



Offices of Inspector General
United States Department of State
U.S. Agency for International Development



January 5, 2023

UNCLASSIFIED

VIA ELECTRONIC TRANSMISSION

United States Senate

Committee on Appropriations, Subcommittee on State, Foreign Operations, and Related Programs

Committee on Foreign Relations

Committee on Homeland Security and Governmental Affairs

United States House of Representatives

Committee on Appropriations, Subcommittee on State, Foreign Operations, and Related Programs

Committee on Foreign Affairs

Committee on Oversight and Reform

Dear Chairs and Ranking Members:

The Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023 ([P.L. 117–180](#), Sept. 30, 2022) (Act) provided \$4.5 billion for direct financial support to the Government of Ukraine. Section 1302(a) of the Act requires that the Secretary of the Department of State (Department), in consultation with the Administrator of the U.S. Agency for International Development (USAID), certify and report that mechanisms for monitoring and oversight of these funds are in place and functioning prior to obligating the funds, and that the Government of Ukraine has in place substantial safeguards to prevent corruption and ensure accountability of these funds.

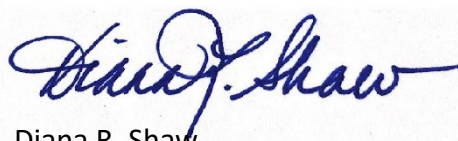
Further, the Act requires that the inspectors general of the Department and USAID submit a report to Congress detailing and assessing the required monitoring mechanisms and safeguards. Accordingly, we are providing you with our offices' respective reports. The first report, by the Department's Office of Inspector General, examines the certification process at

the Department (Attachment 1). The second report, by the USAID Office of Inspector General, evaluates the monitoring mechanisms and safeguards referenced in the certification and assesses consistency with recognized principles of internal control (Attachment 2).

Oversight of the Ukraine response is the top priority for our offices. We will continue to coordinate closely as we execute our complementary oversight plans. To provide Congress and other stakeholders with timely and useful information, each of our offices established landing pages dedicated to our Ukraine response oversight efforts (see [State OIG](#) and [USAID OIG](#)).

We appreciate your ongoing interest in our work and support for our independent oversight mission. Please do not hesitate to contact us directly if you have any questions. Alternatively, feel free to contact our congressional liaisons, Ryan Holden at ryan.d.holden@stateoig.gov or (571) 349-9259; and Adam Kaplan at adamkaplan@usaid.gov or (202) 413-8369.

Sincerely,



Diana R. Shaw
Deputy Inspector General
Performing the Duties of
the Inspector General
U.S. Department of State



Nicole Angarella
Acting Deputy Inspector General
Performing the Duties of
the Inspector General
U.S. Agency for International Development

Attachment 1



Ukraine Supplemental Appropriations Act, 2023 Mandated Assessment

INTRODUCTION

In September 2022, Congress passed the Ukraine Supplemental Appropriations Act, 2023 (the Act),¹ providing \$4.5 billion in Economic Support Funds (ESF).² Section 1302(a) of the Act states that “[f]unds appropriated by [Title III] shall be made available for direct financial support for the Government of Ukraine. . . and may be made available as a cash transfer.”³ Section 1302(a) of the Act included several additional funding provisions, including that, at least 15 days prior to the initial obligation of such funds, the Secretary of State, in consultation with the U.S. Agency for International Development (USAID) Administrator, “shall certify and report to the appropriate congressional committees that mechanisms for monitoring and oversight of such funds are in place and functioning and that the Government of Ukraine has in place substantial safeguards to prevent corruption and ensure accountability of such funds.”⁴

The Act also requires the Inspectors General of the Department of State (Department) and USAID to “submit a report to the appropriate congressional committees detailing and assessing the mechanisms for monitoring and safeguards” described in the Secretary of State’s report not less than 45 days after initial obligation of such funds.⁵ Accordingly, the Office of Inspector General (OIG) conducted this engagement to review the process and activities the Department used to certify and report to Congress on direct financial support for the Government of Ukraine, which is one of the Act’s five specific funding provisions.⁶ Specifically, OIG reviewed the process the Department followed and actions it took to ensure that the Secretary of State certified and reported to Congress.⁷

BACKGROUND

UKRAINE SUPPLEMENTAL APPROPRIATIONS ACT, 2023 REQUIREMENTS

The Act provided \$12.4 billion in assistance to Ukraine,⁸ including training, equipment, weapons, and logistics support, as well as \$4.5 billion in ESF.⁹

PUBLIC LAW 117-180, TITLE III, SECTION 1302 FUNDING PROVISIONS

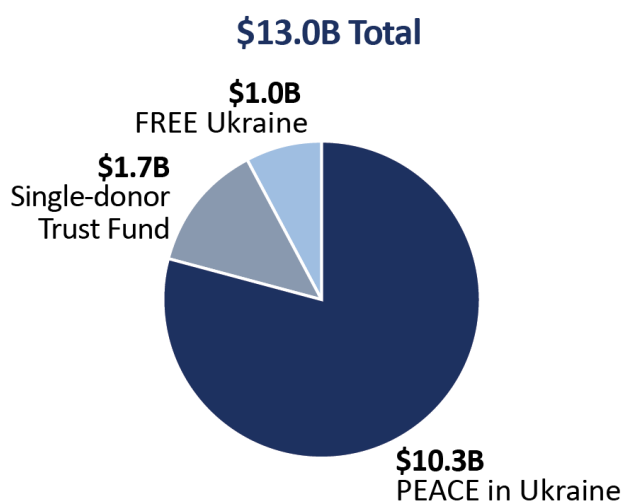
1. Funds “appropriated by this title shall be made available for direct financial support for the Government of Ukraine . . . and may be made available as a cash transfer.”¹⁰
2. Any funds made available as a cash transfer shall be subject to a memorandum of understanding between the U.S. government and the Government of Ukraine that “describes how the funds proposed to be made available will be used and the appropriate safeguards to ensure transparency and accountability.”¹¹
3. Such funds “shall be provided on a reimbursable basis and matched by sources other than the [U.S.] Government, to the maximum extent practicable.”¹²
4. The Secretary of State or the USAID Administrator, “as appropriate, shall ensure third-party monitoring of such funds.”¹³
5. At least 15 days prior to the initial obligation of such funds, the Secretary of State, after consultation with the USAID Administrator, “shall certify and report to the appropriate congressional committees that mechanisms for monitoring and oversight of such funds are in place and

functioning and that the Government of Ukraine has in place substantial safeguards to prevent corruption and ensure accountability of such funds.”¹⁴

U.S. ASSISTANCE PROVIDED VIA WORLD BANK MECHANISMS

The United States has provided \$13 billion in direct financial support to the Government of Ukraine via three World Bank¹⁵ mechanisms. Figure 1 depicts total U.S. government budget support funding via the World Bank by mechanism as of November 22, 2022.

FIGURE 1: U.S. GOVERNMENT BUDGET SUPPORT FUNDING TO UKRAINE VIA WORLD BANK MECHANISMS



Source: Generated by OIG from World Bank, “World Bank Financing Support Mobilization to Ukraine since February 24, 2022,” November 22, 2022.

The U.S. government obligated \$1 billion to the World Bank’s Financing of Recovery from Economic Emergency in Ukraine (FREE Ukraine), a multi-donor trust fund designed to foster demonopolization and anticorruption institutions, strengthen land and credit markets, and bolster the social safety net in Ukraine.¹⁶

In addition, the U.S. government obligated \$1.7 billion to a single-donor trust fund that the World Bank and the United States established for a one-time disbursement of funds to support Government of Ukraine operations.¹⁷ Moreover, the U.S. government has obligated \$10.3 billion to the World Bank Public Expenditures for Administrative Capacity Endurance (PEACE) mechanism, a multi-donor trust fund designed to support the provision of core public services in spending categories such as health, education, and social protections.¹⁸ This includes \$5.8 billion from previous supplemental appropriations, as well as the \$4.5 billion provided by the Act.¹⁹

EXECUTIVE SECRETARIAT ROLE AND CLEARANCE PROCEDURES

The Foreign Affairs Manual (FAM) states that the Department’s Executive Secretariat (S/ES) directs and controls official action, briefing, and information documents to and from the Secretary of State, Deputy Secretaries of State, and Under Secretaries of State and ensures implementation of decisions made by them.²⁰ In addition, S/ES staff coordinate, task, track, and review briefing papers, memoranda, diplomatic notes, and correspondence for the Secretary of State, Deputy Secretaries of State, other Department principals, and the White House. The office also distributes final action communications.²¹ In addition, S/ES maintains InfoLink, a Department intranet site, which contains guidance and procedures for correspondence prepared for signature by the Secretary of State and other Department officials appointed by the President.²² According to the Department, S/ES InfoLink offers information on correspondence with and for Department principals; provides guidance on writing, clearing, and submitting briefing materials; and includes templates containing updated information concerning principals in key offices.

RESULTS

THE DEPARTMENT CERTIFIED AND REPORTED TO CONGRESS AS REQUIRED BY THE ACT

OIG found that the Department certified and reported to Congress at least 15 days prior to the initial obligation of ESF funds for direct financial support for the Government of Ukraine, as required by Section 1302(a) of the Act.²³ On October 27, 2022, the Department submitted the certification and report to Congress.²⁴ The same day, USAID submitted a congressional notification stating that it intended to obligate \$4.5 billion in ESF funding for direct financial support²⁵ for the Government of Ukraine via the World Bank PEACE mechanism.²⁶ On November 21, 2022, 25 days after the Department's certification and report, USAID obligated the funds. Prior to obligation, the Department had coordinated closely with USAID, the U.S. Department of the Treasury (Treasury), and U.S. Embassy Kyiv, Ukraine officials to identify, understand, and evaluate various methods for disbursing direct financial support to the Government of Ukraine. Ultimately, the Department, USAID, and Treasury determined that the World Bank offered the best combination of speed and funding accountability. Prior to providing its certification to Congress, the Department worked closely with USAID to understand and review the World Bank's monitoring and transparency mechanisms to ensure accountability.

OIG determined that the Department complied with the Act's requirements, following its established internal process to generate and obtain approval for the certification and report to Congress. Specifically, the Office of the Coordinator of U.S. Assistance for Europe and Eurasia (ACE) led the process, coordinating with the Office of Foreign Assistance and USAID, which drafted three documents for the Department's consideration: a

draft Memorandum of Justification, outlining established accountability mechanisms, which served as the required report to Congress; a draft congressional notification; and a draft certification statement. ACE subsequently prepared, circulated, and obtained clearances from key Department stakeholders for a complete certification package. The Deputy Secretary of State for Management and Resources, to whom the Secretary of State had delegated such authority,²⁷ signed the certification on October 26, 2022, and the following day, the Bureau of Legislative Affairs transmitted the approved certification and Memorandum of Justification to Congress.

The Memorandum of Justification described processes and procedures for monitoring and oversight of funds, as well as Government of Ukraine safeguards to prevent corruption and ensure accountability of funds provided through the World Bank PEACE mechanism. Ultimately, the Department's established process and interagency consultation and evaluation supported the USAID-drafted and Department-approved Memorandum of Justification, as well as the Department's certification that the "mechanisms for monitoring and oversight of funds made available under the FY 2023 [Ukraine Supplemental Appropriations Act] for direct financial support for the Government of Ukraine are in place and functioning, and that the Government of Ukraine has in place substantial safeguards to prevent corruption and ensure accountability of such funds."²⁸

THE DEPARTMENT COORDINATED WITH INTERAGENCY PARTNERS TO EVALUATE VARIOUS BUDGET SUPPORT DISBURSEMENT METHODS

The Department coordinated closely with USAID, Treasury, and Embassy Kyiv officials to identify, understand, and evaluate various methods for disbursing direct financial support to the Government of Ukraine. Office of Foreign

Assistance officials stated that, prior to Russia's February 2022 full-scale invasion of Ukraine, the Department and its interagency partners were exploring providing Ukraine assistance through sovereign loan guarantees in which the U.S. government backs private bank loans to sovereign nations.²⁹ However, according to Office of Foreign Assistance officials, after Russia's February 2022 full-scale invasion of Ukraine, the costs associated with sovereign loan guarantees would become prohibitive, as Ukraine's credit rating was likely to decrease. Additionally, according to ACE officials, the Department and its partners identified appropriate and faster disbursement methods to provide funding to Ukraine as certain factors became primary. These factors were speed, flexibility, management burden, risk, oversight and accountability, and ensuring maximum development impact and achievement of U.S. government policy objectives.

The Department and its interagency partners also considered a government-to-government cash transfer from the U.S. government to the Government of Ukraine. However, the Department and USAID would have needed to assess whether the Government of Ukraine met the statutory conditions to receive government-to-government cash transfers. In addition, the U.S. government would have had to negotiate a memorandum of understanding with Ukraine regarding how assistance would be spent. According to Department officials, a cash transfer would provide the United States a greater degree of control over funding expenditures; however, the pace of events in Ukraine necessitated rapid assistance funding disbursement and the review and the process of negotiating a cash transfer would have delayed disbursement. The Department and its interagency partners also explored the use of the International Monetary Fund's Administered Account for Ukraine, which was intended to channel donor resources in the form of grants and loans aimed at helping Ukraine meet its balance of payments and budgetary needs and stabilize its economy.

However, for the U.S. government to use this account, it would have been necessary to negotiate accountability mechanisms with the International Monetary Fund and the Government of Ukraine, which also would have delayed disbursement.

Ultimately, the Department, USAID, Treasury, and Embassy Kyiv determined that the World Bank offered the best combination of speed and funding accountability. The Government of Ukraine and the World Bank had an existing relationship, which according to Office of Foreign Assistance officials, eliminated the need to negotiate a new arrangement between the Government of Ukraine and another institution. In addition, Treasury and the Government of Ukraine expressed a preference for the World Bank mechanisms. Following Russia's February 2022 full-scale invasion of Ukraine, the Department and its interagency partners determined that the World Bank offered the most efficient and effective method for disbursing direct financial support to the Government of Ukraine.

THE MEMORANDUM OF JUSTIFICATION OUTLINED WORLD BANK OVERSIGHT MECHANISMS

Prior to providing the Department's certification to Congress, the Department worked closely with USAID to understand and review the World Bank's monitoring and transparency mechanisms to ensure accountability. In September 2022, the Office of Foreign Assistance provided an information memorandum to the Secretary of State detailing World Bank PEACE mechanism operations and oversight instruments and the rationale for choosing the PEACE mechanism.³⁰ Specifically, the World Bank disburses PEACE mechanism financial assistance as reimbursements for approved Government of Ukraine expenditures. The Government of Ukraine submits receipts for eligible expenditures to the World Bank. The World Bank reviews submissions for eligibility under the project and performs spot checks to verify that the money

has been spent as described.³¹ Once verified, the World Bank reimburses the Government of Ukraine’s Ministry of Finance for the expenditures. Budget support provided via the PEACE mechanism is subject to the World Bank’s procurement, financial management, disbursement, and safeguard policies; the bank’s framework to prevent and combat fraud and corruption; and its screening procedures to prevent the use of bank resources to finance terrorist activity.³²

In addition to the World Bank’s established financial controls, USAID contracted with Deloitte Consulting LLP (Deloitte) to deploy a team to work with the Government of Ukraine to conduct third-party monitoring of U.S. direct financial support.³³

ACCORDING TO USAID, DELOITTE’S EXPERTS ARE

- Reviewing the Ukraine Ministry of Finance’s existing monitoring, transparency, verification, and reporting systems and procedures.
- Identifying and strengthening gaps.
- Supporting reporting on U.S.-provided direct financial support.

According to USAID, Deloitte’s team will work with both the Ministry of Finance and other Government of Ukraine institutions to review financial controls and procedures, conduct limited spot checks, and report to USAID on the transparency and accountability of Government of Ukraine systems controlling budget support expenditures. Deloitte employees will conduct oversight of all U.S. budget support funds disbursed in Ukraine, whether provided through the World Bank or through other mechanisms.³⁴

USAID’s arrangement with the World Bank requires that the bank provide donors with regular reports on the status of financial assistance disbursed via the PEACE mechanism. Every month, the World Bank must provide a monthly verification report that includes the number of financial assistance

beneficiaries, the amount of funding reimbursed, and a confirmation that the Government of Ukraine has provided the agreed-upon verification protocol. Every 6 months, the World Bank must prepare an implementation status and results report, which is a high-level accounting of the status of PEACE mechanism objectives. Annually, the World Bank must provide donors with a project status report. Finally, when the PEACE mechanism is closed, the World Bank must prepare an audit of financial statements and conduct tests to verify project expenditure eligibility, including a review of the controls and procedures under which the project operated.³⁵

ACE FOLLOWED AN ESTABLISHED PROCESS TO GENERATE AND OBTAIN APPROVAL FOR THE DEPARTMENT’S CERTIFICATION AND REPORT TO CONGRESS

According to S/ES, bureaus are responsible for drafting, clearing, and submitting congressional report packages that consist of a congressional report memorandum or action memorandum, an unclassified report, a transmittal sheet, legislation, and a tasker. Templates for these are available on S/ES InfoLink. Congressional reports must receive appropriate clearances from the Deputy Secretaries of State, Policy and Planning Staff, the Under Secretaries for Political Affairs and for Public Diplomacy and Public Affairs, the Bureau of Global Public Affairs, the Bureau of Legislative Affairs, and the Office of the Legal Adviser, as well as all bureaus with equities on the report contents and the drafting bureau’s front office.³⁶

THE PURPOSE OF THE CLEARANCE PROCESS

- Ensure that offices and bureaus with clear equities have an opportunity to weigh in.
- Communicate policy updates to a wide range of internal actors.

- Ensure all angles are considered (e.g., resources, press, legal, congressional, etc.).

Bureaus are encouraged to streamline clearances as much as possible, limiting duplicative or non-substantive clearances. Similarly, clearers should focus on substantive edits, not wordsmithing or format. The drafting bureau has discretion over which edits to accept and is ultimately responsible for the content of its paper.³⁷ Once cleared, bureaus must submit complete report packages in the Cascades system³⁸ and list the Bureau of Legislative Affairs as a co-drafter.³⁹

OIG found that ACE officials followed S/ES guidance and best practices for drafting, clearing, and submitting a certification package to Congress. OIG also found that ACE used the appropriate S/ES InfoLink templates when drafting the action memorandum, report, and transmittal. In addition, ACE officials ensured that the certification and report received appropriate clearances from required parties, including bureaus with equities in the report and the Bureau of European and Eurasian Affairs front office.

INCLUDED IN THE CERTIFICATION PACKAGE

1. An action memorandum summarizing Ukraine's need for additional financial support and the use of the World Bank PEACE mechanism to provide that support.
2. The certification statement.
3. USAID's draft Memorandum of Justification outlining the World Bank and third-party contractor oversight and accountability mechanisms, which served as the required report to Congress.
4. Congressional transmittal letter from the Department's Bureau of Legislative Affairs.

The action memorandum was addressed to the Deputy Secretary for Management and Resources, to whom the Secretary of State had delegated the authority,⁴⁰ recommending that he approve the certification to Congress. The memorandum included additional background on the Act, prior assistance funding to the Government of Ukraine, and a short summary of the disbursement and accountability mechanisms to be employed. The document also stated that the Bureau of Legislative Affairs would transmit the memorandum, if approved, along with the certification and Memorandum of Justification to Congress.

The certification document included a brief statement that "mechanisms for monitoring and oversight of funds . . . are in place and functioning."⁴¹ The Memorandum of Justification outlined in more detail the World Bank and third-party contractor monitoring accountability mechanisms. This included descriptions of World Bank financial controls, required World Bank financial reporting and audits, and World Bank anticorruption and fraud protocols. It also included a description of Deloitte's roles and responsibilities in providing budget support monitoring. The Department's draft congressional transmittal letter included a very brief background section, as well as a list of House and Senate committees that would receive the certification.

Several Department stakeholders reviewed and provided clearance on the certification package. Some stakeholders were involved based on foreign assistance, regional, or country-specific expertise, while others were required to clear as part of the S/ES clearance process. Clearances required as part of the S/ES process included the Deputy Secretaries of State, the Counselor of the Department, Policy Planning staff, the Under Secretaries for Management and Political Affairs, and the Bureau of Global Public Affairs. The Under Secretary for Public Diplomacy and Public Affairs cleared the certification because this work has the potential to involve public affairs or diplomacy programs or

strategies, and the Bureau of Economic and Business Affairs must clear on documents involving development finance, which includes the World Bank. The Bureau of European and Eurasian Affairs, including ACE, cleared because Ukraine falls within their regional purview and the Office of Foreign Assistance was involved because this certification focused on foreign assistance. The Office of the Legal Adviser is required to clear on anything involving U.S. law, as well as any foreign assistance. Legal Adviser officials stated the office’s role was to ensure the certification and report met the Act’s requirements rather than to review the merits of the assistance mechanism, though they did consider whether the Memorandum of Justification provided a reasonable basis to conclude that legal requirements were met. The Bureau of Legislative Affairs, in addition to being a required clearer per the S/ES process, is required to provide clearance on any correspondence to Congress, including pending legislation and appropriations.

“mechanisms for monitoring and oversight of funds made available under the FY 2023 [Ukraine Supplemental Appropriations Act] for direct financial support for the Government of Ukraine are in place and functioning, and that the Government of Ukraine has in place substantial safeguards to prevent corruption and ensure accountability of such funds.”⁴²



CONCLUSION

The Bureau of Legislative Affairs transmitted the approved package to Congress on October 27, 2022. USAID submitted its congressional notification of its intent to obligate \$4.5 billion in ESF funds immediately after the Department transmitted the finalized certification and Memorandum of Justification. On November 21, 2022, 25 days after the Department’s certification and report, USAID obligated the funds. Ultimately, the Department’s established process and interagency consultation and evaluation supported the Department’s certification that the

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APPENDIX

SCOPE AND METHODOLOGY

Section 1302 of the Act⁴³ requires that the Inspectors General of the Department and USAID “submit a report to the appropriate congressional committees detailing and assessing the mechanisms for monitoring and safeguards”⁴⁴ for funds appropriated by Title III.⁴⁵ Accordingly, OIG conducted this engagement to review the process and activities the Department used to certify and report to Congress on direct financial support for the Government of Ukraine, which is one of five specific funding provisions included in Title III of the Act.⁴⁶ Specifically, OIG reviewed the process the Department followed and actions it took to ensure that the Secretary of State certified and reported to Congress “that mechanisms for monitoring and oversight of such funds are in place and functioning and that the Government of Ukraine has in place substantial safeguards to prevent corruption and ensure accountability of such funds.”⁴⁷ USAID Office of Inspector General conducted a separate, concurrent review that addressed the mechanisms for monitoring, oversight safeguards, and accountability for funds appropriated by Title III of the Act.⁴⁸

OIG conducted its work from October to December 2022 in the Washington, DC, metropolitan area at the Bureaus of Economics and Business Affairs, European and Eurasian Affairs, and Legislative Affairs, as well as ACE, the Office of Foreign Assistance, and the Office of the Legal Adviser. OIG conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency’s *Quality Standards for Inspection and Evaluation*. These standards require that OIG plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the review objective. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the review objective.

To review the Department’s process and activities for certifying and reporting to Congress on direct financial support for the Government of Ukraine as required by the Act, OIG reviewed the Act and met with officials from the Office of the Legal Adviser to determine the requirements the Act placed on the Department. OIG also conducted interviews with appropriate Department officials. In addition, OIG identified and analyzed Department guidance related to congressional reporting, including the FAM, the Foreign Affairs Handbook, and S/ES requirements and best practices. OIG also reviewed documentation developed by ACE and USAID.

Further, OIG reviewed reports from the World Bank, Congressional Research Service, and others on activities and funding for Ukraine. Finally, OIG coordinated closely with the USAID Office of Inspector General to limit duplicative efforts and ensure that both organizations fulfilled Act requirements.

OIG received technical comments from ACE, the Office of Foreign Assistance, and the Office of the Legal Adviser on a draft of this report. OIG reviewed and incorporated the technical comments into the final report, as appropriate.

ACE AND USAID DOCUMENTATION REVIEWED

- The Department’s draft and approved certification package.
- Draft and submitted congressional notifications.
- USAID’s Memorandum of Justification outlining the World Bank PEACE mechanism, third-party monitoring, and USAID assistance activities to strengthen Ministry of Finance accountability capabilities.

ACKNOWLEDGEMENTS

OIG appreciates the Department's continuing commitment to cooperation with our office and ongoing engagement with and support of our Ukraine response oversight efforts. OIG's David Bernet (Division Director), Rachel Kell (Audit Manager), Jeremy Brown (Evaluation Officer), and Heather Kinsman (Senior Auditor) comprised the evaluation team.

Visit OIG's Ukraine Response Oversight website, <https://www.stateoig.gov/ongoing-work-ukraine-response-oversight>, to follow our work or contact us at publicaffairs@stateoig.gov for additional information.

ABBREVIATIONS

ACE	Office of the Coordinator of U.S. Assistance for Europe and Eurasia
ESF	Economic Support Funds
FAM	Foreign Affairs Manual
FREE Ukraine	Financing of Recovery from Economic Emergency in Ukraine
OIG	Office of Inspector General
PEACE	Public Expenditures for Administrative Capacity Endurance
S/ES	Department of State, Executive Secretariat
Treasury	U.S. Department of the Treasury
USAID	U.S. Agency for International Development

END NOTES

¹ Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023, Public Law 117-180, Division B, September 30, 2022.

² Ibid., Title III, "Bilateral Economic Assistance," page 136 STAT. 2131.

³ Ibid., § 1302(a), page 136 STAT. 2131.

⁴ Ibid., pages 136 STAT. 2131 and 2132.

⁵ Ibid., page 136 STAT. 2132. Although the Act states that the Inspectors General reports are due to Congress "not less than 45 days after the initial obligation of such funds," OIG notes that this was likely an error, and it interpreted the requirement as not more than 45 days after initial obligation.

⁶ Ibid., Title III, "Bilateral Economic Assistance," § 1302, pages 136 STAT. 2131 and 2132.

⁷ USAID is the agency responsible for implementing and managing direct financial support for the Government of Ukraine. Therefore, in accordance with the Act, the USAID Office of Inspector General is charged with "detailing and assessing the mechanisms for monitoring and safeguards," which it performed and reported separately. See the Background section of this report for the five funding provisions included in the Act.

⁸ Public Law 117-180, Division B, September 30, 2022.

⁹ Ibid., Title III, "Bilateral Economic Assistance," page 136 STAT. 2131.

¹⁰ Ibid., § 1302(a), page 136 STAT. 2131.

¹¹ Ibid., § 1302(b), page 136 STAT. 2132. OIG notes that this provision was not triggered because the Department and USAID opted to provide direct financial support via the World Bank PEACE mechanism, rather than a cash transfer.

¹² Ibid., § 1302(a), page 136 STAT. 2131.

¹³ Ibid.

¹⁴ Ibid., pages 136 STAT. 2131 and 2132.

¹⁵ The World Bank was founded in 1944 as the International Bank for Reconstruction and Development. The organization is a cooperative, made up of 189 member countries, or shareholders, and works in every major area of development to provide a wide array of financial products and technical assistance.

¹⁶ See World Bank, "Financing of Recovery from Economic Emergency Ukraine Supplemental Development Policy Loan," <https://projects.worldbank.org/en/projects-operations/project-detail/P178794>, which details FREE Ukraine funding objectives.

¹⁷ Although the World Bank PEACE mechanism had already been established, Office of Foreign Assistance officials noted that, initially, its narrower scope of approved spending categories limited the amount of funds that the U.S. government could provide in a timely fashion, and on a reimbursement basis. According to ACE officials, of an initial tranche of \$1.3 billion disbursed to the PEACE mechanism on June 29, 2022, only \$330 million could be disbursed as a reimbursement of expenses against then approved spending categories, leaving the remaining \$969 million to be disbursed

against projected expenses in the same categories through August 2022. While the World Bank, in negotiation with the U.S. government, considered additional proposed spending categories, the organizations established the single-donor trust fund to provide the next tranche of \$1.7 billion and avoid a budget support gap.

¹⁸ See World Bank, “World Bank Mobilizes Additional \$530 Million in Support to Ukraine,” September 30, 2022, describing the PEACE mechanism.

¹⁹ Public Law 117-180, Division B, Title III, “Bilateral Economic Assistance,” September 30, 2022, page 136 STAT. 2131.

²⁰ 1 FAM 022.2b(1), “Executive Secretariat (S/ES).”

²¹ 1 FAM 022.2-2a(1), “Executive Secretariat Staff (S/ES-S).”

²² Foreign Affairs Handbook, 5 FAH-1 H-114, “Definitions.”

²³ Public Law 117-180, Division B, Title III, § 1302(a), pages 136 STAT. 2131 and 2132.

²⁴ Department, “Certification and MOJ for Ukraine Supplemental Appropriations Act (USAA),” October 27, 2022.

²⁵ OIG notes that USAID’s congressional notification uses the phrase “budget support,” rather than “direct financial support.” However, OIG confirmed with Department officials that these terms are used interchangeably.

²⁶ USAID, Congressional Notification # 18, October 27, 2022, page 1.

²⁷ On April 7, 2021, the Secretary of State delegated to the Deputy Secretaries of State, “to the extent authorized by law, all authorities and functions vested in the Secretary of State or the head of agency by any act, order, determination, delegation of authority, regulation, or executive order, now or hereafter issued.” The delegation included all authorities and function that had been or may be delegated or re-delegated to other Department officials but did not repeal delegations to such officials. In addition, the Secretary of State retained the ability to exercise any delegated authority or function. See Department, “Delegation of Authority No. 513, Delegation of the Authorities of the Secretary,” April 7, 2021.

²⁸ Department, “Certification Under Section 1302(a) of the Ukraine Supplemental Appropriations Act, 2023 Related to Assistance for Ukraine,” October 26, 2022.

²⁹ Under a sovereign loan guarantee, the U.S. government takes on the entire risk associated with a private bank loan to a sovereign country or support for issuance of foreign government bonds. Guarantees allow a country to have access to financing from international capital markets at a rate significantly lower than would be the case without U.S. backing. See Congressional Research Service, *U.S. Foreign Assistance: USAID Loan Guarantees* (IF10409, July 18, 2017).

³⁰ Department, “Info Memo for the Secretary: Accountability for Budget Support to Ukraine,” September 16, 2022.

³¹ According to USAID, funds are disbursed to the Government of Ukraine following the World Bank’s verification of expenses, which provides accountability and visibility into the use of funds, as well as an additional substantial safeguard to prevent corruption and ensure accountability. See USAID, “Memorandum of Justification for the Certification Pursuant to Section 1302(a) of the Ukraine Supplemental Appropriations Act, 2023 Related to Assistance for Ukraine,” October 26, 2022, page 1.

³² USAID, “Memorandum of Justification for the Certification Pursuant to Section 1302(a) of the Ukraine Supplemental Appropriations Act, 2023 Related to Assistance for Ukraine,” October 26, 2022, page 1.

³³ OIG notes that USAID’s congressional notification uses the phrase “budget support,” rather than “direct financial support.” However, OIG confirmed with Department officials that these terms are used interchangeably.

³⁴ USAID, “Memorandum of Justification for the Certification Pursuant to Section 1302(a) of the Ukraine Supplemental Appropriations Act, 2023 Related to Assistance for Ukraine,” October 26, 2022, page 3.

³⁵ *Ibid.*, page 2.

³⁶ S/ES, Congressional Report Instructions.

³⁷ S/ES, Clearance Process – Best Practices.

³⁸ Cascades is an integrated platform for tasking, tracking, drafting, clearing, reviewing, and archiving all S/ES paper processed by S/ES staff.

³⁹ S/ES, Congressional Report Instructions.

⁴⁰ Department, “Delegation of Authority No. 513, Delegation of the Authorities of the Secretary,” April 7, 2021.

⁴¹ Department, “Certification Under Section 1302(a) of the Ukraine Supplemental Appropriations Act, 2023 Related to Assistance for Ukraine,” October 26, 2022.

⁴² *Ibid.*

⁴³ Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023, Public Law 117-180, Division B, September 30, 2022.

⁴⁴ *Ibid.*, § 1302(a), page 136 STAT. 2132.

⁴⁵ *Ibid.*, page 136 STAT 2131.

⁴⁶ *Ibid.*, Title III, “Bilateral Economic Assistance,” § 1302, pages 136 STAT. 2131 and 2132.

⁴⁷ *Ibid.*, § 1302(a), pages 136 STAT. 2131 and 2132.

⁴⁸ USAID is the agency responsible for implementing and managing direct financial support for the Government of Ukraine. Therefore, in accordance with the Act, the USAID Office of Inspector General is charged with detailing and assessing the mechanisms for monitoring and safeguards, which it performed and reported separately.

Attachment 2

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

Direct Budget Support: Ukraine Supplemental Appropriations Act, 2023, Mandated Assessment

Report 8-000-23-001-M
January 5, 2023



Middle East and Eastern Europe Regional Office



OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

Introduction

On September 30, 2022, Congress enacted the Continuing Appropriations and Ukraine Supplemental Appropriations Act of 2023 (the Act), which required USAID OIG to submit a report to Congress detailing and assessing the mechanisms for monitoring and safeguards in place to prevent corruption and ensure accountability over USAID’s direct financial support to the Government of Ukraine (GoU).¹

Accordingly, we reviewed the key monitoring mechanisms and safeguards over USAID’s \$4.5 billion in direct budget support to Ukraine, which were certified and reported to Congress by the Department of State on October 26, 2022.² We assessed the seven monitoring mechanisms and safeguards against relevant federal internal control standards.³ Our evaluation did not assess the effectiveness of the key monitoring mechanisms and safeguards; however, we will continue to monitor USAID’s management of direct budget support to Ukraine. We conducted this evaluation in accordance with the Quality Standards for Inspection and Evaluation as issued by the Council of the Inspectors General on Integrity and Efficiency. Appendix A provides more detail on our scope and methodology.

Background

The Act provided \$4.5 billion in direct budget support to Ukraine. USAID is providing this support to the GoU on behalf of the U.S. government through the World Bank’s multi-donor trust fund,⁴ Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine. Including \$5.8 billion from previous disbursements, USAID has provided \$10.3 billion to the PEACE fund as of December 2022.

The PEACE fund reimburses the GoU for its expenditures on salaries for civilian government and school employees, healthcare workers, and first responders, payments for social assistance and pensions, and grants to internally displaced persons. The agreements and guidance associated with the PEACE fund outline the following roles and responsibilities:

¹ The Act (FY 2023 USAA, Public Law 117-180) also required the Inspector General of the Department of State to provide oversight of direct financial support to Ukraine. Specifically, the Inspector General plans to evaluate the process used by the Department of State to certify and report to Congress on direct financial support oversight mechanisms and safeguards.

² Direct financial support is commonly referred to as direct budget support by USAID, therefore we will refer to this funding as direct budget support.

³ U.S. Government Accountability Office, [Standards for Internal Control in the Federal Government](#) (GAO 14-704G), September 2014.

⁴ A multi-donor trust fund is a financing arrangement established by the World Bank with contributions from multiple donors including, for example, the World Bank, its member countries, multinational agencies, foundations, nongovernmental organizations, and private organizations. These trust funds allow donors to provide grant funding in conflict-affected and fragile environments, where traditional instruments are ill-suited or unavailable.

- USAID (the donor) deposits its contribution into the PEACE fund. Additionally, USAID may review or evaluate the activities financed by the fund.
- The World Bank (the trustee) administers USAID's contribution and supervises the activities financed under the PEACE fund, including monitoring and reporting on the PEACE fund's finances and progress on supporting the GoU's administrative capacity and service delivery. The World Bank provides progress reports and annual financial audits to donors like USAID.
- The GoU's Ministry of Finance (the recipient) pays beneficiaries and coordinates reporting requirements. Specifically, the Deputy Finance Minister (the project coordinator) supervises implementation; provides timely information and reporting to the World Bank; and acts as a liaison between the World Bank team managing the PEACE fund and the GoU Treasury (and other ministries and state authorities) that pay for eligible expenditures.

The Monitoring Mechanisms and Safeguards Over USAID's Direct Budget Support to Ukraine Align with Federal Standards for Internal Control

We detailed the following seven key mechanisms for monitoring and safeguarding U.S. funds to the GoU and assessed them against the relevant federal internal control standards. These standards provide an overall framework for establishing and maintaining an effective internal control system, which helps an organization adapt to new priorities and improve accountability in achieving its mission.

Expenditure Verification Reports

Prior to making disbursements to the PEACE fund, the World Bank will review and confirm monthly expenditure reports from the GoU's Ministry of Finance. The Ministry of Finance will collect monthly data from relevant ministries and verify the results based on GoU Treasury data. The World Bank's verification of expenditures prior to disbursement is intended to ensure accountability for the use of donor funds. While the PEACE fund is active, the World Bank will also monitor the eligibility of GoU expenditures by tasking an independent auditor with testing and reviewing the monthly reports against GoU Treasury data. We determined that the World Bank's continual verification of expenditure reports aligns with Principle 16 of federal internal control standards related to ongoing monitoring of the internal control system and evaluating the results.

Recipient Financial Statements Audit

Once the PEACE fund is closed,⁵ an independent auditing firm acceptable to the World Bank will audit all GoU financial statements applicable to the fund. Specifically, the audit will test the eligibility of GoU expenditures and their internal controls and procedures for preparing the monthly expenditure reports. In preparation for this audit, the GoU must maintain a financial management system and prepare financial statements in accordance with accounting standards

⁵ The World Bank and GoU established June 30, 2023, as the PEACE fund's closing date.

acceptable to the World Bank. The audit is intended to provide reasonable assurance that donor funds reimbursed eligible expenditures. The final audit report must be submitted to the World Bank within 6 months of the PEACE fund's closure, and the World Bank must share the results with donors. We determined that the independent audit and related testing of the GoU's financial statements applicable to the PEACE fund align with Principle 16 of federal internal control standards related to evaluating the results of the internal control system.

Implementation Status and Results Report (ISR)

The ISR is a World Bank tool that serves to update donors every 6 months on the PEACE fund's progress toward achieving its objective and to share significant issues and risks affecting implementation. ISRs include assessments of financial and project management and compliance with safeguards and legal covenants. ISRs also report the percentage of beneficiary grievances addressed by the GoU through its accountability tool for the PEACE fund, the Grievance Redress Mechanism.⁶ To compile ISRs, World Bank staff, including sector experts, review GoU data on the fund's objective and indicators from the results framework.⁷ The World Bank compiles the ISRs into the Implementation Completion and Results Report, which is reviewed by the World Bank's Independent Evaluation Group to validate reported results and contribute to learning and accountability. We determined that the World Bank's continual reporting on the implementation status and results of the PEACE fund aligns with Principle 16 of federal internal control standards related to ongoing monitoring of the internal control system and evaluating the results.

World Bank Financial Reports

The World Bank will provide donors with the PEACE fund's financial reports, including receipts, disbursements, and fund balance. While the PEACE fund is active, the World Bank must post these reports quarterly on the World Bank's donor platform, the Development Partner Center, and post final financial reports within 6 months of fund closure. Additionally, an external audit firm will review and incorporate the PEACE fund's financial statements into the World Bank's annual single audit of all cash-based trust funds. The World Bank must share the resulting audit report with donors within 6 months of the end of the fiscal year. The annual single audit of all cash-based trust funds is intended to provide donors assurance that the World Bank's overall control framework provides reliable financial reports. We determined that the World Bank's maintenance of the PEACE fund's financial records aligns with Principle 10 of federal internal control standards related to designing control activities to ensure accurate and timely recording of transactions.

Annual and Final Progress Reports

The World Bank will provide donors with annual and final reports on the PEACE fund's progress and development impact. The annual report will describe the PEACE fund's cumulative achievements up to the reporting date, with the first installment due on December 15, 2022. By June 30, 2024, the World Bank will provide a final report summarizing the PEACE fund's

⁶ For example, beneficiaries may report incorrect payment amounts through the Grievance Redress Mechanism.

⁷ Indicators from the PEACE fund's results framework include, for example, the number of core government functions maintained, number of female civil servants paid on time, and percentage of pensioners paid on time.

achievements against indicators from its results framework. We determined that the World Bank's annual and final progress reports on the PEACE fund align with Principle 16 of federal internal control standards related to ongoing monitoring of the internal control system and evaluating the results.

Anti-Corruption and Fraud Protocols

The PEACE Fund Grant Agreement between the World Bank and the GoU contains provisions enabling the World Bank to respond to credible and material allegations of fraud and corruption. For example, if the World Bank determines that representatives of the GoU have engaged in corrupt, fraudulent, collusive, or coercive practices, it can suspend or terminate the right of the GoU to withdraw funds. And if the World Bank determines that funds were used in a manner inconsistent with the grant agreement, the GoU must promptly refund payments for the ineligible expenditures. Additionally, the PEACE Fund Administration Arrangement between the World Bank and USAID obligates the World Bank to take timely and appropriate actions in the event of credible and material allegations of fraud and corruption. To meet this obligation, the World Bank Integrity Vice Presidency independently investigates allegations of fraud, corruption, and other sanctionable practices and, if allegations are substantiated, pursues sanctions against external entities or disciplinary measures against staff. The World Bank must report the outcomes of such investigations to donors as soon as practicable. We found that the World Bank's anti-corruption and fraud protocols applicable to the PEACE fund align with Principle 5 of federal internal control standards related to enforcing accountability and taking corrective action as necessary.

USAID's Capacity Building and Monitoring Contract

USAID contracted Deloitte Consulting LLP (Deloitte) to provide technical assistance and capacity building to GoU institutions responsible for planning and executing USAID's direct budget support. Deloitte will review the Ministry of Finance's process and procedures for expenditure reporting, identify gaps, and make recommendations to address weaknesses. Deloitte's assistance is intended to enable the GoU to effectively plan, receive, spend, and account for donor funds. We determined that USAID's contract to monitor and assess the GoU's reporting processes and procedures aligns with Principle 16 of federal internal control standards related to ongoing monitoring of the internal control system and evaluating the results.

Conclusion

To prevent fraud, corruption, and misuse of funds and to ensure accountability to U.S. taxpayers, it is imperative that USAID, the World Bank, and the GoU design and operate sufficient safeguards and accountability measures. We determined that the design of the monitoring mechanisms and safeguards over the PEACE fund aligned with federal internal control standards. However, we could not assess their operating effectiveness because they had not taken effect during the mandated reporting window under the Act. As a result, we are not making recommendations at this time. We will continue to collaborate with our oversight partners at the Department of State and World Bank to monitor and strengthen USAID's management of direct budget support to Ukraine.

Appendix A. Scope and Methodology

We conducted our work from November 21, 2022 to January 5, 2023, in accordance with the Quality Standards for Inspection and Evaluation as issued by the Council of the Inspectors General on Integrity and Efficiency.

Our objective was to detail and assess the monitoring mechanisms and safeguards over USAID's \$4.5 billion in direct budget support to the Government of Ukraine (GoU) through the Public Expenditures for Administrative Capacity Endurance, or PEACE fund. Per the Continuing Appropriations and Ukraine Supplemental Appropriations Act of 2023 (the Act), our evaluation detailed and assessed the monitoring mechanisms and safeguards certified by the Department of State to Congress on October 26, 2022. We reviewed the Department of State's certification and accompanying report and identified seven key monitoring mechanisms and safeguards:

1. Expenditure verification reports,
2. Recipient financial statements audit,
3. Implementation status and results reports,
4. World Bank financial reports,
5. Annual and final progress reports,
6. Anti-corruption and fraud protocols, and
7. USAID's capacity building and monitoring contract.

To detail the key monitoring mechanisms and safeguards, we reviewed related documentation, including agreements between USAID, the World Bank, and the GoU. We also reviewed guidance on the related operating, fiduciary, and verification protocols and monitoring arrangements. Except for USAID's capacity building and monitoring contract, which was required by terms of the Act, the identified monitoring mechanisms and safeguards are required by the World Bank's policies and procedures for the PEACE fund. To clarify our understanding of the monitoring mechanisms and safeguards, we met with officials from USAID's Bureau for Europe and Eurasia, the USAID Mission in Ukraine, and the World Bank involved in the management and execution of direct budget support to Ukraine. We also spoke with representatives from the World Bank Integrity Vice Presidency and Deloitte Consulting LLP.

Because the monitoring mechanisms and safeguards are examples of internal controls, we identified GAO's Standards for Internal Control in the Federal Government as the appropriate criteria.⁸ These standards provide an overall framework for establishing and maintaining an effective internal control system, which helps an organization adapt to new priorities and improve accountability in achieving its mission. Specifically, we identified three relevant internal control principles that apply to the seven key monitoring mechanisms and safeguards:

⁸ U.S. Government Accountability Office, [Standards for Internal Control in the Federal Government](#) (GAO 14-704G), September 2014.

- **Principle 5** outlines the importance of management evaluating performance and holding individuals accountable for their internal control responsibilities. To achieve this, management, with oversight from the oversight body, takes corrective action as necessary to enforce accountability for internal control in the entity.
- **Principle 10** outlines the importance of management designing control activities, such as policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. This may include management designing control activities to ensure accurate and timely recording of transactions.
- **Principle 16** outlines the importance of management establishing and operating monitoring activities to monitor the internal control system and evaluate the results. To achieve this, management performs ongoing monitoring of the design and operating effectiveness of the internal control system, which may include regular management and supervisory activities, comparisons, reconciliations, and automated tools. To evaluate the results, management may use audits to review the control design and directly test internal controls.

We assessed whether each monitoring mechanism and safeguard was in alignment with the identified principles of federal internal control standards. Our review provides assurance that the design of the controls aligned with federal internal control standards. Our evaluation does not provide assurance that the monitoring mechanisms and safeguards are effective or functioning as intended. Given the 45-day reporting window under the Act, we could not carry out sufficient tests of several monitoring mechanisms and safeguards that are designed to take effect in future years. Future oversight of direct budget support may also be limited by USAID's agreements, which may lack provisions specifically granting OIG access to World Bank records.



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