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

Enhanced Processes and Implementer Requirements Are Needed To Address Challenges and Fraud Risks in USAID's Venezuela Response

**AUDIT REPORT 9-000-21-005-P
APRIL 16, 2021**

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Office of Inspector General, U.S. Agency for International Development

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MEMORANDUM

DATE: April 16, 2021

TO: USAID Acting Administrator, Gloria D. Steele

FROM: Assistant Inspector General for Audit, Thomas E. Yatsco /s/

SUBJECT: Enhanced Processes and Implementer Requirements Are Needed To Address Challenges and Fraud Risks in USAID's Venezuela Response (9-000-21-005-P)

This memorandum transmits the final report on our audit of USAID's response to the Venezuela regional crisis. Our audit objectives were to (1) assess the challenges USAID faces in responding to the Venezuela regional crisis and (2) assess USAID's management of fraud risks in its humanitarian response to the Venezuela regional crisis. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in appendix C.

The report contains six recommendations to improve USAID's humanitarian assistance policies, processes, and management of fraud risks, and strengthen the Agency's strategic planning for development assistance programs in response to the crisis. After reviewing information you provided in response to the draft report, we consider two closed (recommendations 3 and 4) and four resolved but open pending completion of planned activities (recommendations 1, 2, 5, and 6). For recommendations 1, 2, 5, and 6, please provide evidence of final action to the Audit Performance and Compliance Division.

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

CONTENTS

INTRODUCTION

Since 2014, political and economic turmoil in Venezuela has triggered one of the largest humanitarian crises in the history of the Western Hemisphere. As of September 2020, 5.1 million Venezuelans had left the country, as shown in figure 1. Venezuelans are migrating primarily to neighboring countries in Latin America and the Caribbean (LAC) to escape severe shortages of food, medicine, and healthcare services; skyrocketing hyperinflation and unemployment; outbreaks of infectious diseases; and one of the highest homicide rates in the world. For fiscal years (FYs) 2017 through 2019, USAID obligated $507 million in humanitarian and development assistance funds for the Venezuela regional crisis response to be implemented in six countries: Brazil, Colombia, Ecuador, Peru, Trinidad and Tobago, and Venezuela.

Figure 1. Venezuela Population Outflows Map – September 2020

Source: Map created by USAID OIG using data from the United Nations (U.N.) High Commissioner for Refugees and International Organization for Migration. The depiction and use of boundaries and geographic names used on this map do not imply official endorsement or acceptance by the U.S. Government.

The outpouring of migrants from Venezuela and the resulting impact on the LAC region has emerged as a critical foreign policy priority for the U.S. Government. USAID partnered with the State Department to prioritize the delivery of assistance to the Venezuelan people and to neighboring countries supporting and aiding Venezuelan migrants. USAID's technical expertise and financial resources position the Agency as a key contributor to achieve the U.S. foreign policy goals of addressing humanitarian

needs, promoting democratic values, and advancing regional stability. Congress has expressed significant interest in USAID's efforts through hearings, delegations to affected countries, and legislation that supports the Agency's role and funding in response to the crisis.[1]

OIG initiated this audit to assess USAID's response to the Venezuela regional crisis. OIG's Top Management Challenges for FY 2019 and FY 2020 identified crisis environments as inherently unstable and insecure, which creates substantial operational and programmatic challenges for USAID. The nexus of heightened security threats and significant funding increases the need for USAID and its implementers to safeguard against fraud risks.

Our objectives were to (1) assess the challenges USAID faces in responding to the Venezuela regional crisis and (2) assess USAID's management of fraud risks in its humanitarian response to the Venezuela regional crisis.

To answer the first objective, we reviewed USAID and State Department strategic, policy, operational, and programmatic documents. We also interviewed USAID, State Department, implementer, and Colombian and Peruvian Government officials. This allowed us to determine USAID's guidance and requirements for responding to foreign disasters, identify the significant challenges USAID has faced in responding to the Venezuela regional crisis, and assess the extent to which USAID has taken steps to address the significant challenges identified.

To answer the second objective, we reviewed guidance from the U.S. Government Accountability Office (GAO) and Cash Learning Partnership (CaLP) on fraud risk management.[2] We selected 15 leading practices for managing fraud risks in humanitarian assistance to assess their use by 3 selected implementers with humanitarian assistance awards in Colombia, and for alignment with USAID's guidance to implementers. We reviewed policy, operational, and programmatic documents; analyzed beneficiary financial and enrollment data; and interviewed USAID and implementer officials. We visited USAID and implementer offices in Washington, DC, Colombia, Costa Rica, and Peru. We conducted our work in accordance with generally accepted government auditing standards. Appendix A provides more detail on our scope and methodology. Appendix B provides more detail on fraud risk management leading practices.

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[1] P.L. 116-94, Further Consolidated Appropriations Act, 2020 incorporates the Venezuela Emergency Relief, Democracy Assistance, and Development Act of 2019 (codified at 22 U.S.C. § 9701).

[2] Donor and implementer organizations established CaLP as a common body of practice for cash assistance in the humanitarian sector, which is responsible for "learning, knowledge sharing, networking, policy and coordination around the appropriate and timely use of [cash assistance] in humanitarian response." CaLP members include USAID's former Offices of U.S. Foreign Disaster Assistance and Food for Peace, Mercy Corps, Acción Contra el Hambre, and Save the Children.

SUMMARY

USAID has faced significant policy, coordination, and strategic planning challenges in designing and implementing humanitarian and development programs in response to the Venezuela regional crisis that highlight the need to strengthen agency policy and processes. Specifically, these challenges included the following:

- USAID lacked a process for documenting directives from the Office of the Administrator on humanitarian programs that deviated from humanitarian principles and exceeded risk tolerance levels in order to implement National Security Council and State Department foreign policy guidance. Such a process could have provided USAID with a control mechanism to improve accountability and justification for decision making.

- USAID and the State Department struggled to coordinate the U.S. Government's humanitarian response to the crisis, with progress impeded by weak strategic planning, programming overlap, and competing interests. While USAID and the State Department signed a global memorandum of understanding to improve interagency coordination on humanitarian assistance, USAID did not have a process for coordinating joint strategic plans for humanitarian response with the State Department at the country or regional level. This resulted in time and resources dedicated to deconflicting coordination challenges rather than directing humanitarian assistance to the LAC region more effectively and efficiently.

- USAID allocated resources to design and implement development assistance projects and awards in response to the Venezuela regional crisis. However, the Agency did not develop Strategic Frameworks to guide development programs toward addressing the resulting complex challenges in Brazil, Ecuador, Peru, and Venezuela. Strategic Frameworks could have strengthened strategic planning by establishing clear goals and prioritization of resources.

USAID has taken steps to mitigate some, but not all, of these challenges.

USAID took steps to implement fraud risk management leading practices in the Agency's humanitarian response to the crisis but did not require implementers to use fraud risk management leading practices. Steps taken included conducting a fraud risk assessment, developing a fraud risk profile with a risk mitigation strategy, and designating a risk management advisor to provide dedicated technical expertise. However, selected implementers in Colombia did not assess the risks of fraud or develop risk mitigation strategies with antifraud control activities. Further, implementers did not use leading practices for sharing information—such as data-sharing agreements and matching procedures—despite operating in overlapping geographic areas, providing similar assistance to beneficiaries, and targeting the same types of beneficiaries. Implementers did not use these leading practices in their awards because USAID's guidelines did not require it.

We made six recommendations to improve USAID's response to the Venezuela regional crisis and, in some instances, improve USAID's future responses to

international disasters—including strengthening humanitarian assistance policy and processes, strategic planning for development programs, and requiring implementer use of leading practices for fraud risk management in humanitarian programs. USAID agreed with five of our recommendations and partially agreed with one of our recommendations.
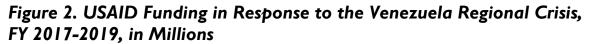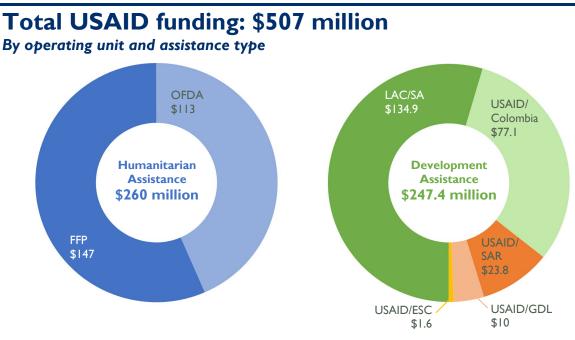
BACKGROUND

The crisis in Venezuela has roots in two seminal events that changed the trajectory of Venezuela's society: the death of President Hugo Chávez in 2013 and the collapse of global oil prices in 2014. In the wake of Chávez's death, Nicolás Maduro assumed the presidency in March 2013 and escalated a campaign of political repression, erosion of Venezuelan democratic institutions, and increasing control over all aspects of daily life in Venezuela. At the same time, Venezuela's oil-dependent economy was in a state of collapse due to mismanagement, extensive corruption, and global declines in oil prices. Hyperinflation soared and reached 9,500 percent at the end of 2019, rendering the country's currency worthless.[3]

While Maduro was sworn in for a second term as President in January 2019 after a controversial election, the U.S. Government recognized Juan Guaidó as the democratically elected President of the National Assembly of Venezuela and the Interim President of Venezuela. To address urgent humanitarian needs and restore democratic governance to Venezuela, the U.S. Government's key foreign policy goals were to (1) support Guaidó's legitimacy as the Interim President of Venezuela and (2) increase pressure on Maduro to step down as President. Accordingly, USAID prioritized aid to the Venezuelan people in coordination with the Interim President, including issuing in-kind grants to distribute humanitarian commodities inside Venezuela and signing a Development Objective Grant Agreement for $200 million in development programs in Venezuela through FY 2024.[4] USAID funding for the Venezuela regional crisis totaled $507 million for FYs 2017-2019, with $260 million for humanitarian assistance and $247 million for development assistance, as shown in figure 2.

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[3] International Monetary Fund, "World Economic Outlook Report," October 2020.

[4] Automated Directives System (ADS) chapter 201, "Operational Policy for the Program Cycle" defines a Development Objective Grant Agreement as "a bilateral obligation document … [that] generally sets forth a mutually agreed-upon understanding between USAID and the partner government of the timeframe; results expected to be achieved and the means of measuring them; and the resources, responsibilities, and contributions of participating entities for achieving a clearly defined objective."

Figure 2. USAID Funding in Response to the Venezuela Regional Crisis, FY 2017-2019, in Millions

Total USAID funding: $507 million
By operating unit and assistance type

Humanitarian Assistance donut chart:
- OFDA $113
- FFP $147
- Humanitarian Assistance $260 million

Development Assistance donut chart:
- LAC/SA $134.9
- USAID/Colombia $77.1
- USAID/SAR $23.8
- USAID/GDL $10
- USAID/ESC $1.6
- Development Assistance $247.4 million

Source: OIG analysis of USAID obligation data.

Humanitarian assistance was managed by the Office of U.S. Foreign Disaster Assistance (OFDA) and Office of Food for Peace (FFP) through June 5, 2020, while development assistance was managed by the Bureau for Latin America and the Caribbean (LAC Bureau) and missions in the region.[5] On June 5, 2020, USAID reorganized OFDA and FFP into the newly established Bureau for Humanitarian Assistance, which currently manages humanitarian assistance.[6] Humanitarian assistance is intended to address immediate, lifesaving needs of Venezuelans and Venezuelan migrants, such as access to food and healthcare. OFDA and FFP oversaw humanitarian programs through a Response Management Team (RMT) based in Washington, DC, and a Disaster Assistance Response Team (DART) based in OFDA's LAC regional office in San José, Costa Rica, with a subteam in Bogotá, Colombia. To manage the challenges of designing and implementing humanitarian programs, OFDA and FFP must adhere to international humanitarian principles required by the State Department's "Foreign Affairs Manual" (FAM) Vol. 2, chapter 060 and establish operational risk tolerance in accordance with

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[5] The LAC Bureau managed funds for Venezuela development programs in coordination with the Bureaus for Global Health and Food Security. Additionally, the U.S. Global Development Lab (USAID/GDL) managed funds in support of Venezuelan migrants and host communities through the BetterTogether Grand Challenge in the LAC region.

[6] Prior to this change, and during the scope of this audit, OFDA and FFP coordinated on USAID's humanitarian response to the Venezuela regional crisis as separate offices in the Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA). Accordingly, we addressed recommendations 2, 3, and 4 to the Bureau for Humanitarian Assistance for resolution on behalf of OFDA and FFP.

USAID's "Risk Appetite Statement."[7] The FAM states that USAID must adhere to the humanitarian principles outlined in the Good Humanitarian Donorship, which include humanity, impartiality, neutrality, independence, and funding allocated in proportion to needs and on the basis of needs assessments.[8] According to USAID's "Risk Appetite Statement," the Agency has a low appetite for fiduciary and security risks that could result in financial loss and harm to Agency and implementer personnel.

Development assistance is intended to address long-term U.S. Government priorities, such as supporting initiatives to restore and strengthen democracy in Venezuela and helping neighboring countries manage the influx of migrants and resulting strains on local institutions. The LAC Bureau designed and implemented development programs in Venezuela through its Office of South America Affairs (LAC/SA) based in Washington, DC, while development programs outside Venezuela were managed by USAID/Colombia, USAID/Eastern and Southern Caribbean (USAID/ESC), and USAID/South America Regional (USAID/SAR).[9]

USAID HAS FACED SIGNIFICANT POLICY, COORDINATION, AND STRATEGIC PLANNING CHALLENGES IN RESPONDING TO THE VENEZUELA REGIONAL CRISIS THAT HIGHLIGHT THE NEED TO STRENGTHEN AGENCY POLICY AND PROCESSES

USAID has faced significant challenges in responding to the Venezuela regional crisis, which may impede the Agency's goals and objectives for humanitarian and development assistance in the LAC region if not addressed. They included a lack of processes for policy directives for exceptional circumstances and interagency coordination for humanitarian assistance and a lack of Strategic Frameworks to guide development assistance in Brazil, Ecuador, Peru, and Venezuela. These challenges are not unique to the Venezuela regional crisis, and addressing them could improve USAID's future humanitarian assistance operations.

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[7] USAID's "Risk Appetite Statement" is a key component in the Agency's Enterprise Risk Management (ERM). Its purpose is to provide USAID staff with broad-based guidance on the amount and type of risk the Agency is willing to accept in key risk categories to achieve the Agency's mission and objectives.
[8] FAM Vol. 2, chapter 066.1, "General Responsibilities." The Good Humanitarian Donorship defines these principles as "humanity, meaning the centrality of saving human lives and alleviating suffering wherever it is found; impartiality, meaning the implementation of actions solely on the basis of need, without discrimination between or within affected populations; neutrality, meaning that humanitarian action must not favor any side in an armed conflict or other dispute where such action is carried out; and independence, meaning the autonomy of humanitarian objectives from the political, economic, military or other objectives that any actor may hold with regard to areas where humanitarian action is being implemented."
[9] USAID/ESC is based in Bridgetown, Barbados, and oversaw Venezuelan migration programming in Trinidad and Tobago. USAID/SAR is located in Lima, Peru, and oversaw Venezuelan migration programming in Brazil, Ecuador, and Peru.

USAID Lacked a Process for Documenting Directives on Implementing National Security Council and State Department Foreign Policy Guidance to Humanitarian Programs

Senior USAID officials stated that the Agency's humanitarian programs were subject to foreign policy guidance from the National Security Council and State Department. This guidance may include strategic and tactical decisions that impact USAID's ability to adhere to humanitarian principles and mitigate operational risks. However, the Agency did not have a process for documenting directives from the Office of the Administrator to OFDA and FFP that could be used to support the actions taken beyond USAID's general risk appetite. While the Administrator issued a letter with instructions at OFDA and FFP's request, the Administrator's letter was issued on an ad hoc basis. Without having a process for documenting directives, USAID lacked a control mechanism that could have improved accountability and justification for decision making. Additionally, OFDA and FFP officials told us that USAID's policy on international disaster assistance, ADS chapter 251, did not provide guidance to Agency personnel on FAM requirements for adhering to humanitarian principles. They noted that this gap between the ADS and FAM contributed to a lack of consensus on application of humanitarian principles, such as maintaining neutrality and using needs assessments to guide decision making on humanitarian assistance.

USAID's Office of the Administrator issued directives to OFDA and FFP for the Venezuela regional crisis in response to appeals from the Venezuela Interim Government and foreign policy guidance from the National Security Council and State Department. In January and February 2019, the U.S. Government identified USAID's humanitarian assistance for Venezuelans as also serving as a key tool to elevate support to the Venezuela Interim Government and increase pressure on the Maduro regime. These directives communicated instructions to OFDA and FFP on the use of the Agency's humanitarian assistance resources in response to the crisis, including taking actions that deviated from humanitarian principles and heightened security and fiduciary risks. Our interviews with USAID officials identified the following concerns with the Office of the Administrator's directives. These concerns were identified in 25 out of 34 interviews with OFDA, FFP, and Office of Acquisition and Assistance officials.

- OFDA and FFP struggled with implementing the Office of the Administrator's directives because they were primarily communicated verbally through meetings. The verbal direction did not establish clear accountability nor did it provide justification for decision making. OFDA and FFP requested the Office of the Administrator to issue written directives in order to document accountability and justification for decision making. Accordingly, the Administrator issued a letter to the Senior Deputy Assistant Administrator of DCHA on February 8, 2019, emphasizing support to the Interim Government as a high priority for the U.S. Government and directing OFDA and FFP to pre-position humanitarian commodities outside of Venezuela.

- The Office of the Administrator's directive to pre-position humanitarian commodities was not driven by technical expertise or fully aligned with the

humanitarian principles of neutrality, independence, and being based on needs assessments. The directive also increased fiduciary and security risks through the following actions:

o OFDA and FFP spent approximately $2 million to purchase and transport 368 metric tons of humanitarian commodities to the Colombia-Venezuela border and Curaçao from February 2019 through April 2019. By August 2019, only 8 metric tons of commodities were delivered to Venezuela, and the remaining 360 metric tons were distributed inside Colombia or shipped to Somalia. Not all of these humanitarian commodities were pre-positioned based on needs assessments. For example, the transported commodities included ready-to-use supplemental food that OFDA and FFP had already determined was unnecessary, because the nutritional status of Venezuelan children did not warrant its use at that time.

o OFDA and FFP transported approximately 115 metric tons of commodities from the United States to the Colombia-Venezuela border through the Department of Defense in February and March 2019. OFDA and Office of Acquisition and Assistance officials stated that using military aircraft was not justified by operational needs as commercial transportation was available and less expensive.[10]

o The Administrator signed an in-kind grant agreement with Interim President Guaidó on February 21, 2019, to provide $334,000 of humanitarian commodities for transportation from Cúcuta, Colombia, into Venezuela. On February 23, 2019, trucks carrying these commodities were violently stopped at border crossings by Maduro-controlled Venezuelan security forces, which resulted in injuries to civilians and the destruction of approximately $34,000 of USAID's commodities. In response to the attempted delivery of USAID humanitarian commodities into Venezuela, the Maduro regime closed Venezuela's border with Colombia in February 2019. This contributed to a tense environment for humanitarian assistance funded by or associated with the U.S. Government, as the Maduro regime publicly rejected pre-positioned commodities and initiated security crackdowns in Venezuela.

• The Office of the Administrator directed OFDA and FFP to align their award decisions toward reinforcing the Interim Government's credibility. OFDA and FFP minimized funding to U.N. agencies—even though some U.N. agencies had infrastructure in Venezuela to deliver humanitarian commodities—because the Interim Government was concerned that the United Nations supported the Maduro regime. OFDA funded two applications from a Venezuelan nongovernmental organization (NGO), in part, because the organization was perceived by the Office of the Administrator as supporting U.S. Government foreign policy interests in Venezuela. This organization had never received USAID funding, and OFDA did not

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[10] OFDA and Office of Acquisition and Assistance officials stated that the cost of transportation was incurred by the Department of Defense. OFDA and Office of Acquisition and Assistance officials estimated that military transportation cost up to 2.5 times commercial transportation.

know whether the organization had the capacity to comply with USAID's legal and financial requirements.

USAID Did Not Develop Joint Strategic Humanitarian Response Plans With the State Department on Strategy and Programming at the Country or Regional Level

USAID (through OFDA and FFP) and the State Department (through the Bureau of Population, Refugees, and Migration [PRM]), are the U.S. Government's primary agencies for responding to foreign disasters. The State Department's FAM defines USAID and State Department roles and responsibilities for humanitarian assistance, as shown in table 1. The FAM highlights the importance of OFDA, FFP, and PRM balancing the need to operate within their respective mandates and areas of legal authority while coordinating together to achieve U.S. foreign policy goals.[11] The FAM states that developing disaster plans is a core component of humanitarian assistance, and GAO identifies joint strategic plans as a valuable collaborative mechanism for achieving shared goals across U.S. Government agencies.[12]

Table 1. USAID and State Department Roles and Responsibilities for Humanitarian Assistance

Office/Bureau	Roles and Responsibilities
USAID/FFP	All matters relating to Pub. L. 480 food commodities utilized in emergency relief.[13]
USAID/OFDA	Assisting people displaced within their own country as a result of natural or manmade disasters.
State/PRM	Coordinating assistance to refugees who cross the border from one country to another.
	Providing assistance to other victims of conflict in coordination with OFDA.
	U.S. Government's principal speaker with international organizations.

Source: FAM Vol. 2, chapter 060.

Coordination between OFDA and PRM on the U.S. Government's humanitarian response to the Venezuela regional crisis was described as difficult in 23 out of 39 interviews with OFDA, FFP, and State Department officials. Officials stated that progress in delivering humanitarian assistance was impeded by weak strategic planning, programming overlap, and competing interests. OFDA and PRM operated in the same

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[11] FAM Vol. 2, chapter 060.

[12] GAO, "Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies," October 2005, and "Key Considerations for Implementing Interagency Collaborative Mechanisms," September 2012.

[13] P.L. 83-480, Agricultural Trade Development and Assistance Act of 1954, was established to "increase the consumption of United States agricultural commodities in foreign countries, to improve the foreign relations of the United States, and for other purposes." Title II of the Act authorizes the President to use U.S. agricultural commodities to provide emergency assistance abroad to meet "famine or other urgent relief requirements."

four countries (Brazil, Colombia, Peru, and Venezuela), which increased the need for coordination but also contributed to coordination challenges. To improve communication and facilitate information sharing, OFDA and PRM developed coordination mechanisms, such as holding weekly meetings, exchanging implementer proposals for funding, and signing a global memorandum of understanding in January 2020. However, USAID officials stated that the OFDA and PRM did not develop joint strategic humanitarian response plans to coordinate strategy and programming at the country or regional level.

USAID and State Department officials identified concerns regarding decision-making authority. A senior USAID official explained that in response to perceived oversteps by OFDA, PRM attempted to implement restrictions on OFDA's activities, which hindered collaboration and information sharing. For example, this official stated that PRM requested that U.S. Embassy Lima prevent OFDA and FFP officials from conducting site visits to Peru without PRM's approval. A State Department official told us that PRM perceived OFDA as lacking authority to address cross-border migration issues, and OFDA's funding decisions—such as supporting certain migrant health initiatives in Colombia and livelihoods activities in Peru—created confusion for implementers as to which agency they should partner with for guidance and funding opportunities.

In addition, USAID and State Department officials stated that both OFDA and PRM strayed from their respective humanitarian mandates and funded organizations and humanitarian sectors despite each other's objections. Specific concerns explained to us by OFDA and PRM officials included funding decisions made on an award-by-award basis, which officials from both OFDA and PRM described as tense with frequent disagreements. For example, OFDA funded programming to assist Venezuelan migrants and asylum seekers outside Venezuela, such as issuing an award to PRM's institutional partner, International Organization for Migration in Colombia. Similarly, PRM funded programs to assist internally displaced Venezuelans and Colombians, such as issuing an award to OFDA's institutional partner, U.N. Office for the Coordination of Humanitarian Affairs. A senior USAID official stated that OFDA acted in response to perceived gaps and inflexibility in PRM's programming, while a State Department official told us that PRM attempted to assert operational authority in response to perceived OFDA oversteps.

Lastly, OFDA and PRM did not have a consensus on the migratory status of Venezuelan citizens in neighboring countries, disagreeing on whether they should be treated as refugees or economic migrants. This lack of consensus contributed to a series of disagreements on eligible beneficiaries and programming overlap.

OFDA and PRM officials expressed to us in interviews that time and resources dedicated to deconflicting coordination challenges could have been used to direct humanitarian assistance to the LAC region more effectively and efficiently. This is reflected in the fact that OFDA does not have a process for coordinating with PRM on joint strategic humanitarian response plans at the country or regional level, which OFDA officials said was important for defining specific roles and responsibilities on programming. OFDA officials stated that after signing the global memorandum of

understanding in January 2020, they began engaging with PRM in March 2020 to develop Venezuela regional crisis joint strategic humanitarian response plans for FYs 2020 and 2021. However, they lacked a process to guide the development of these plans.

USAID Has Not Developed Strategic Frameworks To Guide Its Development Program in Venezuela or Its Development Program for Venezuelan Migration Management in Brazil, Ecuador, and Peru

ADS chapter 201 prescribes USAID's strategic planning process for designing and implementing development programs in a given country or region. Strategic planning is "essential in all the contexts in which USAID works—from relatively stable countries to those that are constantly in flux. A thoughtful, evidence-based approach to prioritizing and utilizing available resources, including a Mission's funding (from all sources), staff, and convening power, is necessary for successful development in any context." The ADS states that certain operating units are exempt from preparing a Country or Regional Development Cooperation Strategy (CDCS, RDCS) but are encouraged to coordinate with their regional bureau and the Bureau for Policy, Planning, and Learning (PPL) and use strategic planning guidance and templates to develop a Strategic Framework with adaptations that meet their needs.[14]

Although LAC/SA and USAID/SAR allocated resources to design and implement projects and awards, USAID officials stated that they did not develop Strategic Frameworks to guide USAID's development response to the Venezuela regional crisis. USAID initiated development programs in six countries: Brazil, Colombia, Ecuador, Peru, Trinidad and Tobago, and Venezuela. In Colombia, USAID/Colombia established a special objective to address Venezuelan migration in its 2020-2025 CDCS. In Trinidad and Tobago, USAID/ESC issued an award in May 2019 for a $1.5 million, small-scale Venezuelan migration activity. LAC/SA managed development programming inside Venezuela, and USAID/SAR managed Venezuelan migration programming in Brazil, Ecuador, and Peru. USAID officials stated that LAC/SA and USAID/SAR were exempt from preparing a CDCS and RDCS, respectively, during the period FY 2017 through FY 2019.

Agency personnel identified the following concerns related to LAC/SA's and USAID/SAR's lack of strategic planning for development programs in response to the Venezuela regional crisis:

- In FY 2019, LAC/SA's program responsibilities expanded along with a funding increase from less than $20 million annually for a single sector portfolio of democracy and governance awards to $77 million in new funding and designated

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[14] ADS chapter 201 defines a CDCS and RDCS as a "strategy that defines a mission's chosen approach in [a country or region] and provides a focal point of the broader context for projects and activities." USAID defines a Strategic Framework as outlining "a multi-year approach to advancing a country's Journey to Self-Reliance. Strategic Frameworks use a customized approach to planning agreed upon by the missions/operating unit, relevant regional bureau, and PPL that culminates in a shorter planning document that adopts elements from a full [CDCS or RDCS]."

responsibility for implementing USAID's Development Objective Grant Agreement with the Venezuela Interim Government. LAC/SA officials explained that these new responsibilities required collaboration opportunities with other USAID operating units on diverse program areas that LAC/SA lacked expertise in, such as health and economic growth. LAC/SA officials told us that they were effectively operating as a mission with the burden of working remotely, as they had no operational presence inside Venezuela. Having a Strategic Framework could ensure that LAC/SA defined country portfolio goals, development objectives, and approach to building self-reliance in Venezuela, based on the new level of resources and variety of new activities, over a defined period.

- USAID/SAR also experienced an increase in funding and responsibility, from less than $20 million annually for a single sector portfolio of environment and sustainable landscapes awards to $24 million in new funding in FYs 2018 and 2019 for Venezuelan migration programming in Brazil, Ecuador, and Peru. This new programming was managed from Peru with limited support from staff in USAID/Brazil and USAID/Ecuador. USAID/Peru officials stated that migration management was a new program area for the mission, and the three host governments it was partnering with lacked experience with mass migration. Having a Strategic Framework could ensure that USAID/SAR defined regional objectives and the approach for addressing transboundary issues to contribute to stabilization and self-reliance in Brazil, Ecuador, and Peru.

LAC/SA and USAID/SAR officials stated that, as part of a rapid response to the onset of the crisis, they prioritized project and award planning requirements instead of dedicating extensive time to strategic planning. Specifically, they developed project appraisal documents, conducted technical assessments, and initiated award designs rather than developing Strategic Frameworks. The new funds they received were unexpected and required a swift response to obligate prior to funding deadlines, which further displaced strategic planning efforts. However, USAID officials told us that the crisis in Venezuela was likely to be protracted, with Venezuelan migration expected to be a long-term development challenge in Brazil, Ecuador, and Peru. To meet these challenges, developing Strategic Frameworks could strengthen LAC/SA's and USAID/SAR's development programs through robust strategic planning that helps ensure clear goals and objectives, prioritization of resources, and congruence with U.S. foreign policy goals.

OFDA AND FFP INCORPORATED LEADING PRACTICES TO MANAGE FRAUD RISKS, BUT GUIDELINES TO IMPLEMENTERS LACKED RISK MANAGEMENT REQUIREMENTS

GAO and CaLP identify fraud risk management as foundational to an organization's system of internal control, and each published guidance with leading practices to manage fraud risks that are applicable to USAID's humanitarian programs. We assessed OFDA,

FFP, and their implementers' use of 15 selected leading practices to manage fraud risks in USAID's humanitarian response to the Venezuela regional crisis, which are described in detail in appendix B. OFDA and FFP implemented a risk pilot program and assigned dedicated risk advisors to incorporate GAO leading practices into humanitarian planning and programming efforts. OFDA's and FFP's implementers developed policies and procedures for beneficiary selection, registration, verification, and distribution to incorporate CaLP leading practices into humanitarian programs. However, OFDA's guidelines to implementers did not require use of GAO leading practices for planning and risk assessment or data analytics activities in their award design and implementation. OFDA's guidelines are not unique to the Venezuela regional crisis and incorporating leading practices for fraud risk management could improve USAID's future humanitarian operations.

OFDA and FFP Implemented a Risk Pilot Program and Used Dedicated Risk Advisors To Incorporate Fraud Risk Management Leading Practices Into Their Oversight of the Venezuela Regional Crisis

Office of Management and Budget Circular No. A-123 states that agencies should implement the leading practices in GAO's "A Framework for Managing Fraud Risks in Federal Programs," which include designating personnel responsible for overseeing fraud risk management activities, conducting fraud risk assessments, developing a fraud risk profile, and implementing an antifraud strategy.

OFDA and FFP took steps to manage fraud risks and incorporate key GAO leading practices into the Venezuela regional crisis response through the implementation of a risk pilot program and the use of dedicated risk advisors. In 2019, OFDA and FFP officials designed the pilot program to provide a foundation for their staff overseeing the Venezuela response, including RMT officials based in Washington, DC, and DART officials based in the field to manage risks by type, country, sector, and implementer.

OFDA and FFP assembled a team of risk management specialists and conducted a risk assessment of the Venezuela regional crisis response. The assessment identified risks, such as gaps in DART language and technical skills that could inhibit monitoring effectiveness, vulnerabilities in implementer activities to corruption and political influence, and weaknesses in implementer mechanisms to track and report fraud complaints.

Based on the risk assessment, the pilot program team developed a risk profile and tolerance, which was linked to a risk mitigation strategy. The strategy had control measures that addressed identified risks, which the RMT and DART used in their oversight of implementers and award activities in the field. For example, RMT and DART officials were directed to hold a kick-off meeting with implementer personnel following award issuance to discuss fraud reporting requirements. OFDA and FFP concluded the pilot program by transitioning to a quarterly review process led by the RMT and DART to regularly assess risk assumptions and control measures in response to ongoing changes in the Venezuela regional crisis.

In addition, OFDA and FFP jointly assigned a risk management advisor to the RMT to support fraud risk management efforts, such as internal controls, implementer oversight, and liaising with OIG on audits and investigations. OFDA and FFP officials stated that the risk management advisor provided RMT and DART personnel with a valuable resource for guidance and information.

OFDA's Guidelines to Implementers Did Not Require the Use of Fraud Risk Management Leading Practices for Planning and Risk Assessment and Data Analytics Activities

GAO's "Standards for Internal Control in the Federal Government" and "A Framework for Managing Fraud Risks in Federal Programs" both state that entities implementing Federal programs should "consider the potential for fraud when identifying, analyzing, and responding to risks." GAO's guidance states that fraud risk management leading practices include the use of planning and risk assessment activities (conducting fraud risk assessments, developing fraud risk profiles, and implementing an antifraud strategy) and data analytics activities (pursuing data-sharing agreements and conducting data matching and mining) to identify and mitigate fraud risks.[15] Additionally, CaLP guidance states that fraud risk management leading practices include cash assistance activities, such as developing policies and procedures for beneficiary selection, registration, verification, and benefits distribution.

We reviewed three OFDA implementers in Colombia, the country receiving the highest dollar amount of humanitarian assistance in response to the Venezuela regional crisis for the period FY 2017 through FY 2019. These implementers—Acción Contra el Hambre, Mercy Corps, and Save the Children—received $50.8 million in funding for humanitarian assistance to vulnerable Colombian and Venezuelan households.[16]

Each of the implementers incorporated fraud risk management activities for employee integrity, fraud awareness, and reporting. However, they did not consistently use GAO's planning and risk assessment or data analytics activities to manage fraud risks in their award portfolios, despite operating in a high-risk environment. Implementer officials stated that they did not do so because OFDA did not require it.

We assessed the extent to which each implementer used 15 GAO- and CaLP-selected leading practices for managing fraud risks in the design and implementation of their 2018 and 2019 awards, the results of which are summarized into 7 categories, as shown in table 2.

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[15] GAO, "A Framework for Managing Fraud Risks in Federal Programs," July 2015, defines data matching as "a process in which information from one source is compared with information from another, such as government or third-party databases, to identify any inconsistencies." GAO defines data mining as "[analyzing] data for relationships that have not previously been discovered."

[16] OFDA issued the awards in two phases: the first in 2018 for small-scale, stand-alone activities totaling $7.7 million, and the second in 2019 for a large-scale, consortia approach that included seven implementers totaling $43 million. Awards were cofunded by OFDA and FFP, with the exception of Mercy Corps and Acción Contra el Hambre's 2018 awards, which were funded by OFDA.

Table 2. Implementer Use of Selected Leading Practices for Managing Fraud Risk for 2018 and 2019 Awards

Leading Practice Categories	Implementers		
	Mercy Corps	**Acción Contra el Hambre**	**Save the Children**
Commit to Combatting Fraud Activities	✓	✓	✓
Planning and Risk Assessment Activities	✗	✗	✗
Employee Integrity Activities	✓	✓	✓
Fraud Awareness Activities	✓	✓	✓
Fraud Reporting Activities	✓	✓	✓
Data Analytics Activities	✗	✗	✗
Cash Assistance Activities	✓	✓	✓

Note: An X indicates deficiencies identified as significant by OIG, and a ✓ indicates no significant deficiencies identified. All activities are GAO leading practices except for cash assistance activities, which are CaLP leading practices.
Source: OIG audit testing results.

Our review of award files and risk assessments found that for planning and risk assessment activities, implementers focused their 2018 and 2019 award risk management efforts on other types of risks, such as security and diversion to sanctioned groups, rather than fraud. The implementers stated that their actions were intended to meet the conditions of OFDA's "Application Guidelines" for Venezuela regional crisis humanitarian awards, which required assessments of aid diversion but did not require implementers to incorporate fraud risk identification, analysis, and response in their award design.[17] For example, one implementer enrolled ineligible individuals affiliated with a municipal government agency in Colombia due to control weaknesses in preventing employee corruption. An official from this implementer explained that they did not conduct a fraud risk assessment for award activities, which could have identified controls to prevent or mitigate this risk. OFDA officials confirmed that the "Application Guidelines" did not require fraud risk assessments for Venezuela regional crisis awards, nor did they take action to revise the guidelines to strengthen this weakness in 2018 or 2019.

Each implementer received funding from OFDA in 2018 for small-scale, stand-alone multipurpose cash assistance (MPCA) sector activities, which provided beneficiaries with unconditional cash transfers. Implementer officials told us that they used information systems to manage beneficiary data, which implementer officials identified as critical for award implementation and monitoring activities. However, we found that the implementers did not use data analytics control activities as preventative and detective measures to mitigate the risks of fraud. These control activities were not required by

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[17] OFDA's "Application Guidelines" includes a Risk Mitigation for High-Risk Environments annex that "provides supplemental requirements for proposals for programs in high-risk operating environments."

OFDA's "Application Guidelines." Specifically, none of the three implementers we tested did the following:

- Pursued data-sharing agreements to compare beneficiary information, despite operating in overlapping geographic areas, providing similar assistance to beneficiaries, and targeting the same types of beneficiaries (i.e., vulnerable Colombian and Venezuelan households).

- Developed procedures to conduct beneficiary data matching to prevent and detect multiple enrollments. Officials from each implementer stated that they were aware of the risk of multiple enrollments, but they did not take steps to use data matching as a control activity.

- Developed procedures to use data-mining techniques for identifying suspicious or anomalous transactions, despite having databases with beneficiary enrollment and financial information.

OFDA officials stated that they recognized the lack of data analytics control activities as a weakness and directed the implementers to establish a different approach for their 2019 MPCA activities. OFDA officials said this directive was issued ad hoc for MPCA in Colombia and was not a result of changes to their "Application Guidelines" to strengthen requirements for using GAO leading practices. Instead of operating independently, these three implementers—along with four other NGOs—organized into two consortia to jointly deliver cash transfers to beneficiaries on a large scale in several Colombian cities and regions. The two consortia developed a common platform through a data-sharing agreement to standardize information systems and implement shared standard operating procedures for data mining, data matching, and beneficiary verification. We found that the implementers incorporated data analytics into their 2019 award implementation and monitoring activities. For example, implementers shared beneficiary data weekly to conduct data-matching and data-mining checks to identify duplicate enrollments and suspicious transactions, such as a beneficiary attempting to enroll multiple times with different implementers.

Implementer officials explained that OFDA's "Application Guidelines" did not require them to use these key GAO leading practices for managing fraud risks. OFDA officials stated that they issued ad hoc guidance for data analytics control activities in the implementers' 2019 MPCA sector awards but did not take action to strengthen planning and risk assessment activities. OFDA officials said this was an oversight gap as their guidelines to implementers were being revised in anticipation of merging to form the Bureau for Humanitarian Assistance in late FY 2020, which will require them to issue new, revised guidelines for implementers. As a result, OFDA and its implementers did not incorporate fraud risk identification and responses into their award design and implementation. This reduced implementers' ability to safeguard Federal funds through control activities designed to prevent and detect known fraud vulnerabilities.

CONCLUSION

USAID plays a critical role in responding to the Venezuela regional crisis by providing immediate, life-saving relief to the Venezuelan people and long-term support to LAC countries aiding Venezuelan migrants. However, USAID's lack of processes for exceptions on adhering to humanitarian principles and organizational risk tolerance and coordinating interagency joint strategic humanitarian response plans may impede the Agency's humanitarian assistance operations. Additionally, USAID's humanitarian assistance operational policy and application guidelines to implementers are missing requirements for using humanitarian principles and leading practices for preventing and detecting fraud vulnerabilities. Further, USAID's development assistance portfolio in response to the crisis lacks strategic planning to establish long-term objectives and resource needs. If USAID does not address these challenges, it could hinder the response to the Venezuela regional crisis and result in missed opportunities to strengthen controls that could improve USAID's future responses to international disasters.

RECOMMENDATIONS

We recommend that the Office of the Administrator take the following action:

1. Develop and implement a process for issuing documented directives on implementing foreign policy guidance to humanitarian programs to the Bureau for Humanitarian Assistance. This process should consider the impact of directives on the Bureau for Humanitarian Assistance's ability to adhere to humanitarian principles and risk appetite.

We recommend that the Bureau for Humanitarian Assistance, as the new bureau where functions previously performed by the Office of U.S. Foreign Disaster Assistance and the Office of Food for Peace now reside, take the following actions:

2. In coordination with the Bureau for Management, review and revise Automated Directives System chapter 251 to incorporate Foreign Affairs Manual Volume 2, chapter 060 requirements for adhering to humanitarian principles outlined in the Good Humanitarian Donorship.

3. Develop and implement a process for coordinating with the State Department's Bureau of Population, Refugees, and Migration on joint strategic humanitarian response plans at the country and/or regional level. This process should articulate key considerations for interagency coordination, including programming roles and responsibilities, humanitarian mandates, and migratory status of beneficiaries.

4. Review and revise humanitarian assistance "Application Guidelines" for implementers to strengthen the use of U.S. Government Accountability Office leading practices for managing fraud risks, including planning and risk assessment activities and data analytics activities.

We recommend that the Bureau for Latin America and the Caribbean take the following action:

5. In coordination with the Bureau for Policy, Planning, and Learning, complete a documented review of USAID's development assistance portfolio in Venezuela to determine whether to develop and implement a Strategic Framework, in accordance with Automated Directives System chapter 201 requirements.

We recommend that USAID/Peru take the following action:

6. In coordination with the Bureaus for Latin America and the Caribbean and Policy, Planning, and Learning, complete a documented review of USAID/South America Regional's development assistance portfolio in Brazil, Ecuador, and Peru to determine whether to develop and implement a Strategic Framework, in accordance with Automated Directives System chapter 201 requirements.

OIG RESPONSE TO AGENCY COMMENTS

We provided our draft report to USAID on February 24, 2021. On March 25, 2021, we received the Agency's response, which is included as appendix C of this report. USAID also included a technical comment with its response, which we considered and incorporated into the final report.

The report included six recommendations. The Agency agreed with five recommendations (recommendations 1, 3, 4, 5, and 6) and partially agreed with recommendation 2. For recommendation 2, USAID stated that the Good Humanitarian Donorship Initiative outlines 24 Principles and Good Practice of Humanitarian Donorship and including all 24 of these principles would be cumbersome for the ADS and FAM framework. USAID stated that the basic humanitarian principles of humanity, impartiality, neutrality, and independence provide a sufficient umbrella to address alignment with common international standards of practice. We concur with the Agency's determination.

We acknowledge management decisions on all six recommendations. We consider two recommendations closed (recommendations 3 and 4) and four resolved but open pending completion of planned activities (recommendations 1, 2, 5, and 6).

APPENDIX A. SCOPE AND METHODOLOGY

We conducted our work from July 2019 through February 2021 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.

Our audit objectives were to (1) assess the challenges USAID faces in responding to the Venezuela regional crisis and (2) assess USAID's management of fraud risks in its humanitarian response to the Venezuela regional crisis.

The audit scope covered the period October 1, 2016, through September 30, 2019, coinciding with USAID's design, coordination, and implementation of humanitarian and development assistance programs in response to the Venezuela regional crisis. We conducted audit fieldwork site visits to Washington, DC; San José, Costa Rica; Bogotá and Riohacha, Colombia; and Lima, Peru. These locations were selected for access to individuals working on and with direct knowledge of USAID's response to the Venezuela regional crisis, including USAID, State Department, implementer, and host country officials. Washington, DC, hosts USAID's headquarters offices. Costa Rica hosts OFDA's LAC regional office. Colombia is the largest recipient country of USAID development and humanitarian assistance (Colombia received $234.2 million out of a universe of $507.5 million in obligations as of September 30, 2019, representing 46 percent of the universe). Peru hosts USAID's regional mission for development assistance to Brazil, Ecuador, and Peru. In Colombia, we conducted fieldwork for OFDA and FFP implementers Acción Contra el Hambre, Mercy Corps, and Save the Children at their offices in Bogotá and Riohacha.

To answer the first objective, we reviewed USAID and State Department policies to obtain an understanding of guidance and requirements for responding to foreign disasters. Key policies we reviewed included ADS chapters 201, "Operational Policy for the Program Cycle," and 251, "International Disaster Assistance," OFDA's "Policy for Humanitarian Action," and FAM Vol. 2, chapter 060, "International Disaster and Humanitarian Assistance." We reviewed USAID and State Department strategic, operational, and programming documents for the period October 1, 2016, through September 30, 2019 (or as specified in the document), to obtain an understanding of the significant challenges USAID faces and the extent to which USAID has taken steps to address challenges identified.[18] Key documents we reviewed include country-level strategies, interagency coordination memoranda and procedures, humanitarian needs assessments, and disaster declaration cables.

We interviewed USAID, State Department, implementer, and host country officials using a semistructured interview approach to obtain an understanding of the significant

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[18] Our review of documentation included assessing USAID and State Department's "Memorandum of Understanding on International Humanitarian Assistance," signed in January 2020.

challenges USAID faces and the extent to which USAID has taken steps to address challenges identified.[19] We met with USAID officials from DCHA, LAC, and the Bureau for Legislative and Public Affairs; the Offices of the General Counsel and Acquisition and Assistance; and missions in Brazil, Colombia, Eastern and Southern Caribbean, and Peru.[20] We met with State Department officials from PRM and the Bureau for Western Hemisphere Affairs; the Venezuela Affairs Unit; and the political sections in Embassies Bogotá and Lima. We met with officials from implementers receiving USAID funding in Colombia and Peru, as well as host country representatives from the Colombia Ministries of Health and Border Management, and Peru Ministry of Foreign Affairs and Agency for International Cooperation. In total, we conducted 93 interviews: 70 with USAID; 7 with State Department; 12 with implementers; and 4 with host government organizations.

We analyzed the collective results of our document and interview reviews to determine the significant challenges USAID faces and the extent to which USAID has taken steps to address them. We determined the significance of challenges identified based on an assessment of key factors, such as whether challenges were internal or external to USAID, short or long term (i.e., whether challenges were temporary or sustained), operating unit specific or organization-wide, and country specific or regional. We assessed the extent of steps taken through consideration of planned, ongoing, and implemented actions by USAID to address these challenges.

To answer the second objective, we reviewed GAO, CaLP, USAID, and OIG guidance to obtain an understanding of standards and leading practices for managing fraud risks in humanitarian assistance programs, including MPCA sector activities. Key guidance we reviewed included GAO's "Standards for Internal Control in the Federal Government," GAO's "A Framework for Managing Fraud Risks in the Federal Government," CaLP's "E-Transfers in Emergencies: Implementation Support Guidelines," and CaLP's "Cash Transfer Programming in Urban Emergencies: A Toolkit for Practitioners." We interviewed USAID and OIG officials using a semistructured interview approach to obtain an understanding of leading practices for managing fraud risks in humanitarian assistance programs, including MPCA sector activities. We met with USAID officials from DCHA, Office of the General Counsel, and Office of Management, Policy, Budget, and Performance to obtain their insights and experiences on managing fraud risks in humanitarian assistance programs. We also met with OIG officials from the Offices of Audit and Investigations to obtain their expertise on fraud risk management leading practices. In total, we conducted 19 interviews: 13 with USAID and 6 with OIG.

We developed a testing methodology to assess OFDA, FFP, and implementer use of 15 selected leading practices for managing fraud risks in humanitarian assistance programs, including MPCA sector activities. We selected these leading practices from GAO and

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[19] In addition to our semistructured interviews, we met with officials from USAID's Office of the Administrator and PPL to discuss our findings and recommendations.

[20] USAID officials based in Lima, Peru support USAID/Peru and USAID/SAR.

CaLP guidance based on their application to USAID and implementer programs.[21] The methodology organized testing results through reviews of documents and data, as well as interviews with OFDA, FFP, and implementer officials. See appendix B for a list of the selected leading practices.

We selected a nonstatistical sample of 3 (out of 13) NGO implementers in Colombia for testing: Acción Contra el Hambre, Mercy Corps, and Save the Children. Our sample was judgmentally selected on the basis of high dollar obligations—the two largest NGOs with humanitarian assistance awards (Mercy Corps and Acción Contra el Hambre) and the largest NGO subimplementer with humanitarian assistance awards (Save the Children) in Colombia. Colombia was selected because it is the recipient country receiving the largest amount of humanitarian assistance to NGOs for the Venezuela regional crisis (Colombia received $76.9 million out of a universe of $118.8 million in obligations as of September 30, 2019, representing 65 percent of the universe). The generalizability of our sample testing is limited to results and conclusions based on three implementers since it was selected using a nonstatistical methodology. Thus, our sample is not projectable to the universe of implementers receiving humanitarian assistance funding from OFDA and FFP in response to the Venezuela regional crisis.

We assessed the use of fraud risk management leading practices by selected implementers in their awards received from OFDA and FFP during the period October 1, 2016, through September 30, 2019. In total, we reviewed two awards for Acción Contra el Hambre, two awards for Mercy Corps, and two awards for Save the Children (one of which was a subaward). We reviewed award files, policies and procedures, and operational and program reports; conducted interviews with headquarters and Colombia field staff; and analyzed beneficiary financial and enrollment data to perform tests for suspicious activity and transactions. Data testing focused on identifying improper payments, such as duplicate beneficiaries, ineligible beneficiaries, and ineligible benefits. In total, we conducted 46 interviews: 15 with Mercy Corps, 14 with Acción Contra el Hambre, and 17 with Save the Children. We reviewed OFDA and FFP's guidance to implementers to assess the extent to which guidance was aligned to selected GAO and CaLP leading practices for managing fraud risks. We analyzed the collective results of our testing of OFDA, FFP, and the selected implementers to identify deficiencies in the application of leading practices. We assessed the significance of deficiencies identified through consideration of key factors, such as frequency and materiality. Based on this assessment, we determined that deficiencies in implementer use of leading practices 2, 3, and 12 through 14 in appendix B were most significant.

In planning and performing the audit, we gained an understanding and assessed internal controls that were significant to the audit objectives. Specifically, we designed and

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[21] For this audit, we characterize leading practices as the actions—including overarching concepts, control activities, and mitigation measures—prescribed by GAO and CaLP to prevent, detect, and respond to fraud risks.

conducted procedures related to internal control principles 3-4, 6-10, and 12-17 under the 5 components of internal control as defined by GAO.[22]

We relied on computer-processed data to conduct our work, as detailed in the following:

- We obtained humanitarian assistance financial data from Abacus, FFP tracking spreadsheets, and Phoenix.[23] We used this data to select a sample of implementers for testing and to obtain an understanding of the Agency's obligations toward the Venezuela regional crisis response, including outlays by account, operating unit, country, and program area.[24] We determined that this data was reliable for the purposes of this audit through interviews with OFDA and FFP officials and reconciliations to supporting documentation, such as award files and program reports.

- We obtained beneficiary financial and enrollment data from information systems used by Acción Contra el Hambre, Mercy Corps, and Save the Children. We used this data to perform tests for suspicious activity and transactions, which we relied upon to support the second audit objective conclusions and results related to implementer use of data mining as a control activity to prevent and detect fraud. We determined that this data was reliable for purposes of this audit through interviews with implementer officials; demonstrations of system edits, controls, and outputs; and reconciliations to supporting documentation, such as banking records.

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[22] GAO, "Standards for Internal Control in the Federal Government," September 2014. The 13 internal control principles are: Principle 3 - establishing structure, responsibility, and authority; Principle 4 - demonstrating commitment to competence; Principle 6 - defining objectives and risk tolerance; Principle 7 - identifying, analyzing, and responding to risks; Principle 8 - assessing fraud risk; Principle 9 - identifying, analyzing, and responding to change; Principle 10 - designing control activities; Principle 12 - implementing control activities; Principle 13 - using quality information; Principle 14 - communicating internally; Principle 15 - communicating externally; Principle 16 - performing monitoring activities; and Principle 17 - evaluating issues and remediating deficiencies.

[23] Abacus is OFDA's system for budget planning, program planning, and award management. FFP uses proprietary MS Excel tracking spreadsheets to manage budgeting and programming functions. Both Abacus and FFP tracking spreadsheets interface with Phoenix financial data. Phoenix is the accounting system of record for USAID and the core of USAID's financial management systems framework.

[24] We reviewed congressional notifications to obtain an understanding of USAID's development assistance obligations toward the Venezuela regional crisis response, including outlays by account, operating unit, country, and program area.

APPENDIX B. FRAUD RISK MANAGEMENT LEADING PRACTICES

To answer our second audit objective, we assessed the extent to which OFDA and FFP's implementers used 15 selected GAO (1 through 14) and CaLP (15) leading practices for managing fraud risks in their Venezuela regional crisis award portfolios, as detailed in table 3. We organized the 15 leading practices into 7 categories in accordance with GAO and CaLP guidance.

Table 3. Selected Leading Practices for Managing Fraud Risks

Category	Description
Commit to Combat Fraud Activities	1) Does the organization have a dedicated entity to lead fraud risk management activities?
Planning and Risk Assessment Activities	2) Has the organization identified and assessed risks to determine the program's fraud risk tolerance and profile?
	3) Has the organization determined risk responses and documented an antifraud strategy based on the fraud risk profile?
Employee Integrity Activities	4) Does the organization conduct background checks to screen employees and external stakeholders?
	5) Does the organization have a standard of conduct that applies to employees and external stakeholders?
Fraud Awareness Activities	6) Does the organization provide fraud awareness training to employees and external stakeholders?
	7) Does the organization's fraud awareness training include information tailored to the specific fraud risks of the program and its fraud risk profile?
Fraud Reporting Activities	8) Does the organization have a whistleblower policy to protect confidentiality and prohibit retaliation against employees and external stakeholders? 9) Does the organization have multiple mechanisms for employees and external stakeholders to report fraud complaints?
	10) Does the organization have policies and procedures for investigating fraud complaints?
	11) Does the organization refer fraud complaints and provide fraud investigation reports to USAID OIG?
Data Analytics Activities	12) Does the organization use data-sharing agreements to compare beneficiary information?
	13) Does the organization conduct data matching to verify beneficiary information?
	14) Does the organization conduct data mining to identify suspicious activity or transactions?
Cash Assistance Activities	15) Does the organization have policies and procedures for beneficiary selection, registration, verification, and distribution?

Source: OIG analysis of fraud risk management leading practices described in GAO, "A Framework for Managing Fraud Risks in the Federal Government," July 2015; CaLP, "E-Transfers in Emergencies: Implementation Support Guidelines," 2013; and CaLP, "Cash Transfer Programming in Urban Emergencies: A Toolkit for Practitioners," 2011.

APPENDIX C. AGENCY COMMENTS

TO: Assistant Inspector General for Audits, Thomas E. Yatsco

FROM: Colleen Allen, Acting Assistant Administrator,
Bureau for Management /s/

DATE: March 23, 2021

SUBJECT: Thirty-Day Management Comments to Respond to the Draft Audit Report Produced by the Office of Inspector General (OIG) titled, *Enhanced Processes and Implementer Requirements Are Needed To Address Challenges and Fraud Risks in USAID's Venezuela Response* (9-000-21-00X-P)

USAID's Office of the Administrator and the Bureaus for Humanitarian Assistance (BHA) and Latin America and the Caribbean (LAC) of the U.S. Agency for International Development (USAID) would like to thank the Office of Inspector General (OIG) for the opportunity to provide Management Comments on draft audit report 9-000-21-00X-P (Tab 1). The Office of the Administrator agrees with Recommendation One; BHA partially agrees with Recommendations Two. BHA agrees with Recommendations Three and Four.. LAC agrees with Recommendation Five; and USAID/Peru agrees with Recommendation Six. The Office of the Administrator, BHA, LAC, and USAID/Peru herein provide plans for implementing the recommendations and report on significant progress already made.

USAID appreciates the work of the OIG's auditing team and the opportunity to improve our internal controls and processes, ensure adherence to humanitarian principles, and enhance interagency coordination for the provision of humanitarian assistance and development programming in response to the Venezuela Regional Crisis.

COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE REPORT RELEASED BY THE USAID OFFICE OF THE INSPECTOR GENERAL (OIG) TITLED, *Enhanced Processes and Implementer Requirements Are Needed To Address Challenges and Fraud Risks in USAID's Venezuela Response* **(9-000-21-00X-P) (Task No. 99100319)**

Please find below the management comments from the U.S. Agency for International Development (USAID) on the draft report produced by the Office of the USAID Inspector General (OIG), which contains six recommendations for USAID:

Recommendation for USAID's Office of the Administrator:

Recommendation 1: Develop and implement a process for issuing documented directives on implementing foreign policy guidance to humanitarian programs to the Bureau for Humanitarian Assistance. This process should consider the impact of directives on the Bureau for Humanitarian Assistance's ability to adhere to humanitarian principles and risk appetite.

- **Management Comments:** The Office of the Administrator agrees with the OIG's recommendation.

  The USAID Office of the Administrator will take action on this recommendation in coordination with BHA. USAID will develop a process to be used by the Office of the Administrator for exceptional instances when the Office of the Administrator issues a directive that could be viewed as affecting BHA's ability to adhere to humanitarian principles and BHA's risk appetite.

  USAID notes that the majority of directives from the Office of the Administrator to BHA are in line with both foreign policy objectives and humanitarian principles. This process in reference will be activated only during extraordinary circumstances when the issuance of Agency Front Office policy guidance to BHA could be viewed as limiting the ability of BHA to adhere to humanitarian principles and best practices or to further the mission of saving lives, alleviating human suffering, and reducing the impact of disasters by helping people in need become more self-reliant.

  The Agency will develop this process, which will be internal to USAID, over the course of 2021. It will serve as an internal control mechanism to document when such a directive is given by the Office of the Administrator. The process will include the timeframe of the directive and will note whether policy requirements around competition, branding and marking, and public disclosure will be waived. The process will document that, at all times, BHA assistance will be used in accordance with applicable laws and regulations. Additionally, it is expected the process will include the roles, responsibilities, and authorities of key stakeholders; justification and documentation requirements; reputational and security risks for USAID or for USAID's implementing partners; timeframes; and recertification requirements. For

example, we anticipate that the process will likely include steps such as a final sign-off by the USAID Administrator, BHA Assistant to the Administrator, and Office of the General Counsel.

- **Target Completion Date:** December 1, 2021

Recommendations for USAID's Bureau for Humanitarian Assistance:

Recommendation 2: In coordination with the Bureau for Management, review and revise Automated Directives System chapter 251 to incorporate Foreign Assistance Manual Volume 2, chapter 060 requirements for adhering to humanitarian principles outlined in the Good Humanitarian Donorship.

- **Management Comments:** BHA partially agrees with the OIG's recommendation.

  Humanitarian action should be guided by the humanitarian principles of humanity, impartiality, neutrality, and independence. BHA is in the process of updating both the Automated Directives System chapter 251 to incorporate Foreign Assistance Manual Volume 2, and chapter 060 requirements to reflect the new operating process of the Bureau following the transformation from legacy Office of Food for Peace and Office of U.S. Foreign Disaster Assistance (now called BHA). These updates will include an articulation of how BHA donorship approaches will align with, and be guided by, the humanitarian principles.

  Given the *Good Humanitarian Donorship Initiative* outlines 24 *Principles and Good Practice of Humanitarian Donorship*, including all 24 of these principles would be cumbersome for the ADS and FAM framework. The basic humanitarian principles of humanity, impartiality, neutrality, and independence provide a sufficient umbrella to address alignment with common international standards of practice. The humanitarian principles are listed as the second principle under the 24 Good Humanitarian Donorship Initiative principles.

- **Target Completion Date:** December 1, 2021

Recommendation 3: Develop and implement a process for coordinating with the State Department's Bureau of Population, Refugees, and Migration (PRM) on joint strategic humanitarian response plans at the country and/or regional level. This process should articulate key considerations for interagency coordination, including programming roles and responsibilities, humanitarian mandates, and migratory status of beneficiaries.

- **Management Comments:** BHA agrees with the OIG's recommendation.

  Both USAID and the State Department acknowledged the need for a formalized process for coordination on strategic humanitarian response planning and have committed to develop and implement a framework for cooperation.

In advance of this OIG report, PRM and USAID's Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA), now BHA, signed a Memorandum of Understanding (MOU) in January 2020 that outlines an overarching framework for PRM-BHA joint strategic engagement with humanitarian partners, coordination of funding, and joint monitoring and training. The MOU reaffirms mandates and authorities, with annexes covering information-sharing and decision-making processes for support to public international organization (PIO) and non-governmental organization (NGO) partners.

Specifically, the MOU aims to:
1) Improve coordination of humanitarian funding for PIOs;
2) Improve coordination of humanitarian funding for NGOs;
3) Strengthen external communication with donor governments, partners, and the public through joint messaging and joint planning processes;
4) Improve internal information sharing, including for oversight and monitoring arrangements; and
5) Promote more effective and efficient operational coordination.

The cooperation framework reiterates the existing lead roles and authorities for each bureau. PRM has lead responsibility for U.S. humanitarian assistance, protection, and solutions for refugees, asylum seekers, migrants in situations of vulnerability, and stateless persons, while BHA has lead responsibility for U.S. humanitarian assistance in response to natural and man-made disasters, for internally displaced persons, as well as providing emergency food assistance, including to refugees, and assistance to predict, prepare for, and reduce the impact of natural and man-made disasters. The MOU also provides a path to identify and address duplication or funding gaps and provides procedures for dispute resolution.

For the humanitarian response to the Venezuela Regional Crisis, BHA and PRM are already using the MOU. BHA and PRM started implementing the MOU in 2020 through a phased, multi-year process (Tab 2). This applies to the response inside Venezuela as well as in the regional response where PRM and BHA both have humanitarian assistance programming, such as Brazil, Colombia, Ecuador, and Peru.

- **Target Completion Date:** USAID requests closure of recommendation #3 upon the OIG's issuance of its Final Report.

Recommendation 4: Review and revise humanitarian assistance Application Guidelines for implementers to strengthen the use of U.S. Government Accountability Office leading practices for managing fraud risks, including planning and risk assessment activities and data analytics activities.

- **Management Comments:** BHA agrees with the OIG's recommendation.

BHA issued revised *Emergency Application Guidelines* (Tab 3) in September 2020 for

NGOs applying for non-competitive awards that include activities focused on urgent emergency response, early recovery, or disaster risk reduction. To address the OIG's recommendation, in October 2020 BHA further updated Annex D, *Risk Assessment and Management Plan to Prevent Misuse or Diversion of U.S. Government Resources* (Tab 4), to incorporate GAO guidance and refer applicants to the GAO's *Framework for Managing Fraud Risks in Federal Programs* and the *Data Analytics to Address Fraud and Improper Payments* for more information and best practices. All NGO applicants must submit a risk assessment and management plan as part of their application. Annex D also includes additional requirements for applications in high-risk environments to ensure that BHA and its partners take appropriate and necessary steps to ensure that the provision of U.S. foreign assistance does not result in a violation of applicable sanctions. Applicants' plans must address how they will mitigate and manage the risks associated with the potential misuse of U.S. Government resources in key areas such as staff safety and security; procurement integrity; sexual exploitation and abuse; oversight of inventory; policies and procedures concerning fraud, waste, and abuse; and risk assessment and mitigation strategies related to sanctioned groups (if applicable). BHA staff review all applicants' risk assessment and management plans as part of the application approval process, following up directly with applicants to obtain additional information or clarifications as needed. BHA does not fund applications until it determines that the applicant has provided all necessary information on risk assessment and management.

- **Target Completion Date:** USAID requests closure of recommendation #4 upon the OIG's issuance of its Final Report.

Recommendation for USAID's Bureau for Latin America and the Caribbean

Recommendation 5: In coordination with the Bureau for Policy, Planning, and Learning, complete a documented review of USAID's development assistance portfolio in Venezuela to determine whether to develop and implement a Strategic Framework, in accordance with Automated Directives System chapter 201 requirements.

- **Management Comments:** USAID Bureau for Latin America and the Caribbean, South America Office (LAC/SA) agrees with OIG's recommendation.

  LAC/SA will complete a documented review, in conjunction with the Bureau for Policy, Planning, and Learning (PPL), of its development assistance portfolio in Venezuela to determine whether to develop and implement a Strategic Framework. The review will be completed within 60 days of this submission.

- **Target Completion Date:** May 25, 2021

Recommendation for USAID/Peru

Recommendation 6: In coordination with the Bureaus for Latin America and the Caribbean and Policy, Planning, and Learning, complete a documented review of

USAID/South America Regional's development assistance portfolio in Brazil, Ecuador, and Peru to determine whether to develop and implement a Strategic Framework, in accordance with Automated Directives System chapter 201 requirements.

- **Management Comments:** USAID/South America Regional (SAR) agrees with the OIG's recommendation.

  USAID/SAR will complete a documented review, in conjunction with PPL and USAID/SA, of its development assistance portfolio in Brazil, Ecuador, and Peru to determine whether to develop and implement a Strategic Framework. The review will be completed within 60 days of this submission.

- **Target Completion Date:** May 25, 2021

In view of the above, we request that the OIG inform USAID when it agrees or disagrees with a management comment.

Attachments:

> Tab 1—OIG Draft Audit Report
> Tab 2—(SBU) BHA-PRM MOU Outcomes Venezuela Regional Crisis Matrix
> Tab 3—BHA Emergency Application Guidelines
> Tab 4—BHA EAG Annex D, *Risk Assessment and Management Plan to Prevent Misuse or Diversion of U.S. Government Resources*

APPENDIX D. MAJOR CONTRIBUTORS TO THIS REPORT

The following people were major contributors to this report: Van Nguyen, audit director; Pamela Hamilton, assistant director; Christopher Walker, auditor; Carlos Molina, auditor; Jessica Pearch, auditor; Juan Carlos Rivas, auditor; Hugo Solano, auditor; Shannon Turner, visual communications specialist; and Augusto Urrego, auditor.