

USAID's Top Management Challenges and OIG's Continuing Oversight

Statement for the Record:

Inspector General Ann Calvaresi Barr

U.S. Agency for International Development

Hearing before the U.S. Senate Committee on Appropriations,

Subcommittee on State, Foreign Operations, and Related Programs

April 30, 2019

Mr. Chairman, Ranking Member, and Members of the Subcommittee:

Thank you for asking us to provide a statement for the record for the subcommittee's hearing on USAID's fiscal year 2020 budget. USAID manages nearly \$30 billion in budgetary resources to expand economic growth, create markets and trade partners for the United States, and promote stable and free societies. In addition to promoting good will abroad, these investments help advance U.S. national security interests. USAID's programs provide humanitarian aid to people in countries recovering from natural disaster and periods of armed conflict, as well as assistance in combating the spread of disease and addressing food insecurity, child and maternal mortality, illiteracy, and gender inequality.

Coordinating and implementing foreign assistance is inherently complex, particularly in countries and regions characterized by conflict, government instability, or natural disaster. The inhospitable environments USAID frequently works in create major challenges for the Agency in carrying out its mission. How well USAID identifies, assesses, and mitigates risk in delivering assistance programs is key to overcoming these challenges and to the programs' effectiveness. While adapting to the myriad of country contexts requires flexibility, it cannot eclipse the rigor and safeguards that are needed to protect USAID programs and funds and provide beneficiaries the assistance they desperately need.

To help ensure that the U.S. Government achieves maximum return on these investments and achieves its foreign assistance goals, OIG provides independent oversight of USAID.¹ As part of this oversight, the Reports Consolidation Act of 2000 (Public Law 106–531) requires USAID to include in its performance and accountability report a statement by the Inspector General summarizing the most daunting challenges the Agency faces and the progress made in managing them.

Drawing on our recent audits and investigations, we identified four top management challenges that need USAID's attention now and likely into the foreseeable future. This statement for the record summarizes these challenges—some of which are longstanding—from our "Fiscal Year 2019 Top Management Challenges" report.

SUMMARY

The first major management challenge concerns USAID's efforts to assess and mitigate the risks in providing humanitarian and stabilization assistance—particularly in nonpermissive areas, those affected by conflict or natural disaster. Deficiencies in this area create opportunities for those who seek to exploit vulnerabilities. USAID's limitations in mitigating implementer risks have contributed to the complex corruption schemes we uncovered in Iraq and Syria, and across Africa. This challenge is rooted

¹OIG also provides oversight of the Millennium Challenge Corporation, U.S. African Development Foundation, Inter-American Foundation, and Overseas Private Investment Corporation. In addition, OIG provides oversight of overseas contingency operations as part of the lead inspector general framework established in section 8L of the Inspector General Act, as amended.

in the Agency's lack of effective planning, monitoring, and evaluation to counter corruption and the threat of foreign assistance diversions to terrorists.

The second challenge concerns the need for more robust analyses of country capacity and financial backing to build on U.S. investments in international development. Promoting sustainability and ending the need for foreign assistance is central to USAID's mission. However, USAID's upfront analyses of multimillion dollar projects were insufficient to determine a country's ability to strengthen local skills and secure public- or private-sector commitment to continue development activities and services after U.S. involvement ends. This was the case with USAID's HIV/AIDS prevention and treatment project in Cambodia when a key donor abruptly decreased its funding soon after the project was launched. The sustainability of USAID's West Bank and Gaza Conflict Mitigation and Management Program has also been called into question. USAID has yet to evaluate the program—which has been ongoing since 2004 with more than 100 grants awarded to local and international organizations—to determine long-term impact and improve the effectiveness of future grants. Again, insufficient planning, monitoring, and evaluation are at the root of these vulnerabilities.

Reconciling distinct interagency priorities and functions to advance U.S. foreign assistance is the third major challenge facing USAID. Our oversight of USAID activities related to the Ebola response in West Africa, sustainable energy in Haiti, and other foreign assistance efforts continues to show that competing priorities, different policies and procedures, and additional layers of review—particularly with the Department of State—complicate and impede multiagency response and development activities. Our work validated gaps in the delivery of foreign and humanitarian assistance in West Africa, Latin America and the Caribbean, and fragile states worldwide.

The fourth challenge concerns vulnerabilities in USAID's financial and information management systems. USAID's ability to carry out its mission and ensure effective stewardship of Federal funds depends on the integrity and reliability of these systems. Despite noteworthy actions to improve its systems, USAID continues to grapple with meeting stringent Federal financial and information management requirements for promoting transparency and accountability. Specifically, USAID has been unable to reconcile its intragovernmental transactions and differences between its general ledger and Treasury's; manage its awards to implementers, which total approximately \$17.6 billion annually; and fully comply with Federal Information Technology Acquisition Reform Act requirements.

MANAGING RISKS INHERENT TO PROVIDING HUMANITARIAN AND STABILIZATION ASSISTANCE

In December 2018, the United Nations estimated that \$21.9 billion would be needed to assist 131.7 million people in 42 countries affected by natural disasters and conflict. USAID reports expending an average of approximately \$2.6 billion on humanitarian and stabilization assistance annually.² Public health crises and extremist group activities further exacerbate the need for humanitarian and stabilization assistance worldwide.

To procure and distribute relief supplies in these volatile environments, USAID must balance efforts to deliver assistance—which frequently entail working with nongovernmental organizations (NGO), contractors, and public international organizations (PIO),³ while coordinating with multiple U.S. Government agencies and international donors—with safeguards to ensure assistance does not adversely affect local markets or fall prey to corruption.

² For fiscal years 2013 through 2017 as reported in USAID's agency financial reports.

³ PIOs include U.N. organizations or international finance organizations, and are subject to fewer Federal restrictions than other types of implementers.

Fraud, waste, and abuse in these settings are acute, and managing these risks has been a longstanding challenge for USAID—especially when short-term humanitarian responses evolve into a protracted presence, as in Syria, Iraq, and Somalia. While USAID evaluates operational context and implementer capacity to determine whether the risk of inaction outweighs the risk of providing assistance, our investigations and audits continue to expose weaknesses in USAID planning and monitoring that create opportunities for bad actors to exploit vulnerabilities, as described below.

Overseeing PIOs. PIOs help implement U.S. humanitarian responses in nonpermissive environments. However, USAID has been challenged in overseeing these organizations. As we reported in September 2018, USAID did not align its PIO policies and processes with Federal internal control standards or develop clear documented standards for properly vetting, managing, and overseeing PIOs. In addition, USAID lacked sufficient policies and processes for identifying, assessing, and managing PIO risks. Instead, USAID relied on PIOs to assess and manage their risks. USAID’s awards to PIOs working in Syria and Iraq—which now span more than 6 years and total \$2.6 billion—are particularly vulnerable to fraud, waste, and abuse because the awards had not been designed with internal control standards appropriate for the context.

Responding to Public Health Crises of International Concern. The 2014 Ebola epidemic in West Africa was one of the deadliest infectious disease outbreaks in modern history. USAID led the response by the United States, which appropriated around \$5.4 billion and was the largest international donor. USAID’s strategy provided needed flexibility to adapt to changing circumstances, including evolution of the disease. However, a lack of policies for a whole-of-Government approach, delays in obtaining emergency funding, and other factors complicated the response. Insufficient needs assessments, frequent staff turnover, and weak handover procedures for rotating response teams further undermined USAID’s efforts. One official said USAID operated with too few people to follow the money and determine whether support was reaching targeted beneficiaries. Ultimately, USAID procured \$4.6 million in excess medical supplies, and most USAID-funded treatment centers and care units opened after the majority of Ebola cases had already occurred; as a result, some centers and units never saw patients.

Identifying and Curbing Fraud and Corruption in Nonpermissive Environments. Nonpermissive environments are especially vulnerable to individuals intent on stealing U.S. funds and goods, depriving beneficiaries of assistance in insecure countries such as Iraq and Syria. A \$150 million pledge that the United States made in July 2017 to help Iraqis return to communities freed from Islamic State of Iraq and Syria (ISIS) occupation was placed on hold because of fraud allegations. Following a joint investigation, USAID and the United Nations Development Programme agreed to additional funding requirements that call for stronger internal controls, expanded monitoring of project activities, controlled sharing of contract details, enhanced fraud prevention training, and a full-time, Iraq-focused investigator.

USAID’s cross-border relief programs for internally displaced Syrians have been similarly exploited, reducing the quality of humanitarian assistance provided to refugees. One individual with close ties to host-country officials manipulated tenders to companies he was affiliated with for personal profit. In another case, a USAID implementer manipulated procurements in favor of vendors that offered bribes and kickbacks, shortchanged deliveries, and substituted products in USAID-funded supply kits with items of lesser quality. A separate incident exposed a ring of Turkish vendors that colluded with staff from four USAID implementers. USAID has taken action to improve award management, program oversight, internal processes, and fraud prevention; however, our ongoing investigations continue to substantiate allegations of fraud and mismanagement.

Preventing Support to Terrorists. Enhanced vigilance is critical to ensuring U.S. foreign assistance does not support groups designated as foreign terrorist organizations.⁴ The risks inherent to providing assistance can be exacerbated in states with weak democratic systems and accountability where these groups operate, often with great influence over the communities that USAID assists.

Insufficient monitoring and oversight have allowed terrorist groups to divert assistance from intended beneficiaries. For example, under the threat of Hay'at Tahrir al-Sham (HTS)—a designated terrorist group operating in northern Syria—an NGO's employees knowingly diverted thousands of USAID-funded food kits worth millions of dollars to ineligible beneficiaries (including HTS fighters) and submitted falsified beneficiary lists. A USAID third-party monitor reported the diversion, and our investigation resulted in USAID suspending the program and the NGO terminating dozens of employees. Another OIG investigation found that implementer staff were affiliated with or sympathetic to known terrorist groups in northwest Syria. The NGO ultimately suspended portions of its program to reverify the identities of all of its beneficiaries, adapted its program to the changing risk environment, and terminated or asked for the resignation of a number of employees.

While USAID requires its award applicants to disclose any prior material support provided to terrorist entities and verifies that contractors are not blocked from receiving USAID funds, implementers have falsely certified that they have not materially supported blocked entities. Further, USAID's requirement to disclose past material support to terrorist organizations concerns only implementers applying for assistance awards, not contracts. We notified USAID of these vulnerabilities—which particularly affect high-risk programs in Afghanistan, Iraq, Syria, and similar nonpermissive environments—and understand the Agency is working on corrective action.

Detecting and Reporting Sexual Exploitation and Abuse (SEA). On learning in February 2018 that an NGO had covered up claims of SEA violations in Haiti following the country's catastrophic 2010 earthquake, we sent a memorandum to the USAID Administrator highlighting vulnerabilities in USAID's SEA-related reporting requirements for implementers. Our March 2018 memorandum noted that, under Agency policy for awardees and subawardees, the standard for reporting SEA allegations to USAID and OIG was limited to complaints of human trafficking or procurement of commercial sex. Even in cases of trafficking and commercial sex, implementers were given the discretion to report only allegations that they deemed credible—a threshold that may be too high and delay independent and prompt assessments and responses by USAID and OIG.

USAID has taken action to address some risks we identified. For example, USAID has included special conditions in some awards and revised its policy for agreements with PIOs to improve its oversight of these organizations. Further, after the Haiti SEA incident was exposed, the USAID Administrator reaffirmed the Agency's zero tolerance for sexual misconduct, exploitation, or abuse of any kind—a message emphasized at the Administrator's March 2018 "Forum on Preventing Sexual Misconduct."⁵ The Administrator also established the Action Alliance for Preventing Sexual Misconduct, joined by an OIG liaison, which worked with OIG in updating standard award provisions and establishing additional guidance clarifying that *all* forms of sexual misconduct that affect beneficiaries should be reported to USAID and OIG, not just those involving trafficking or commercial sex.

We will continue to assess USAID's humanitarian assistance activities. For example, we are reviewing USAID's activities in Iraq as part of an ongoing audit. Another OIG audit is looking at USAID's oversight of selected implementers delivering humanitarian assistance in response to the Syrian crisis. We are also

⁴ Designated as such by Executive Order 13224, the Specially Designated Nationals and Blocked Persons List published by the Office of Foreign Assets Control, or the Department of State's State Sponsors of Terrorism List.

⁵ The forum included the Inspector General and representatives from key implementers and U.N. agencies.

currently auditing USAID's response to crisis in West Africa—where years of conflict and escalating violence perpetuated by Boko Haram and ISIS have displaced an estimated 2.5 million people in the countries surrounding the Lake Chad Basin—in part to assess its actions to prevent terrorist organizations from obtaining USAID humanitarian funds.

STRENGTHENING LOCAL CAPACITY AND IMPROVING PLANNING AND MONITORING TO PROMOTE SUSTAINABILITY OF U.S.-FUNDED DEVELOPMENT

The ultimate aim of U.S.-funded development is to end the need for foreign assistance. To support partner countries' journey to self-reliance and better ensure that development is sustainable after U.S. involvement ends, USAID calls for investing in communities that have a stake in continuing activities and services; building the skills of local stakeholders; and promoting planning for sustainability, which could include public- or private-sector participation and financial backing.

Best practices for achieving sustainable development encourage increased use of local systems to implement donor-funded programs.⁶ USAID initiatives reflect these principles, and in 2016, the Agency updated its policy on development programming with an emphasis on promoting local ownership. However, working with local partners and host-country governments with limited capacity, weak financial systems, and insufficient internal controls presents significant challenges for USAID.

USAID also continues to work to implement its planning, learning, monitoring, and evaluation cycle to (1) design programs that are supportable and complement larger strategies, (2) promote accountability, (3) adapt programs before they get off track, and (4) inform decisions about current and future programming. Our audits and investigations have repeatedly shown the consequences of operating without a fully implemented program cycle, especially on development programs that encourage self-reliance. For example:

- A key assumption for the success of USAID's HIV/AIDS prevention and treatment project in Cambodia was continued support from other donors. However, soon after the project was launched in November 2012, the Global Fund to Fight AIDS, Tuberculosis, and Malaria abruptly decreased its funding, requiring the project to substantially reduce the number of planned local centers for excellence, undermining USAID's plans to strengthen local organizations and minimize the need for external funding after the project was implemented. At the same time, the project lacked performance indicators to quantify progress in implementing planned innovations, measure efforts to build local capacity, ensure innovations' cost-effectiveness, or inform decisions on expanding innovations to reach larger populations.
- USAID's Global Health Supply Chain-Procurement and Supply Management Project—a \$9.5 billion indefinite delivery, indefinite quantity contract awarded to Chemonics International in 2015—is intended to provide cost-effective health commodities in more than 50 countries, as well as technical assistance in supply chain management. However, since 2016 our investigations and joint operations with local authorities have revealed that host governments' warehousing and commodity distribution systems are vulnerable to supply chain leakage, creating the potential for large-scale, illicit resale of USAID-funded commodities to private businesses and public markets. These joint efforts have, as of March 2019, resulted in 41 arrests and 30 indictments of subjects suspected of selling stolen commodities on the black market.
- USAID did not evaluate its West Bank and Gaza Conflict Mitigation and Management Program—ongoing since 2004 with more than 100 grants awarded to local and international organizations—to

⁶ Best practices incorporate principles from the 2005 Paris Declaration on Aid Effectiveness, the 2008 Accra Agenda for Action, and the 2011 Busan Partnership for Effective Development Cooperation.

determine long-term impact and improve the effectiveness of future grants. The mission recently initiated an evaluation that it expected to be completed in May 2019.

- The Haitian Government delayed planned reforms considered key to the success and sustainability of a USAID-funded project to expand electricity generation in the country.
- USAID/Pakistan did not reach an agreement with stakeholders on who would operate and maintain Pakistan's \$20.9 million Satpara agricultural irrigation project after USAID's planned December 2018 withdrawal. The project called for Pakistan's Public Works Department to manage the upgraded irrigation system, but with no prior experience managing these types of systems, the department did not plan to take over responsibility, and the irrigation system has already shown signs of deterioration.
- On the Gomal Zam Multipurpose Dam Project, USAID and Pakistan did not implement a plan to maintain electricity generation or restore power in the event that it failed. After the dam was completed in June 2013 and handed over to the Pakistani Government, Pakistani officials reported sporadic electricity generation, and by October 2016, system failures and damages had altogether shut down electricity generation, which has yet to be fully restored.

USAID has begun to address its multiple sustainability challenges. Notably, USAID began a strategic transition in 2018 that focuses on building country self-reliance using high-level metrics to identify strengths and weaknesses, help inform strategic decisions, and ultimately determine a country's level of commitment and capacity to be self-reliant. USAID has taken other steps too. For example:

- To build local capacity, USAID established external partnerships with the International Organization for Supreme Audit Institutions and signed a memorandum of understanding with the Government Accountability Office (GAO) in April 2016 to enhance the oversight capabilities of audit organizations in developing countries. The success of these partnerships will depend on how USAID cultivates them.
- To improve planning and monitoring—longstanding challenges cited in our past Top Management Challenges reports—USAID updated and added rigor to its policy for program design and management in September 2016. Recognizing the need to build internal capacity to fully implement the policy, USAID's Bureau for Policy, Planning, and Learning developed new training, tools, and technical assistance to support missions' program planning and monitoring. As of August 2018, the Agency had trained more than 3,000 staff in performance monitoring and evaluation, and approximately 900 staff had completed courses in project design. These actions should help address the Agency's planning and monitoring challenges, but sustained management focus will be required to ensure programs and projects are effectively designed and meet performance expectations.
- In addition, USAID included sustainability in its first Agency Risk Profile⁷—approved by the Administrator in July 2017—and developed a sustainability risk mitigation plan. Even with the mitigation plan in place, Agency leadership recognizes that regular monitoring of the plan through the enterprise risk management (ERM) process may be needed. The Agency also included risks related to planning and monitoring in the risk profile and will continue to monitor and manage these risks through its ERM process.

We continue to monitor USAID's efforts to strengthen capacity and promote sustainability. For example, we recently issued a report on USAID's efforts to strengthen local capacity, enhance and promote country ownership, increase sustainability, and implement risk mitigation procedures. While

⁷ The risk profile was developed in response to OMB Circular A-123, which mandates that Federal agencies institute a comprehensive enterprise risk management system.

USAID officials in operating units worldwide were optimistic about the positive impact of these efforts, the Agency lacked a means to determine whether it had achieved progress toward its goals. Our ongoing audits will examine issues related to sustainability in USAID's programs for democracy and governance and for global health supply chain management.

RECONCILING INTERAGENCY PRIORITIES AND FUNCTIONS TO MORE EFFICIENTLY AND EFFECTIVELY ADVANCE U.S. FOREIGN ASSISTANCE

Implementing foreign assistance programs, projects, and operations that involve multiple U.S. Government agencies has presented significant challenges for USAID in achieving its core mission. In particular, coordination with the Department of State—which makes policy and funding decisions for operations related to political and security crises—has complicated USAID's project planning and execution. Despite broad interagency guidance on the Department of State's role in politically sensitive environments, USAID employees are sometimes unclear on how best to manage additional layers of review, nimbly respond to changing priorities, address both U.S. diplomatic and development goals, and balance short- and long-term priorities.

The joint USAID-Department of State reform effort conducted in 2017 demonstrated the complexity in aligning complementary yet distinct missions and underscored USAID's persistent challenge in implementing programs, projects, and operations that involve other U.S. Government agencies.⁸ Our point-in-time review of the effort highlighted uncertainty about the joint reform's direction and end goals, and noted that disagreement and limited transparency on decisions related to the consolidation of functions and services led to questions about what the reform effort had achieved. USAID staff also voiced concerns related to the Agency's separate reform plan, including a lack of transparency and inclusivity in its development. Since then—amid leadership turnover at the State Department and ambiguity on the future of joint redesign efforts—USAID forged ahead with its independent transformation initiative. In August 2018, USAID outlined its proposed plans to Congress through nine congressional notifications—some of which have since been cleared.

The U.S. Government's Haiti reconstruction efforts and the international Ebola response foreshadowed USAID's joint reform challenges. USAID was largely responsible for implementing State Department commitments to the Haitian Government for post-earthquake reconstruction, including a project to provide sustainable electricity services. However, USAID/Haiti lacked the staff needed to plan for and monitor efforts to meet both the State Department's priority for generating reliable electricity for an industrial park and USAID's broader development goal to expand modern electricity service to Haitians. When State Department assumptions about the Haitian Government's appetite for energy sector reform and commercial demand for electricity did not materialize, USAID/Haiti had to shift its long-term strategy for the power plant from government to private management and reduce its expansion goals. Ultimately, USAID's project did not meet its modernization and expansion goals, and the power plant will continue to rely on U.S. Government support until it can be transferred to another operator.

The international response to the 2014 Ebola virus outbreak in West Africa, which called for an unprecedented level of coordination for USAID, also demonstrated interagency challenges that affected operational effectiveness. While USAID had previously responded to public health crises of international concern, it continued to operate without a policy framework to launch a rapid and coordinated response to the Ebola outbreak, and responders were left to re-create processes for controlling the virus.

⁸ OMB Memorandum M-17-22 required executive branch agencies, including USAID and the Department of State, to submit reform plans and workforce plans to OMB by September 2017.

USAID has been responsive to our recommendations to improve interagency coordination. For example, USAID agreed to formalize its plan to conclude the Haiti power plant project and to address staffing concerns that undercut project monitoring and implementation. With regard to responding to public health emergencies of international concern, USAID reports that it is working with other U.S. agencies to identify and regularly test roles, capabilities, and responsibilities; agreed to direct the implementation of a strategy for communicating and coordinating with other responders; and committed to incorporating handover procedures for members of rotating response teams. In addition, USAID and the Centers for Disease Control and Prevention issued a joint statement to their staff encouraging work relationships that deepen teamwork and collaboration.

To help reconcile their respective priorities, USAID and the State Department established in May 2018 the Stabilization Assistance Review (SAR), which provides guidelines and best practices to optimize U.S. foreign assistance and advance stabilization efforts in conflict-affected areas. At the direction of the National Security Council, USAID and the Departments of State and Defense are working together to implement SAR recommendations and apply SAR in priority countries. While the agencies emphasized their commitment to institutionalize learning, evaluation, and accountability, closer coordination will require shifts in policies, process, and culture. As GAO reported in September 2018, U.S. agencies still needed to formally document their agreement, roles, and responsibilities to enhance coordination and reduce the potential for duplication, overlap, and fragmentation.⁹

According to USAID officials, the Agency and the State Department are also leading an interagency policy research initiative to inform U.S. assistance to fragile countries. Recommendations coming out of the initiative are expected to help coordinate assistance to advance prevention goals. Further, USAID encouraged staff to attend Department of State national security courses to build collaboration and knowledge across the interagency foreign affairs community. In August 2018, USAID announced an in-house course to train staff in techniques and best practices for interagency communication, policy development, and decision making.

USAID is also moving ahead on proposed structural changes announced in its August 2018 transformation initiative. Among these, USAID proposed a Bureau for Policy, Resources, and Performance that includes (1) an Office of Development Policy to advance USAID's development policy leadership and coherence and (2) an Office of Bilateral and Multilateral Engagement to set Agency policy and standards, identify best practices, support Agency engagement with donors, and identify and create needed functions for Agency-wide coordination and oversight of multilateral organizations.

USAID's many actions have the potential to improve interagency coordination. However, fully implementing these actions will be an ongoing challenge for USAID, particularly in areas where the authority to act is outside its purview.

We continue to monitor USAID's efforts to improve interagency coordination. For example, we recently issued a report on USAID's Power Africa initiative, which brought together diverse U.S. agencies to collaborate and share expertise on existing and new efforts in the energy sector while capitalizing on agencies' comparative advantages and minimizing duplication. However, by expanding rapidly—extending to all of sub-Saharan Africa and tripling its goals—Power Africa increased its exposure to various risks, and the USAID Coordinator's Office had not fully implemented a portfolio-wide program to manage the risks.

⁹ "U.S. Agencies Have Coordinated Stabilization Efforts but Need to Document Their Agreement" (GAO-18-654), September 27, 2018.

ADDRESSING VULNERABILITIES IN FINANCIAL AND INFORMATION MANAGEMENT

Meeting the Federal Government's strict financial and information management requirements has been a governmentwide challenge. While USAID has made notable progress in addressing these requirements, it continues to work to reconcile its financial statements and strengthen its awards management.

Reconciling Intragovernmental Transactions. To provide accountability and transparency in their transactions with one another, Federal agencies (referred to as "trading partners") must reconcile any accounting differences. These differences can occur if trading partners use different accounting periods or methodologies for classifying and reporting transactions. The Department of Treasury reported that as of September 30, 2017, USAID had \$488 million in unreconciled transactions with its trading partners. According to Treasury's scorecard—used to track and rank each agency by its contribution to the Government's unreconciled differences—USAID was the 19th largest contributor (out of 140 agencies) at the end of June 2018, with differences of \$377 million. USAID's ongoing efforts to improve its reconciliation process and eliminate differences are likely to resolve timing differences. However, other differences, such as those caused by accounting errors, require additional attention.

Reconciling the Fund Balance With Treasury Account. USAID's financial statements for fiscal years 2017 and 2016 had a material weakness related to the Agency's Fund Balance With Treasury (FBWT) reconciliations. A material weakness indicates that a material misstatement of the Agency's financial statements may not be prevented, or detected and corrected, on a timely basis. In the past, USAID did not reconcile its FBWT account with Treasury's fund balance each month, or promptly research and resolve any identified differences. Instead, USAID adjusted its FBWT account to agree with Treasury's fund balance. While USAID has made progress in reducing the unreconciled amount, large unreconciled differences with Treasury remain. As of September 30, 2017, the net difference between USAID's general ledger and the amount in Treasury's records was approximately \$214 million, of which \$83 million was due to outstanding unreconciled items and \$131 million was unexplained. This difference accumulated because of ongoing problems with a legacy system and data migration, and the continued lack of an integrated system to control reconciliations performed by USAID missions. USAID management continues to work to resolve this issue.

Improving Award Management. Full and open competition is required when awarding U.S. Government contracts, except in unusual and compellingly urgent circumstances or when other qualified sources are lacking. For grants and cooperative agreements, USAID encourages competition to identify and fund programs that best achieve Agency objectives. Under certain circumstances, eligibility to bid may be restricted to a particular type of organization or other limitation, typically for sole-source awards, as long as a justification for using sole-source awards is fully documented and approved by appropriate authorities. However, a USAID contractor operating in Syria had not adequately documented justification for 36 of 41 sole-source subawards it made—leading us to question \$5.6 million in costs. USAID's Office of Acquisition and Assistance agreed that documentation was lacking and that the Agency should have held the contractor accountable for complying with Agency policy. Although the Agency determined the questioned costs were not allowable, it did not plan to collect these costs from the contractor because USAID had approved the awards. The Agency cited factors—primarily violence in the region—that prevented exploring other options for competition.

In addition, we have made a total of 3,365 recommendations in more than 400 performance and financial audit reports issued over the past decade that concern implementer underperformance and inadequate awards management. USAID's reliance on awards to implement its programs around the world—approximately \$17.6 billion annually—demands effective awards management to hold implementers accountable for achieving program objectives.

USAID's primary information technology challenge relates to complying with the Federal Information Technology Acquisition Reform Act (FITARA)—enacted in December 2014 to reform and streamline the U.S. Government's information technology acquisitions, including strengthening chief information officers' (CIO) accountability for their agencies' IT costs, schedules, performance, and security. USAID did not comply with several FITARA requirements, such as not having the CIO report directly to the Agency head and not providing the CIO adequate oversight and decision authority over budget execution activities related to the use of IT resources.

We are following USAID's efforts to reconcile intragovernmental transactions through our annual audits of USAID's financial statements,¹⁰ as well as its progress in complying with FITARA requirements. We are also conducting an audit to assess the Agency's acquisition and assistance processes. Specifically, we are assessing how the Agency manages its awards to implementers, and its use of common management tools. In addition, we will be assessing USAID's stewardship of expired and canceled awards.

CONTINUED OIG OVERSIGHT

In response to the Subcommittee's request for a brief summary of our fiscal year 2020 budget request, we submit the following. For the past 2 years, Congress has provided funding beyond OIG's request. We appreciate Congress' recognition—through its directed oversight support and resources rendered through the appropriations process—of the value we bring to the effectiveness of foreign assistance and humanitarian assistance programs and to American taxpayers.

Our fiscal year 2018 audit and investigative returns amounted to approximately eight times the cost of our operating budget. In addition to these financial returns, our recommendations have triggered foundational changes in policy and programming around global health and humanitarian assistance, agency procurements, and engagement with public international organizations. Your funding, coupled with our internal transformation and realignment efforts, has advanced the standing and impact of our work.

To provide robust oversight of USAID and the other agencies we oversee, we requested \$75.5 million for fiscal year 2020—\$1.1 million less than we received in 2019, but \$4 million or 5 percent more than that proposed in the President's budget.

The additional 5 percent would enable us to meet our operational and staffing needs for identifying and reducing risks of fraud, waste, and abuse. Specifically, we would be able to continue to conduct performance audits and investigations needed to effect real change in foreign assistance, realize substantial recoveries and cost savings, and maintain maximum transparency and accountability.

My office remains committed to ensuring that USAID and the other foreign assistance entities we oversee prudently use every dollar they receive. Your support, oversight, and engagement—along with our revised strategic approach to our work—are critical to carrying out our mission, especially in light of the high-risk and challenging environments that foreign assistance programs operate in. Thank you again for your support. We remain committed to meeting or exceeding your high expectations.

¹⁰ The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994 (Title IV of the Government Management Reform Act of 1994, Public Law 103-356), requires an audit of USAID's annual financial statements.