



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

Despite Optimism About Engaging Local Organizations, USAID Had Challenges Determining Impact and Mitigating Risks

AUDIT REPORT 5-000-19-001-P
MARCH 21, 2019

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MEMORANDUM

DATE: March 21, 2019

TO: USAID/Bureau for Policy, Planning, and Learning, Assistant to the Administrator, James Richardson

FROM: USAID OIG Asia Regional Office Audit Director, Matthew Rathgeber /s/

SUBJECT: Despite Optimism About Engaging Local Organizations, USAID Had Challenges Determining Impact and Mitigating Risks (5-000-19-001-P)

This memorandum transmits the final report on our audit of USAID's local solutions initiative. Our audit objectives were to determine whether (1) USAID's local solutions initiative was having an impact on local capacity, enhancing and promoting country ownership, and increasing sustainability and (2) USAID had implemented risk mitigation procedures for working with government ministries, local nongovernmental organizations, and local for-profit firms to implement USAID-funded programs. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in appendix B.

The report contains one recommendation to improve USAID's engagement of local organizations. After reviewing information you provided in response to the draft report, we consider the recommendation resolved but open pending completion of planned activities. Please provide evidence of final action to the Audit Performance and Compliance Division.

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

CONTENTS

INTRODUCTION.....	1
SUMMARY.....	2
BACKGROUND.....	2
DESPITE OPTIMISM, USAID WAS UNABLE TO DETERMINE WHETHER LOCAL SOLUTIONS ENHANCED LOCAL CAPACITY, COUNTRY OWNERSHIP, AND SUSTAINABILITY	3
Operating Units Were Optimistic About Benefits of Local Solutions Efforts But Acknowledged Implementation Challenges.....	4
USAID Lacked Adequate Metrics To Measure Local Solutions Efforts	4
Operating Units' Understanding of Local Solutions Concepts Varied	7
USAID DEVELOPED BUT DID NOT CONSISTENTLY FOLLOW RISK MITIGATION PROCEDURES FOR LOCAL IMPLEMENTERS.....	8
USAID Developed Pre-Award Procedures To Identify and Mitigate Risk of Fraud, Waste, and Abuse When Relying on Local Implementers.....	9
Some Operating Units Obtained Waivers or Otherwise Did Not Carry Out Full Risk Mitigation Procedures	10
Some Operating Units Did Not Manage Identified Risks	11
CONCLUSION.....	12
RECOMMENDATION	12
OIG RESPONSE TO AGENCY COMMENTS.....	12
APPENDIX A. SCOPE AND METHODOLOGY.....	14
APPENDIX B. AGENCY COMMENTS.....	17
APPENDIX C. MAJOR CONTRIBUTORS TO THIS REPORT.....	21

INTRODUCTION

Since 2005, international forums—the Paris Declaration on Aid Effectiveness, the Accra Agenda for Action, and the Busan Partnership for Effective Development Co-Operation—have encouraged increased use of local systems to implement donor-funded programs, as a strategy to improve sustainability. According to USAID, these local systems include universities and government, civil society, and private sector organizations. In 2010, USAID launched an Agency-wide reform agenda called USAID Forward. These reforms were designed, among other things, to shift program funding directly to partner governments and local organizations, while strengthening partner capacity. By 2013, the reform efforts—referred to as local solutions—focused on strengthening local capacity, enhancing and promoting country ownership, and increasing sustainability of USAID’s efforts. As of fiscal year 2015, USAID estimated it had obligated \$2.6 billion through local solutions-related activities. USAID also documented a local solutions strategy and appointed an agency coordinator for local solutions.

In 2017—subsequent to the period covered by this audit—USAID officially retired the USAID Forward reform efforts, including the local solutions initiative. Nonetheless, with the Agency’s continued focus on helping countries to become self-reliant, USAID still considers factors such as country commitment and local capacity to guide its programming.¹ According to USAID officials, the principles of local ownership and sustainability will continue and be further integrated as core Agency practices.

The Office of Inspector General (OIG) conducted this audit to determine whether (1) USAID’s local solutions initiative was having an impact on strengthening local capacity, enhancing and promoting country ownership, and increasing sustainability, and (2) USAID had implemented risk mitigation procedures for working with government ministries, local nongovernmental organizations, and local for-profit firms to implement USAID-funded programs.

To conduct our work, we reviewed Agency documents related to the initiative, including policies and procedures, annual reports, and internal guidance. We conducted our audit work using three primary components: an initial questionnaire to the local solutions team at USAID headquarters; a survey to Agency-identified points of contact for local solutions activities at USAID operating units;² and fieldwork conducted by OIG audit team members at five USAID missions. We conducted our work in accordance with generally accepted government auditing standards. The audit covered the period from the inception of local solutions in 2010 to June 30, 2016. Appendix A presents our scope and methodology.

¹ On its intranet, USAID defines self-reliance as “a country’s ability to finance and implement solutions to its own development challenges.”

² USAID defines operating units as field missions, regional entities, and USAID headquarters offices.

SUMMARY

USAID officials in operating units worldwide were optimistic about the positive impact of local solutions efforts. However, USAID lacked a means to substantiate this perception. Officials recognized that USAID's original metric to measure progress on its local solutions efforts—a measure of percentage of funds for programs implemented through local systems—was flawed. The Agency as a whole continued to lack measures to fully capture progress made toward the initiative's broader goals. This hindered the Agency's ability to determine whether local solutions had an impact on strengthening local capacity, enhancing and promoting country ownership, and increasing sustainability. Agency officials reported that, throughout the evolution of USAID's local solutions initiative, information was provided Agency-wide through a variety of channels. However, despite these efforts—and in the absence of clearly defined measures of success—Agency personnel at all levels in headquarters and the field demonstrated varied understanding. Some operating units reported confusion on what constituted local solutions and how key concepts were defined.

In addition, USAID developed risk mitigation procedures to identify, mitigate, and manage fiduciary risks involved in the selection of local implementing partners. However, not all operating units were consistently applying these tools. Some operating units obtained waivers or otherwise did not conduct full risk mitigation procedures. Further, in some cases, operating units lacked documented plans to implement and monitor risk mitigation measures to ensure deficiencies were resolved. As a result, some operating units may have missed the opportunity to adequately or fully evaluate and mitigate risk factors for working with local implementing partners.

We are making one recommendation for improving USAID's engagement of local organizations.

BACKGROUND

USAID's approach to local solutions has evolved over the years. In 2010, the Agency launched a reform agenda called USAID Forward. This agenda included a focus on reforming procurement efforts while also increasing the Agency's engagement with local partners. By 2013, USAID had laid out its goals to promote country ownership and the sustainability of development outcomes by providing program funding directly to partner governments and local organizations—an initiative referred to as local solutions. The Agency set an original target to award 30 percent of program funds to local organizations by 2015. According to an Agency official, in 2014, this target was reframed as "aspirational." USAID established a local solutions team and a local solutions coordinator position housed in the Office of the General Counsel, with the responsibility to coordinate all Agency efforts related to local solutions.³ In 2015,

³ The local solutions coordinator served until September 2016 and then transitioned to another position. The local solutions coordinator position was not subsequently filled.

according to the local solutions coordinator, the initiative was again reframed as having one goal, which was to “institutionalize organizational change which enables USAID to more effectively leverage and develop local capacity in strategic ways.”

In October 2016, the local solutions concept was incorporated into USAID’s revised Automated Directives System (ADS) chapter 201, which expanded the focus of this policy from planning to the entire program cycle. This revised policy called for the Agency to promote sustainability through local ownership, identify local priorities and perspectives, design assistance to fit with those priorities, make use of local resources, and increase local engagement to promote sustainability.⁴

In 2017—subsequent to the period covered by this audit—USAID officially retired the USAID Forward reform efforts, including the local solutions initiative. According to USAID officials, the Agency was preparing for revised strategic direction from the new Administrator, who had indicated that the principles of local ownership and sustainability would continue and be further integrated as core Agency practices. However, how USAID would pursue these priorities and what goals would be developed had yet to be defined.

Multiple operating units within USAID had responsibility for local solutions efforts. The Bureau for Management was responsible for developing management policy, including policies that guide the assessment and management of risks related to selecting local implementers. Within the bureau, the Office of the Chief Financial Officer was the lead for government-to-government assistance, and the Office of Acquisition and Assistance was the lead for local nongovernmental partners. The Policy, Planning, and Learning Bureau was responsible for developing guidance on USAID’s program cycle, which is the Agency’s approach to planning and implementing development programming around the world. Finally, USAID missions in the field were the front lines of implementing efforts to work with partner governments and local organizations.

DESPITE OPTIMISM, USAID WAS UNABLE TO DETERMINE WHETHER LOCAL SOLUTIONS ENHANCED LOCAL CAPACITY, COUNTRY OWNERSHIP, AND SUSTAINABILITY

Operating units were generally positive about the long-term impact of the local solutions initiative, with some survey respondents reporting that they were seeing initial positive effects notwithstanding implementation challenges. However, despite this optimism, USAID lacked measures to fully capture progress in implementing local solutions and the effort’s overall impact on strengthening local capacity, enhancing and promoting country ownership, and increasing sustainability. Agency officials recognized

⁴ ADS chapter 201, “Program Cycle Operational Policy,” was partially revised in October 2016 and most recently revised in February 2018.

that the original metric—a measure of percentage of funds for programs implemented through local systems—was flawed and resulted in challenges. Further, operating units' understanding of local solutions concepts varied, with some units reporting confusion on what constituted local solutions and how key concepts were defined. Operating units also expressed confusion on the structure and processes for reporting information on local solutions.

Operating Units Were Optimistic About Benefits of Local Solutions Efforts But Acknowledged Implementation Challenges

USAID officials responding to our questionnaire and survey were generally optimistic about the long-term impact of local solutions efforts.⁵ Sixty-one percent of operating units responding to the survey (25 of 41 that answered the question) felt that local solutions was or would eventually strengthen local capacity, enhance and promote country ownership, and increase sustainability. Another 29 percent (12 of 41) felt it was too soon to know, while 5 percent (2 of 41) answered they did not know. Only 5 percent (2 of 41) responded that local solutions would not meet those goals.

Further, respondents reported seeing an initial positive impact of local solutions efforts. Multiple operating units reported that they had seen the capacity of their local partners increase and performance improve. One noted that the local partners brought innovative solutions and valuable experience that might not be seen in nonlocal entities.

Along with successes, multiple operating units also acknowledged challenges associated with the effort. They noted that working with local implementers involved an increased initial burden, as they worked with implementers that were unfamiliar with USAID's requirements and procedures. Further, several noted that the success of local solutions in the long term may be determined by country context. For example, one operating unit noted that local organizations in its location were fully dependent on donor support, and with no prospect of significant economic growth, sustainability may be limited.

USAID Lacked Adequate Metrics To Measure Local Solutions Efforts

While operating units were optimistic about the positive impact of local solutions efforts, USAID lacked a means to substantiate this perception. To measure progress on its local solutions efforts, USAID relied on the percentage of program funds that were implemented through local systems, including government and local organizations, targeting a goal of 30 percent by 2015. However, the Agency acknowledged the need

⁵ The questionnaire was sent to 23 local solutions team members, including the coordinator; 13 responded, for a 57 percent response rate. The questionnaire focused on issues identified from the review of background documents and previous external reports, as well as prior OIG work on the impact of local solutions on operating units. The survey was designed to obtain further information on the audit objectives and was sent to 85 Agency-identified points of contact in the operating units. Forty-five responded to the survey—a 53 percent response rate.

for better metrics to measure progress and criticized the percentage of program funds indicator. For example, the 2013 USAID Forward Progress Report acknowledged the need for “evidence-based assessments of success, including clear definitions and measures of capacity development.” It also stated that the Agency would revisit indicators to ensure that they “fully reflect” USAID’s efforts to achieve the goal of sustainable development.

In 2014, the U.S. Government Accountability Office (GAO) reported that USAID’s funding indicator did not “fully capture” efforts to implement local solutions activities and that the Agency’s “emphasis on the funding indicator hampers the ability of USAID... to fully understand whether and to what extent progress is being made toward the initiative’s overarching goals.”⁶ Other organizations that studied USAID’s local solutions efforts, as well as USAID local solutions leaders, made similar observations, reflecting the need for clear designs, plans, and evaluations of the elements of local solutions and the theory behind it; some even suggested possible indicators for Agency consideration.

Reflecting these concerns, USAID repeatedly reported, both internally and externally, that it was working on improved indicators. In its response to a 2014 GAO recommendation to “identify additional indicators to better capture Local Solutions progress toward the initiative’s goals,” the Agency stated that it was “developing a menu of potential indicators” and soliciting feedback from within the Agency on the indicators.

The Agency’s annual performance plan and report required information on the percentage of program funds indicator, along with anecdotal success stories. While this continued to be the only metric of local solutions progress, USAID officials noted that since 2014, communication to operating units has been that the 30 percent target for 2015 was only “aspirational.”

In 2015, in responses to our audit questionnaire, multiple Agency officials echoed concerns with the lack of adequate measures, stating that the percentage of program funds indicator was flawed or not flexible enough to capture the complexities of different sectors and environments. Some noted that the use of a 30 percent target created challenges. In some cases, the 30 percent target, combined with operating units’ belief in local solutions, resulted in “too much, too fast”—making too many awards to local entities without sufficient consideration of country context and available resources needed for USAID to adequately provide funding to, and monitor, local implementers.

However, when asked what performance indicators Agency operating units were using to measure local solutions, almost 38 percent (17 of 45) of survey respondents indicated they were using the percentage of program funds indicator as the only measure. An additional 38 percent (17 of 45) reported using some other measures to capture progress on local solutions efforts, such as measuring changes in civil society

⁶ “USAID Has Increased Funding to Partner-Country Organizations but Could Better Track Progress,” GAO-14-355, April 2014.

organization capacity and organizational performance, civil society sustainability, and the number of civil society organizations provided with local capacity development training.

Agency officials also identified other means of monitoring progress, including site visits to operating units, summits to capture local solutions experiences, regular interaction with the operating units, ad hoc reporting upon request of the local solutions team in USAID headquarters, and incorporation of local solutions concepts into Agency trainings. However, the other indicators used by field operating units and the reported success stories were not aggregated to present an overall picture of local solutions progress Agency-wide.

While some Agency officials agreed that the funding indicator tells only one “piece of the story,” others believed that sustainability and local ownership efforts should be specific to country or sector context and questioned the idea that impact of these approaches can be measured. Agency officials noted that as the idea of sustainability and local ownership becomes the “way [they] do business” the Agency will not take a “top down” approach to monitoring and evaluating the impact of efforts, but rather incorporate it into the monitoring and evaluation that takes place at the operating unit level.

In December 2016, USAID issued guidance on monitoring and evaluation of government-to-government agreements⁷ in response to a 2015 GAO finding that monitoring and evaluation plans at the operating unit level rarely included mechanisms to measure progress toward the local solutions goals at the government-to-government level.⁸ However, this guidance was limited to government-to-government efforts and so was of limited help to operating units considering how best to monitor and evaluate local solutions efforts targeting local nongovernmental organizations.

Further, USAID identified issues with operating unit efforts in a 2016 review of evaluations with a local solutions component.⁹ USAID noted that while 75 percent of the 51 evaluations reviewed determined that the evaluated project was likely to achieve its outcomes, “clear results related to sustainability and local ownership were ambiguous, and often not explicitly addressed” in the evaluations. The review found that many evaluations did not have enough information to help the reader understand why local partners were needed to achieve local ownership and sustainability. The review recommended an explicit focus on local solutions in operating unit-level evaluations to support higher-level policy decisions.

After reflecting on the successes and challenges of local solutions, in September 2017, USAID released two indicators to measure progress of local solutions efforts in response to the 2014 GAO recommendation. One indicator measured whether host

⁷ ADS chapter 201, “Additional Help: Monitoring & Evaluation for a Government-to-Government Agreement,” December 2016.

⁸ “USAID Has Taken Steps to Safeguard Government-to-Government Funding but Could Further Strengthen Accountability,” GAO-15-377, June 2015.

⁹ “Closing the Loop on Learning: A Review of Local Solutions Evaluation Reports,” December 30, 2016.

country nationals were represented in evaluation teams, with the belief that having local perspectives included in evaluation would improve sustainability of USAID programs. The second new indicator was to track the number of ex-post evaluations conducted by missions, with the evaluations capturing information on whether services, processes, or benefits to beneficiaries were sustained beyond the funding period. GAO closed its recommendation in 2017 based on, among other things, USAID's closeout of the reform initiative and its determination that the local solutions principles had been institutionalized throughout the Agency. For the same reasons, we make no recommendation related to measuring impact of local solutions efforts.

Operating Units' Understanding of Local Solutions Concepts Varied

Agency officials reported that, throughout the evolution of USAID's local solutions initiative, information was provided Agency-wide through a variety of channels. The internal ProgramNet website was used as the primary hub for sharing guidance, webinars, and other resources on local solutions. Additional efforts included events and updates posted on the USAID intranet and information shared through briefings, newsletters, podcasts, trainings, and other events. However, despite these efforts—and in the absence of clearly defined measures of success—Agency personnel at all levels in headquarters and the field demonstrated varied understanding of the effort's concepts, identifying the following issues.¹⁰

Some Concepts and Measures Were Not Clear. Responses to the audit questionnaire and survey showed not all local solutions concepts and measures were clearly identified. For example, Agency officials responding to the initial questionnaire noted the following issues.

- Two noted that the meaning of key terms and concepts—such as country ownership, sustainability, local solutions, and government-to-government funding—was unclear.
- Another noted that the shift in emphasis from the original focus on funding to the current model of local ownership and engagement as a key to sustainability was “unevenly understood.” In their annual report narratives, some operating units were focusing on the volume of local engagements, instead of on the impact that engagement had on local ownership and sustainability.

In addition, 21 percent of operating units responding to the survey (9 of 43) reported not having a full understanding of local solutions concepts despite attending training. One operating unit stated that the Agency's local solutions team “sometimes struggled to define” how the current local solutions initiative was different from the Agency's past focus on the concepts of local ownership and sustainability.

¹⁰ The audit questionnaire and survey occurred before ADS chapter 20I was updated in October 2016.

Fragmented Reporting Created Confusion. Both headquarters-based local solutions team members and operating unit personnel noted that the reporting process for local solutions efforts was unclear. For example, three operating units expressed confusion on how to clarify inconsistencies or correct errors in data for the percentage of program funds indicator. While the guidance provided to operating units included contact information for additional help, these operating units reported being unaware of the technical support available.

Further, the local solutions coordinator stated that the lack of a central mechanism that would provide answers to questions or respond to concerns from operating units was a challenge, while a local solutions team member noted that the annual performance plan and report—the only mechanism by which operating units could report local solutions progress, including success stories—was “fragmentary and incomplete.” Eight operating units suggested that success stories, best practices, or lessons learned be shared among stakeholders.

Lastly, one operating unit noted that reporting guidance from USAID headquarters was fragmented, with requests for information coming from multiple sources responsible for managing different components of the local solutions efforts. For example, financial management staff in the operating unit received questions on government-to-government activities and risk assessments from the Chief Financial Officer, and the operating unit’s program office received requests for information on data in the Agency’s annual performance plan and report from the Bureau of Latin America and the Caribbean’s Strategy and Program Office.

USAID DEVELOPED BUT DID NOT CONSISTENTLY FOLLOW RISK MITIGATION PROCEDURES FOR LOCAL IMPLEMENTERS

USAID developed the Public Financial Management Risk Assessment Framework (PFMRAF) and Non-U.S. Organization Pre-Award Survey (NUPAS) to identify, mitigate, and manage fiduciary risks involved in the selection of local implementing partners.¹¹ However, not all operating units were consistently applying these tools. Some operating units obtained waivers or otherwise did not conduct full risk mitigation procedures. Further, in some cases, risk mitigation procedures were not tracked to make sure deficiencies were resolved. As a result, some operating units may have missed the opportunity to adequately or fully evaluate and mitigate risks factors for local implementing partners. Our work also raises questions about the extent to which USAID ensures that its operating units comply with Agency policy for managing risks associated with local nongovernmental partners.

¹¹ Fiduciary risk is “the danger that funds allocated from the budget: (1) may not be controlled properly, (2) may be used for purposes other than those intended, and/or (3) may produce inefficient or uneconomic programmatic results.” Source: ADS chapter 220 mandatory reference, July 2014.

USAID Developed Pre-Award Procedures To Identify and Mitigate Risk of Fraud, Waste, and Abuse When Relying on Local Implementers

To promote identification and mitigation of fiduciary risks associated with use of local implementers, USAID developed procedures for both partner governments and local organizations—the PFMRAF and NUPAS processes, respectively.

Government-to-Government Assistance. ADS chapter 220 governs the disbursement of funds directly to partner governments or when relying on partner government systems to implement projects.¹² The policy requires operating units to complete a PFMRAF process before providing funds to a partner government.

When an operating unit considers government-to-government assistance, the policy has a two-stage approach. Stage 1 provides operating units with a country-level assessment of the partner government procedures and practices for managing public resources, governance, and public accountability. This stage aids the decision of whether to proceed to a more in-depth assessment of potential government implementing entities. Stage 2 is an institution-level assessment that focuses on potential government agencies that will implement USAID-funded projects. It is designed to identify, evaluate, and mitigate fiduciary risks in the proposed implementing agency.

Awards to Local Nongovernmental Organizations. ADS chapter 303 governs awards to non-U.S. organizations.¹³ This policy requires agreement officers to ensure non-U.S. organizations have the capacity to meet the applicable standard requirements¹⁴ prior to making an award. NUPAS was developed to assess a nongovernmental organization’s capacity, by determining:

“(1) whether the organization has sufficient financial and managerial capacity to manage USAID funds in accordance with U.S. Government and USAID requirements; (2) the most appropriate method of financing to use under the potential USAID award; and (3) the degree of support and oversight necessary to ensure proper accountability of funds provided to the organization.”

NUPAS can focus on all aspects of operations, including technical capacity, financial management and internal control system, organizational structure, and sustainability. When weaknesses identified by NUPAS cannot be corrected prior to the award, USAID may make an award with specific conditions. Such specific conditions must mitigate the identified risks and require correction of the reported weaknesses.

¹² The Agency issued ADS chapter 220 in August 2011 and updated it in July 2014.

¹³ ADS chapter 303, “Grants and Cooperative Agreements to Non-Governmental Organizations.”

¹⁴ “Standard Provisions for Non-U.S. Nongovernmental Organizations,” ADS chapter 303 mandatory reference.

Some Operating Units Obtained Waivers or Otherwise Did Not Carry Out Full Risk Mitigation Procedures

At the government-to-government assistance level, three operating units had waivers exempting them from the requirement to complete various stages of PFMRAF prior to providing government-to-government funding.¹⁵ For example:

- USAID/Pakistan had a standing waiver from the Administrator for stage 1 of the PFMRAF process, but conducted stage 2 for one of the two government agencies reviewed. As indicated in the waiver, the operating unit's effort to provide direct government-to-government assistance was implemented before the PFMRAF requirement was created. At the time the assistance began, the operating unit followed a State Department directive to implement up to 50 percent of its programs either directly through the government or with local nongovernmental organizations.
- USAID/Egypt received two waivers. One was for stage 2 of PFMRAF for a specific project. The second waiver was for stage 2 for debt relief and budget support.

Pakistan and Egypt missions reported taking steps to comply with USAID policy (ADS chapter 220) to the maximum extent practicable to mitigate risk, such as conducting pre-award assessments that resulted in recommended risk mitigation measures, implementing activities through fixed amount reimbursement mechanisms, using a contractor to independently monitor and evaluate implementing partner activities, and providing technical assistance prior to and during early stages of project implementation. According to an Agency official, even if operating units have waivers, they are required to comply with statutory requirements to (1) assess each implementing government to determine whether it has an adequate system for managing U.S. funds and (2) confirm that any identified vulnerabilities of the implementing government agency or ministry have been addressed.¹⁶

For local nongovernmental awards, two of five operating units reviewed did not conduct full NUPAS risk assessments for certain awards.

- At USAID/El Salvador, NUPAS was not conducted for four of six awards made to local implementers. In one case, the operating unit did not conduct NUPAS for a \$20 million project because of the prime implementer's "positive track record and continued relationship" with the operating unit. As a result, the operating unit did not detect and correct weaknesses prior to the award, such as frequent changes in the prime implementer's key management personnel—three chiefs of party in a 4-year period—and difficulty coordinating activities with other partners.

¹⁵ The countries receiving waivers were Pakistan, Egypt, and Afghanistan.

¹⁶ The most recent iteration of the government-to-government restrictions is found in Sec. 7031(a), "Limitation on Direct Government-to-Government Assistance," from the Consolidated Appropriations Act, 2018, Public Law 115-141 (March 23, 2018).

- USAID/Nicaragua awarded a follow-on project that increased funding by 62 percent (\$4.1 million) without conducting NUPAS or an additional evaluation. The operating unit reported that the pre-award assessment, which was less rigorous than NUPAS, had been conducted prior to the original award. It explained that it did not conduct an additional evaluation for the follow-on because the special conditions in the original agreement had been closed, and reports from financial audits indicated that the implementer had minor issues and its internal control systems would be sufficient to manage U.S. funds. However, we identified procurement-related control deficiencies, such as inadequate segregation of duties, charges for indirect costs that were not allowable under the award, and failure to follow appropriate procurement steps—such as not performing a bidding process for an event, paying third parties indirectly through other employees, and purchasing from a vendor not offering the lowest price.

These awards were in contrast to USAID guidance governing awards to nongovernmental organizations, which states that “agreement officers must evaluate the risks posed by applicants before making the award.”¹⁷ The guidance also states that while an organization’s past performance with USAID can be considered when assessing risk, a history of receiving grants does not guarantee that there is no risk in providing funds. Potential changes in personnel or organizational practices should be considered.

Some Operating Units Did Not Manage Identified Risks

Three of five operating units we reviewed lacked documented plans to implement and monitor risk mitigation measures.

- USAID/Pakistan identified control weaknesses in its pre-award assessment for a nongovernmental organization. Despite this, because the pre-award assessment concluded that the implementing partner was capable of being accountable for USAID funds, the operating unit did not include any special award conditions in the cooperative agreement. Further, the operating unit was not able to provide evidence that it had followed up on the identified weaknesses.
- USAID/El Salvador awarded a project without using NUPAS or pre-award surveys. Rather, the operating unit reported conducting an organizational capacity assessment when the award was made, but it maintained no documentation to support that the assessment was done. The operating unit reported sending the assessment’s findings to the implementer but did not include a mitigation plan and monitoring system to verify that appropriate actions were taken in response to the findings. According to the operating unit, no mitigation measures were needed because the operating unit followed up on the results of audits performed on two previous awards and there were no concerns raised in those two audits.
- USAID/Nicaragua established special award conditions, such as completing internal control manuals and providing evidence that all cash management procedures were

¹⁷ ADS chapter 303, “Grants and Cooperative Agreements to Non-Governmental Organizations.”

in place, to reduce risk identified in the pre-award survey. However, the operating unit did not monitor the implementer's compliance with the special conditions as specified in the agreement. Instead, the operating unit determined that it would rely on third parties to conduct financial audits and to provide technical assistance needed to address the special conditions. USAID guidance¹⁸ states that "agreement officers must adequately address findings resulting from NUPAS, including conducting a followup review or survey to determine the extent to which the recipient corrected the reported inadequacies."

An official with USAID's local solutions team reported that the failure to manage identified risks was a "major shortcoming" at USAID, noting that the emphasis was on "risk assessment, not risk management," as well as excessive attention by some on compliance without paying attention to the role of risk management in better ensuring that activities will achieve intended results.

CONCLUSION

Over the years, USAID has taken significant steps to transform the way it does business, moving to a focus on partnering with local organizations and governments. However, the Agency struggled with measuring whether the use of local organizations improved the delivery of foreign assistance, including the extent to which the local solutions initiative had an impact on strengthening local capacity, enhancing and promoting country ownership, and increasing sustainability. While USAID officials have reported that local solutions, as an initiative, was officially retired in 2017, they noted that the current USAID Administrator continues to prioritize local ownership and sustainability. Given this, opportunities exist for USAID to better assess and mitigate risks associated with working with local nongovernmental partners.

RECOMMENDATION

We recommend that USAID take the following action:

- I. Implement a process to periodically monitor operating units' compliance with Agency policy to conduct full risk assessments and mitigate identified risks for local nongovernmental partners in a timely manner.

OIG RESPONSE TO AGENCY COMMENTS

We provided our draft report to the Agency on December 3, 2018, and on February 28, 2019, received its response, which is included as appendix B.

¹⁸ "Non-U.S. Organization Pre-Award Survey Guidelines and Support," ADS chapter 303 additional help.

The Agency agreed with our one recommendation and is implementing activities to monitor operating units' compliance with USAID's risk-mitigation policy. It is also proactively implementing broader activities to further improve oversight of awards to local organizations. We acknowledge the management decision and consider the recommendation resolved but open pending completion of planned activities, which the Agency anticipates completing by May 31, 2019.

We appreciate USAID's attention to our recommendation and will continue to monitor its implementation and any related developments.

APPENDIX A. SCOPE AND METHODOLOGY

We conducted our work from October 2015 through December 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 determine whether (1) USAID's local solutions initiative was having an impact on strengthening local capacity, enhancing and promoting country ownership, and increasing sustainability and (2) USAID had implemented risk mitigation procedures for working with government ministries, local nongovernmental organizations, and local for-profit firms to implement USAID-funded programs.

The audit covered activities and progress of USAID's local solutions initiative since its inception in 2010 through June 30, 2016, focusing on the results of Agency and overseas mission efforts in implementing the initiative. Audit team members in Manila, Philippines, engaged audit team members from OIG offices worldwide to perform fieldwork in USAID missions conducting activities in Cambodia, El Salvador, Nicaragua, Pakistan, and West Bank and Gaza. In planning and performing the audit, we obtained an understanding of USAID's local solutions-related activities by reviewing Agency documents, including policies and procedures, annual reports, and internal guidance, related to the initiative. We also assessed significant controls that the Agency used to monitor and evaluate local solutions activities.

To answer the audit objectives, we conducted audit work using three primary components: (1) an initial questionnaire to the local solutions team at USAID headquarters; (2) a survey to Agency-identified points of contact for local solutions activities at missions, bureaus, and regional offices; and (3) fieldwork conducted by OIG audit team members at five USAID missions.

Through the initial questionnaire, survey, and fieldwork conducted, we obtained a better understanding of the monitoring, evaluation, and reporting of the progress of the initiative and additional information integral to answering the audit objectives.

To prepare the initial questionnaire, our audit team formulated questions based on (1) potential issues we identified during our review of background documents and previous external reports and audits and (2) existing knowledge and observations from prior OIG work on the impact of local solutions on operating units. We sent the initial questionnaire to the local solutions coordinator for distribution to headquarters-based local solutions team members.¹⁹ Instructions provided to the coordinator noted that the questionnaire was to be completed and submitted independently. Thirteen local

¹⁹ A total of 23 local solutions team members, including the coordinator, received the initial questionnaire.

solutions team members, including the coordinator, responded to the initial questionnaire—a 57 percent response rate. In addition, we solicited information from one Agency official based on that official’s prior experience with local solutions efforts. Our audit team collated all responses, analyzed them, and followed up with three rounds of clarifying questions. From this, we identified systemic issues. We followed up on these issues in the subsequent survey and fieldwork. The initial questionnaire was sent to respondents on November 10, 2015, and final information was received by January 14, 2016.

For the survey, we requested a list of operating units’ points of contact from USAID’s headquarters-based local solutions team. The provided list included mission directors, a country representative, a chief of operations, and a senior development advisor as primary points of contact. According to the local solutions team, mission directors were the appropriate points of contact at missions. We contacted the individuals identified to confirm whether they were the appropriate survey recipients; in some cases, these individuals identified others as more appropriate recipients. We used this information to develop the final list of survey recipients.

The survey asked questions focused on the two audit objectives. We sent pilot survey questions to three overseas missions: Cambodia, Nepal, and Philippines. Based on responses from these missions, we modified the survey and a headquarters-based OIG survey specialist distributed it via Survey Monkey to all 82 Agency-identified points of contact at 65 USAID missions²⁰ and 9 bureaus that reported local solutions data for fiscal years 2014 and 2015.²¹ Forty-five recipients responded to the survey questionnaire, corresponding to a 53 percent response rate. The following table breaks down the survey response rate from each region.

Survey Response Rate by Region

Region	Number of Recipients	Number of Respondents	Response Rate (%)
Africa	23	13	57
Asia	16	10	63
Europe and Eurasia	9	4	44
Latin America and Caribbean	14	8	57
Middle East	9	4	44
Washington, DC-Based Bureaus	14	6	43
Total	85	45	53

The survey responses do not represent a uniform mission or Agency point of view, nor do they reflect an Agency-wide position. Rather, the survey offers perspectives from a cross-section of key employees at the forefront of local solutions activities. We used

²⁰ A total of 79 USAID missions reported local solutions data for fiscal years 2014 and 2015. Of the total, only 68 USAID missions were included in the list of survey recipients (3 in the pilot survey and 65 in the final survey) because these were the missions with identified points of contact.

²¹ Three missions and five bureaus had identified two points of contact each.

individual responses to corroborate or refute broad trends and findings. The OIG survey specialist compiled the survey responses and provided them to the audit team. We analyzed the survey results and identified common crosscutting issues. To assess the reliability of survey data, we reviewed information provided by survey respondents for inconsistencies and irregularities. As needed, we sent followup questions to operating units and incorporated the answers into the analysis of final survey responses. The survey effort started in March 2016 and was completed by May 2016.

To conduct fieldwork, we judgmentally selected nine planned OIG audits performed by five of our overseas OIG offices of USAID projects with local implementing partners. We incorporated specific audit steps into the selected OIG audits planned for fiscal year 2016 that involved local solutions. During the fieldwork, the sample of nine audits was reduced to seven after one audit was canceled and another was determined to not include local solutions efforts.²² Using the procedure steps developed by audit team members based in Manila, audit team members from other OIG offices conducted fieldwork from December 1, 2015, to July 21, 2016, at USAID missions working in Cambodia, El Salvador, Nicaragua, Pakistan, and West Bank and Gaza.²³ The audit team compiled the submitted summary reports and working papers, analyzed the information obtained, and identified common crosscutting issues. Because we judgmentally selected the sites, the results and conclusions related to the analysis were limited to the items and areas tested and cannot be projected to the entire population. However, we believe the substantive testing was sufficient to support the audit findings.

We analyzed information obtained through the initial questionnaire, survey, and fieldwork, and identified common crosscutting issues related to risk mitigation. During this analysis, we identified three operating units—Afghanistan, Egypt, and Pakistan—as having waivers for various stages of the PFMRAF process. This identification contributed to the overall conclusion and our answers to the audit objectives.

Beyond the survey conducted, we did not rely extensively on computer-based information to answer the audit objectives. The information we obtained from the initial questionnaire, survey, and fieldwork provide context for the audit findings.

²² The two audits that were dropped from the sample during fieldwork were in Afghanistan and Pakistan.

²³ Three audits were performed in Pakistan.

APPENDIX B. AGENCY COMMENTS



MEMORANDUM

TO: Matthew Rathgeber,
Asia Regional Office,
Office of the Inspector General

FROM: Angelique M. Crumbly, A-AA/M /s/

DATE: February 28, 2019

SUBJECT: Management Comments to Respond to the Draft Audit Report Issued by the Office of the Inspector General (OIG) titled, *“Despite Optimism About Local Organizations, USAID Had Challenges Determining Impact and Mitigating Risks”* (5-000-19-00X-P, Task No. 55100416)

The Bureau for Management (M) would like to thank the OIG for the opportunity to provide comments on the draft report. The U.S. Agency for International Development (USAID) agrees with the recommendation, herein provides plans for incorporating the OIG’s guidance, and reports on significant progress already made.

The Administrator’s vision for the Journey to Self-Reliance builds on the Local Solutions initiative by placing local management, in-country capacity, and sustainable development at the center of what USAID is trying to achieve and how the Agency measures success. Through the Journey to Self-Reliance, USAID heightens our emphasis on countries’ commitment and capacity to manage and finance their own development across all levels of society. The Agency intends to accomplish the following: Work with governments that are making policy and resource commitments to put their countries on a path to self-sufficiency; identify local, locally established, and international partners that are accountable for results and are interested in co-designing, co-financing, and co-implementing development solutions with us as equal partners; and collaborate with private-sector actors that are committed to being a partner throughout the full life cycle of

the development process to ensure the market-based solutions they offer are driving sustainable change.

USAID's ability to assess, mitigate, and monitor risk is critical to building local capacity, and to developing sustained solutions to assist countries on their Journey to Self-Reliance. In June 2018, the Agency published the *USAID Risk Appetite Statement*, which makes clear that USAID will "promote sustainability through local ownership and resource-mobilization," while recognizing that there is a delicate balance between the obligation to safeguard taxpayer funds and the strategic objective to increase local capacity. On December 10, 2018, the Agency issued its first-ever *Acquisition and Assistance (A&A) Strategy*, which also included the importance of integrating locally led development, with an emphasis on performance-management, adaptive partnering, and appropriate risk-management.

USAID will be expanding our investments in local and locally established partners, in a careful and deliberate way. The Agency has a number of risk-management tools in place for working with local partners, including the Public Financial-Management Risk-Assessment Framework (PFMRAF) and the Non-U.S. Organization Pre-Award Survey (NUPAS), which were the focus of the audit. In addition, the Evaluation Division within the Office of Acquisition and Assistance (M/OAA) in the M Bureau undertakes Procurement-System Reviews (PSRs) for Mission and Washington procurement functions, and covers approximately ten Missions/Operating Units (OUs) each year on a rotational basis. The PSRs include a review of responsibility determinations, including pre-award surveys.

Separately, the Office of the Chief Financial Officer (CFO) within the M Bureau oversees annual reviews of internal controls and Agency risks in line with Office of Management and Budget Circular A-123 and the Federal Managers' Financial Integrity Act (FMFIA). Through the FMFIA, USAID's OUs provide self-assessments on their internal-control risks and, as warranted, develop action plans to rectify weaknesses in them. In June 2018, for the first time, the Agency required our OUs to assess the greatest risks to achieving their mission. The Agency's leadership reviews the risks and the internal-control issues raised by the OUs at regular meetings for action and follow-up. Regular assessment of risk, both in OUs and in Washington, helps mitigate and resolve outstanding challenges in a timely manner. The Office of the CFO also follows up on financial reviews, audits, and special award conditions incorporated into acquisition and assistance instruments on a quarterly basis.

In addition to these specific actions by the M Bureau, multiple management processes are built into USAID's Program Cycle that provide managers with opportunities to assess their portfolios and make mid-course adjustments to programs to mitigate risk and to maximize the effectiveness of taxpayer resources. These include quarterly financial reviews, semi-annual reviews of programmatic portfolios, ongoing program monitoring and evaluation, and stock-taking activities. USAID's OUs use these opportunities to safeguard the Agency's investments with local non-governmental organizations and governments by monitoring compliance with the terms, conditions, and objectives

established under their awards. Contracting, financial, technical, legal, and program staff in OUs conduct these periodic reviews to ensure recipients are maintaining risk controls according to Agency and U.S. Government guidelines, policies, and procedures. Despite these existing measures, the Agency agrees that strengthening oversight of our programs is critical to safeguarding taxpayer funds. We recognize that consistency in the application of our procedures and policies by our OUs is critical. To that end, USAID is taking a multi-faceted approach to respond to the audit's recommendation to monitor compliance with Agency risk-mitigation policy periodically. First, we are enhancing relevant templates to highlight the critical nature of the documentation and oversight of the PFMRAF and NUPAS processes associated with the risk-mitigation of investments in local organizations in areas such as award-negotiation memoranda and instructions to Agreement Officer's Representatives (AORs). In addition, USAID will update the Uniform Risk and Internal Control Assessment (URICA) tool to include risk-mitigation questions related to local organizations for future FMFIA exercises, and verify that OUs are monitoring the mitigation plans of recipients of our awards. Finally, USAID is issuing an Agency Notice to remind the leaders of our OUs and oversight colleagues of their respective duties associated with monitoring risk-mitigation measures under local awards. If recipients do not carry out mitigation measures in a timely manner, the above reviews and refinements will highlight this problems so Mission leadership can take corrective action. The Agency believes these activities, coupled with ongoing communication and engagement fora, such as the upcoming Worldwide Summit on Effective Partnering and Procurement Reform (EPPR) for all of our Agreement/Contracting Officers and Controllers, will serve to reinforce our staff's understanding of their responsibilities to identify and manage risks associated with direct funding of local actors.

COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE REPORT RELEASED BY THE OFFICE OF THE USAID INSPECTOR GENERAL (OIG) TITLED, "DESPITE OPTIMISM ABOUT LOCAL ORGANIZATIONS, USAID HAD CHALLENGES DETERMINING IMPACT AND MITIGATING RISKS" (5-000-19-00X-P)

Please find below the management comments from the U.S. Agency for International Development (USAID) on the draft report produced by the OIG, which contains one recommendation for the Agency:

Recommendation 1: Implement a process to periodically monitor operating units' compliance with Agency policy to conduct full risk assessments and mitigate identified risks for local non-governmental partners in a timely manner.

- **Management Comments:** USAID agrees with the audit's recommendation. In response, the Agency is enhancing relevant templates to highlight the crucial nature of the documentation and oversight of the Public Financial Management Risk Assessment Framework (PFMRAF) and Non-U.S. Organization Pre-Award

Survey (NUPAS) processes associated with risk-mitigation of local organizations in areas such as award-negotiation memoranda and instructions to Agreement Officer's Representatives (AORs). In addition, the Office of the Chief Financial Officer will include specific questions related to mitigation risks in the Uniform Risk and Control Assessment (URICA) tool for compliance with the Federal Managers' Financial Integrity Act (FMFIA), and update the assessment checklist for Office of Management and Budget Circular A-123 to verify that our Operating Units (OUs) follow-up on the risk-mitigation plans of award recipients. USAID also is issuing an Agency Notice to remind the leaders of our OUs and oversight colleagues of their respective duties associated with monitoring risk-mitigation measures under local awards. Finally, the Agency will convene a Worldwide Summit on Effective Partnering and Procurement Reform (EPPR) for all of our Agreement/Contracting Officers and Controllers, to reinforce our staff's understanding of their responsibilities to identify and manage risks associated with direct funding of local actors, and to promote the consistent application of our policies and procedures by our OUs.

- **Target Completion Date:** May 31, 2019.

In view of the above, we request that the OIG inform USAID when it has agreed or disagreed with the management comments above.

APPENDIX C. MAJOR CONTRIBUTORS TO THIS REPORT

The following people were major contributors to this report: Matthew Rathgeber, audit director; Emily Gardiner, assistant audit director; Michael Hutchinson, lead auditor; Tina Wan, lead auditor; Laura Pirocanac, writer-editor; Karen Sloan, communications officer; Samneiliza Soriano, auditor; and Nina Valencia, auditor.