedback from DFID country office staff, other U.K. government staff, and British nongovernmental organizations working in developing countries.

**Example 2.** The European Commission relies on the results of Pillar assessments to determine if an organization can be trusted to manage funds. Pillar assessments consider up to seven requirements and are undertaken by independent auditors who abide by international standards. Every Pillar assessment includes a review of the organization's internal controls, accounting, and external audit practices against European Commission standards. The assessments may also include reviews of grant, procurement, financial instruments, and subdelegation practices if necessary to determine if they meet European Commission standards.

## APPENDIX C. INFORMATION ON PIO OVERSIGHT UNITS

**Table 7. Approximate Staffing and Budget Levels of PIO Oversight Units**

PIO	Audit Staff	Investigation Staff	Total Staff	Oversight Unit's Budget	PIO's Budget 2016-2017
Food & Agriculture Organization of the U.N.	13	5	25	\$9.3 million over 2 years	\$1.01 billion
International Federation of Red Cross and Red Crescent Societies	5	3	10	2 million	1 billion
International Organization for Migration	13	4	22	3.2 million	1.85 billion
U.N. Children's Fund	17	6	33	7.57 million	10.17 billion
U.N. Development Programme	52	21	79	17.1 million	9.85 billion
U.N. Office for the Coordination of Humanitarian Affairs <sup>a</sup>	NA	NA	NA	NA	554 million
U.N. Population Fund	10	5	21	5.35 million	1.81 billion
World Food Programme	Undisclosed	Undisclosed	34	7.86 million	10.5 billion
World Health Organization	12	6	20	11.25 million over 2 years	4.38 billion

Source: OIG analysis of PIO publicly available information or collected directly from PIOs as of September 2017 unless otherwise indicated.

<sup>a</sup> OCHA is a U.N. secretariat agency and does not have a dedicated internal oversight unit. It relies on the Office of Internal Oversight Services, which has oversight responsibility across several U.N. secretariat agencies.

**Table 8. Reporting Structure and Key Audit and Investigation Information of PIO Oversight Units**

<b>PIO</b>	<b>Internal Oversight Office</b>	<b>Who appoints/ dismisses the office head?</b>	<b>Who does the office report to?</b>	<b>Are audits always posted publicly?</b>	<b>Approximate Cases of Fraud in 2016<sup>a</sup></b>
Food & Agriculture Organization of the U.N. (FAO)	Office of the Inspector General	FAO Director General in consult with Finance Committee	FAO Director General	No	26 cases of fraud alleged
International Federation of Red Cross and Red Crescent Societies (IFRC)	Office of Internal Audit and Investigation	IFRC Secretary General	IFRC Secretary General	No. Started posting in 2016.	25 cases investigated <sup>b</sup>
International Organization for Migration (IOM)	Office of the Inspector General	IOM Director General in consult with Audit and Oversight Advisory Committee	IOM Director General	No. Only available to member states. Summaries are public.	6 allegations substantiated
U.N. Children’s Fund (UNICEF)	Office of Internal Audit and Investigation	UNICEF Executive Director in consult with Audit Advisory Committee	UNICEF Executive Director	No. Audit reports can be selectively withheld.	12 allegations
U.N. Development Programme (UNDP)	Office of Audit and Investigations	UNDP Administrator in consult with Audit Advisory Committee	UNDP Administrator	No. Audits can be withheld by Office of Audit and Investigations Director.	40 cases substantiated
U.N. Office for the Coordination of Humanitarian Affairs (OCHA) <sup>c</sup>	NA	NA	NA	NA	NA
U.N. Population Fund (UNFPA)	Office of Audit and Investigation Services	UNFPA Executive Director	UNFPA Executive Director	No. Audits can be selectively withheld.	39 cases received

<b>PIO</b>	<b>Internal Oversight Office</b>	<b>Who appoints/ dismisses the office head?</b>	<b>Who does the office report to?</b>	<b>Are audits always posted publicly?</b>	<b>Approximate Cases of Fraud in 2016<sup>a</sup></b>
World Health Organization (WHO)	Office of Internal Oversight Services	WHO Director General in consult with executive board	WHO Director General	No. Only available to member states.	32 reports of concern
World Food Programme (WFP)	Office of the Inspector General	WFP Executive Director in consult with Audit Committee and with consent of executive board	WFP Executive Director	No. Audit reports can be selectively withheld by WFP Executive Director.	18 fraud cases completed

Source: OIG analysis of PIO publicly available information.

<sup>a</sup> PIOs report fraud in different ways. According to a 2016 Joint Inspection Unit report, there is no U.N. systemwide definition of the term fraud. The fraud each PIO reported publicly is related to all funding received and is not delineated for USAID.

<sup>b</sup> IFRC reported the number of cases investigated by its Office of Internal Audit and Investigation between June 2015 and August 2017.

<sup>c</sup> OCHA is a U.N. secretariat agency and does not have a dedicated internal oversight unit. It relies on the Office of Internal Oversight Services, which has oversight responsibility across several U.N. secretariat agencies.

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## APPENDIX D. AGENCY COMMENTS



*The Administrator*

August 16, 2018

The Honorable Ann Calvaresi Barr  
Inspector General  
Office of the Inspector General  
United States Agency for International Development  
1300 Pennsylvania Avenue, N.W.  
Washington, D.C. 20523

Dear Madam Inspector General:

Thank you for providing the draft report of the Office of the Inspector General (OIG) entitled, *“Insufficient Oversight of Public International Organizations (PIO) Puts U.S. Foreign Assistance Programs at Risk”* (No. 8-000-18-00X-P).

The U.S. Agency for International Development (USAID) concurs with all six recommendations, and the enclosed memorandum describes the steps the Agency is currently implementing, or will implement, to strengthen our oversight of our grants and cooperative agreements with Public International Organizations and our fiduciary responsibilities to the American taxpayer.

The OIG’s evaluations provide a valuable opportunity to assess and improve upon USAID’s policies, procedures, and programs. Thank you for the opportunity to respond to your draft report, and for the courtesy shown by your staff while conducting this engagement.

Sincerely,

/s/

Mark Green

Encl.:

Memorandum to the Inspector General, Ann Calvaresi Barr

**MEMORANDUM TO THE INSPECTOR GENERAL, ANN CALVARES  
BARR**

**FROM:** Administrator Mark Green /s/

**SUBJECT:** Revised Management Decision to Respond to the Audit Report Produced by the Office of the Inspector General (OIG) entitled, “*Insufficient Oversight of Public International Organizations Puts U.S. Foreign Assistance Programs and Risk.*” OIG Report 8-000-18-00X-P contains six recommendations for the U.S. Agency for International Development (USAID), with which the Agency agrees, and to which this memorandum responds.

**Recommendation I:** Develop a comprehensive risk-management policy for assessing and mitigating risk for Public International Organization (PIO) awards. The policy should inform staff on risk tolerances and risk categories; provide a framework and guidance on how and when to assess risks, develop risk responses, and assign mitigating controls based on risks; and clearly communicate roles and responsibilities for carrying out risk management across the Agency.

**Management Decision:** USAID concurs with Recommendation I, and is confident the Agency has the governance structure and processes in place to address it fully.

In 2017, USAID implemented Enterprise Risk-Management (ERM) as required by Office of Management and Budget (OMB) Circular A-123, and Automated Directives System (ADS) Chapter 596 delineates the associated governance structure. A key objective of A-123 is for Federal Departments and Agencies to implement a more systematic and intentional approach to risk-management. Further, the Circular states that an Agency’s objectives and the context in which it operates should inform its risk appetite. On August 7, 2017, Administrator Green articulated the Agency’s objectives as follows: We will strive to: (1) end the need for foreign assistance. We must measure our work by how far each investment moves us closer to the day when our relationship with the host country changes. In many cases, this day will be far off, but will be a driving force in how we design programs to fit specific needs and challenges on the ground. To that end, we will focus on (2) strengthening our core capacities and (3) interagency coordination, while (4) empowering our employees and partners to lead. Finally, we will (5) respect the taxpayers’ investments by being transparent and accountable stewards of the resources and expectations given to us from the American people. The implementation of a new ERM system is an integral part of achieving the Administrator’s vision, and is in alignment with the USAID/Department of State *Joint Strategic Plan*, for Fiscal Years (FY) 2018-2022.

On June 1, 2018, Administrator Green approved the Agency’s first Risk-Appetite Statement (Statement). The purpose of the Statement is to provide USAID staff and partners with clear, broad-based guidance on the amount and type of risk the Agency is willing to accept – based on an evaluation of opportunities and threats at a corporate level, and in key risk categories – to achieve our mission and objectives. The Statement delineates the Agency’s appetite or “tolerance” for risk across the following categories:

legal, fiduciary, programmatic, human capital, security, reputational, and information technology. Our intent is to publish the Risk-Appetite Statement later this year.

In addition, in June 2017, the Agency created its first overarching Agency Risk Profile, to conform to the requirements of OMB Circular A-123, approved by the Administrator. The Agency's senior leadership regularly reviews the profile as part of the mandated ERM governance structure. According to Agency policy, the USAID senior-level Risk-Management Council (RMC) will update the Profile at least annually. The RMC's review of the Agency Risk Profile in Fall 2018 will consider submissions from USAID's Bureaus and Independent Offices (B/IOs).

Under the ERM structure now in place, each USAID Bureau and Independent Office (B/IO, or "assessable unit") must submit a Risk Profile annually; field Missions prepare individual Risk Profiles that inform the Risk Profiles of the Regional Bureaus. A Risk Profile details the risks most germane to achievement of an assessable unit's objectives, and what actions it will take to mitigate, and respond to these risks (i.e., "risk treatments").

To respond to the OIG's recommendation, all relevant B/IOs will identify any risk related to a PIO grant as an item on their Risk Profiles, if they believe the risk is potentially in excess of the Agency's established risk tolerances, or is a threat to their objectives, and as such demands the attention of senior management.

The Agency has proposed the establishment of a dedicated, centralized unit with the authority and resources to assess and address the performance and oversight of our grants and cooperative agreements with PIOs, and to provide revised guidance to the Agency's B/IOs on engaging with PIOs (discussed more in-depth below in our response to Recommendation 2). If Congress approves the new office, which is part of the Agency's larger Transformation, it will have the responsibility to work closely with the Agency's RMC to identify potential risks related to PIOs across the Agency, and assist in determining the best way to mitigate them.

#### Corrective Action Plan

The Agency's RMC will address the PIO risks raised in the OIG audit at an off-cycle meeting during the last week of August 2018. During this meeting, the RMC will consider a recommendation to include the collective risks that arise from the Agency's portfolio of PIO grants on the Agency Risk Profile, which the USAID Executive Management Committee for Risk and Internal Control (EMCRIC) would consider in the Fall. Inclusion as an item on the Risk Profile ensures the development of a risk-response plan that will articulate the offices responsible for its implementation. Senior leadership at the Agency is committed to monitoring, regularly and formally, the efficacy of the Agency's actions to respond to risks from the Agency's overall PIO portfolio.

#### Timeline:

- The RMC will hold an off-cycle meeting to recommend the inclusion of risks related to PIOs on the Agency Risk Profile - last week of August, 2018.

- EMCRIC will vote on the inclusion of risks associated with PIOs on the Agency Risk Profile and treatment plan at its next regularly scheduled meeting - by December 31, 2018.

**Target Completion Date:** December 31, 2018.

**Recommendation 2:** Establish a dedicated and centralized entity with the authority and resources to assess and address (1) PIO performance; (2) PIO internal oversight effectiveness; (3) other crosscutting PIO oversight methods; and (4) oversight units operating across multiple organizations, using information from across the Agency.

**Management Decision:** USAID agrees with Recommendation 2. As part of the Agency's Transformation, USAID will establish a new unit within the proposed Bureau for Policy, Resources and Performance (PRP) for assessing and addressing the performance and oversight of our grants and cooperative agreements to PIOs, and for leading policy coordination across the Agency. USAID is confident that, once approved by Congress and resourced, this office will fully respond to the Recommendation.

In August 2018, USAID will submit a Congressional Notification to outline the Agency's plans for establishing the PRP Bureau. This includes moving the Delegated Cooperation Secretariat (DCS), currently housed on a temporary basis within the Office of the General Counsel (GC), into the PRP Bureau, and providing the necessary resources, so it can fully perform its functions related to PIO responsibility determinations.

The PRP Bureau will work closely with relevant stakeholders within the Agency to provide revised guidance for how Agency Operating Units engage with PIOs, including for the review of PIO funding opportunities, criteria for obligating funds, and establishing protocols for when USAID suspects or is notified of possible criminal misconduct connected to activities funded by USAID. The Agency has already incorporated a review of all new non-emergency PIO awards into the Senior Obligation Alignment Review Process (SOAR) process, effective on June 27, 2018.

Finally, the PRP Bureau will oversee and coordinate the Agency's engagement with oversight units whose mandates cover multiple organizations, such as the Joint Inspection Unit (JIU) of the United Nations (UN) System.

#### Corrective Action Plan

USAID will establish a dedicated and centralized unit with the authority and resources to assess and address the performance and oversight of our grants and cooperative agreements to PIOs, and to provide revised guidance to Agency Operating Units on engaging with PIOs.

Timeline:

- USAID will submit the Congressional Notification for the PRP Bureau to Congress by August 31, 2018.

- The PRP Bureau will be fully established, operationalized, and resourced within 18 months of the approval of the Congressional Notification.

**Target Completion Date:** March 31, 2020.

**Recommendation 3:** Develop a comprehensive policy that outlines (1) what authority, for example, other transaction authority, will be used to make each PIO award; and (2) what corresponding rules and regulations apply, to include the roles and responsibilities for individuals and offices responsible for award management.

**Management Decision:** USAID concurs with Recommendation 3. The Agency agrees we need clear and comprehensive policies critical to our work with PIOs, including the clarification of authorities, roles, and responsibilities for the management of PIO agreements. The Agency is addressing these issues by immediately revising ADS Chapter 308, the general policy that governs agreements with PIOs. The revision will clearly state the statutory authorities USAID employs to enter into agreements with PIOs, particularly the “other transaction” authority. The ADS Chapter forms the applicable rules for such agreements, in the absence of a governing regulation, and the revised version will reflect all legal and regulatory requirements for PIO agreements. The revision will also establish a new requirement for each PIO agreement to have a designated Agreement Officer’s Representative (AOR) (without reference to ADS 303) and Agreement Officer (AO), and will explicitly cover PIO agreements under “other transaction” authority. The Agency intends to publish this revision by September 30, 2018. The Agency will implement subsequent revisions to the ADS needed to implement Recommendation 2, 3, and 6 concurrently and directly following the action plan timelines for those recommendations.

**Target Completion Date:** September 30, 2018.

**Recommendation 4:** Direct the Office of Foreign Disaster Assistance to (1) review and define its processes for making awards to PIOs to carry out work in long-term crisis environments; and (2) update policies to ensure they include standards of internal control related to documenting the internal control system, analyzing risks, designing control activities, and documenting transactions by retaining records.

**Management Decision:** USAID concurs with Recommendation 4. USAID’s Office of U.S. Foreign Disaster Assistance (USAID/OFDA) has begun to review its existing written guidance for making PIO awards, and is in the process of updating it to more clearly define roles and responsibilities at each step of the process. USAID/OFDA will add visual aids, such as flowcharts, and train staff on the revised guidance. USAID/OFDA will complete its review and make the updated guidance available to staff in its online guidance repository by November 30, 2018, and will further update its policies to include documentation of its internal-control system, including risk-assessment methodologies, control activities and record-retention policy specific to PIOs by January 31, 2019. Finally, with the establishment of the new PIO oversight

office in the new PRP Bureau, USAID/OFDA will be a key stakeholder in the oversight process, and work closely with the new office.

**Target Completion Date:** January 31, 2019.

**Recommendation 5:** Direct the Office of Food for Peace to (1) review and define its processes for making awards to PIOs to carry out work in long-term crisis environments; and (2) update policies to ensure they include standards of internal control related to documenting the internal control system, analyzing risks, designing control activities, and documenting transactions by retaining records.

**Management Decision:** USAID concurs with Recommendation 5. Through its role on PIO Executive Boards and as a significant donor to PIO operations, USAID's Office of Food for Peace (USAID/FFP) has an active role in providing oversight to PIOs at both an organizational and program level, to ensure that U.S. humanitarian investments are safeguarded, and have maximum impact. However, USAID/FFP recognizes it can improve its documentation and internal-control policies.

As noted in the OIG's report, USAID/FFP has had policies and guidance in place since 2016 to govern the management of PIO awards. This includes PIO award templates, process flow charts, award guidance, and trainings available to all USAID/FFP staff. USAID/FFP plans to review these documents, document them formally in line with the OIG's recommendation, and post them on the FFP online guidance sites, which will be available to all staff. USAID/FFP is committed to completing this by November 30, 2018.

Over the past year, USAID/FFP has made a number of improvements in documenting its PIO oversight controls as a part of the award process. USAID/FFP documents past performance and audit information for PIOs, regardless of the Delegated Cooperation Secretariat (DCS) category determination, and regularly reviews PIO audits and investigation reports to ensure appropriate follow-up. This information factors into the award process, and helps to identify strengths and weaknesses in internal controls or risk-management that USAID/FFP can pursue at the Executive Board or country level. USAID/FFP will build on this progress to update policies to ensure it undertakes appropriate internal controls, risk-analysis and documentation in accordance with the OIG's recommendation. To ensure a thorough review process, and recognizing the need to discuss these updates with PIO partners, USAID/FFP will require additional time to respond to the second part of the recommendation. USAID/FFP commits to completing the documentation of its internal-control system, including risk-assessment methodologies, control activities and record-retention policies specific to PIOs by January 31, 2019. Finally, with the establishment of the new PIO oversight office in the new PRP Bureau, USAID/FFP will be a key stakeholder in the oversight process, and work closely with the new office.

**Target Completion Date:** January 31, 2019.

**Recommendation 6:** Establish requirements for PIOs to notify USAID of suspected and identified serious criminal misconduct in activities funded by USAID to include unlawful actions taken by employees, subpartners, subcontractors,

vendors, or other parties. The requirements should specify the process for reporting and criteria for what to report.

**Management Decision:** USAID concurs with Recommendation 6. The Agency agrees the lack of a systematic approach to the reporting of fraud and misconduct is a gap in our current procedures. While Operating Units have negotiated clauses and Memoranda of Understanding for certain high-risk programs and countries, a standard approach is needed. In addition to other new requirements to promote accountability, USAID intends to finalize a standard provision to (1) require PIOs to notify the Agency and the OIG of instances of possible fraud and misconduct identified in relation to their agreements; and, (2) describe the process for reporting and the criteria for what to report. The Agency will immediately begin socializing these new requirements with major PIO partners at the corporate level, with the objective of obtaining agreement on specific language for standard provision prior to updating official guidance for Operating Units. The target completion date for finalization of the provision language and incorporation into ADS 308 will be three months from the date of this response, on November 19, 2018.

**Target Completion Date:** November 19, 2018.

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## **APPENDIX E. MAJOR CONTRIBUTORS TO THIS REPORT**

The following people were major contributors to this report: James Charlifue, audit director; Rob Mason, audit manager; David Thomanek, audit manager; Tina Wan, audit manager; Jacob Rutz, lead auditor; Nicola Harrison, assistant counsel; Laura Pirocanac, writer-editor; Steven Ramonas, auditor; Dirk Rousseau, analyst; and Karen Sloan, communications officer.