Chairman Leahy, Ranking Member Graham, 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 critical challenges that USAID faces in administering development assistance activities
abroad and concerns we have identified in our oversight of USAID programs and activities.

**USAID Office of Inspector General Oversight**

In 1980, USAID OIG was established to combat waste, fraud, and abuse and promote economy, efficiency, and effectiveness in USAID programs and activities. The scope of our congressionally mandated oversight responsibilities has since grown to encompass the full portfolio of programs and activities at USAID, the Millennium Challenge Corporation, the U.S. African Development Foundation, and the Inter-American Foundation. Last year, OIG oversaw approximately $22 billion in USAID funds for development assistance in more than 80 countries. For fiscal year (FY) 2013, our oversight covers approximately $21 billion in funding for USAID. Our oversight of these funds extends beyond frontline states like Afghanistan and includes a broad range of programs designed to promote improvements in health, education, infrastructure, governance, and other areas.

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. to oversee these foreign assistance activities. We also draw on the expertise and skills of 39 Foreign Service National auditors, investigators, and administrative staff. USAID OIG personnel have demonstrated great diligence and commitment to help improve stabilization, reconstruction, and development activities and strengthen
program integrity. Our personnel are frequently called to serve in challenging and
dangerous environments and many work in conflict zones and areas beset by
natural disasters. Their dedication 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, audits on grantees’ and contractors’
financial accountability, and 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.
Under our mandate to fight fraud, waste, and abuse, USAID OIG is analyzing programs implemented by the top 40 contractor recipients of USAID funds to identify regional, programmatic and/or contractor-specific vulnerabilities that fall under our investigative purview. We plan to use the findings from this study to inform the allocation of investigative resources and improve the effectiveness of our investigative efforts in this time of budget restraint. This analysis is also reflective of the proactive approach we are taking to identify programs where fraud, waste, and abuse are likely before allegations are made.

OIG’s outreach and coordination are also important elements of the oversight process, and we engage extensively in these activities. We maintain hotlines, both here and abroad, in English and other languages, 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. In addition, we have initiated work with a group of oversight offices for 11 bilateral donors to improve transparency and accountability of assistance delivered through multilateral organizations and to address other issues of mutual interest.
Audit and Investigative Results

Our oversight activities have yielded significant 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, 7 arrests, 9 indictments, 3 convictions, 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 produced considerable 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.
USAID Challenges

In addition to reinforcing the integrity and efficiency of foreign assistance efforts, our oversight work has highlighted significant challenges that USAID faces in administering programs and activities. These management challenges affect USAID’s ability to deliver assistance efficiently and effectively. Current challenges facing USAID include operating in high threat environments, sustainability, the execution of USAID’s Implementation and Procurement Reform, performance management and reporting, management of information technology, preserving audit access to United Nations records, accomplishing audits of U.S.-based for-profit contractors, and financial management issues.

Operating in High-Threat Environments

USAID performs a significant amount of work in high-threat environments such as Afghanistan, Pakistan, Haiti, and South Sudan. The insecurity, instability, weak governance, and high levels of corruption in fragile states create difficulties in implementing programs. OIG audits have found deficiencies in contract and grant management, planning for program sustainability, internal controls, and compliance with laws, regulations, and other legally binding requirements.

Continuing violence in these settings makes it challenging for USAID to implement programs and conduct needed program monitoring activities. In Afghanistan, 40 percent of our reports from October 1, 2010, through June 30, 2012, identified contractor or project management deficiencies and noncompliance with relevant procedures or regulations. Internal control
weaknesses were also noted in 40 percent of these reports. More than a third of these reports indicated that security problems hampered project implementation or monitoring and a similar percentage raised questions about the sustainability of program benefits. Similarly in Pakistan, more than 40 percent of the reports during this period identified contract or project management deficiencies. Likewise, more than four in ten found internal control weaknesses and noncompliance with relevant procedures or regulations.

Our audit of the $160 million Afghanistan Stabilization Initiative for the Southern Region found that the project had been delayed by the failure to apply timeliness standards in evaluating implementer performance, adverse security conditions, a lack of formal work planning, inadequate USAID oversight, staffing difficulties, and poor-quality subcontractors. To address difficulties in these areas, USAID/Afghanistan expects to continue to use on-site monitors. It is also considering the use of third-party monitors to help train program participants and report on project progress.

In Pakistan, the Energy Efficiency and Capacity Program, a 3-year, $23.5 million program, did not achieve any of its planned results in key areas. The program focused on providing subsidies to farmers for more efficient irrigation well pumps with the aim of replacing 11,000 pumps over 2 years. However, after 18 months, only 963 pumps had been replaced. More realistic planning and closer monitoring would have produced more effective results.
In South Sudan, travel restrictions due to insecurity have impeded USAID project implementation and monitoring. Lack of experienced staff in South Sudan has limited the ability of USAID to perform on-site financial reviews and few local public accounting firms are qualified to perform audits of USAID recipients when more in-depth oversight is needed. USAID has also been limited in its ability to coordinate programs because of weak South Sudan government institutions. Insecurity, insufficient financial monitoring, and low host-government capacity were also indicated in a USAID OIG audit on road-upgrading activities in South Sudan. While the road being built was over budget and behind schedule, the sections of road that were completed were well built, and increases in traffic showed that the road had successfully linked South Sudan with Uganda and other countries to the south. However, increased traffic volumes led to more accidents. Wait times at the border increased from 3 hours to 3 days because the Government of South Sudan did not upgrade its customs operations at the border with Uganda.

Haiti is a high-risk environment with weak government institutions, limited capacity of local non-governmental organizations, and widespread corruption. To mitigate related risks, USAID/Haiti has channeled 98 percent of U.S. Government funding to U.S. contractors and non-governmental organizations. USAID OIG audits and program reviews have found, however, that USAID’s programs in Haiti are falling short of planned results and have identified problems with program implementation, internal control weaknesses, and poor monitoring and oversight.
For example, USAID/Haiti’s cash-for-work activities reached fewer beneficiaries than initially planned and only had a modest stabilizing effect on the intended population. Because of planning weaknesses and various delays, USAID/Haiti’s transitional shelter activities did not meet their goal of substantial shelter construction prior to the hurricane season.

**Sustainability**

USAID has experienced difficulties in ensuring that national governments and community organizations are committed to or have the capacity to sustain the benefits of USAID assistance programs. In more than one in six of our recent performance audits, we have identified problems with project sustainability. For example, between 2003 and 2011, USAID spent $73.2 million on information technology systems for the Government of Iraq. We found that most of the systems were not completed, not functional when delivered, or not used as intended. In some cases, the Government of Iraq did not support the systems or was not prepared to begin using them, and in other cases, USAID’s implementing partners did not deliver completed or functional systems. In a $100 million infrastructure program in West Bank and Gaza, USAID did not assess a government ministry’s ability to maintain and operate new and renovated schools and facilities once they were completed. To improve performance in this area, USAID has issued new procedures that require sustainability objectives to be incorporated into every project design and has developed corresponding analytical tools and training for its staff.
Implementation and Procurement Reform (IPR)

USAID’s IPR initiative is intended to make its assistance programs more efficient, effective, and sustainable and to enhance project management and implementation capacity so that development assistance is no longer necessary. One of the objectives of IPR is to increase the use of host-country systems and institutions. This approach poses several risks. The current state of management and implementation capacity of the relevant host-governments and local private and non-profit organizations may be sufficiently lacking so as to call into question their ability to use these funds effectively and protect them from fraud, waste, and abuse. Moreover, USAID has indicated that its missions abroad will need additional staff to work more closely with local organizations to help mitigate risk.

Our audits have noted difficulties in the Agency’s implementation of on-budget assistance in Afghanistan. We found, for example, that USAID’s first six ministerial assessments conducted from 2007 through 2010 did not provide reasonable assurance of detecting significant vulnerabilities. When we examined USAID’s on-budget assistance to Afghanistan’s Ministry of Public Health we observed that these funds 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, USAID did not prioritize or follow up on significant vulnerabilities identified in its pre-award assessments and disbursed funds before
verifying that the weaknesses had been addressed. When USAID provided cash payments to support a Government program to help alleviate poverty, the Government of Pakistan transferred U.S. funds into its general budget account without authorization from USAID. USAID was unaware of this transfer because it did not receive needed information from the Government of Pakistan and therefore could not adequately monitor the program. In Jordan, USAID did not monitor funds spent on specific development activities and $1.2 million in funds were used for prohibited activities, such as military spending.

Our investigative experience abroad, including our unique focus on fraud and other violations in local settings, serves as a strong indicator of challenges to come in promoting accountability as more foreign assistance funds are 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. Some foreign law enforcement agencies have required financial and logistical support in order to advance investigations that OIG has started. Where foreign-based implementers overseas cannot be readily compelled to appear in our courts, they can evade U.S. jurisdiction and U.S. justice. Foreign courts can be an alternative, but foreign judicial procedures, customs, practices, and rules of law are at varying stages of development in the countries where USAID works. 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. These conditions may expose USAID programs to greater vulnerability when implemented through host-country systems and institutions.

While USAID’s IPR initiative aims to increase the percentage of USAID development assistance delivered through host-country systems, other IPR objectives may involve additional risks. For example, one of the objectives of IPR is to increase the number of fixed price contracts and decrease the use of “high risk” procurement methods, including single source contracts, large indefinite quantity contracts, and cost reimbursement contracts. Under the same objective, USAID hopes to establish cost containment measures for contractors and grantees, reduce reliance on its Contract Review Board, and elevate the status of procurement officials within USAID through better defined career paths that can lead to Senior Foreign Service and Senior Executive Service appointments. The OIG expects to examine several of these planned reforms as part of its FY 2014 audit plan which is currently in development.

**Performance Management and Reporting**

USAID performance management challenges involve weaknesses in project design, planning, and monitoring. For example, in Senegal USAID relied on the national health system to distribute commodities and treat beneficiaries. However, due to the size of the program (14 regions, 76 health districts, and 16,000 health outlets), oversight was challenging and our audit identified several monitoring
weaknesses including a lack of inventory records. In part as a result of monitoring weaknesses, the program failed to distribute treated bed nets according to the mission’s expectations, and some health posts did not receive drugs for over a year. In Afghanistan, ineffective communications and an absence of documentation detailing important discussions and decisions led to drastically different understandings about when the implementer could begin the second phase of the Skills Training for Afghan Youth Project.

Quality, reliability, and sufficiency of program data are essential to assess whether projects have the intended impact. Even though USAID has extensive guidance on the performance management of projects, the Agency continues to struggle to report accurate and supported results. More than a third of our recent performance audits and reviews have identified data quality problems. In many instances, required data is not collected, data collection methods are improper or inconsistent, or definitions for the specific data to be collected are inadequate. 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. In Haiti, loan information associated with USAID Development Credit Authority activities was outdated, incomplete, and inaccurate.
Management of Information Technology

USAID conducted a study for consolidating its information technology infrastructure with the Department of State at approximately 70 locations worldwide and identified potential risks to system security and projected savings. Data collected from three pilot sites in Peru, El Salvador, and Guatemala identified several technical, governance, and security issues. The move towards cloud-based software and information technology infrastructure by USAID and the Department of State could reduce the expected cost benefits of consolidation. USAID continues to work with the State Department to consolidate information technology infrastructure.

In response to the “WikiLeaks” disclosures, a series of U.S. Government reviews were conducted to assess federal efforts to safeguard classified information against improper disclosure. These included an examination of USAID policies and procedures in this area. A USAID self-assessment of the handling of its own classified material, an external review by the Information Security Oversight Office and the Office of the National Counterintelligence Executive, and a review by the OIG all identified areas where USAID needed to strengthen its ability to safeguard classified material.

Audit Provisions Applicable to United Nations (UN) Agencies

Since at least 2002, USAID’s standard audit provisions for inclusion in awards to UN agencies have provided for U.S. Government audit access to UN records where USAID was the sole contributor to the program. In 2011, USAID
redrafted these provisions, expanding U.S. Government audit access to programs in which USAID was not the sole contributor. The UN objected to these new provisions, leading USAID to issue a temporary blanket deviation for awards to UN agencies pending further negotiations with the UN. The deviated audit provisions do not provide for any U.S. Government audit access to UN records. During negotiations between USAID, the UN Secretariat, and four UN agencies in February 2012, the UN refused to permit any U.S. Government audit access to UN records under any circumstances. The UN has offered to permit USAID to request audits by the UN’s internal auditors or the UN board of auditors but the UN would decide whether or not to perform these audits based on its sole discretion.

USAID OIG objects to the UN position because there is no assurance that USAID-funded programs implemented by UN agencies will be audited at all, except as part of the annual audit of the recipients’ financial statements. If those programs are not material in relation to the amounts in the financial statements, there could be no testing at all of expenditures under USAID programs. In addition, it is difficult to assess the degree to which UN auditors are independent and perform their work in accordance with applicable auditing standards because relatively little information about their operations is publicly available.

USAID OIG has discussed this concern with USAID on many occasions since February 2012 and we understand that the Agency is prepared to acquiesce to the UN’s position. If USAID does so, the U.S. Government will no longer have audit access to UN records under any circumstances. This arrangement places
U.S. taxpayer funds at risk of fraud, waste, and abuse without recourse to U.S. Government oversight.

**Audits of U.S.-Based For-Profit Entities**

USAID typically relies on the Defense Contract Audit Agency (DCAA) to conduct financial audits of the for-profit entities with which it works. Due to delays in USAID requests for audits and DCAA’s slow response to these requests, USAID had a backlog of about 365 cost-incurred audits at the end of the second quarter of FY 2013. To help address this backlog, USAID provided $3.2 million in funding for audits of for-profit contractors during FY 2013 and has scheduled 123 audits to be completed by the end of the year, with 105 of these audits performed by DCAA. USAID also funded a liaison position within DCAA to monitor audits requested by USAID, to bring issues to the attention of DCAA officials for resolution, and to ensure that USAID receives periodic status reports on applicable DCAA audits.

**Financial Management**

In November 2012, OIG issued a qualified opinion on USAID’s principal financial statement for FY 2012, based on the significant gap between the "Fund Balance with Treasury" recorded in its financial accounting system and the balance reported by the Department of Treasury. Auditors also reported on $3.2 billion in unsupported adjustments to the Agency’s general ledger accounts.

While USAID faces several critical challenges, we will continue to provide comprehensive oversight to help foreign assistance programs operate more
effectively, provide assurance that program costs are reasonable and necessary, and aid in the prevention and detection of fraud and abuse. Thank you for this opportunity to address the Subcommittee. We greatly appreciate your interest in our work.