Chairman Graham, Ranking Member Leahy, and members of the Subcommittee, I am pleased to provide this written statement to the Subcommittee on behalf of the Office of Inspector General (OIG) for the U.S. Agency for International Development (USAID). In the following pages, I address our oversight and budget requirements as well as challenges that the agencies we oversee confront in managing and implementing assistance activities abroad.
USAID OIG was established to combat waste, fraud, and abuse and promote economy, efficiency, and effectiveness in foreign assistance programs. Our oversight responsibilities extend across USAID programs and activities, as well as those of the Millennium Challenge Corporation (MCC), U.S. African Development Foundation, and Inter-American Foundation. In addition, OIG has limited oversight authority and responsibility relating to the Overseas Private Investment Corporation (OPIC).

OIG executes this mission by conducting audits and reviews of agency foreign assistance programs and operations; by investigating allegations of fraud, waste, and abuse; and by conducting extensive outreach to educate and raise awareness among stakeholders about their responsibilities to help prevent, detect, and report mismanagement, fraud, waste, and abuse. OIG employs dedicated Foreign and Civil Service auditors, analysts, investigators, and Foreign Service Nationals to carry out oversight of foreign assistance programs around the world. To ensure independence, OIG maintains administrative, personnel, and information technology (IT) systems separate and apart from USAID’s. By law, we obtain legal counsel from our own staff of attorneys, and we fund and independently execute our own management, communications, and reporting responsibilities.

OIG seeks to deliver a consistently high level of performance and productivity in providing independent oversight of foreign assistance programs. Last year, we made good on that commitment through the issuance of 694 financial and performance audits and reviews with more than 1,100 recommendations for improving foreign assistance programs. These audits identified $167 million in questioned costs and funds to be put to better use, and during the course of the year agency officials sustained approximately $117 million in costs that we had questioned. Meanwhile, OIG investigative work led to 8 arrests and 96 administrative actions such as suspensions, debarments, and terminations of employment. In total, OIG investigations contributed to more than $23 million in savings and recoveries in fiscal year (FY) 2014. To promote fraud awareness and reinforce adherence to appropriate spending and accounting
practices, OIG provided more than 280 briefings and training sessions for approximately 8,700 attendees.

Overall, even by the most conservative appraisal, OIG has consistently served as a net source of revenue for the federal government. For every dollar OIG has spent over the past 5 years, the agencies we oversee have recouped almost three dollars in sustained questioned costs, funds to be put to better use, and investigative savings and recoveries. In addition to these clear direct returns, OIG has contributed to future economies and efficiencies by strengthening systems and controls and helping to get agency programs and activities back on track. By making it plain that there is a cop on the beat in high-risk international settings, OIG activity has also had a deterrent effect against waste, fraud, and abuse.

While OIG can point to a strong track record of providing effective oversight and adding value to foreign assistance efforts, our ability to continue to meet our mandate is in question. As we look forward to FY 2016, OIG confronts new oversight requirements and must take steps to shore up its internal systems, but has not been budgeted the resources that OIG believes are necessary to address these needs.

USAID’s push to expand its use of host country systems in implementing assistance programs under the Local Solutions Initiative has increased OIG oversight requirements. As the number of new local partners has increased, OIG has had to expand audit and outreach efforts to ensure appropriate controls are in place and that new partners understand fraud reporting requirements and procedures. OIG has also had to work more intensively with local law enforcement, prosecutors, and courts to address misuse of U.S. Government funds on the part of a growing base of USAID implementing partners not subject to U.S. legal jurisdiction. Rather than one court system, OIG must seek to advance prosecutions and recoveries in many jurisdictions scattered across the globe. This greatly complicates our work and significantly adds to coordination and liaison requirements.

These developments coincide with the expansion of whistleblower protections to federal contractors. Congress extended whistleblower protections previously enjoyed by federal
employees to employees of federal contractors and grantees on a pilot basis. Provided these additional protections, employees of foreign assistance implementing partners may be more willing to report allegations regarding waste, fraud, abuse, and mismanagement to our office. Consequently, we have intensified outreach to implementing partner personnel with the aim of increasing their awareness of these protections. Because employees of agency contractors and grantees are often in the best position to observe fraud, waste, and mismanagement in foreign assistance programs, OIG believes that these additional protections have and will continue to encourage more of these personnel to report matters of concern to OIG.

The emergence of two overseas contingency operations (OCOs) related to the Ebola (Operation United Assistance) and ISIL (Operation Inherent Resolve) response efforts has also placed additional demands on our office. Whereas in the past, special inspectors general were established to provide oversight for contingency operations in Iraq and Afghanistan, in 2012, Congress amended the Inspector General Act to provide for a Lead Inspector General to work with counterpart OIGs to provide oversight of future OCOs. This arrangement was adopted to increase the efficiency of oversight efforts by leveraging the specialized knowledge and standing capacity of the OIGs for USAID and the Departments of Defense and State. While this new framework promises to deliver the kind of contingency operation oversight that Congress and the public expect, it also entails more intensive oversight, outreach, coordination, and reporting on the part of all OIGs associated with an OCO, including our office. Notwithstanding these additional requirements and responsibilities, USAID OIG did not receive funding to fully address Ebola-related oversight needs in our view, or any additional resources to support OCO oversight contributions in Syria and Iraq.

Not only has the intensity of OIG oversight requirements increased, so too has the amount of funding for which USAID OIG is likely to be responsible. In addition to substantial funding for Ebola-related activities in the recent appropriation, USAID and MCC accounts received a significant increase in the FY 2016 Budget Request.¹

¹ OIG oversight of MCC is funded through MCC’s appropriation.
By any measure, expectations and requirements for our office have grown, yet our budget reflects historic levels of spending. In fact, the amount provided for our office in the FY 2016 budget request is consistent with what we spent last year. So, while our requirements are increasing, the levels of funding available to us are standing still.

While promoting efficiency in the agencies we oversee, OIG has consistently looked for ways to find economies in its oversight operations. In the austere budget climate of the past several years, however, OIG has cut funding in several areas that can no longer go unsupported without adversely affecting the quality of its work. Important training and professional development activities have been canceled or postponed, and internal support systems vital to OIG independence such as those associated with IT and human capital, have been under-resourced. These and other internal requirements must be addressed for OIG to continue to properly perform mission-critical oversight functions.

These challenges are taking a toll on the organization. OIG’s IT and human capital systems are not resourced to deliver the level of service we need to remain an effective, independent organization. Our auditors are struggling to keep pace with demands to examine emerging issues of congressional and public interest and have had to set aside assessments of the implementation of significant policy and program initiatives. OIG criminal investigators face average caseloads that increased by 75 percent over the past several years, and leads are going cold while they wait in the queue. These conditions have created an environment in which turnover is too high and morale too low.

Absent relief, these conditions will worsen. OIG anticipates that this situation will become more serious in the coming months as we begin to suspend recruitment and hiring activity to bring staff levels in line with what we can support with the amounts in the President’s Budget.

OIG cannot meet the challenges it faces in the coming years within current budget constraints. We believe that the immediate trade-offs we must consider to operate within the levels provided in the President’s Budget will impair our ability to sustain the kind of broad-based, robust oversight that Congress has long held us to. In OIG’s view, provided funding at this level, OIG
would not be able to properly deliver on oversight of two active OCOs or fortify its internal systems, and we would need to divert resources from other aspects of our operations. OIG would need to recall personnel from international offices and provide oversight at a distance in several parts of the world. In particular, we would need to withdraw personnel from two international offices, significantly roll back oversight of Europe and Eurasia programs, and suspend plans to enhance investigative coverage of East Africa by opening a small investigative office in the region. While these changes will have a significant effect on our staff and organization, the impact will be felt more acutely in the programs and operations of the agencies we oversee. Constraints on OIG’s ability to provide needed oversight will reduce accountability and expose foreign assistance programs and activities to greater risks of waste, fraud, and abuse.

We look forward to working with the Office of Management and Budget and Congress to ensure that OIG oversight requirements are adequately supported in the future.

**Challenges to the Management and Administration of Foreign Assistance**

Our oversight work has highlighted a number of significant challenges that foreign assistance agencies face in administering related programs and activities. Significant challenges currently facing foreign assistance include operating in nonpermissive environments, effectively mitigating risks associated with increased foreign partner implementation of assistance projects, providing clear strategic focus, strengthening performance data, improving sustainability, and planning and operating in the context of budgetary uncertainty. In addition, the management of human capital, IT, and financial systems represents a major management challenge for agencies responsible for foreign assistance activities. Finally, defects in the oversight arrangement for OPIC also represent a significant challenge that must be addressed.

Work in nonpermissive environments poses a major management challenge for foreign assistance agencies. USAID in particular frequently operates in countries facing conflict, insecurity, instability, and weak governance. Travel restrictions on U.S. direct hire personnel and sometimes local Foreign Service National staff complicate program management and oversight activities. Humanitarian assistance activities in Syria are operated from neighboring
countries, embassies have closed in Libya, Somalia, and Yemen, and USAID missions for Iraq, South Sudan, Tunisia, and West Bank/Gaza have been evacuated or operated with limited staffing at different points in recent years. These conditions make it extremely difficult to monitor and oversee development projects and humanitarian assistance efforts, yet the U.S. Government continues to invest substantial resources in these settings. Ensuring that agency personnel can responsibly manage related resources and that implementing partners are able to apply funds to well-designed, sustainable programs that advance development or stabilization objectives also represents a significant challenge in these countries.

USAID plans to channel 30 percent of assistance through partner-country systems under its Local Solutions Initiative. This means providing increased funding to and relying to a greater extent upon foreign government ministries, local NGOs, and local for-profit firms to implement programs. By adopting this approach, the agency seeks to promote project sustainability and reinforce local systems for advancing development. This greater reliance on host-country systems, however, also carries significant risks. Local recipients are often unfamiliar with U.S. Government requirements and corresponding management and accountability expectations. Under current conditions, agency contracting staff cannot ensure that organizations new to U.S. procurement requirements and processes use funds properly, heightening the risk of fraud, waste, and abuse.

Another serious challenge that has emerged in recent years relates to the need for sustained strategic focus. When coupled with external mandates, USAID’s many initiatives and priorities may divert attention from core responsibilities and shift focus away from long-term goals and commitments. Agency personnel report that the number and pace of new USAID leadership initiatives and priorities have been overwhelming. In many cases, the agency has not reportedly aligned new initiatives with current strategies and policies, fully considered field conditions affecting implementation, or ensured that initiatives are fully adopted and integrated into agency operations before introducing new ones.

OIG audits frequently find performance data concerning USAID programs to be unreliable and the agency has yet to take effective, comprehensive agency-wide action to address problems
surrounding the quality of its data. Because problems associated with data collection and reporting have presented in USAID activities around the world, ensuring reliability in performance data has become a real management challenge. While USAID has made some efforts to address the problem, such as developing training on data quality standards and the use of site visits and assessments to detect problems, OIG has observed deficiencies in this area for many years.

International development efforts are intended to provide program benefits that are sustained after donor funding ends. Although both USAID and MCC have incorporated sustainability considerations into project design and planning activities, OIG audits often identify major risks to the sustainability of project activities. The sustainability of foreign assistance projects is often dependent on the willingness and ability of recipients to maintain investments. In some cases agencies are unsuccessful in securing recipients’ long-term commitments to support projects at their outset and, in others, recipients renege on their commitments, failing to uphold gains in capacity or maintain systems and infrastructure.

Managing around an unpredictable budget process associated with frequent delays and uncertainty also poses a major difficulty for foreign assistance agencies. These conditions make it challenging to initiate large, multiyear programs. In addition, unforeseen increases or decreases in funding, delays in receiving funds, and hasty obligations of those funds can all adversely affect project planning and implementation. When budget and time pressures are overlaid onto complex procurement processes and requirements, errors in awards and planning weaknesses frequently arise.

Foreign assistance agencies also face noteworthy difficulties associated with human capital management. USAID experiences shortages of experienced, skilled personnel to perform programming and support functions and these shortages translate into shortcomings in institutional performance. Deficits in the number of contracting staff with the knowledge and skills to properly design and administer awards, for example, lead to extended delays in program design and approval. Meanwhile, poor human capital development and promotion practices have
contributed to a situation in which many managers reportedly fail to delegate tasks, recognize employees’ strengths and contributions, or encourage innovation.

IT and financial management are also sources of concern. USAID’s decentralized management of information technology and information security and reliance on Department of State systems in many locations make it difficult for the agency to ensure that relevant policies and procedures are implemented or that external mandates are met. OIG was not able to provide an opinion on USAID’s most recent financial statement due to the material volume of accounting adjustments the agency had made to reconcile accounts but could not support. In addition, incurred-cost audits of USAID’s for-profit contractors have lagged, resulting in a sizable backlog. For its part, MCC continues to have difficulty accumulating the disbursement data it needs from foreign-government-managed Millennium Challenge Accounts to prepare complete, reliable financial statements.

In closing, I would like to highlight a management challenge that bears congressional resolution: the need to establish an appropriate long-term oversight arrangement for OPIC. As we noted earlier, USAID OIG has limited oversight authority and responsibility with respect to OPIC. Current OIG authorities and responsibilities are identified in 22 U.S.C. § 2199 and annual, interagency agreements between OIG and OPIC that we have entered into each of the past 3 years. The most recent agreement provides the basis for OIG to run a fraud awareness program, conduct an audit to address identified risks in OPIC operations, report on compliance with information security requirements, and review the Corporation’s purchase card program. However, neither the statute nor the agreement provide for the full range of oversight activities commonly undertaken by inspectors general.

Under the current arrangement with OPIC, our office does not have independent authority to conduct all oversight activities that we deem appropriate. OIG does not have needed flexibility to adjust oversight plans because the law does not specifically authorize OIG to conduct audits of OPIC programs whenever such work is necessary or desirable, and the funding and authority for these activities is determined in annual agreements. Other core activities that are typically the province of an OIG, like oversight of annual financial statement audits and the examination of
complaints about the effects of projects, are managed by OPIC itself, rather than an independent entity. In addition, OPIC has sought to shape the types of oversight we provide as part of interagency agreements, and perennial delays in its signing of agreements have postponed OIG oversight activities. This arrangement with OPIC—whereby the subject of oversight can shape the types of oversight it receives and the terms on which it is provided—presents potential conflicts that should be remedied through legislative action.

A number of legislative proposals to address this situation have been introduced in recent years but none has come to fruition. One proposal would provide our office with a full complement of OPIC oversight authorities, while another would assign these to the Export-Import Bank OIG. Other legislation provides for OPIC to have an OIG of its own.

While congressional attention to the future of OPIC oversight may be warranted, the continuing uncertainty surrounding the oversight arrangement that will ultimately emerge does no service to OPIC and does little to provide independent assurance that OPIC is managing resources appropriately. USAID OIG has no position on what specific, long-term arrangement should be selected for OPIC oversight, but firmly believes in the value that truly independent oversight can bring to federal government programs and activities. Accordingly, USAID OIG welcomes continued engagement with OPIC and Congress on this matter and stresses the importance of securing both adequate funding and comprehensive audit and investigative authorities for any OIG charged with overseeing OPIC programs in the future.

Thank you for this opportunity to address the Subcommittee. At USAID OIG, we greatly appreciate your interest in our work and continuing support for effective oversight.