

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

Pre-Award Risk Management: USAID and IAF Missed Opportunities to Enhance Risk Management of Local Entities in Latin America and the Caribbean

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Audit



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

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TO: Inter-American Foundation, President and CEO, Sara Aviel
USAID, Deputy Administrator for Policy and Programming, Isobel Coleman
USAID, Assistant Administrator for the Bureau for Management, Colleen R. Allen

FROM: Assistant Inspector General for Audits, Inspections, and Evaluations, Toayoa D. Aldridge /s/

SUBJECT: Pre-Award Risk Management: USAID and IAF Missed Opportunities to Enhance Risk Management of Local Entities in Latin America and the Caribbean

This memorandum transmits our final audit report. Our audit objectives were to determine the extent to which (1) selected USAID missions and (2) IAF implemented procedures for managing risks when selecting local implementers for awards in Latin America and the Caribbean. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in Appendixes D and E.

The report contains three recommendations for USAID and three for IAF to improve their compliance with agency and Federal requirements and strengthen risk management procedures prior to issuing assistance awards to local entities. After reviewing information you provided in response to the draft report, we consider two closed (Recommendation 3 for USAID and 6 for IAF) and four resolved but open pending completion of planned activities (Recommendations 1 and 2 for USAID and 4 and 5 for IAF). For the open USAID recommendations, please provide evidence of final action to the Audit Performance and Compliance Division. For the open IAF recommendations, please provide that evidence to OIGAuditTracking@usaid.gov.

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

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Report in Brief

Why We Did This Audit

The U.S. government has significant economic, political, security, and humanitarian interests in Latin America and the Caribbean (LAC) that cover a range of topics from illicit drugs to immigration to foreign trade. Working with entities at a local level is an integral aspect of U.S. foreign assistance policy and an important mandate for USAID and the Inter-American Foundation (IAF).

USAID's Administrator has identified localization as a top priority, and the agency intends to provide at least a quarter of its program funds to local entities by the end of fiscal year 2025. IAF directly invests in locally led development to advance program areas important to U.S. foreign assistance.

However, as with any foreign assistance award, there are risks, including those associated with engaging local entities. For example, USAID has encountered challenges when working with local entities that lack sufficient expertise or financial resources to implement U.S. programs or adhere to U.S. regulations. Furthermore, U.S. government efforts in the LAC region face a range of external issues, such as corruption and criminal activity.

We conducted this audit to determine the extent to which (1) selected USAID missions and (2) IAF implemented procedures for managing risks when selecting local entities for awards in LAC.

What We Recommend

We made six recommendations—three for USAID and three for IAF—to improve compliance with agency and Federal requirements and strengthen pre-award risk management procedures. USAID and IAF agreed with five of our recommendations. USAID partially agreed with one recommendation.

What We Found

The three USAID missions we reviewed implemented certain required agency procedures before making awards to LAC entities but missed opportunities to enhance risk management. The missions conducted pre-award risk assessments for all sampled awards, including considering past performance and organizational and financial capacity. However, two of the three missions did not request or document required reviews to determine whether local entities had any known involvement with drug trafficking. Two missions did not consistently obtain signed certifications and assurance statements attesting recipients' compliance with all relevant U.S. laws and USAID policies. All three missions also missed opportunities to fully integrate USAID's enterprise risk management (ERM) guidance into their pre-award risk assessment processes.

IAF implemented risk management procedures before awarding LAC grants but did not follow certain Federal requirements or use an ERM framework to inform its practices. IAF took steps to identify and assess risks during the pre-award process for the sampled awards. However, IAF did not ensure that the required reviews were conducted to determine whether key individuals from local entities had any known involvement with drug trafficking prior to making the awards. Furthermore, while IAF adopted some risk management procedures, the agency did not have a formal ERM framework in place to inform and guide implementation of those practices.

Introduction

The U.S. government has strong economic, political, security, and humanitarian interests in Latin America and the Caribbean (LAC) that cover a range of topics from illicit drugs to immigration to foreign trade. For fiscal year (FY) 2022, the Biden administration requested nearly \$2.1 billion in foreign assistance for this region to achieve these and other interests. Working with entities¹ at a local level is an integral aspect of U.S. foreign assistance policy and an important mandate for USAID and the Inter-American Foundation (IAF).² For example, in FY 2022, USAID issued its vision and approach to promote localization, which details how the agency intends to provide at least a quarter of its program funds to local entities by the end of FY 2025.³ Similarly, IAF's most recent strategic plan noted that the agency would continue to partner with local grassroots and civil society entities to advance their community-led development.⁴

However, as with any U.S. foreign assistance award, there are risks, including those associated with engaging local entities. For example, we previously reported that USAID faces challenges when working with local entities because they could lack sufficient expertise or financial resources to implement U.S. programs or adhere to U.S. regulations.⁵ Furthermore, U.S. government efforts in the LAC region face a range of issues, such as corruption and criminal activity, including drug-trafficking, that challenge efforts in the region. Given these challenges, USAID and IAF have taken actions to identify and assess risks for local entities applying for U.S. foreign assistance.

We conducted this audit to determine the extent to which (1) selected USAID missions and (2) IAF implemented procedures for managing risks when selecting local entities for awards in LAC.

To address the objectives, we selected a judgmental sample of three of nine LAC countries—the Dominican Republic, Mexico, and Peru—with active USAID and IAF assistance awards to local entities. The sample for review was based on regional representation (the Caribbean, Central America, and South America), number of awards per country, and coverage in other OIG audit work. For each selected country, we reviewed assistance awards to local entities made from FY 2019 through the second quarter of FY 2022 to evaluate procedures for managing risks during the pre-award process. Specifically, we selected a judgmental sample of

¹ To maintain consistency across agencies, throughout the report we use the terms “local entity,” “award applicant,” and “award recipient,” as appropriate, to refer to the entity applying for or receiving an award from USAID or IAF. USAID typically uses the term “implementer” for these entities, while IAF generally refers to them as “grantees and cooperators.”

² According to Section 102 of the Foreign Assistance Act of 1961, as amended, U.S. development efforts in countries receiving foreign assistance “depend primarily upon successfully marshaling [the countries’] own economic and human resources.”

³ USAID’s *Localization at USAID: The Vision and Approach* (August 2022) defines localization as “the set of internal reforms, actions, and behavior changes that the agency is undertaking to ensure its work puts local actors in the lead, strengthens local systems, and is responsive to local communities.”

⁴ IAF, *IAF’s FY 2023-2027 Strategic Plan*, December 2021.

⁵ USAID OIG, [Top Management Challenges Facing USAID in Fiscal Year 2023](#), November 16, 2022.

15 of 29 USAID awards⁶ and 14 of 42 IAF awards⁷ based on the stratified dollar amount of the award (high, medium, and low) and award type (grant and cooperative agreement). For each sampled award, we assessed USAID's and IAF's implementation of pre-award risk management procedures against Federal requirements and agency guidance. We evaluated each agency's pre-award risk management procedures against its own policies as well as practices from the U.S. Office of Management and Budget (OMB) and U.S. Government Accountability Office (GAO), as applicable. We also interviewed officials from USAID and IAF headquarters, the selected USAID missions, IAF in-country contractors, and local award recipients.

We conducted our work in accordance with generally accepted government auditing standards. Appendix A provides more detail on our scope and methodology.

Background

USAID and IAF Organizational Structures and Localization Focus

In 2021, USAID Administrator Power identified localization as a top priority to help advance U.S. foreign assistance objectives and sustain results. USAID uses a decentralized approach to design and implement programs through its overseas missions and staff in the field who make, manage, and monitor awards to local entities. Regional and technical bureaus at USAID headquarters coordinate support, guidance, and oversight. Further, USAID leadership works to help ensure cohesion of policy and planning issues impacting multiple headquarters and mission operations.

Since 1969, IAF directly invests in locally led development to advance program areas important to U.S. foreign assistance, including sustainable agriculture and food security, civil engagement, and human rights. IAF is a centralized organization that makes small dollar awards, generally between \$25,000 and \$400,000, to local entities in many LAC countries from its headquarters in Washington, DC.⁸ The agency's development assistance model relies on local entities proposing and leading solutions to address the needs and priorities of their communities in return for financial support.

Table I outlines the general structure of USAID's and IAF's operations and programs in the LAC region.

⁶ For USAID, we sampled four awards from the Dominican Republic, five from Mexico, and six from Peru.

⁷ For IAF, we sampled four awards from the Dominican Republic, five from Mexico, and five from Peru.

⁸ According to IAF's grant eligibility criteria, it is unable to fund organizations in Cuba; Venezuela; or U.S., British, French, and other territories.

Table I. USAID and IAF Operations and Programs in LAC

USAID

- Decentralized operations with 13 field offices across LAC.
- LAC Bureau located in Washington, DC, with four geographical offices: Central American and Mexican Affairs, South American Affairs, Caribbean Affairs, and Cuban Affairs.
- Direct funding to local entities in LAC nearly doubled between FY 2020 and FY 2022, from \$53 million to \$104 million.^a

IAF

- Centralized operations in Washington, DC.
- Awarded \$26.3 million for 142 projects in FY 2022, bringing its total active portfolio to 398 active awards in 27 LAC countries (378 single-country and 20 multi-country awards).^b

^a USAID, *Moving Toward a Model of Locally Led Development: FY 2022 Localization Progress Report*, June 12, 2023.

^b IAF, *Inter-American Foundation 2022 Year in Review*, 2023.

Sources: OIG analysis of USAID and IAF websites.

Federal Risk Management Guidance

The U.S. government recognizes the importance of managing risk for all awards of Federal funds. Federal risk management guidance provides a comprehensive framework for identifying, assessing, and mitigating risks of various levels and processes that could compromise the efficient functioning of Federal agencies. The guidance emphasizes the importance of risk management as a tool for achieving program objectives, anticipating potential challenges, and making informed decisions to enhance the overall effectiveness of programs and operations.

- *Pre-Award Risk Management Guidance* – According to Federal regulations, agencies “must have in place a framework for evaluating the risks posed by applicants before [the applicants] receive Federal awards.”⁹ Initial risk identification, using a structured and systematic approach to assess the potential for undesired outcomes or opportunities before making an award, is one element of the enterprise risk management (ERM) model.
- *ERM Guidance* – ERM activities include identifying and assessing an agency’s external and internal risks, developing risk responses, and continuously monitoring and reassessing risks. OMB Circular A-123 notes that the responsibility for managing risk is shared throughout an agency, from the highest levels of leadership to the staff executing Federal programs.¹⁰ According to the circular, ERM opens channels of communications so that managers have access to the information needed to make sound decisions.

Table 2 includes a selection of key ERM terms and concepts relevant to Federal agencies.

⁹ Title 2 of the Code of Federal Regulations (CFR), Chapter II, Part 200, Section 200.206(b)(1) (2020).

¹⁰ OMB, Circular A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control,” July 2016.

Table 2. Selected Enterprise Risk Management Terms

Term	Description
Risk Profile	Provides a thoughtful analysis of the risks an agency faces in achieving its strategic objectives that arise from its activities and operations. A risk profile also identifies appropriate options for addressing significant risks.
Risk Appetite	Broad-based amount of risk an agency is willing to accept in pursuit of its mission/vision. It is established by the agency’s most senior-level leadership and serves as the guidepost to set strategy and select objectives.
Risk Tolerance	The level of variance in performance an agency is willing to accept relative to the achievement of objectives. It is established at the program, objective, or component level. In setting risk tolerance levels, management considers the relative importance of the related objectives and aligns risk tolerance with risk appetite.

Source: OIG analysis of OMB Circular A-123, July 2016.

Other Select Federal Award Requirements

Under Section 487 of the Foreign Assistance Act (FAA), U.S. agencies are required to take all reasonable steps to ensure that foreign assistance is not provided to or through any individual or entity that has been convicted of a narcotics violation or is (or has been) an illicit drug trafficker. Federal regulations define the steps U.S. agencies are required to take to determine whether entities receiving U.S. foreign assistance have known involvement with drug trafficking.¹¹ Federal regulations also require key individuals from local entities receiving foreign assistance under the FAA to certify that they have not been and are not currently involved with drug trafficking.

The determination process and certification procedures only apply to “covered assistance” (i.e., assistance provided under the FAA) and recipients from “covered countries” (i.e., major illicit, drug-producing or drug-transit countries, as designated by the U.S. President).¹² All countries selected for our review—the Dominican Republic, Mexico, and Peru—were covered countries at the time of this audit.

¹¹ 22 CFR Part 140 (1998). USAID refers to these steps as a “post advance review.” For consistency across USAID and IAF, we use the term “determination process” to refer to these steps throughout this report.

¹² There are exceptions to these requirements. The exceptions apply to (1) assistance that is not subject to FAA Section 487; (2) certain assistance of less than \$100,000 for a specific activity, program, or agreement; and (3) dues payments or other contributions to an international organization.

USAID and IAF Pre-Award Risk Policies and Procedures

USAID's Risk Appetite Statement¹³ describes types of risk and tolerance levels the agency is willing to accept, and the Automated Directives System (ADS) includes OMB's seven-step risk management process to enhance knowledge of risk management and inform decision making.¹⁴ USAID's headquarters-based bureaus and independent offices are expected to ensure that risks are identified and managed when they develop a risk profile for each agency unit. According to USAID policy, agency agreement officers must assess the risks posed by applicants prior to making an award.¹⁵ As part of the process, agreement officers must verify applicants' registrations in the Federal government's centralized acquisition and award system, the System for Award Management; ensure that applicants do not appear on exclusion or sanctioned lists;¹⁶ and review required certifications, assurances, and other statements from applicants.¹⁷ Further, agreement officers must determine whether additional pre-award risk assessments are required to ensure applicants can comply with Federal and agency award requirements. For example, USAID incorporates requirements from FAA Section 487, "Prohibition of Assistance to Drug Traffickers," into its ADS.¹⁸ Appendix B provides additional information about USAID's pre-award risk assessment procedures and the key organizational units involved.

IAF assesses applicant risks through various steps delineated in its Grant-Making Process manual.¹⁹ These required steps are overseen by different IAF units. For example, a foundation representative, a senior foundation representative, the managing director or deputy director of programs, the Office of General Counsel, and the IAF President and Chief Executive Officer conduct separate reviews at different points in the grant-making process to identify risks. Appendix C provides additional information about IAF's risk assessment procedures and key offices.

¹³ The USAID Risk Appetite Statement provides guidance on the level and type of risk the agency is willing to accept and defines eight key risk categories: programmatic/development outcome, fiduciary, reputational, legal, security, human capital, information technology, and operational. The statement also recognizes other types of risks that could affect USAID programs and activities that agency officials should consider in their decision making, such as climate change and supply chain management risks, when applicable. USAID's Risk Appetite Statement (596mad, August 2022) is a mandatory reference for ADS Chapter 596.

¹⁴ USAID, ADS, Chapter 596, "Management's Responsibility for Enterprise Risk Management and Internal Control," March 2023. OMB Circular A-123's ERM process has sequentially ordered steps to aid users in addressing risk. The steps are (1) establish the context, (2) initial risk identification, (3) analyze and evaluate risks, (4) develop alternatives, (5) respond to risks, (6) monitor and review, and (7) continuous risk identification.

¹⁵ ADS, Chapter 303, Section 3.9, "Pre-Award Risk Assessment," November 2020.

¹⁶ This includes the U.S. General Services Administration System for Award Management (SAM) Excluded Parties List System, the U.S. Department of the Treasury Specially Designated Nationals and Blocked Persons List, and the United Nations Security Council Consolidated List. These published lists name the individuals, entities, or countries subject to prohibitions imposed by the entity publishing the list (i.e., the U.S. government or UN).

¹⁷ ADS, Chapter 303, Section 3.8, "Pre-Award Certifications, Assurances, Representations, and Other Statements of the Recipient and Pre-Award Terms," May 2020.

¹⁸ ADS, Chapter 206, Section 3.9, "Post Advance Review Procedures," May 1999. ADS Chapter 206, "Prohibition of Assistance to Drug Traffickers," is USAID's policy implementation of Title 22 CFR Part 140 and Section 487 of the FAA.

¹⁹ While the title cites "grants," the manual applies to both grants and cooperative agreements.

Selected USAID Missions Implemented Some Required Agency Risk Management Procedures Before Making Awards to Local Entities in the LAC Region but Missed Opportunities to Enhance Risk Management Efforts

The three selected USAID missions conducted pre-award risk assessments of local entities in LAC in accordance with agency policy. However, the missions did not fully address other requirements designed to manage risks prior to making awards. They also missed opportunities to enhance risk management practices by not fully integrating USAID's ERM guidance with their pre-award risk assessment processes for local assistance awards.

Selected USAID Missions Conducted Pre-Award Risk Assessments but Did Not Fully Adhere to Federal Anti-Drug Trafficking Requirements or Obtain Required Statements From Local Entities

Selected Missions Performed Pre-Award Risk Assessments for Sampled Awards

USAID missions in the Dominican Republic, Mexico, and Peru performed pre-award risk assessments for all 15 sampled awards to local entities as required by ADS Chapter 303.²⁰ Documentation of these pre-award assessments included most required elements, such as a history of performance and Federal and UN lists of known security threats or blocked persons. Documentation also included assessments of organizational and financial capacity and risks using the Non-U.S. Organization Pre-Award Survey (NUPAS) or the Fixed-Amount Award Entity Eligibility Checklist, when applicable.²¹

Selected Missions Did Not Consistently Request Reviews of Local Entities for Drug-Trafficking Prior to Making Awards

While the selected missions took steps to conduct pre-award risk assessments, we found that they did not fully comply with USAID's policy on prohibiting assistance to drug traffickers. This policy requires a pre-award review by the relevant U.S. embassy to determine whether key individuals from entities being considered for an award have any known involvement with drug trafficking. This determination process is requested by USAID personnel and performed by a U.S. embassy staff member designated as the narcotics coordinator.

²⁰ ADS 303, Section 303.3.9, outlines the procedures in a pre-award risk assessment.

²¹ An agreement officer may determine a NUPAS or detailed analysis in accordance with specific criteria that achieve the same objectives as the NUPAS must be conducted when awarding a cooperative agreement with USAID to a local entity. For fixed-amount awards, the agreement officer must use a Fixed-Amount Award Entity Eligibility Checklist. Both the NUPAS and Fixed-Amount Award Entity Eligibility Checklist are USAID tools designed to evaluate risks posed by an applicant prior to making an award, in keeping with USAID and OMB requirements. The tools help assess, among other items, an applicant's fiduciary and managerial capability to manage USAID funds.

Each of the three selected USAID missions developed a mission order in coordination with their respective embassy counterparts that defined specific procedures for the determination process. However, two of the missions either did not request the determination process or were unable to verify if it was completed. Specifically, none of the four sampled awards for USAID/Dominican Republic underwent the determination process, and USAID/Mexico was unable to provide supporting documentation that the narcotics coordinator performed the process for any of the five sampled awards. All applicable sampled awards at USAID/Peru underwent the determination process, although the process for one award was not requested or completed until after the award was issued.²²

There were two reasons selected USAID mission staff did not ensure the determination process was consistently conducted: They (1) were unaware of the requirement and (2) omitted some required actions. USAID/Dominican Republic staff stated that they were not aware of the requirement or the related mission order until they performed a management review of standing mission orders in 2022. USAID/Mexico staff reported that they implemented an updated mission order in January 2021 to help ensure that the determination process was conducted. However, one award signed after this date in our sample for USAID/Mexico did not include documentation of the process. USAID/Peru staff acknowledged they did not realize the determination process had not been conducted before one sampled award was issued.

Furthermore, the ADS policy on prohibiting assistance to drug traffickers was out of date.²³ According to agency officials, between 2011 and May 2023, no active USAID office was designated as responsible for the policy, which governs the determination process and relevant certifications. In May 2023, during the course of our audit, the ADS was partially revised to identify the Policy Division within the Bureau for Management's Office of Management Policy, Budget, and Performance as the responsible office.

USAID requires designated bureaus or independent offices with primary responsibility for ADS chapters to review those chapters annually for relevance, accuracy, and consistency with Federal laws and regulations.²⁴ For example, at the time of the audit, the ADS policy on prohibiting assistance to drug traffickers stated that the Bureau for Program and Policy Coordination was responsible for notifying missions and other operating units of the list of major drug transit or illicit drug-producing countries; however, that bureau no longer exists within USAID's organizational structure. In addition, while agency officials noted that there were other mechanisms for making missions aware of covered countries, such as the annual Statutory Checklist, the ADS itself had not been updated to reflect changes in the list of covered countries since January 2003. As a result, we found six countries that were considered covered in the January 2003 list USAID used that were not on the list designated by the U.S. President for FY 2023. In addition, five countries on the FY 2023 list were not included in the 2003 list.

²² USAID/Peru staff deemed one award in our sample exempt from needing to go through the determination process because it was for emergency response and below the dollar amount threshold in the FAA.

²³ ADS 206, May 2023.

²⁴ ADS, Chapter 501, Section 501.3.9, "Annual ADS Certification and Work Plan," directs responsible points of contact to annually review ADS policies for ongoing relevance, accuracy, and cohesion, or to certify that they remain accurate and relevant.

Two of Three Selected Missions Did Not Always Obtain Pre-Award Certifications and Assurances

In addition to inconsistencies in completing the determination process, we found that two of the three selected missions—USAID/Mexico and USAID/Peru—did not consistently obtain the pre-award certification and assurance statements required by agency policy.²⁵ According to ADS Chapter 303, the agreement officer must obtain required certifications and assurance statements before making an award.²⁶ The signed documents attest that, consistent with applicable USAID policies and U.S. laws, an award applicant has not been involved in certain prohibited or criminal activities, such as drug trafficking, terrorism, and trafficking-in-persons.²⁷ USAID/Mexico did not obtain signed certifications and assurances for any of the sampled awards. According to USAID/Mexico staff, this was an omission on their part. In the case of USAID/Peru, the mission was not able to provide the required signed certifications and assurances for two of six awards in our sample, as mission personnel could not find the documents in their files.

Inconsistent implementation of mandatory agency procedures could lead to violations of U.S. laws and regulations and undermine the validity of USAID’s pre-award risk assessments. Failure to obtain mandatory certifications and assurance statements prior to an award eliminates an element of the risk mitigation process. This could increase the agency’s risk of inadvertently allowing U.S. funds to support drug trafficking or other criminal activities, harming USAID’s reputation and undermining U.S. credibility and interests in the region.

Selected USAID Missions Missed Opportunities to Enhance Their Enterprise Risk Management Practices When Making Local Assistance Awards in the LAC Region

The three selected missions took varying deliberate actions to incorporate additional risk management practices beyond those in ADS pre-award risk guidance or to embrace other aspects of ERM before making local awards. For example, USAID/Dominican Republic added information technology as a criterion to review as part of the NUPAS to strengthen the pre-award risk assessment. In addition, at the time of our site visit, USAID/Peru was developing a document on localization principles to capture the importance of being aware of, and advancing, risk management prior to making local awards, as described in the agency’s Risk Appetite Statement.

Despite these efforts, we found that the selected missions missed opportunities to enhance their ERM practices by not fully integrating the agency’s guidance on risk identification, analysis,

²⁵ ADS, Chapter 206, Section 206.3.10, “Certification Procedures”; and ADS 303, Section 303.3.8, May 2020.

²⁶ ADS 303, Section 303.3.8, May 2020. Agreement officers must also incorporate the solicitation standard provisions and provide links to the applicable award standard provisions in all solicitations. Testing to determine whether standard provisions were included in the award was outside the audit scope and not conducted.

²⁷ Certifications, assurance, and other statements include the Assurance of Compliance with Laws and Regulations Governing Nondiscrimination in Federally Assisted Programs; the Certification Regarding Lobbying; the Prohibition on Assistance to Drug Traffickers for Covered Countries and Individuals (ADS 206); the Certification Regarding Support to Terrorist; and the Certification Regarding Trafficking in Persons. USAID standardized the certification, assurance, and other statements that applicants are required to sign prior to an award in ADS 303mav.

and reporting into the pre-award risk assessment of local entities. For example, the template USAID uses to conduct its risk assessment and support the development of its agency-wide risk profile includes elements such as risk category, likelihood, impact, and response.²⁸ However, the missions did not incorporate the same elements into their pre-award risk assessments. Instead, we found broad risk information described in various sources, ranging from the negotiation memos to the applicable fixed-amount award checklist or NUPAS.

Further, these sources described risks with varying levels of specificity; however, none recorded risk assessments that included all the elements (i.e., identified risks, risk category, assessment of likelihood and impact, and response) the agency used to develop its risk profile. For example, a NUPAS that USAID/Mexico conducted identified weaknesses in procurement and financial procedures; a NUPAS that USAID/Peru conducted identified a lack of project management manuals and position descriptions; and a NUPAS that USAID/Dominican Republic conducted highlighted the lack of approved and communicated information security policies. However, in none of these three cases were the risks identified consistent with the risk categories in the agency's Risk Appetite Statement. In addition, none of them presented a consistent assessment of impact and likelihood that would allow information to be shared between multiple levels of management to help the organization learn and adapt.

The variation between the missions' pre-award risk assessments and the practices found in USAID's ERM guidance stemmed from ADS procedures that did not incorporate the agency's Risk Appetite Statement guidance. For example, although USAID partially revised ADS 303 in 2022, the revisions did not include how missions could apply the categories in the agency's Risk Appetite Statement or document risk analysis in terms of impact and likelihood.²⁹ ADS Chapter 303 also did not mention the seven-step risk management process found in ADS Chapter 596, which could enhance users' knowledge about risk management and inform decision making. While USAID developed the NUPAS guidelines in 2012, the agency did not update them to incorporate its Risk Appetite Statement and other ERM guidance until September 2023—after we completed fieldwork for this audit.³⁰ Similarly, USAID's guidance for fixed-amount awards did not reference the agency's Risk Appetite Statement or ADS Chapter 596.³¹

As an agency, USAID has taken steps to develop guidance on the levels and types of risk it is willing to accept to meet its objectives. However, at the mission level, pre-award risk assessments that do not document all the elements make it challenging for USAID officials to track and monitor risks and communicate those risks to internal and external stakeholders. By ensuring missions further incorporate the agency's ERM guidance into the pre-award risk assessment procedures, USAID could enhance its ability to identify, assess, and mitigate risks of

²⁸ According to USAID's guidance on ERM and internal control (ADS 596), USAID headquarters bureaus and independent offices should ensure that risks are operationalized, identified, and managed as part of the agency's risk assessment process for developing each unit's risk profile. These risk profiles provide agency leadership with an up-to-date set of enterprise risks facing the organization.

²⁹ ADS, Chapter 303, "Grants and Cooperative Agreements to Non-Governmental Organizations," March 2022.

³⁰ USAID, Non-U.S. Organization Pre-Award Survey (NUPAS) Guidelines: Additional Help for ADS Chapter 303, ADS 303sam, September 2023. USAID's fully revised version of ADS 303sam mentions the agency's Risk Appetite Statement and ADS 596. The updates were made after we completed audit fieldwork.

³¹ USAID, Fixed-Amount Award Entity Eligibility Checklist: A Mandatory Reference for ADS Chapter 303, ADS 303mak, November 2020; and USAID, Fixed-Amount Awards to Non-Governmental Organizations: An Additional Help Document for ADS 303, ADS 303saj, July 2022.

awards to local entities and ensure that those risks are shared and addressed by the appropriate levels of management.

IAF Implemented Risk Management Procedures but Did Not Follow Certain Federal Requirements Before Making Awards to Local Entities and Missed Opportunities to Enhance Risk Management

IAF implemented procedures to assess and manage risks when selecting local entities for awards in the LAC region. However, during the pre-award process, the agency did not address certain legal requirements in the FAA and Federal regulations related to anti-drug trafficking activities. Furthermore, IAF missed opportunities to enhance its risk management by not adopting formal ERM practices.

IAF Assessed Local Entities Before Making Awards but Did Not Address Certain Federal Anti-Drug Trafficking Requirements

For the 14 awards sampled in the three selected LAC countries—one-third of all awards in those countries—IAF took steps to identify and assess risks during its pre-award process as required by the Grant-Making Process manual.³² These steps included virtual or in-person meetings with the applicants and utilizing other tools, such as the project analysis review. IAF also conducted general internet searches of the applicants to obtain information that could indicate potential challenges or reputational risk for the agency. For example, IAF identified an award proposal from the Dominican Republic that addressed a potentially controversial topic related to domestic violence and psycho-social supports. In this case, the proposal could trigger a higher level of review, based on the guidance in the Grant-Making Process manual.

However, we also found that IAF did not develop or implement pre-award procedures to help ensure that assistance is not provided to or through drug traffickers, consistent with Federal regulations.³³ IAF requested that U.S. embassies in the selected countries review their proposed projects and potential award recipients. However, the agency did not specifically request that the embassies conduct the determination process by reviewing key individuals from local entities to identify any known involvement with drug trafficking. IAF did not address the determination process requirements for the sampled awards because its Grant-Making Process manual did not clearly lay out all requirements of the FAA. The manual did not provide detailed instructions to its staff on how to (1) determine when to apply the exemptions from Federal requirements, (2) ask embassies how to implement the determination process, or (3) coordinate with embassies to follow the requirements.

³² IAF is a centralized agency with operations managed from its headquarters in Washington, DC. The agency uses the same operating procedures and pre-award management processes for all countries and all awards.

³³ Section 487 of the FAA of 1961 (as amended) and Title 22 CFR Part 140.

Without detailed procedures to address Federal regulations on the prohibition of drug trafficking, IAF reduces the effectiveness of its pre-award risk management efforts. Any shortfalls in these procedures could increase the risk of IAF inadvertently funding criminal activities, which would adversely affect IAF's reputation and credibility and harm U.S. regional interests and objectives in LAC.

IAF Missed Opportunities to Integrate Key Risk Management Practices Into Its Pre-Award Selection Procedures and Management Processes

Although IAF has adopted risk management measures, it has not integrated formal ERM practices into its pre-award review and management processes. According to OMB Circular A-123, Federal agencies should have a process to define their risk appetite and establish risk tolerance thresholds. They should also develop a risk profile to inform risk management throughout the organization, from senior executive leadership to service delivery staff, and integrate risk awareness into the organization's culture.

The OMB circular also encourages agencies to adopt the following practices:

- Develop an ERM framework to guide the agency's activities;
- Use a structured and systematic approach to identify risks, analyze and evaluate those risks in terms of impact and likelihood, develop risk responses, and continue to monitor and review risks and responses over time; and
- Integrate and coordinate risk management as well as "strong and effective internal controls into existing business activities and as an integral part of managing the agency."

At the time of this audit, IAF did not have a formal ERM framework in place to inform and guide the implementation of its risk management practices. IAF officials acknowledged the need for a framework, stating that they were reviewing available ERM practices relevant to small Federal agencies. They noted that IAF was in the process of developing a formal policy, including risk management guidance, political risk guidance, and a risk training plan. However, they had not finalized these efforts since the initial release of OMB Circular A-123 in 2016.

In addition, IAF's Grant-Making Process manual did not include a detailed or structured process to ensure risk identification, analysis, response, and monitoring consistent with the risk management practices in the OMB circular. Specifically, IAF's manual did not incorporate ERM practices, such as the use of risk categories (e.g., fiduciary and reputational) that could be used to facilitate risk prioritization, communication, and metrics to quantify impact and likelihood of occurrence. Similarly, the manual did not include instructions on how to develop and monitor risk responses.

IAF did not have a formal process for integrating risk information generated from the pre-award selection process with enterprise-level risk management. The agency also lacked a formal risk appetite statement and profile to inform risk management practices at various levels of the organization. Further, it had not established formal risk tolerances or acceptable levels for awards, programs, and other activities to help inform decision making.

While IAF followed its procedures for identifying and assessing risks before making awards, we found gaps and inconsistent reporting in its documentation that stemmed from a lack of integrated ERM practices. In relation to risk analysis and evaluation, IAF did not consistently use metrics or scores that described risk impact, tolerance, and likelihood of occurrence; it also did not identify risk categories that could be used to organize, communicate, or prioritize risks. While staff conducted reviews of proposals and applicants' ability to implement awards, they did not consistently identify relevant mitigation measures. Specifically, IAF identified risks in the proposals for 9 of 14 sampled awards, including potential challenges related to the effect of COVID-19 on implementation—a programmatic risk that applicants identified in the project proposal descriptions. However, we found that the subsequent awards did not include specific conditions as a formal response to mitigate the risks identified in the proposals or documentation of IAF's risk response.

Without an ERM framework to guide the agency's actions throughout the risk management cycle, from identification to monitoring, IAF may not be able to effectively address the numerous risks facing its awards or U.S. interests in the LAC region. The lack of a systemic approach to identifying and documenting risks and risk mitigation makes it difficult for staff to organize, prioritize, monitor, and communicate risks to leadership and to other stakeholders. This limits the utility of risk management procedures and increases the likelihood that IAF will not adequately manage risks.

Conclusion

USAID and IAF prioritize partnerships with local entities in the LAC region to obtain a variety of benefits, including building grassroots connections that are essential for effective and sustainable U.S. foreign assistance development objectives. It is vital that each agency recognize the risks of working with local organizations through a robust risk management process prior to issuing assistance awards. While USAID and IAF implemented pre-award risk management procedures, those procedures could be strengthened. Our work identified that both agencies lacked full compliance with Federal regulations designed to ensure that those who engage in criminal activity do not benefit from U.S. foreign assistance. By not applying robust ERM practices into the pre-award risk management process for local entities and ensuring full compliance with Federal requirements, USAID and IAF may inadvertently expose foreign assistance to significant reputational harm that undermines U.S. credibility and interests in the LAC region.

Recommendations

We recommend that USAID's Deputy Administrator for Policy and Programming:

1. Direct the Bureau for Latin America and the Caribbean to develop and implement an action plan to ensure missions' compliance with Automated Directives System Chapter 206 and 303 requirements for pre-award risk management procedures that includes steps to make sure (a) overseas leadership at posts designated as covered countries are aware of their responsibility to implement and document compliance with Automated Directives System Chapter 206, including the determination process (i.e., post advance review), and (b) all

signed certification and assurance statements required by Automated Directives System Chapter 303 Section 3.8, “Pre-Award Certifications, Assurances, Representations, and Other Statements of the Recipient and Pre-Award Terms,” are obtained for all assistance awards to local entities, as applicable.

We recommend that USAID’s Assistant Administrator for the Bureau for Management:

2. Direct the Office of Acquisition and Assistance to incorporate reference to USAID’s Risk Appetite Statement and enterprise risk management guidance, including the seven-step risk management process found in Automated Directives System 596, into the agency’s pre-award risk management procedures in Automated Directives System Chapter 303.
3. Direct the Office of Management Policy, Budget, and Performance to review Automated Directives System Chapter 206 to capture organizational and technical updates and ensure it is accurate and in full compliance with Title 22 of the Code of Federal Regulations Part 140 and the most recent Presidential Determination on Major Drug Transit or Major Illicit Drug-Producing Countries memo, as applicable.

We recommend that IAF’s President and Chief Executive Officer:

4. Develop and implement an enterprise risk management framework.
5. Incorporate the enterprise risk management framework into IAF’s pre-award risk management procedures.
6. Develop and issue written guidance on drug-trafficking prohibition requirements in Section 487 of the Foreign Assistance Act and Title 22 of the Code of Federal Regulations Part 140.

OIG Response to Agency Comments

We provided our draft report to USAID and IAF on March 18, 2024. We received IAF’s response on May 6, 2024, and USAID’s response on May 9, 2024, which are included as Appendixes D and E of this report. We did not receive technical comments from USAID or IAF.

The report included three recommendations for USAID and three for IAF. We acknowledge management decisions on all six recommendations.

USAID agreed with Recommendations 2 and 3 and partially agreed with Recommendation 1. For Recommendation 1, USAID stated that it will develop and implement an action plan to ensure missions’ compliance with ADS 206 and 303 requirements for pre-award risk management procedures. USAID also stated that the Bureau for Planning, Learning, and Resources updated the standard pre-obligation activity checklist to incorporate a screening question for covered assistance in covered countries consistent with Section 487 of the Foreign Assistance Act, 22 CFR 140, and ADS 206. The agency added that it is dependent on the Department of State to complete the post advance review process and will coordinate with the department. We concur with USAID’s determination. We consider Recommendation 3 closed and Recommendations 1 and 2 resolved but open pending completion of planned activities.

IAF agreed with Recommendations 4, 5, and 6. We consider Recommendation 6 closed and Recommendations 4 and 5 resolved but open pending completion of planned activities.

Appendix A. Scope and Methodology

We conducted our work from May 2022 through March 2024 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) selected USAID missions and (2) IAF implemented procedures for managing risks when selecting local entities for awards in LAC.

In planning and performing the audit, we gained an understanding and assessed internal controls that were significant to the audit objectives. Specifically, we designed and conducted procedures related to three of the five components of internal control as defined by GAO.³⁴ These were Risk Assessment (Principle 7), Control Activities (Principles 10 and 12), and Monitoring (Principles 16 and 17).

The audit focused on USAID's and IAF's assistance awards (i.e., grants and cooperative agreements) to local entities in LAC during the period of October 1, 2019, through March 31, 2022. We selected this period to mitigate factors that could affect the availability and accessibility of agency staff (e.g., staff turnover) and documentation associated with pre-award processes for both agencies. We also selected this period to allow analysis of USAID awards issued after the release of the agency's Risk Appetite Statement in 2018.

To determine which LAC countries to include in the audit, we obtained information on assistance awards made to local entities from both agencies. We identified nine LAC countries that had active awards from both agencies within the audit's scope.³⁵ From these nine countries, we judgmentally selected a sample of three countries: the Dominican Republic, Mexico, and Peru. We selected these countries based on regional representation (the Caribbean, Central America, and South America), the number of USAID and IAF awards made to local entities, and coverage in other OIG audit work.

For each country, we judgmentally selected a sample of assistance awards to local entities for each agency. To facilitate sample selection, we ranked and selected awards for each country based on levels of funding (high, medium, and low) and type of assistance award (grants and cooperative agreements). Based on these factors, we selected 15 of 29 USAID awards and 14 of 42 IAF awards for the audit sample. Our results and conclusions are limited to these sampled awards and are not generalizable.

We performed our work at USAID and IAF operations in Santo Domingo, Dominican Republic; Lima, Peru; Mexico City, Mexico; Washington, DC; and OIG's LAC Regional Office in San Salvador, El Salvador.

³⁴ GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014.

³⁵ The nine countries were Colombia, Dominican Republic, El Salvador, Guatemala, Haiti, Jamaica, Mexico, Paraguay, and Peru.

To answer the audit objectives:

- We reviewed U.S. government laws and regulations as well as USAID and IAF regulations, policies, and procedures to obtain an understanding of staff roles and responsibilities for managing risks when selecting local entities for awards. Key documents we reviewed included the Foreign Assistance Act of 1961, as amended, 2 CFR § 200.206, and 22 CFR Part 140; OMB A-123 Enterprise Risk Management; and GAO's *Standards for Internal Control in the Federal Government* and *ERM Selected Agencies' Experiences Illustrate Good Practices in Managing Risk*.³⁶ For USAID, we also reviewed ADS Chapters 206, 303, 501, and 596; ADS internal mandatory references (e.g., 303mak, 303mav, and 596mad); and ADS additional help (e.g., 303saj and 303sam). For IAF we also reviewed IAF's Grant-Making Process manual; Proposal Risk Evaluation/Vetting form; Grantee Vetting and Institutional Risk Mapping; and Office of General Counsel Technical Guide.
- Informed by reviews of key documentation described above, we assessed applications for the sampled local awards and related risk management documentation against identified ERM-related criteria consistent with OMB policy, agency policy and guidance, and GAO-identified ERM practices. This assessment allowed us to determine the extent to which risk management procedures were implemented during the pre-award selection processes for the selected USAID missions and IAF as well as any risk management challenges and best practices.
- We interviewed relevant USAID and IAF staff responsible for implementing the pre-award risk management process at the selected missions and countries. We also interviewed staff of selected local entities that received the sampled awards to understand the procedures for managing risks when selecting local entities and agency oversight. We met with USAID mission officials from technical, program, financial, legal, acquisition and assistance, and leadership offices and IAF officials from the Offices of Programs and General Counsel.
- We corroborated the collected results of our document and testimonial analysis with supplemental reviews of USAID and IAF policies. We discussed our results with USAID and IAF officials to confirm exceptions, waivers, or other potential factors impacting implemented procedures for managing risks when selecting local entities for awards in LAC.

In answering the audit objectives, we considered, but did not rely on, computer-processed data, which did not materially affect findings, conclusions, or recommendations. Audit findings, conclusions, and recommendations were based on qualitative analyses of USAID and IAF efforts to manage risks when selecting local entities for awards in LAC.

³⁶ GAO, *Enterprise Risk Management: Selected Agencies' Experiences Illustrate Good Practices in Managing Risk*, December 2016.

Appendix B. USAID Pre-Award Risk Assessment Procedures and Key Units

USAID Pre-Award Risk Assessment Procedure

ADS Chapter 303 outlines the policy for USAID's grants and cooperative agreements to nongovernmental entities. According to this policy, USAID staff must perform a risk assessment of an applicant prior to making an award.

Figure I shows the information ADS Chapter 303 requires or suggests be included in the pre-award risk assessment, depending on whether the applicant was new to USAID funding or a former USAID assistance recipient. Additionally, ADS Chapter 303 provides USAID staff with the discretion to incorporate other types of information or assessments to analyze risks.

Figure I. Key USAID Pre-Award Risk Assessment Information Sources for Assistance Awards to Local Entities

New USAID Applicants

- Copies of audited financial statements for the last 3 years
- Projected budget, cash flow, and organizational charts
- Copies of applicable policies and procedures (e.g., accounting, purchasing, property management, personnel)
- Certifications, assurances, and representations^a
- Non-U.S. pre-award survey
- Eligibility checklist for fixed-amount awards
- Other information as necessary and appropriate

Prior USAID Recipients

- Financial audits
- Certifications, assurances, and representations^a
- History of performance on USAID awards
- Other information as necessary and appropriate^b

^a The agreement officer may request that the applicant submit the certifications required in ADS 303^m either as part of the application or during negotiations.

^b Includes pre-award surveys.

Source: OIG analysis of ADS Chapter 303.

Key USAID Units Associated With Assistance Awards to Local Entities

USAID designated legal responsibility for an assistance award to the agreement officer, who is the only one who can act on behalf of the agency to enter into, amend, or terminate an award. The agreement officer, with support from various stakeholders and units within USAID, oversees the selection process and ensures that all applicable regulations, procedures, and

requirements are met prior to making an award. Table 3 lists relevant USAID units involved in the 15 sampled local assistance awards.

Table 3. Key USAID Units Associated with Sampled Assistance Local Awards

USAID Unit	Roles and Responsibilities
Missions	<ul style="list-style-type: none"> • Select and manage local assistance awards, including: <ul style="list-style-type: none"> ○ Collecting signed certifications and statements from local entities attesting that they reviewed selected USAID and U.S. policies and laws and are not involved in various prohibited or criminal activities. ○ Conducting pre-award risk assessments. ○ Performing determination processes (i.e., post advance reviews). ○ Reviewing and closing out specific conditions included in award agreements that address deficiencies or weaknesses previously identified in pre-award surveys, as applicable. • Assess internal controls and mission-wide risks and develop an annual risk profile.
LAC Bureau	<ul style="list-style-type: none"> • Provides oversight of LAC missions and programming coordination between the missions and headquarters technical offices. • Serves as an interface between headquarters and missions, disseminating technical guidance and ensuring mission compliance with legal, regulatory, and policy requirements for award administration and management, including local assistance awards, among other processes. • Assesses missions’ risk profiles to inform the bureau’s risk profile.
Bureau for Management	<ul style="list-style-type: none"> • The Assistant Administrator for Management is responsible for overseeing the administration of the Bureau’s offices to support agency operations worldwide. • The Office of Acquisition and Assistance is responsible for overseeing the policies and guidance used to make assistance awards (e.g., ADS 303, “Grants and Cooperative Agreements to Non-Governmental Organizations”). • The Office of Management Policy, Budget, and Performance provides oversight of and disseminates agency policies and procedures, such as the ADS. As of May 2023, this office is responsible for overseeing the policies and guidance related to the determination process, per ADS 206, “Prohibition of Assistance to Drug Traffickers.” • The Office of Chief Financial Officer oversees USAID’s enterprise risk management and its internal control programs and activities.
Office of the Administrator	<ul style="list-style-type: none"> • USAID’s Deputy Administrator for Policy and Programming is responsible for addressing issues common to a number of agency bureaus and provides oversight and direction to the Assistant Administrators of the bureaus within the Deputy’s span of control (e.g., the LAC Bureau).

Source: OIG analysis of ADS Chapters 101, 206, 303, and 598.

Appendix C. IAF Pre-Award Risk Assessment Procedures and Key Offices

IAF Risk Procedures in the Award-Making Process

IAF identified and assessed risks in various steps during its award-making process as required in its Grant Making Process manual. Table 4 describes the key steps IAF identified.

Table 4. Key Steps in IAF's Award-Making Process

Step	Description
Proposal Vetting	Staff record any findings of potential controversial issues and risks identified through internet searches on the applicant and the proposed project. The proposal-vetting process includes a virtual or in-person visit to the applicant.
Project Analysis Review	Staff document their review of the project proposal and their assessment of the applicant's ability to implement the project.
Embassy Concurrence	Staff submit a description of the proposed project and the names of key officers from the applicant to the relevant U.S. embassy for review and concurrence.
General Counsel Review	The Office of the General Counsel conducts a legal review and approves the Project Analysis Review.

Source: OIG analysis of IAF's Grant-Making Process manual.

Key IAF Offices Involved in Pre-Award Risk Procedures

- The Office of Programs is the owner of the pre-award risk assessment process and includes foundation representatives, senior foundation representatives, a grant management specialist, managing director, and deputy, who participate at different stages of the process.
- The Office of External Affairs and Government's managing director and writer-editor are responsible for reviewing and editing the grant package preparation.
- The Office of General Counsel is responsible for mitigating legal risk.
- The President and Chief Executive Officer in the Executive Office is responsible for the final grant package approval.

Appendix D. USAID Comments

MEMORANDUM



TO: Assistant Inspector General for Audits, Inspections, and Evaluations,
Toayoa D. Aldridge

FROM: USAID, Acting Assistant Administrator, Bureau for Latin America and the
Caribbean, Michael Camilleri /s/

USAID, Assistant Administrator for the Bureau for Management,
Colleen R. Allen /s/

DATE: May 9, 2024

SUBJECT: Management Comments to Respond to the Draft Audit Report Produced by the
Office of Inspector General (OIG) titled, Pre-Award Risk Management: USAID and
IAF Missed Opportunities to Enhance Risk Management of Local Entities in Latin
America and the Caribbean (Task No. 99100222).

The U.S. Agency for International Development (USAID) would like to thank the Office of Inspector General (OIG) for the opportunity to provide comments on the subject draft report. The Agency partially agrees with the recommendation(s), herein provides plans for implementing them, and reports on significant progress already made. USAID partially agrees on recommendation 1 given that USAID must rely on the Department of State to complete the Post Advance Review process. USAID agrees with recommendations 2 and 3.

**COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE
REPORT RELEASED BY THE USAID OFFICE OF THE INSPECTOR GENERAL (OIG) TITLED, PRE-
AWARD RISK MANAGEMENT: USAID and IAF MISSED OPPORTUNITIES TO ENHANCE RISK
MANAGEMENT OF LOCAL ENTITIES IN LATIN AMERICA AND THE CARIBBEAN
(Task No. 99100222)**

Please find below the management comments/decision from the U.S. Agency for International Development (USAID) on the draft report produced by the Office of the USAID Inspector General (OIG), which contains 3 recommendation(s) for USAID:

Recommendation 1: Direct the Bureau for Latin America and the Caribbean to develop and implement an action plan to ensure missions' compliance with Automated Directives System (ADS) Chapters 206 and 303 requirements for pre-award risk management procedures that includes steps to make sure (a) overseas leadership at posts designated as covered countries are aware of their responsibility to implement and document compliance with ADS 206, including the determination process (i.e., post advance review), and (b) all signed certification and assurance statements required by ADS Chapter 303 Section 3.8, "Pre-Award Certifications, Assurances, Representations, and Other Statements of the Recipient and Pre-Award Terms," are obtained for all assistance awards to local entities, as applicable.

- **Management Comments:** USAID partially agrees on the recommendations from the cover letter. USAID will develop and implement an action plan to ensure Missions' compliance with the ADS 206 and 303 requirements for pre-award risk management procedures, including:
 - a. The Bureau for Management will make sure that overseas posts, including leadership, are aware of responsibilities pursuant to ADS 206 and ADS 303.
 - b. The Bureau for Latin America and the Caribbean will amplify Bureau for Management guidance and notices with the Missions in the region.
 - c. Since the completion of the audit, the Bureau for Planning, Learning, and Resources has updated USAID's standard pre-obligation activity checklist to incorporate a screening question for covered assistance in covered countries consistent with Section 487 of the Foreign Assistance Act, 22 CFR 140, and ADS 206. USAID notes that it is dependent on the Department of State to complete the Post Advance Review process. Embassies are responsible for appointing a Country Narcotics Coordinator and developing procedures to conduct Post Advance Review. As such, USAID will coordinate with the Department of State.

- **Target Completion Date:** April 30, 2025

Recommendation 2: Direct the Office of Acquisition and Assistance to incorporate reference to USAID's Risk Appetite Statement and enterprise risk management guidance, including the seven-step risk management process found in Automated Directives System 596, into the agency's pre-award risk management procedures in Automated Directives System Chapter 303.

- **Management Comments:** USAID M/OAA agrees with this recommendation. M/OAA will incorporate reference to USAID's Risk Appetite Statement and enterprise risk management guidance, including the seven-step risk management process found in ADS 596, into the agency's pre-award risk management procedures in ADS 303.

- **Target Completion Date:** March 31, 2025

Recommendation 3: Direct the Office of Management Policy, Budget, and Performance to review Automated Directives System Chapter 206 to capture organizational and technical updates and ensure it is accurate and in full compliance with Title 22 of the Code of Federal Regulations Part 140 and the most recent Presidential Determination on Major Drug Transit or Major Illicit Drug-Producing Countries memo, as applicable.

- **Management Comments:** We recommend this should be closed. As of April 1, 2024, USAID revised [ADS Chapter 206, Prohibition of Assistance to Drug Traffickers](#), to capture organizational and technical updates and update the list of “covered countries” to align with the [Memorandum on Presidential Determination on Major Drug Transit or Major Illicit Drug Producing Countries for Fiscal Year 2024](#). ADS 206 fully reflects Title 22 of the Code of Federal Regulations Part 140.
- **Target Completion Date:** Request closure upon issuance.

In light of the aforementioned, we request that the OIG inform USAID if it agrees or disagrees with management’s responses to the recommendations.

Appendix E. IAF Comments



INTER-AMERICAN FOUNDATION
EMPOWERED COMMUNITIES, SUSTAINABLE RESULTS

May 6, 2024

Toayoa D. Aldridge
Assistant Inspector General for Audits, Inspections, and Evaluations
U.S. Agency for International Development
Office of Inspector General

Subject: IAF Management Response to the Office of Inspector General for the U.S. Agency for International Development Pre-Award Risk Management Audit Report

Dear Ms. Aldridge:

The IAF appreciates the opportunity to review and continue to strengthen its robust risk management practices and submit its responses to the findings and recommendations of the pre-award risk management audit of selected IAF activities in the Dominican Republic, Mexico, and Peru conducted by your office.

Recommendation 1. Develop and issue written guidance on drug-trafficking prohibition requirements in Section 487 of the Foreign Assistance Act and Title 22 of the Code of Federal Regulations Part 140.

Regarding the Recommendation. Section 487 of the Foreign Assistance Act requires that reasonable steps be taken to ensure that assistance is not provided to or through drug traffickers or persons with narcotics convictions. The IAF already takes steps to ensure assistance is not provided to or through drug traffickers, including working with the U.S. embassy in each country where we work to obtain its approval of prospective grantees. The IAF consistently supports U.S. foreign policy objectives and is committed to promoting security and stability in Latin America and the Caribbean. In order to certify that IAF funds are used for appropriate activities with appropriate partners, U.S. embassies vet and approve all prospective grants before awards are finalized to ensure there are no concerns about the organizations.

We recommend this item should be closed. As of May 2, 2024 the IAF has developed new and strengthened standard operating procedures regarding compliance with the Anti-Narcotics Provisions in Section 487 of the Foreign Assistance Act. The IAF is

aware that it is dependent on the Department of State to complete the anti-narcotics check, and so we are working with embassy and interagency colleagues on the implementation of our guidance in order to ensure we are providing all the necessary information to each Country Narcotics Officer.

The IAF uses several risk management tools as part of its internal programmatic monitoring to ensure assistance is appropriately granted and overseen. The description of our pre-award assessment appears below, in our response to the second and third recommendations. In addition, every IAF grantee receives an initial orientation with a Foundation Representative (staff who, along with other grant management responsibilities, evaluate proposals and recommend grants, meet various staff and beneficiaries and thoroughly explain the grant terms and conditions).

The IAF has a robust grant audit function that, in addition to ensuring that IAF funds are used for appropriate activities with appropriate partners, also reviews financial management and other aspects of grantee performance. Our long-standing practice goes beyond current federal requirements in examining organizations' compliance and internal controls prior to award and over the life of the grant. For example, the Code of Federal Regulations requires an independent financial audit of entities that expend \$1 million or more in combined federal funds during the recipient's fiscal year, a significant amount more than awarded to any IAF grantee in a single year. The IAF, however, conducts audits on grant agreements with an approved total funding amount greater than \$125,000 (with the average IAF grant lasting four years). The IAF contracts with in-country audit firms that conduct compliance audits on grantees.

Each new grant receives an audit within the first 18 months of its period of performance and, as needed, later in the life of the grant that covers the entire organization's financial operations and is substantially more detailed than a regular independent audit. The IAF has conducted 1260 audits of grantees in the nine years spanning 2015 through 2023, averaging 120 audits per year in the last five years (2019-2023). IAF audits are designed to identify any inappropriate or unauthorized use of funds or resources. On average only 2% of audits have significant findings of concern, which can typically be attributed to the relative incipiency of the organizations the IAF funds and can be resolved through improved practices. Prior to disbursing additional funds, the IAF ensures that any findings, minor or significant, are remedied. The IAF believes these additional steps mitigate the risk of IAF inadvertently funding criminal activities.

Recommendation 2. Develop and implement an enterprise risk management (ERM) framework.

Recommendation 3. Incorporate the ERM framework into IAF's pre-award risk management procedures.

Regarding the Recommendations. While the IAF does not have a formal ERM framework, we manage enterprise risk through extensive risk review of all proponents in

a way that is attuned to our small-scale grantees and our high-touch approach. We concur with the recommendations and will formally integrate our existing risk management strategy into a more cohesive ERM framework that takes into account IAF's unique mission and programs. We will develop an ERM framework based on the recommendations from OMB Circular A-123 over the course of this year and fully incorporate it into IAF's pre-award risk management procedures by the target date of October 1, 2025, to coincide with the launch of a new fiscal year.

We have significant processes in place to conduct due diligence and manage risk over the entire course of a grant. During proposal vetting, the Foundation Representative reviews proposals based on the criteria outlined in the application form and conducts an institutional evaluation. The IAF requests at least two references from external individuals that can speak to the organization's financial management capabilities and achievements. Our in-country team meets with various members of the organization to gain insight into its inner workings. If the organization is deemed fit to receive a grant, the IAF drafts a memo listing organizations potentially slated for IAF funding as well as key organizational team members to the U.S. embassy. Once the embassy concurs, the Foundation Representative develops a Project Analysis Review and draft agreement. A Senior Foundation Representative, the Managing Director or Deputy Director of Programs, and the Office of General Counsel also conduct review for, among other things, institutional, reputational, political, and legal risk, flagging any issues for further review where necessary.

The IAF holds grantees accountable for using U.S. public funds responsibly and for successfully implementing their grants through robust oversight, regular audits, independent data verification, and progress reporting. We require grantees to co-invest in their projects, leveraging counterpart resources from local private sector, government, and philanthropic organizations. Before awarding a grant, organizations commit resources equivalent to US\$1 for each dollar invested by the IAF, multiplying the IAF's impact and ensuring community ownership. Not only do we require, encourage, and assist grantees in identifying counterpart, we also actively seek private sector partnerships, many of which result in co-funding for IAF grantmaking efforts.

The agency requires grantees to track and report their progress, lessons learned, and results every six months during the life of the grant. The results of our audits provide the IAF with insight when developing our country portfolios and evaluating grant proposals. On average over the past three years, more than 86% of grants have met or exceeded their expected outcomes, reflecting the success of the IAF's oversight measures.

The lean, flexible model the IAF has honed since 1969 when the U.S. Congress created the agency has enabled us to propel responsive development designed and led by target communities for lasting impact. Our model has allowed the IAF to quickly shift resources toward emerging areas of U.S. concern, including providing viable alternatives to crime and violence in areas where organized crime is proliferating by promoting positive youth development and expanding income generation. We have also created a dynamic network of grassroots organizations throughout the region positively

disposed to the United States. Over 70% of IAF grantees independently and anonymously surveyed had improved or greatly improved their opinion of the United States as a result of working with the IAF.

We thank you for your recommendations on how to improve our pre-award risk management. As good stewards of public resources, we're always looking for ways to achieve our mission more effectively and efficiently.

Sincerely,

/s/

Sara Aviel
President and CEO

Appendix F. Major Contributors to This Report

Members of the audit team include:

- Emily Gardiner, Audit Director
- Timothy Lamping, Assistant Director
- Gilbert Kim, Lead Auditor
- Carlos Molina, Lead Auditor
- Hugo Solano, Auditor

The audit team would also like to acknowledge contributions from Jennifer Herrmann, Saifuddin Kalolwala, and Samuel Ludwig.



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