Chairman Issa, Ranking Member Cummings, Members of the Committee, I am pleased to appear before you to testify on behalf of the Office of Inspector General (OIG) for the U.S. Agency for International Development (USAID). Today, I would like to discuss challenges facing foreign assistance and the
oversight mechanisms we have in place to ensure accountability, with particular focus on direct assistance.

USAID OIG was established in 1980 to combat waste, fraud, and abuse and promote economy, efficiency, and effectiveness in USAID programs and activities. Our oversight mandate has since grown to encompass the full portfolio of programs and activities at USAID, the Millennium Challenge Corporation (MCC), the U.S. African Development Foundation, and the Inter-American Foundation. Last year, for USAID alone, we oversaw approximately $22 billion in funds for development assistance in more than 80 countries. MCC’s work with 19 partner countries added an additional $898 million to our portfolio. This year, our oversight covers approximately $21 billion in funding for USAID and $853 million for MCC. Our oversight of how agencies use these funds extends far beyond frontline states like Afghanistan and includes a broad range of programs designed to promote improvements in health, education, infrastructure, governance, and other areas.

To oversee these foreign assistance activities, we employ 219 Foreign Service and Civil Service auditors, criminal investigators, and management and legal staff who are assigned to our ten regional and country offices and to our headquarters in Washington, D.C. We also draw on the skills and expertise of 39 Foreign Service National auditors, investigators, and administrative staff. OIG personnel have worked with great dedication to help improve stabilization, reconstruction, and development activities and reinforce program integrity. Our
personnel are frequently called to serve in challenging environments and many work in conflict zones and areas beset by natural disasters. Their commitment to our mission and firm resolve in the face of these challenges are to be commended.

Across our oversight portfolio, we conduct performance audits and reviews of programs and management systems, along with audits on grantees and contractors’ financial accountability as well as agency financial statements. We supervise third-party audits of U.S.-based companies and grantees and work with local audit firms and host-government audit agencies to audit the expenditure of U.S. Government funds by local and host-government implementing partners. OIG oversees these audit activities by setting audit standards, determining the eligibility of local public accounting firms to perform financial audits of agency funds, ensuring that audits are conducted in line with established quality standards, and reviewing and approving resulting reports prior to issuance.

OIG also conducts investigations into possible violations of federal laws, rules, and regulations to preserve and protect the integrity of the programs and activities that we oversee. Domestically, our criminal investigators employ the full complement of law enforcement authorities in pursuing allegations of waste, fraud, and abuse of U.S. foreign assistance funds. Abroad, we do so subject to constraints of foreign law. We also work with host-country authorities to prosecute crimes in local courts when appropriate.

OIG’s outreach and coordination are also important elements of the oversight process, and we engage extensively in these activities. We maintain
hotlines to gather information on alleged misconduct and other irregularities in foreign assistance activities, and conduct fraud awareness briefings to alert participants to fraudulent practices and schemes. Our auditors provide training to Agency personnel, host-government audit authorities, and local audit firms on cost principles and federal audit and accountability procedures and requirements.

We also participate in task forces and work with interagency groups to coordinate oversight efforts in key areas, such as U.S. assistance in Southwest Asia, global health, and procurement fraud. We have also begun working with a group of 11 bilateral donors to improve transparency and accountability of multilateral assistance efforts, and address other issues of mutual interest.

These oversight activities have yielded noteworthy results. Last year, we issued 686 audit reports, with 1,478 recommendations for improving foreign assistance programs. These audits identified $154 million in questioned costs and funds to be put to better use, of which $47.7 million has been sustained. We maintained a vigorous investigative program, opening 171 investigations. Our investigative efforts led to 26 referrals for prosecutorial consideration and 101 administrative actions (including 37 suspension and debarment actions) and yielded $50 million in savings and recoveries. Our outreach efforts included 164 fraud awareness briefings in 31 countries for 4,144 participants.

In Afghanistan and Pakistan, our work over the last decade has also produced noteworthy results. To date, we have issued 223 audits of foreign assistance activities in these countries with 568 recommendations for
improvement. Our financial audit work has covered almost $2.3 billion in expenditures and, together with our performance audit efforts, identified more than $190 million in sustained questioned costs and funds to be put to better use. Our 307 investigations in Afghanistan and Pakistan have, in turn, yielded 161 administrative actions, 50 prosecutorial referrals, 13 convictions, and approximately $267 million in savings and recoveries.

In addition to reinforcing the integrity and efficiency of foreign assistance efforts, our oversight work has highlighted significant challenges that USAID and MCC face in administering their programs and activities. These management challenges directly affect the agencies’ ability to execute direct assistance programs and use local partners.

Implementing assistance programs in high-threat environments is a leading challenge for USAID. Programs in Afghanistan, Pakistan, Iraq, Haiti, and South Sudan face an operating environment characterized by instability, insecurity, weak governance, and corruption. Surging personnel needs and frequent staff rotations erode familiarity with the local operating environment and contribute to shortcomings in compliance, weaknesses in contract oversight, and diminished internal controls. Relations with host governments are often challenging and continued violence complicates staff recruitment and retention. Security conditions also often impede program implementation and complicate monitoring and evaluation efforts.
Despite difficulties in these settings, USAID programs have achieved some notable successes. In Pakistan, USAID-funded work on the Gomal Zam Dam has helped ease energy shortages and was on track to prepare the dam to provide water to irrigate more than 150,000 acres of farmland. OIG inspections of projects under the Pakistan Transition Initiative and interviews with community members and government officials confirmed that the program quickly and efficiently delivered projects that local communities needed to address basic needs. In Haiti, food assistance activities helped reduce the number of underweight and stunted children, increased crop yields, and improved hygiene and sanitation practices.

Notwithstanding the promise of these efforts, we frequently find that stabilization and development projects in high-threat environments fall short of expectations. Security problems alone have hampered a third of the programs we have examined in Afghanistan and South Sudan. Nearly all of the USAID implementing partner’s staff working on the Afghanistan Stabilization Initiative for the Southern Region resigned after an attack in 2010 on their main office, delaying project activities. Other local challenges in high-threat settings have also caused setbacks. In late 2011, the Iraqi parliament evicted implementers carrying out USAID’s legislative strengthening program from their office and reneged on the agreement with USAID authorizing the program to operate.

We have also encountered poor quality work, cost overruns, unimplemented plans, and well-intentioned initiatives that falter during implementation. The implementing partner for two capacity-building projects in
South Sudan valued at $92.5 million failed to complete key deliverables and charged USAID for the cost of office compounds that it intended to use for other programs, including those for projects not supported by the U.S. Government. Meanwhile, a community health project in Haiti pressed to meet targets for opening 36 new community service delivery points even though sites were already competing to serve the same populations and enrollment was much lower than anticipated.

To help keep programs in high-threat environments on track and prevent waste and abuse, OIG quickly deploys personnel in response to emerging oversight needs and establishes dedicated country offices as soon as conditions permit. To spur greater awareness of fraud indicators, help mitigate risks, and increase knowledge of reporting requirements, we conduct aggressive fraud awareness campaigns. We have also launched national hotlines for reporting fraudulent activity. In Pakistan, the hotline we established in partnership with USAID receives complaints in six languages. The first of its kind in the country, the hotline received more than 2,000 complaints last year; all of which were initially vetted by OIG staff. We have recently extended this model to Haiti, launching an anti-corruption hotline through a similar arrangement with USAID.

In both high-threat environments and traditional development settings, we have frequently identified planning weaknesses and the need for improvements in documenting, monitoring, evaluating, and reporting on program performance as an additional challenge agencies face in delivering foreign assistance. More than half
of our recent performance audits have noted weaknesses in contract or project management, including problems with project planning.

For example, a program designed to encourage Pakistani farmers to replace their irrigation pumps with more energy-efficient models had little success because other new pumps were available at a lower price and installation of the energy-efficient pumps was too costly for farmers. Feasibility studies and designs for MCC-funded road and water projects in Mozambique were not completed until the third year of a 5-year compact, delaying all procurements and adding to the risk that projects would not be completed by the end of the compact. Because the implementer of a USAID HIV/AIDS program in the Democratic Republic of Congo did not properly forecast the need for HIV commodities, or budget for them, the health system faced significant stock-outs.

Project oversight and monitoring have also been problematic; foreign assistance agencies and implementers do not always conduct the site visits necessary to ensure proper project execution and compliance with requirements. In Côte d'Ivoire, a 2011 report noted that greater oversight by USAID might have both prevented the failure of implementing partners to carry out HIV/AIDS program activities and avoided potential acts of fraud. More recently, we found performance monitoring weaknesses in a program designed to promote trade and investment reforms in Vietnam.

Data quality deficiencies—and agencies’ inability to report program outcomes accurately—can undercut the soundness of program and policy
decisions. Yet more than a third of our recent performance audits and reviews have noted data quality problems. In many instances, required data is not collected, data collection methods are improper or inconsistent, or definitions for what is to be collected are inadequate. In Haiti, loan information associated with USAID Development Credit Authority activities was outdated, incomplete, and inaccurate. In Ethiopia, the USAID mission lacked the baselines and targets necessary to determine whether Feed the Future activities were performed satisfactorily. In Tajikistan, an agriculture program had no measures for its most significant activity and had no targets for those indicators it did track.

To help address weaknesses in the management and oversight of development projects, OIG maintains an intensive focus on these issues. Last year, we conducted 93 performance audits and reviews of activities in more than 40 countries with the quality of agencies’ program and project management in mind.

Sustainability also poses significant challenges for agencies delivering foreign assistance. Although the U.S. Government aims to create conditions that will eliminate the need for development assistance in the future, it has had difficulty designing and implementing projects that can be sustained by host countries after assistance ends. More than one in six of our recent performance audit reports have identified problems with project sustainability. For example, after USAID spent $73.2 million on information technology systems for the Government of Iraq we found that most of the systems were either not completed,
not functional when delivered, or not used as intended. In a $100 million infrastructure program in West Bank and Gaza, USAID did not assess a government ministry’s ability to operate and maintain constructed and renovated schools and facilities after completion. We also found that long-term gains from work on a $223 million road project in South Sudan were uncertain because of the host government’s inability to maintain the road or address road safety problems that have led to high numbers of traffic fatalities.

To increase the likelihood that development gains are sustained, USAID is increasing its use of host-country institutions and partners. By using local systems to deliver foreign assistance, the Agency believes it can strengthen host countries’ long-term capacity to manage and address their own development needs. USAID is therefore expanding the share of program funds it uses to provide direct support to host governments, local nonprofit organizations, and private businesses abroad.

USAID has provided assistance to host governments and other local entities for many years. In the recent past, however, the Agency more often relied on U.S.-based contractors and grantees. In many cases, these U.S.-based entities served as intermediaries between USAID and local implementers, and had primary responsibility for managing project risks and ensuring that assistance activities met U.S. Government standards and requirements. As we have noted, however, many of the risks to foreign assistance activities arise from the challenging environments in which USAID operates and from weaknesses in project planning and performance management that can occur across all types of foreign assistance
programs. Without effective management, strong controls, and a framework for solid accountability, foreign assistance programs of all kinds face significant risks, regardless of the type of implementing partner the Agency uses.

Increased use of host-country systems does, nevertheless, present several specific challenges. Host-government ministries and local private and non-profit organizations sometimes lack the capacity to manage and implement development activities effectively, or adhere to U.S. Government regulations and requirements. USAID systems and training may not be sufficient for identifying and cultivating viable host-country partners, monitoring projects, or ensuring that U.S. funds are committed to intended activities. Finally, U.S. Government options for remedying performance problems and seeking recourse in cases of fraud and abuse may be constrained.

Our investigative experience abroad, including our unique focus on fraud and other violations in local settings, highlights some of the challenges we may face to an increasing extent in promoting accountability in the use of foreign assistance funds delivered through host-country systems. Although we have developed effective relationships with local law enforcement in a number of countries, investigative cooperation is sometimes hampered by developments in local politics and the larger bilateral relationship with the United States. Certain foreign law enforcement agencies have required financial and logistical support to further investigations OIG has started. Because local implementers overseas do not always have U.S. ties and cannot be readily compelled to appear in our courts,
there are jurisdictional impediments to their successful prosecution in U.S. courts. Consequently, foreign court systems, some of which are still developing basic capabilities, are at times the only venues available for prosecuting the crimes we uncover. Moreover, while prosecuting cases overseas, certain foreign judicial systems have at times required documentation and testimony from U.S. Government employees that would subject them to partial waivers of diplomatic immunity from foreign law claims by prosecuted parties.

Despite these challenges, OIG closely monitors USAID’s use of host-country institutions and partners to reduce risks to taxpayer dollars. We examine Agency assessments of prospective local partners to help improve information about their ability to manage U.S. Government resources. In Afghanistan, where the United States has pledged to provide 50 percent of development aid directly through the government, we found that ministerial assessments did not provide reasonable assurance of detecting significant vulnerabilities. In Pakistan, USAID did not prioritize or follow up on significant vulnerabilities identified in its preaward assessments and disbursed funds before verifying that the weaknesses had been addressed. Our work in this vein continues through a review of the two primary tools the Agency uses to inform preaward assessments in other parts of the world. We expect to complete this review in May.

We have also audited Agency efforts to improve the capacity of local organizations that are potential recipients of U.S. Government foreign assistance funds. Our audit of the Assessment and Strengthening Program (ASP) in Pakistan
found that the USAID office managing the program lacked experience designing, planning, and implementing programs that seek to build local institutions’ capacity in areas other than finance. Some activities deviated from ASP’s main purpose and, after a year-and-a-half, no capacity-building programs had been completed.

Beyond preaward activities, we examine host-country implementation of assistance programs. In Afghanistan, USAID’s on-budget assistance to Afghanistan’s Ministry of Public Health supported a program that increased the use of health facilities and reduced mortality. However, because 94 percent of the country’s health-care expenditures were donor supported, the ministry’s ability to sustain the current level of coverage over the long term was questionable. In Pakistan, where USAID provided cash payments to support a Government program to help alleviate poverty, the host government transferred U.S. Government funds into its general budget account without authorization from USAID. USAID was not aware that the Pakistani Government had transferred the funds because it did not receive needed information from the host government and therefore could not adequately monitor the program. In connection with a USAID cash transfer agreement with the Jordanian Government, USAID did not monitor funds spent on specified development activities and $1.2 million in funds were used for prohibited activities, such as military spending.

USAID procurement reforms also hinge on the effective use of local nonprofit and private sector implementers. Our work in Pakistan illustrates the opportunities and risks of relying on local nongovernmental organizations. Local
implementers, with whom USAID worked to deliver flood relief in 2010 successfully distributed food and hygiene kits to more than 80,000 households and administered medical supplies and treatment to more than 150,000 people. In contrast, a recent audit of the work of a local implementer to combat gender-based violence concluded that activities were too short to have a lasting impact on beneficiaries and noted that USAID did not visit the site with the frequency sufficient to verify project progress. Instead, it relied excessively on results reported by the local implementer. In another case, financial audit and investigative work last year related to the Pakistan Children’s Television Project revealed significant violations of procurement policies and standards on the part of the local nonprofit implementing the program.

The evaluation of foreign assistance provided through host-country systems will remain a key feature of our oversight work. In Afghanistan, we already oversee financial audits of all funds expended by local implementers. We will examine the Agency’s activities to advance work at the Kajaki Dam and channel direct funding through DABS, the Afghan power company, to support the project. We also will assess on-budget assistance provided to the Afghan Ministry of Mines to promote the development of the Sheberghan gas fields. Meanwhile, in Pakistan, we will examine on-budget funding to the government of Sindh Province in support of basic education programs. These projects stand alongside other priorities beyond direct foreign assistance, such as our work on the transition in Afghanistan, which includes an ongoing audit on USAID electoral assistance
programs, and oversight of global health activities to combat HIV/AIDS, malaria, and tuberculosis, among others.

The success or failure of USAID’s worldwide efforts to provide more development resources through host-country systems depends largely on local conditions. The planning, execution, and oversight of these efforts must account for country-specific and even community-specific factors. USAID’s ability to address host-country and partner weaknesses at the local level will play an important role in the delivery of direct assistance and use of host-country partners, as will the success of efforts to work with local institutions to resolve disagreements and respond to problems that arise.

With this in mind, we have tailored our oversight to respond to local considerations. Where appropriate, we work with supreme audit institutions to strengthen their oversight of host-country financial and management systems that handle U.S. Government funds. When practical, we establish dedicated country hotlines to give local citizens an opportunity to report fraud, waste, and abuse and contribute to the accountability of organizations that serve their communities. When we find willing and capable law enforcement counterparts, we work with them to end fraudulent practices and bring perpetrators to justice. And when a local legal and regulatory framework is in place to reinforce accountability—as it is in Pakistan for procurement practices—we work with local authorities to help enforce it on U.S.-funded projects.
Proper stewardship of U.S. tax dollars requires a solid accountability framework and we are committed to ensuring that measures to support such a framework are in place. Taxpayers have a right to know that the foreign assistance funds they provide are administered with integrity and efficiency and we will continue to provide the necessary oversight.

Thank you for this opportunity to address the Committee. We appreciate your interest in our work and look forward to learning more about your views on these issues and perspectives on effective oversight. I would be happy to answer any questions you may have at this time.