

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

Ukraine Response: USAID/Ukraine Adjusted Its Internal Processes and Strategies to Support Recovery Goals for Ukraine

Audit Report 8-121-24-001-P
October 16, 2023

Audit



Office of Audits, Inspections, and Evaluations



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

DATE: October 16, 2023

TO: USAID/Ukraine, Mission Director, James Hope

FROM: OIG Middle East and Eastern Europe Regional Office, Audit Director, Louis Duncan, Jr. /s/

SUBJECT: Ukraine Response: USAID/Ukraine Adjusted Its Internal Processes and Strategies to Support Recovery Goals for Ukraine

This memorandum transmits our final audit report. Our audit objectives were to determine the extent to which (1) USAID/Ukraine assessed selected awardees' past performance and capacity before modifying development awards to respond to Russia's invasion and (2) selected modified awards supported recovery goals in Ukraine. In finalizing the report, we considered your comments on the draft and included them in their entirety in Appendix B.

We are not making any recommendations.

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

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Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Pub. L. No. 117-263, § 5274, which amends the Inspector General Act of 1978, USAID OIG provides nongovernmental organizations and/or business entities specifically identified in this report, if any, 30 days from the date of report publication to review the final report and submit a written response to USAID OIG that clarifies or provides additional context for each instance within the report in which the nongovernmental organization and/or business entity is specifically identified. Any comments received to this effect are posted for public viewing on <https://usaid.oig.gov> with USAID OIG’s final report. Please direct related inquiries to oignotice_ndaa5274@usaid.gov.

Introduction

On February 24, 2022, Russia conducted a full-scale invasion of Ukraine. At that time, the USAID Mission in Ukraine (USAID/Ukraine) managed 41 awards across the country with a total estimated value of \$1.1 billion. The mission organized these awards under four development objectives in its *Country Development Cooperation Strategy* (CDCS). The development objectives are to (1) reduce corruption; (2) mitigate impacts of Russia's aggression; (3) strengthen democratic governance; and (4) foster inclusive, sustainable, and market-driven growth.¹

In March 2022, USAID reported that the increasingly dangerous and unpredictable operating environment in Ukraine and the surrounding region elevated its need for flexible programming. To rapidly scale up its work and shift its posture to address the economic and political impacts of the invasion, USAID/Ukraine received Administrator approval to modify its awards through an expedited process.² Congress approved two supplemental funding acts for the U.S. government's fiscal year (FY) 2022 response to the invasion, which included a total of \$17.7 billion for USAID.³

Prior engagements conducted on USAID's responses to crises highlighted the importance of analyzing awardees' performance, addressing internal control weaknesses, and aligning awards to support national development strategies.⁴ Given the historic increases in funding for Ukraine and changes to programming necessitated by wartime conditions, we conducted this audit to determine the extent to which (1) USAID/Ukraine assessed selected awardees' past performance and capacity before modifying development awards to respond to Russia's invasion and (2) selected modified awards supported recovery goals in Ukraine.

To answer our audit objectives, we reviewed USAID's actions to plan its response to Russia's invasion and modify development awards from February 2022 to March 2023. We selected a judgmental sample of 7 awards, consisting of 3 cooperative agreements and 4 contracts, from a population of 23 awards approved to be modified by the mission through the end of June 2022. We chose this sample of awards primarily based on the percent increase in award value for proposed modifications. For this sample of awards, we reviewed award modification documentation to understand how USAID/Ukraine assessed and documented awardees' past performance and capacity to expand activities. In addition, we evaluated how modified awards aligned with the Agency's goals and the government of Ukraine's recovery plans. We also interviewed USAID officials to understand USAID/Ukraine's response to identified awardees'

¹ USAID/Ukraine, *Country Development Cooperation Strategy*, 2019-2024.

² For acquisition actions, USAID uses the term contract modification. For assistance actions, USAID uses the term award amendment. We use the term award modification to broadly refer to changes made to both acquisition and assistance instruments.

³ Public Law 117-103, enacted March 15, 2022, and Public Law 117-128, enacted May 21, 2022.

⁴ Engagements reviewed are: USAID OIG, [Countering Malign Kremlin Influence: USAID Can Do More to Strengthen Its CMKI Development Framework](#) (8-199-22-002-P), January 26, 2022; Special Inspector General for Afghanistan Reconstruction, *What We Need to Learn: Lessons from Twenty Years of Afghanistan Reconstruction*, August 2021; U.S. Government Accountability Office, *Afghanistan Reconstruction: GAO Work since 2002 Shows Systemic Internal Control Weaknesses that Increased the Risk of Waste, Fraud, and Abuse* (GAO-21-32R), January 27, 2021; and USAID OIG, [USAID's Award Oversight Is Insufficient To Hold Implementers Accountable for Achieving Results](#) (9-000-19-006-P), September 25, 2019.

performance issues and how USAID developed the *Strategic Framework for USAID’s Engagement in Ukraine’s Recovery and Reconstruction* (the Framework). We conducted our work in accordance with generally accepted government auditing standards. Appendix A provides more detail on our scope and methodology.

Summary

USAID/Ukraine Assessed Selected Awardees’ Capacity Before Modifying Awards and Took Action to Address Inconsistencies in Assessments of Past Performance.

USAID/Ukraine considered selected awardees’ capacity to take on additional funds at different points in the funding and modification process and ensured that modifications did not push the awards into new sectors. The mission developed a streamlined internal process to expedite the modification of ongoing awards. However, there were inconsistencies in documenting awardees’ performance during the modification process. For instance, for all awards reviewed, the initial proposals did not document the awardees’ past performance, and modification documentation did not always provide complete and up-to-date information about awardees’ performance. To address documentation inconsistencies, USAID/Ukraine updated its guidance for award modifications in February 2023. Although this guidance was not updated before executing the selected award modifications, the mission ensured that awardees addressed performance issues prior to execution.

USAID Developed a Strategic Framework for the Agency’s Response to Russia’s Invasion, and USAID/Ukraine Modified All Selected Awards to Support Recovery Goals for Ukraine.

USAID developed the Framework in coordination with internal and external stakeholders, and all of the Framework’s lines of effort align with USAID/Ukraine’s current development objectives and the government of Ukraine’s priorities for recovery. USAID has used the Framework to define and communicate its strategic approach and has made its implementation the mission’s primary responsibility. USAID/Ukraine and the Bureau for Europe and Eurasia (E&E Bureau) have used the Framework to communicate the Agency’s response priorities to internal and external stakeholders. In our assessment of selected modified awards, we found that modifications made to all the selected awards managed by the USAID/Ukraine technical offices aligned with at least one of three strategic goals and at least one of the four lines of effort of the Framework. In addition, all of the modified awards support the government of Ukraine’s recovery priorities.

Recommendations: We are making no recommendations as USAID continues to update its processes and modification of existing awards to respond to Russia’s invasion.

Background

Operational Context for Portfolio Adaptations

In the days following Russia’s invasion in February 2022, USAID worked quickly to adjust its portfolio of awards across Ukraine. On March 6, 2022—10 days after the invasion—the USAID Administrator approved expedited acquisition and assistance actions for Ukraine and neighboring countries Belarus and Moldova. About a week later, Congress enacted the Ukraine

Supplemental Appropriations Act, 2022, allocating \$4.6 billion to USAID for the U.S. government’s response to Russia’s invasion. Recognizing the difficulty of initiating new awards in a wartime environment, USAID/Ukraine officials determined that modifying existing awards would provide the most rapid response to the crisis. By mid-April, the mission had developed its internal clearance process for award modifications, and the mission director had approved the first batch of proposals. In May 2022, Congress enacted the Additional Ukraine Supplemental Appropriations Act, 2022, providing an additional \$13.1 billion to USAID.

As the mission continued to propose modifications to its portfolio, staff from the E&E Bureau coordinated with mission officials to develop the Framework to help inform the mission’s strategic planning. The Framework, approved by the USAID Administrator on August 29, 2022, was designed to supplement USAID/Ukraine’s current CDCS and provide clear and flexible guidance to reorient USAID’s assistance efforts. In addition, the Framework organizes USAID’s approach to recovery under three strategic goals and four lines of effort.

By the end of FY 2022, USAID/Ukraine’s mission director had approved proposals to modify 26 awards to respond to wartime challenges. The proposed changes increased the award ceilings by approximately \$893 million and extended the award timeframes by an average of 21 months.

Figure I shows the timeline and key decision points related to USAID/Ukraine’s strategic planning and award modification.

The Framework’s Strategic Goals

1. Catalyze Ukraine’s growth as an independent, democratic, prosperous, and resilient country.
2. Consolidate the gains Ukraine has made in partnership with the United States, the European Union (EU), and like-minded actors.
3. Connect Ukrainians to each other, to their government, and to partners who are committed to Ukraine’s success.

The Framework’s Lines of Effort

1. Immediate economic recovery and sustainable, EU-oriented rebound.
2. Irreversible democratic governance gains.
3. Energy sector reform to cement European integration.
4. Improved health services advancing the dignity and wellbeing of every Ukrainian.

Source: OIG summary of the Framework.

Figure I. Timeline of Key Events



Source: OIG-generated timeline based on review of congressional appropriations acts and Agency actions to provide assistance in Ukraine.

The Expedited Modification Process

Under normal circumstances, Federal regulations require full and open competition for award modifications that materially change the terms of a contract,⁵ and USAID policies encourage unrestricted competition for grants and cooperative agreements. USAID-specific acquisition regulations allow exceptions to full and open competition under certain circumstances, including when the USAID Administrator determines that full and open competition would impair foreign assistance objectives.⁶ In addition, USAID's assistance policies allow the USAID Administrator to make a blanket approval to restrict competition for grants and cooperative agreements.

In March 2022, the USAID Administrator determined that the successful implementation of new and modified programming in Ukraine required USAID to expedite its normal award planning and competition processes. Accordingly, the Administrator approved an expedited procedures package (EPP) for Ukraine. The EPP authorized other than full and open competition for the award and modification of contracts⁷ and permitted the use of restricted eligibility for competition when awarding or amending grants and cooperative agreements.⁸ Subsequently, USAID/Ukraine streamlined its internal award modification review process, developing an expedited clearance process for mission director approval of proposed award changes. Figure 2 outlines USAID/Ukraine's process to request additional funding and modify ongoing awards.

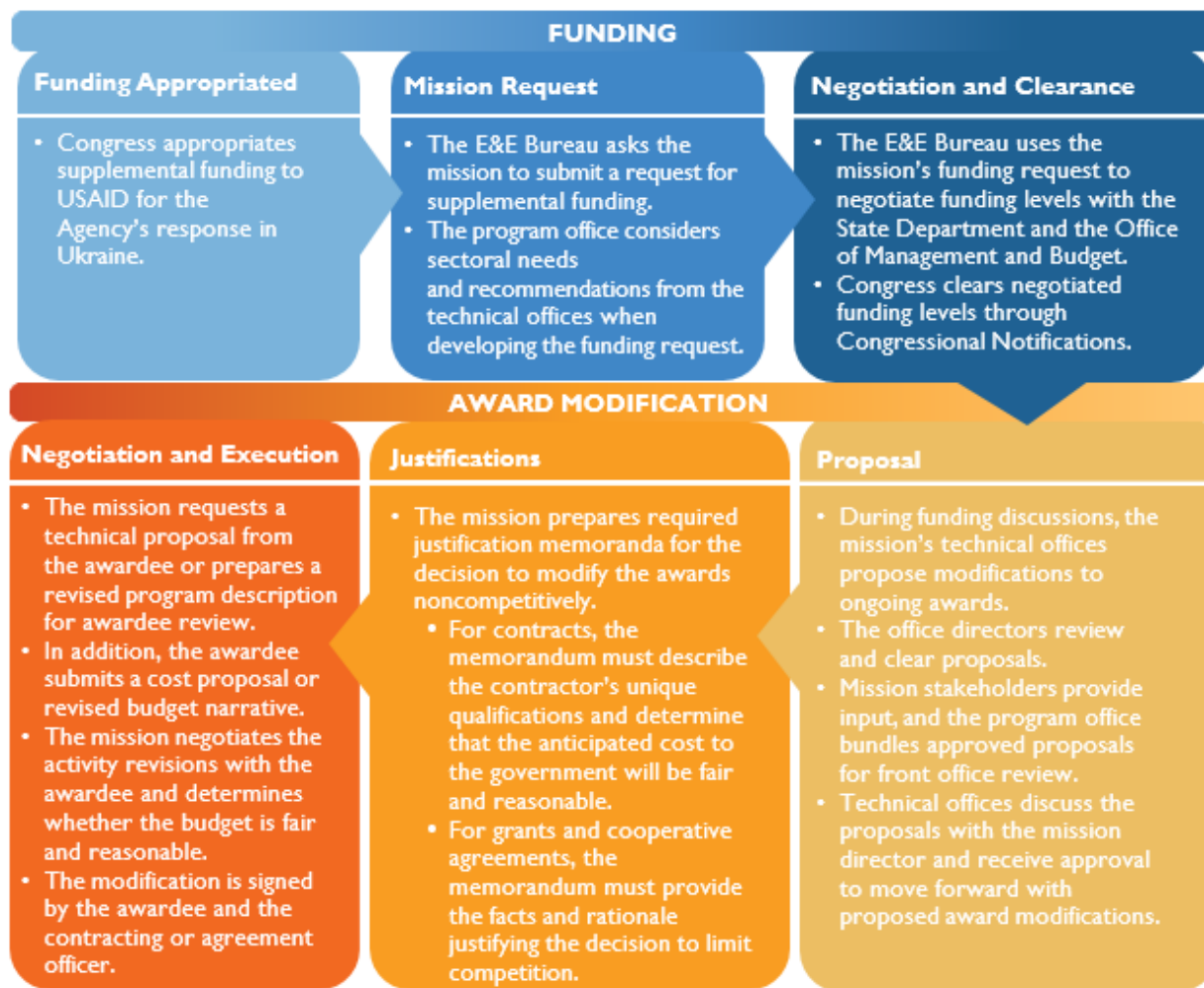
⁵ USAID, Automated Directives System, Chapter 302, "USAID Direct Contracting," March 2022.

⁶ See USAID Acquisition Regulations 706.302-70 and ADS Reference 302mbo, "Guidance for Use of the Authorities under Expedited Procedures Packages (EPPs)," April 2020.

⁷ Per ADS policies for the use of EPP authorities (ADS 302mbo), this authorization streamlines the normal contract modification process, allowing the mission to bypass Agency Competition Advocate review of award modifications and eliminating Administrator clearance for modifications of \$100 million or more.

⁸ This determination provides a preapproved condition to restrict eligibility under USAID policies for grants and cooperative agreements. Specifically, the EPP allows USAID to limit the pool of applicants that may compete for a grant or cooperative agreement or amend a grant or cooperative agreement beyond its original program description and ceiling.

Figure 2. USAID/Ukraine’s Award Modification Process



Source: OIG-generated process chart based on review of USAID/Ukraine modification process documentation.

USAID/Ukraine Assessed Selected Awardees’ Capacity Before Modifying Awards and Took Action to Address Inconsistencies in Assessments of Past Performance

USAID/Ukraine considered selected awardees’ capacity throughout the modification process, remaining cognizant of awardees’ abilities and ensuring that awards remained in their initial sectors after the modifications. To expedite the clearance process for award modifications, USAID/Ukraine developed a new, streamlined process for mission personnel to document and clear proposals to modify ongoing awards. Modification documentation reviewed for selected awards did not consistently provide a complete and accurate description of awardees’ performance. However, USAID/Ukraine updated mission guidance to address the inconsistencies in February 2023. Although this guidance was not updated before

USAID/Ukraine executed the selected award modifications, the mission ensured that awardees addressed performance concerns before finalizing modifications.

USAID/Ukraine Considered Awardees' Capacity to Take on Additional Funding and Implement Additional Activities Throughout the Modification Process

USAID/Ukraine considered selected awardees' capacity in an iterative and ongoing manner when developing and negotiating award modifications, in alignment with Federal internal control standards.⁹ The mission began examining the capacity of its awards to take on additional funds in the weeks after Russia began its full-scale invasion. When developing requests for supplemental funding, the mission considered both the needs in Ukraine and awardees' capacity to respond. The mission was cognizant of current awardees' abilities and ensured that awards remained in their initial sectors after the modifications.¹⁰ The selected modifications generally maintained the original award objectives but expanded award activities to provide additional war-related support. Figure 3 details the ways in which USAID/Ukraine considered awardees' capacity at different points in the funding and modification process.

Figure 3. USAID/Ukraine Capacity Considerations During Funding and Modification Process

Mission Request	Proposal & Justification	Negotiation & Execution
<ul style="list-style-type: none"> • During the mission's scenario planning and funding request, mission officials considered and discussed awardees' capacity. • According to mission officials, funding discussions focused on elements such as awardees' past ability to absorb additional resources, agility, staff location, and stakeholder relationships. 	<ul style="list-style-type: none"> • Mission officials documented these capacity considerations in the justification for all seven awards reviewed. • Key capacity factors considered and documented when developing award modification proposals and justifying additional funding for ongoing awards included awardees' operations in Ukraine, technical skills, response to Russia's invasion, and relationships with Ukrainian stakeholders. 	<ul style="list-style-type: none"> • Mission officials reviewed and approved the awardees' technical proposal or negotiated a final program description for all seven awards tested. • Mission officials reviewed and approved the awardees' cost proposals for all seven awards tested to ensure that the proposed overall budget was realistic, fair, and reasonable.

Source: OIG-generated based on review of USAID/Ukraine modification documentation.

As of March 2023, mission staff reported no concerns about selected awardees' presence in Ukraine, recruitment and retention of staff, or adaptation to the operating environment. Awardees face different sectoral challenges, with energy shortages and government of Ukraine

⁹ GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G), "Risk Assessment," Principle 9, "Identify, Analyze, and Respond to Change" and "Information and Communication," Principle 13, "Use Quality Information," September 2014.

¹⁰ The sampled awards represented the health systems, agriculture, infrastructure, civil society, energy, health, and democracy and governance sectors.

information restrictions affecting some awardees more than others. However, all seven awardees reviewed continued to maintain offices in Ukraine, and USAID officials reported that the majority of awardees did not face significant access constraints.¹¹

USAID/Ukraine Updated Mission Guidance to Address Inconsistencies in Reviewing Awardees' Performance During the Modification Process and Ensured that Selected Awardees' Performance Improved Prior to Executing Modifications

Federal internal control standards state that management should design control activities and maintain documentation of the internal control system.¹² In response to Russia's invasion, USAID/Ukraine developed a new, streamlined internal process to document, review, and clear proposals to modify awards under the EPP. USAID/Ukraine officials described positive experiences with the new process and described the review of past performance as a key part of the mission's decision making for the proposals. We found that memoranda required to justify the noncompetitive addition of funds and time for each selected award generally described awardees' past performance to some extent. However, we found inconsistencies in the documentation of awardees' performance. For example:

- *Performance Information in Modification Proposals.* USAID/Ukraine circulated modification proposals to stakeholders across the mission to vet and review modifications prior to management approval. Technical and contract office staff stated that they discussed awardees' performance during the proposal process. However, for all awards reviewed, the modification proposals did not document awardees' past performance.
- *Quality of Documented Performance Information.* Justification memos prepared after the proposals were cleared by the mission director generally included some performance information, but the mission did not always provide complete information about awardees' performance to date. In two cases, the documentation only described the awardees' performance after Russia's invasion and did not describe awardees' performance prior to the invasion. In another case, the modification documentation only described positive performance information and did not disclose that there were recent performance issues with the award.

A mission program office staff member stated that these inconsistencies resulted from the use of a mission-developed template for crisis programming with limited guidance on how to justify modification proposals and staff familiarity with the portfolio. The initial template required technical offices to provide a brief justification for the proposed time and cost extensions but did not explicitly ask them to document awardees' past performance. Inconsistency in the documentation of awardees' past performance information creates a risk that all mission

¹¹ Access constraints include staff access to project areas, access to information required to implement the project, and access to necessary supplies.

¹² GAO, *Standards for Internal Control in the Federal Government*, "Control Environment," Principle 3, "Establish Structure, Responsibility, and Authority," and "Control Activities," Principle 10, "Design Control Activities," September 2014.

stakeholders may not have accurate and complete past performance information to make informed decisions on whether to modify existing awards.

In February 2023, the USAID/Ukraine program office updated mission guidance for the proposal process. Modification proposals now require technical offices to describe how the awardee demonstrates, through past performance, that it can absorb additional funding and is prepared and capable of managing increased funding levels.

Although USAID/Ukraine's guidance for award modifications was not updated before executing the selected award modifications, the mission ensured that selected awardees addressed performance issues prior to execution, in alignment with Federal internal control standards.¹³ In the audit sample, two out of seven awards showed evidence of serious performance issues in 2021.¹⁴ Both awards received marginal ratings in two out of five evaluated areas for the 2021 rating period. These performance issues were documented by the mission in the annual contractor performance assessments for both awards, as required by Federal Acquisition Regulations.¹⁵

At the time mission stakeholders reviewed modification proposals, these contract ratings were the awardees' most recent performance assessment ratings. However, both awards had completed over two-thirds of their next performance rating period by the time of Russia's invasion. The mission completed performance assessments for the 2021-2022 rating period for both awards prior to executing the contract modifications, and the results were at least satisfactory. As an additional safeguard to ensure quality performance, the mission modified the fixed fee schedule for both awards to mitigate performance concerns. Despite their past performance challenges, USAID/Ukraine determined that a competitive procurement would lead to unacceptable delays for both awards, while maintaining the current awardee would have the largest chance of success in the operating environment.

The mission considered awardees' capacity to manage increased funding levels and updated its proposal guidance, which included additional guidance on documenting past performance, to address inconsistencies. Therefore, we are not making any recommendations.

¹³ GAO, *Standards for Internal Control in the Federal Government*, "Monitoring," Principle 17, "Evaluate Issues and Remediate Deficiencies," September 2014.

¹⁴ Federal Acquisition Regulation (FAR) Part 42.1503 defines contract ratings on a scale from unsatisfactory to exceptional. Ratings of marginal and unsatisfactory reflect a serious problem for which the contractor has not yet identified corrective actions (marginal) or where the contractor's corrective actions were not effective (unsatisfactory).

¹⁵ FAR Part 42.1503(b)(1) requires evaluations to include relevant information that accurately depict awardees' performance.

USAID Developed a Strategic Framework for the Agency’s Response to Russia’s Invasion, and USAID/Ukraine Modified All Selected Awards to Support Recovery Goals for Ukraine

USAID developed the Framework using an iterative and consultative process that considered USAID/Ukraine’s current CDCS and the government of Ukraine’s recovery plans. The Agency has used the Framework to define and communicate its strategic approach for Ukraine’s recovery and reconstruction and has made Framework implementation USAID/Ukraine’s primary responsibility. We also determined that USAID/Ukraine modified selected development awards in alignment with the Framework and in support of the government of Ukraine’s recovery priorities.

USAID Developed the Framework in Alignment With USAID/Ukraine’s Current Development Objectives and in Coordination with Internal and External Stakeholders

Federal internal control standards emphasize the importance of management defining objectives in alignment with the organization’s mission and strategic plan. To respond to Russia’s invasion of Ukraine, USAID developed the Framework using an iterative and consultative process. We found that USAID used the Framework to define and communicate its strategic approach for Ukraine’s recovery and reconstruction and made its implementation USAID/Ukraine’s primary responsibility. E&E Bureau officials consulted with USAID/Ukraine, Washington-based bureaus, and officials from the government of Ukraine over a span of approximately 3 months as they developed the Framework to understand the needs, challenges, and priorities of responding to the invasion.

We found that the Framework’s four lines of effort align with USAID/Ukraine’s current four development objectives and government of Ukraine priorities for recovery. E&E Bureau officials stated that they considered USAID/Ukraine’s current CDCS throughout the Framework’s drafting process. Our review of these documents determined that each of the four lines of effort of the Framework support at least two different development objectives of the USAID/Ukraine CDCS. Figure 4 depicts the alignment between the CDCS’ development objectives and the Framework’s lines of effort.

Figure 4. Strategic Framework Lines of Effort Alignment with USAID/Ukraine CDCS Development Objectives



Source: OIG-generated based on analysis of the Framework and USAID/Ukraine's 2019-2024 CDCS.

In addition, USAID officials assessed the Framework's alignment with the government of Ukraine's recovery plans and determined that it addressed most of the government of Ukraine's recovery priorities.¹⁶ Because the newly developed Framework and the current CDCS were well aligned, and the CDCS remained relevant to the war context, USAID/Ukraine officials stated that the Framework had not fundamentally shifted the mission's programming approach in Ukraine.

Selected Modified Awards Aligned with USAID's Recovery Strategy for Ukraine and Supported the Government of Ukraine's Recovery Priorities

Federal internal control standards state that management should evaluate and, if necessary, revise defined objectives so they are consistent with external requirements and internal expectations. We found that USAID/Ukraine modified awards in the audit sample in alignment with the Framework. Specifically, USAID/Ukraine and the E&E Bureau used the Framework to communicate the Agency's response priorities to internal and external stakeholders and prioritize modifications to existing awards. For example:

¹⁶ As of July 2022, the government of Ukraine's *National Recovery Plan* includes national programs that address recovery priorities for a broad range of sectors, including energy, physical infrastructure, and health, among others. The Framework fully or partially addresses 15 of 17 national programs in the government of Ukraine's recovery plan. USAID does not have programs related to strengthening the government of Ukraine's defense sector or housing and infrastructure. The Framework notes that given the current budget environment, physical restoration of major infrastructure will remain outside of USAID's purview.

- *Communication with Stakeholders.* USAID/Ukraine officials used the Framework to communicate Agency response priorities externally with awardees, the National Security Council, and the State Department, as well as internally with other offices, missions, and bureaus.
- *Modification of Existing Awards.* USAID/Ukraine technical offices used the Framework, along with other external strategy documents and requests, to frame and prioritize modifications to existing awards.

We determined that incorporating input from different actors helped the Agency ensure that the Framework was aligned with USAID/Ukraine’s and the government of Ukraine’s recovery and development programming approaches.

In our assessment of selected modified awards, we found that modifications made to all seven existing development awards managed by the USAID/Ukraine technical offices aligned with at least one of the Framework’s three strategic goals and at least one of the Framework’s four lines of effort. For example, modifications that the Office of Economic Growth made to an energy project aligned with strategic goals to consolidate Ukraine’s gains and connect Ukrainians to one another as well as a line of effort to reform Ukraine’s energy sector. In addition, modifications that the Office of Economic Growth made to an agriculture project aligned with strategic goals to catalyze Ukraine’s growth and connect Ukrainians to one another as well as a line of effort to support immediate economic recovery.

In the wartime environment, the government of Ukraine’s recovery priorities continue to change. Officials from USAID/Ukraine’s technical offices stated that they rely on close working relationships with government of Ukraine counterparts to adapt awards to the government’s evolving recovery priorities. In our assessment of selected modified awards, we found that all three technical offices modified the awards as the government of Ukraine’s recovery priorities shifted in the wartime environment. For example, the Health Office received a direct request from the government of Ukraine to provide capacity assistance to the Ministry of Health in its effort to restore Ukraine’s health infrastructure. In response, USAID/Ukraine modified a health project to expand its objective to include activities strengthening the government of Ukraine’s healthcare agencies’ capacity to maintain the country’s healthcare system and ensure continuity of services during the war and recovery.

We are not making a recommendation as USAID/Ukraine modified selected development awards in alignment with the newly developed Framework and in support of the government of Ukraine’s recovery priorities.

Conclusion

Given the historic increases in funding for Ukraine in response to Russia’s invasion and changes to programming necessitated by wartime conditions, USAID/Ukraine officials determined that modifying the mission’s existing development awards would provide the most rapid response to the crisis. To do so, USAID/Ukraine streamlined its internal award modification review process, developing an expedited clearance process for mission director approval of proposed award changes. When making modifications to existing awards, we found that USAID/Ukraine

considered selected awardees' capacity and performance and ensured modified activities aligned with strategies to support Ukraine's recovery. Furthermore, the mission recognized that there were inconsistencies in its modification process and updated its guidance to address them. These are positive steps to enhance USAID's response in Ukraine. Therefore, we are making no recommendations.

Recommendations

We acknowledge USAID's commitment to continuous improvement of processes and modifications of existing awards to respond to Russia's invasion. Accordingly, we are making no recommendations.

OIG Response to Agency Comments

We provided our draft report to USAID/Ukraine on September 5, 2023. On September 19, 2023, we received USAID/Ukraine's response, which is included as Appendix B of this report. USAID/Ukraine did not provide technical comments with its response.

Appendix A. Scope and Methodology

We conducted our work from August 2022 through September 2023 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 determine the extent to which (1) USAID/Ukraine assessed selected awardees' past performance and capacity before modifying development awards to respond to Russia's invasion and (2) selected modified awards supported recovery goals in Ukraine.

In planning and performing the audit, we designed and conducted procedures related to internal control principles defined by the U.S. Government Accountability Office (GAO)¹⁷ related to the Control Environment (Principles 3 and 5), Risk Assessment (Principle 9), Control Activities (Principle 10), Information and Communication (Principles 13-15), and Monitoring (Principle 17).

The audit scope included USAID's actions to plan its response to Russia's invasion of Ukraine and modify development awards from February 2022 to March 2023. We conducted fieldwork from OIG's regional office in Frankfurt, Germany. In addition, we conducted fieldwork remotely from Rzeszow, Poland, due to USAID/Ukraine's operating posture and access restrictions by the U.S. Embassy in Ukraine during the audit. Our audit work focused on USAID/Ukraine and covered USAID/Ukraine-managed development awards. We did not include other programming in Ukraine. We relied on computer-processed Agency data for USAID/Ukraine's existing award information to make our sample selection. Because OIG separately reviews related internal controls as part of the mandated audits of the Agency's consolidated fiscal year-end financial statements, we determined these data elements to be sufficiently reliable for the purposes of this audit.

To address our audit objectives, we reviewed Agency documents and documentation for seven completed award modifications, consisting of three cooperative agreements and four contracts. These 7 completed award modifications represent a judgmental sample of modification proposals chosen primarily based on total estimated cost (TEC) percent increase, out of a total of 23 modification proposals approved by the mission through the end of June 2022. These seven completed award modifications had a TEC percent increase above 90 percent and covered all three technical offices active in Ukraine¹⁸ and all four Agency development objectives for Ukraine at the end of June 2022. In addition, we conducted 28 interviews with USAID officials including staff from USAID/Ukraine, USAID's Bureau for Management's Office of Acquisition and Assistance, and USAID's E&E Bureau. Our findings cannot be used to make inferences about all of USAID's awards to respond to Russia's invasion of Ukraine. However,

¹⁷ GAO, *Standards for Internal Control in the Federal Government*, September 2014.

¹⁸ The three technical offices are the Health Office, Office of Economic Growth, and the Democracy and Governance Office.

we determined that our method for selecting the seven awards in our sample was appropriate for our audit objectives, and that the selection would generate valid, reliable evidence for our audit findings and conclusions. Furthermore, we did not seek to determine whether USAID/Ukraine's implementation of awards was successful or whether these awards advanced recovery goals.

To answer the first objective, we reviewed documentation for the seven selected modified awards, including modification proposals, justification memoranda (such as a justification and approval memorandum for acquisition instruments and a determination to restrict eligibility for assistance instruments), and negotiation memoranda. In addition, we conducted semistructured interviews with award managers to understand how the mission assessed and documented past performance and awardees' capacity to expand activities for each award throughout the process to propose, negotiate, and execute the award modifications. We corroborated the mission's statements about performance and awardee capacity with annual award documentation (such as contractor performance assessment reports and annual performance monitoring progress reports) and gathered information about the awardees' presence in Ukraine, staffing recruitment and retention, and adaptation to the wartime operating environment. In addition, we reviewed planning documents and interviewed officials from USAID/Ukraine's support and technical offices to understand how the budget for award modifications was developed. Specifically, we reviewed the Ukraine Assistance Review that the mission developed when determining the sectoral needs and reviewed the process the mission followed when requesting and allocating the supplemental funding.

To answer the second objective, we documented how USAID developed its Framework¹⁹ by conducting semistructured interviews with key stakeholders and reviewing strategic documents such as the Framework, USAID/Ukraine's 2019-2024 CDCS, and the government of Ukraine's *National Recovery Plan*. We also evaluated how the seven selected modified awards aligned with the Agency's goals and the government of Ukraine's plans for recovery through a review of key award documentation such as negotiation memoranda and modified awards and recovery plans.²⁰ We documented modifications to award objectives and determined if award modifications had linkages to the Framework's strategic goals, lines of effort, and the government of Ukraine's *National Recovery Plan* at the level of national programs and priorities of sector specific recovery plans.

¹⁹ According to officials from the E&E Bureau, the use of "recovery and reconstruction" in the Framework was intended to describe more generally the work that the Agency is conducting in Ukraine and is not intended to delineate separate phases or types of Agency activity.

²⁰ The government of Ukraine's sector-specific recovery plans and policies reviewed covered European integration, human rights, digitalization, information and culture, energy security, agriculture, and the healthcare system.

Appendix B. Agency Comments



USAID | **UKRAINE**
FROM THE AMERICAN PEOPLE

September 19, 2023

MEMORANDUM

To: Louis Duncan, IG/A/PA Director

From: James Hope, Director, USAID/Ukraine

Subject: USAID/Ukraine Adjusted Its Internal Processes and Strategies to Support Recovery Goals for Ukraine; 8-121-23-004-P (88100322)

This Memorandum transmits the Mission's response to the OIG's draft report on the audit of USAID/Ukraine's USAID/Ukraine Adjusted Its Internal Processes and Strategies to Support Recovery Goals for Ukraine.

The stated objective of this audit, as outlined in the OIG's audit notification letter and the audit draft report, were to determine the extent to which (1) USAID/Ukraine assessed selected awardees' past performance and capacity before modifying development awards to respond to Russia's invasion and (2) selected modified awards supported recovery goals in Ukraine.

Mission Ukraine acknowledges that there is no recommendation in the draft audit report.

Appendix C. Major Contributors to This Report

Members of the audit team include:

- Louis Duncan, Jr., Audit Director
- David Thomanek, Audit Director
- David Clark, Assistant Director
- Eve Joseph, Lead Auditor
- Alex Morgan, Program Analyst
- Emilie Weisser, Auditor

The audit team would also like to acknowledge contributions from Shaun Ali, Diana Ghanem, Jennifer Herrmann, and Olalekan (Lincoln) Dada.



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