TOP MANAGEMENT CHALLENGES

Fiscal Year 2017

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

Office of Inspector General
U.S. Agency for International Development
1300 Pennsylvania Avenue NW
Washington, DC 20523
oig.usaid.gov
202-712-1150

TOP MANAGEMENT CHALLENGES

Fiscal Year 2017

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

This page is intentionally blank.

CONTENTS

This page is intentionally blank.

Message From the Inspector General

Ann Calvaresi Barr
Inspector General

The U.S. Agency for International Development (USAID) supports the United States' commitment to help developing countries tackle problems such as child and maternal mortality, hunger, education, and gender inequality, while providing humanitarian assistance to populations besieged by natural disasters, epidemics, and conflicts. The Millennium Challenge Corporation (MCC) complements USAID's mission by combating global poverty through investments in select countries. USAID and MCC—along with the United States African Development Foundation (USADF), the Inter-American Foundation (IAF), and the Overseas Private Investment Corporation (OPIC)—together spend up to $15 billion annually to advance economic growth and democracy, which promote U.S. national security interests around the world.

To help provide maximum return on these investments, OIG provides independent oversight of USAID, MCC, OPIC, USADF, and IAF.[1] As part of this oversight, the Reports Consolidation Act of 2000 (Public Law 106–531) requires each applicable Federal agency to include in its performance and accountability report a statement by its inspector general summarizing the most serious challenges facing the agency and the progress it has made in addressing them.

From our recent audits and investigations, we identified five top management challenges for USAID and one for MCC for fiscal year 2017:[2]

- ***Developing strategies to work effectively in nonpermissive and contingency environments.***[3] Working in regions characterized by conflict, political instability, or

1 OIG also provides oversight of overseas contingency operations as part of lead inspector general initiatives (described in section 8L of the Inspector General Act, as amended).
2 In reviewing our recent work for USADF and the IAF, we did not identify any serious management and performance challenges for them for fiscal year 2017.
3 Work in nonpermissive and contingency environments includes overseas contingency operations, which integrate the efforts of the Departments of Defense and State, USAID, and other partners to respond to conflicts and emergencies.

cataclysmic natural events creates significant barriers to finding qualified contractors and grantees and monitoring programs and projects.

- ***Strengthening local capacity and sustainability while ensuring adequate oversight of USAID funds.*** USAID invests in development projects that it expects can be supported locally and have a lasting impact, but OIG continues to report concerns about USAID's level of assurance that partner countries can sustain these projects.

- ***Reconciling interagency priorities to advance international development.*** In carrying out operations that require coordination with other U.S. Government agencies, USAID employees are at times unclear as to how to manage additional layers of review and balance competing objectives.

- ***Improving program design and contractor and grantee monitoring.*** Shortcomings in program design and monitoring have weakened USAID's ability to ensure programs have the resources needed to achieve objectives and identify and address fraud and other program risks.

- ***Meeting governmentwide financial and information management requirements.*** USAID continues to work to meet critical financial and information management requirements to better ensure it is an effective steward of U.S. Government resources.

- ***Achieving effective development and implementation of MCC programs and proper stewardship of corporation resources and information.*** MCC does not always accurately assess country capacity and develop sound compacts to help ensure project sustainability. Further, it lacks sufficient internal controls to ensure compliance with some U.S. Government financial and information management requirements.

In addition to meeting the requirements of the Reports Consolidation Act, this document will help inform our work and frame our dialogues with the current and next Congress and Administration to pursue stakeholder priorities for effective stewardship of U.S. funds dedicated to foreign aid and development.

OIG remains committed to conducting thorough and timely audits and investigations of USAID and MCC programs and, when appropriate, recommending actions to help the USAID Administrator and MCC Chief Executive Officer address the significant challenges they face.

If you would like to discuss or have any questions about these challenges, please contact me at 202-712-1150.

USAID's acting Administrator Alfonso E. Lenhardt (right) visits Sindhupalchowk District in central Nepal, 10 days after the devastating 7.8 magnitude earthquake on April 25, 2015. Photo: USAID/ Kashish Das Shrestha (May 5, 2015)

Chapter 1.

Developing Strategies to Work Effectively In Nonpermissive and Contingency Environments

Working in environments characterized by conflict and hostility, government instability, or cataclysmic natural events including disease is intrinsic to providing foreign assistance. Major challenges include finding qualified contractors and grantees willing to work in these risky environments, providing security for and periodically evacuating overseas agency personnel, and gaining access to project locales for appropriate monitoring. Meeting regularly with partner government and civil society representatives to formulate suitable projects is also a challenge given constraints on movement that many U.S. Embassies impose on U.S. Government employees for security purposes. The Agency recognizes that its limited ability to work in these nonpermissive and overseas contingency environments is one of its longest-standing operational challenges.

USAID works in places it designates as nonpermissive—areas beset by armed conflict, natural or man-made disasters, political repression, or widespread corruption—Afghanistan, Bangladesh, Burkina, Burundi, Democratic Republic of the Congo, Egypt, Haiti, El Salvador, Honduras, Iraq, Jordan, Kenya, Lebanon, Libya, Mali, Mexico, Niger, Nigeria, Pakistan, South Sudan, Sudan, Uganda, Ukraine, West Bank/Gaza, and Yemen.

Congress authorizes funding for overseas contingency operations to integrate the efforts of USAID and the Departments of Defense and State to respond to conflicts and emergencies. To oversee these operations, the chair of the Council of Inspectors General on Integrity and Efficiency designates a lead inspector general and appoints an associate inspector general from among the permanent IGs of USAID and the Departments of Defense and State. In fiscal year 2016, contingency operations were ongoing in Afghanistan (Operation Freedom's Sentinel) and in Syria and Iraq (Operation Inherent Resolve). USAID also continued to support activities initially associated with Operation United Assistance—the U.S. contingency operation that responded to the Ebola outbreak in West Africa—when the focus shifted in June 2015 from combating the disease to mitigating its effects on food security and health systems.

According to USAID's Office of Transition Initiatives, which has worked in complex, high-threat environments for the past 15 years, "The very nature of these environments requires flexible responses and iterative processes adapted to specific country contexts and the constantly changing local, regional, and national dynamics."[1] However, these flexibilities can add another layer of complexity in designing, implementing, and monitoring foreign assistance.

Syria and Iraq

As of July 2016, the complex crises in Syria and Iraq had displaced millions of people. According to the United Nations, 13.5 million people in Syria and 10 million in Iraq were in need of assistance. USAID's Offices of U.S. Foreign Disaster Assistance (OFDA) and Food for Peace coordinate humanitarian assistance—OFDA through staff in the field and at headquarters, and Food for Peace in partnership with the World Food Programme. While USAID supports relief efforts to those in Iraq through its OFDA partners in Iraq, it channels U.S.-funded humanitarian assistance to Syrians through cross-border efforts led by the United Nations.

Our work has highlighted the challenges OFDA and implementers faced in responding to the humanitarian crisis in Iraq, which was caused by armed conflict and the fight against the Islamic State of Iraq and the Levant (ISIL). OFDA's primary concerns were security and its inability to reach people in need because of local government restrictions on access. To mitigate these challenges, OFDA partners relied on external security (for example, the Kurdish military in northern Iraq), improved partners' internal security procedures, and expanded partner registration with the central Government.

Our fraud investigations exposed weaknesses in humanitarian assistance programs for Syria. Investigators identified fraud schemes involving collusion between vendors and implementers' procurement and logistics staff. We also identified product substitution schemes (food and nonfood items), inflated billing, and false claims. As a result of our ongoing investigations, USAID suspended several implementing partner programs, vendors, and individuals. USAID noted that it continues to work with the United Nations and other nongovernmental organization partners to identify ways to close assistance gaps.

However, underlying weaknesses that make programs vulnerable to exploitation likely remain. Our investigative work raised serious concerns about implementers' contracting processes, including using less than full and open competition; the rigor and timeliness of their responses to allegations of fraud; and their logistics, quality control, and monitoring procedures. Our investigations also raised concerns about USAID's oversight of implementers.

1 USAID Office of Transition Initiatives, "Lessons Learned: Monitoring and Evaluation in Complex, High-Threat Environments," April 2010.

Egypt, Libya, Tunisia, and Yemen

The Arab Spring uprising, which began in late 2010, brought about abrupt changes in national governments and led to a period of transition and uncertainty. USAID officials working in Egypt, Libya, Tunisia, and Yemen said conditions in these countries required mission staff to adapt plans to the new environments, causing project delays, and restricted travel, making monitoring more difficult. Evacuations also disrupted USAID's operations in Egypt and Yemen, with staff evacuated twice in 3 years for periods up to 6 months.

Afghanistan

The drawdown in U.S. Armed Forces and scheduled reduction in USAID staff in Afghanistan restricted the Agency's ability to travel to project sites to monitor activities. To compensate, USAID intended to use multitiered monitoring, which draws on data and observations from United States and Afghan Government sources, other donors, USAID partners, beneficiaries, and contractors hired to monitor activities. However, as we reported in December 2015, the mission could only demonstrate that 1 out of 127 awards used multitiered monitoring.

Our investigators received multiple allegations of fraud related to USAID/Afghanistan programs, many from a contractor that suspected its subcontractor. We discovered that the subcontractor had steered contracts to family members and overbilled for vehicle leases. In another case, we found evidence of a subcontractor overcharging a contractor for armored vehicles. OIG investigators also responded to allegations and opened cases on bribe solicitation, fraudulent hiring practices by contractors, and embezzlement by a contractor employee.

Guinea, Liberia, and Sierra Leone

As part of the response effort in Guinea, Liberia, and Sierra Leone—the countries most affected by the Ebola outbreak in West Africa—USAID sought to address food shortages caused by a depleted farm workforce, quarantines, and border closures. However, a lengthy award approval process and difficulties in recruiting staff to implement emergency food programs funded by Food for Peace delayed USAID's response. Coordination hurdles with local governments and organizations that had little or no experience handling cash transfers and food vouchers further exacerbated delays in efforts to provide emergency food assistance in the region.

To overcome the challenges to working effectively in restrictive and highly fluid nonpermissive and contingency environments, USAID has taken several actions.

The Agency has developed training, including a 3-day workshop, for employees assigned to nonpermissive countries to prepare them to work in restricted environments. The Agency intends to make the training mandatory for employees assigned to nonpermissive countries beginning in 2017. USAID also requires employees assigned to select countries to take a weeklong counter threat training class. Additionally, the Office of Security offers training to help employees prepare, prevent, and respond to isolating events stemming from conflict or disasters.

- The Agency surveyed the support services provided to staff before, during, and after assignments to nonpermissive environment countries.

- USAID issued revised program cycle guidance in September 2016 to allow customizable processes, increase flexibility, and promote organizational learning to help missions adapt to changing circumstances.

- The Agency also uses independent contractors to monitor programs in high-threat environments, where USAID personnel cannot access program sites because of security restrictions.

While these actions, if implemented effectively, should better prepare Agency staff and implementers to work in rapidly and unexpectedly changing environments, they may not be enough to mitigate risks. To look at how the Agency is addressing this challenge, we have two audits underway to assess its development activities in Afghanistan—specifically, whether USAID/Afghanistan's practices provide reasonable assurance that the Afghanistan Reconstruction Trust Fund is being used to achieve development objectives, and whether USAID/Afghanistan adopted policies and procedures to adequately verify gains reported under the New Development Partnership. In addition, as part of our ongoing oversight of USAID's activities under Operation Inherent Resolve, we are strategically targeting audits to see how USAID monitors implementers' internal controls and procurement systems and how it coordinates with public international organizations that deliver USAID-funded assistance programs.

Related OIG Products

- "Operation Inherent Resolve, Report to the United States Congress, April 1 – June 30, 2016," Lead Inspector General for Overseas Contingency Operations, August 5, 2016
- "Fraud Investigations Expose Weaknesses in Syria Humanitarian Aid Programs," Statement of the Honorable Ann Calvaresi Barr, Inspector General, U.S. Agency for International Development, Before the Committee on Foreign Affairs, Subcommittee on the Middle East and North Africa, U.S. House of Representatives, July 14, 2016
- "Semiannual Report to the Congress, October 1, 2015 – March 31, 2016"
- "Audit of Select Activities From the USAID/Food for Peace Response to the Ebola Crisis in West Africa" (7-962-16-003-P), March 16, 2016
- "Survey of Selected USAID/Office of Foreign Disaster Assistance Programs in Iraq" (8-267-16-001-S), February 10, 2016
- "Audit of USAID/Afghanistan's Strategy for Monitoring and Evaluating Programs Throughout Afghanistan" (F-306-16-001-P), December 10, 2015
- "Survey of USAID's Arab Spring Challenges in Egypt, Tunisia, Libya, and Yemen" (8-000-15-001-S), April 30, 2015

In Addis Ababa, President Obama tours Faffa Food Factory, which received USAID and Feed the Future funding to provide low-cost nutritionally fortified foods to Ethiopians. Photo: USAID (July 27, 2015)

Chapter 2.

Strengthening Local Capacity and Sustainability While Ensuring Adequate Oversight of USAID Funds

USAID's development policy promotes the achievement of sustainable results. To help sustain development after the Agency's involvement ends, USAID's program development guidance calls for investing in communities that have a stake in continuing activities and services, building the skills of local stakeholders, and ensuring public- or private-sector participation and financial backing. However, we continue to report concerns about the level of assurance USAID has in achieving sustainability in its programs.

- A health services project in Haiti lacked a plan to transfer responsibility for paying the salaries of health workers at 80 health-care facilities from USAID to other sources after the project ends. According to the contract, the mission expected Haiti's health ministry to assume some costs. It did not, project officials assumed because the Haitian Government could not take them on. In that case the project would need other donors to be viable.

- Five of 19 USAID-funded road construction projects in the West Bank showed signs of deterioration, raising questions about their sustainability. A mission-commissioned study found that because of competing budget priorities, the Palestinian Authority did not allocate funds from fuel-tax revenue to support road maintenance.

- A biodiversity project in Cambodia lacked Government commitment to continue some activities to sustain and protect forests. While the project gave Forestry Administration officials the skills to support and legalize community forests and helped several indigenous communities sustain and protect their forest boundaries, the project could not create a new protected forest—one of its most important tasks—because obtaining Government approval for the protected status was beyond the Forestry Administration's control.

Efforts under USAID's Local Solutions initiative, a reform strategy under USAID Forward, have similarly fallen short of expectations.[1] The Local Solutions initiative aims to promote country ownership and sustainability of development outcomes by providing program funding directly to partner governments and local organizations. However, our reports have identified challenges in missions' implementation of the initiative.

- The Enhanced Partnership with Pakistan Act (EPPA) of 2009 authorized $7.5 billion over 5 years for civilian assistance.[2] USAID/Pakistan's annual budget almost tripled between fiscal years 2008 and 2009, from $407 million to $1.1 billion—supplemented in large part through EPPA. This surge of funding outpaced USAID/Pakistan's ability to design and award projects effectively. As of September 30, 2015, USAID/Pakistan had awarded 50 percent of its portfolio to local institutions, in part through government–to-government assistance, but had not completed a rapid appraisal of the Government of Pakistan's country systems—an examination of political and security factors and country commitment to transparency and accountability—the first step in determining eligibility for government-to-government assistance. After starting the appraisal, the mission obtained a waiver to not finish it. Because the mission did not complete the appraisal, mission staff had to perform more rigorous reporting on fiduciary risks in its assessment of partner organization systems.

- USAID/Paraguay implemented a $24.4 million program through a local organization to strengthen the internal management and government systems of select public institutions. However, the mission failed to determine in its preaward survey of the organization that it did not have sufficient financial and managerial capacity to manage USAID funds, assess results, or track program progress. Critically, the mission did not evaluate the organization's policies, procedures, and capabilities in (1) complying with laws and regulations, (2) managing its bank account, (3) exercising internal controls over direct and indirect costs, (4) ensuring price reasonableness of procurement actions, (5) maintaining financial records, and (6) managing projects—ultimately putting $24.4 million at risk.

In addition, the Government Accountability Office (GAO) reported in April 2014 that USAID relied primarily on an indicator that tracked mission funding to local entities, rather than what the entities did with the funding, to measure the progress of its Local Solutions initiative.[3] This indicator was of limited value in assessing the Agency's progress on its Local Solutions targets.

We are currently auditing USAID's Local Solutions initiative to assess its efforts to strengthen local capacity, enhance and promote country ownership, and increase sustainability. We are also assessing how USAID vets and selects government ministries, local NGOs, and local for-profit firms to implement USAID-funded programs.

1 In 2010, USAID launched USAID Forward, a series of reforms to improve how the Agency does business.
2 Public Law 111-73, 2009, Title 1.
3 GAO-14-355, "USAID Has Increased Funding to Partner-Country Organizations but Could Better Track Progress," April 16, 2014.

USAID reported that it has taken a number of steps to address the challenges of sustainability and build local capacity. The Bureau for Policy, Planning and Learning (PPL) revised its program development guidance to incorporate practices that promote sustainability in projects and activities.[4] PPL is concurrently collaborating with the Local Solutions team to develop indicators to track local ownership good practices for sustainable results throughout USAID's development program cycle. The Agency is also addressing management and performance challenges by enhancing tools and processes to assess, reassess, and monitor fiduciary risk in Local Solutions activities. Finally, USAID is working through external partnerships with the International Organization for Supreme Audit Institutions and GAO to improve oversight by enhancing the capabilities of audit organizations in developing countries.

Until the Agency successfully implements its revised guidance, monitoring strategy, and enhanced tools and processes and assesses their impact, promoting local solutions and achieving sustainability while ensuring adequate oversight of USAID funds will remain a top management challenge for the Agency.

Related OIG Products

- "USAID/Haiti Needs to Improve Oversight of the Quality Health Services for Haiti Central and South Project to Better Ensure Sustainability" (1-521-16006-P), July 6, 2016
- "Audit of USAID/West Bank and Gaza Construction Programs" (8-294-16-001-P), February 22, 2016
- "Audit of USAID/Cambodia's Supporting Forests and Biodiversity Project" (5-442-16-002-P), April 15, 2016
- "Competing Priorities Have Complicated USAID/Pakistan's Efforts to Achieve Long-Term Development Under EPPA" (G-391-16-003-P), September 8, 2016
- "Audit of USAID/Paraguay's Democracy and Governance Program" (1-526-16-004-P), January 21, 2016

4 ADS 200, "Development Policy," and ADS 201, "Program Cycle Operational Policy," were issued on September 7, 2016.

Medical workers in Liberia gather in a treatment unit provided by USAID as part of the interagency U.S. Government Ebola response. Photo: USAID/Neil Brandvold (January 31, 2015)

Chapter 3.

Reconciling Interagency Priorities To Advance International Development

Contingency operations and other efforts require coordination with multiple U.S. Government agencies, yet USAID's development priorities do not always align with other agencies' priorities, making it difficult for USAID to achieve its core development mission. In particular, coordination with the State Department, which leads multiagency operations that respond to political and security crises, has presented challenges to USAID's project planning and execution. Despite broad interagency guidance on State's role in politically sensitive environments, USAID employees are sometimes unclear as to how to manage additional layers of review, respond to changing priorities, and balance short-term and long-term priorities. Lack of knowledge about other agencies' processes exacerbates these challenges.

Arab Spring

To identify the challenges USAID faced during the early part of the protest movement that came to be known as the Arab Spring (December 2010-June 2014), we surveyed 70 USAID employees working on programs for Egypt, Tunisia, Libya, and Yemen.[1] According to USAID staff, the State Department's influence over USAID programs increased after the Arab Spring began, creating additional challenges. For example,

1 For the survey, OIG interviewed 31 USAID officials who worked on activities in these countries, and administered a questionnaire. In all, 70 employees from USAID either had interviews or responded to the questionnaire.

a USAID employee in Egypt noted that State's control "severely constrains USAID's ability to design and execute technically sound development projects," stating that agreed-upon steps to design activities and select implementation mechanisms abruptly change. USAID staff pointed out that State's added layer of review slowed operations, and USAID employees had to dedicate additional time to building consensus and gaining external parties' approval. USAID employees also said State officials, unfamiliar with the Agency and its different types of procurement, made requests that were difficult to accommodate under USAID procedures.

In a more recent audit in Pakistan, we also found challenges in reconciling short-term political goals with long-term development goals.

Pakistan

Our audit of the $7.5 billion aid package authorized under the Enhanced Partnership for Pakistan Act (EPPA) found that USAID's programs there have not achieved intended development objectives, in part because of competing priorities between State and USAID. The State Department has the lead role for assistance activities in Pakistan, making it responsible for budget and project decisions.[2] At the outset, USAID/Pakistan followed State's initial strategy, which lacked long-term development outcomes and goals. In 2013, USAID/Pakistan implemented a formal strategy that linked activities to a long-term development goal but lacked indicators to measure progress. The strategy also focused on repairing and upgrading Pakistan's energy infrastructure—mirroring State's focus on energy as key to long-term growth—but not on other priority areas, such as health, education, and economic growth. According to USAID staff, implementing a development strategy under State Department control was challenging.

As a result of our EPPA audit, we made recommendations to improve USAID's development implementation in an interagency environment, including that USAID revise its policies to (1) clearly define USAID's roles and responsibilities for designing and implementing development when it is subject to State Department control and (2) provide alternate development strategies when a country development cooperation strategy[3] or a transitional country strategy is not an option. We also recommended that the Agency institute an interagency forum where USAID can better present its development perspective in countries where the State Department takes the lead. In response, USAID's Administrator has engaged the State Department leadership to discuss solutions, including better reconciling interests at the beginning of planning and programming, so that USAID and State leadership can help staff pursue both agencies' objectives simultaneously.

USAID has begun actions to address OIG's recommendations to address this challenge. However, until corrective actions are fully implemented and realized, reconciling interagency priorities to advance international development will remain a top management challenge.

Related OIG Products

- "Competing Priorities Have Complicated USAID/Pakistan's Efforts to Achieve Long-Term Development Under EPPA" (G-391-16-003-P), September 8, 2016
- "Most Serious Management and Performance Challenges for the U.S. Agency for International Development," October 15, 2015
- "Survey of USAID's Arab Spring Challenges in Egypt, Tunisia, Libya, and Yemen" (8-000-15-001-S), April 30, 2015

2 Department of State, "2010 Quadrennial Diplomacy and Development Review: Leading Through Civilian Power."

3 A country development cooperation strategy helps missions determine the kinds of activities they will conduct and the amount of money they will need from Congress to do so.

Mando Zayi District Development Assembly leaders from Logar Province, Afghanistan, conduct a monitoring visit of a USAID-funded project to build a wall to shield farmland from flash floods. Photo: USAID/Ahmad Salarzai (November 12, 2013)

Chapter 4.

Improving Program Design and Contractor and Grantee Monitoring

Successful foreign assistance programs rely on sound design, implementation, monitoring, and evaluation. Effective design helps ensure programs have the resources needed to achieve objectives, while program monitoring and evaluation help implementers and missions identify and address fraud and other program risks that prevent programs from achieving desired results. The adequacy of oversight of contractors and grantees is essential to effective execution of development programs and the delivery of humanitarian assistance.

Problems with design can derail a project before it begins or limit its impact, as the following examples illustrate.

- USAID/Egypt's design process for economic growth projects lacked an established country development cooperation strategy, which ran counter to USAID policy. Such a strategy would lay out development objectives and provide the basis for coordinating USAID's efforts with those of the partner-country government and other U.S. Government agencies. The lack of a strategy complicated USAID/Egypt's efforts to design its economic growth project.

- For an $88 million agricultural program in Haiti, USAID assigned contract design and administration to inexperienced staff. Contract flaws including a lack of clear deliverables resulted, complicating project implementation.

Persistent weaknesses in performance monitoring, as well as in data collection and reporting, escalated risk even for programs that had adequate designs.

- USAID missions in Egypt, Jordan, and West Bank and Gaza did not adequately develop or use internal controls—policies, procedures, systems, or other tools—to ensure quality data, monitoring, or evaluation. When such tools were in place, they were not consistently used or they failed to ensure adequate program management and oversight. The weaknesses stemmed from staffing shortages, lack of employee training, and managers' lack of enforcement, as well as from continually shifting budgets and priorities. Questionable data have been a recurring theme in our performance audits of projects run by these missions, with 71 percent of reports issued between fiscal years 2011 and 2013 featuring findings on unreliable data.

- The Office of U.S. Foreign Disaster Assistance (OFDA) grant for Ebola response activities in Liberia lacked relevant and valid performance measures and targets. The implementer also paid nearly $1.5 million to health-care workers without requiring documentation to confirm their identity. OFDA also did not document program monitoring or verify some reported results, which contained some inaccuracies. Further, rotating team members on OFDA's disaster assistance response team did not adequately document their monitoring activities, putting new members at a disadvantage in making sound program decisions.

- The implementer of agriculture and biotechnology programs in West Africa provided inaccurate data for Feed the Future projects in its fiscal year 2014 annual report to USAID/West Africa. The implementer lacked sufficient evidence to support its reported results, and the data did not meet USAID's data quality standards. For example, the implementer double- or triple-counted data or counted expected—not actual—results. Moreover, mission staff had not conducted site visits to verify reported data. In some cases, methods for gathering data on performance indicators were designed poorly. For example, for individuals trained, project staff planned to multiply the number of topics discussed by the number of attendees. To help improve the project's data quality, USAID/West Africa officials trained project staff on monitoring and evaluation. However, the key employee for collecting and reviewing partner data did not attend and project staff did not understand the reporting requirements.

- USAID/Paraguay could not determine whether a democracy and governance program was achieving its main goal because some indicators were inadequate to measure results. In addition, the implementer did not have the capacity or knowledge to gather results for the 25 indicators.

Finally, USAID has not consistently done the monitoring needed to identify contractors and grantees who take advantage of weak internal controls to commit fraud, waste, or abuse. For example, in the Syria response, we uncovered instances of product substitution, false claims, and collusion. Investigations into fraud allegations raised concerns about implementers' logistics, quality control, and monitoring procedures, as well as about USAID's approach to implementer oversight. In other countries, we found instances of false billings, and false receipts submitted for travel expenses and cash advances.

Our Office of Investigations developed a quick reference guide to help USAID and its implementing partners in Syria and Iraq identify and address fraud.[1] We compiled the guide from trends identified in investi-

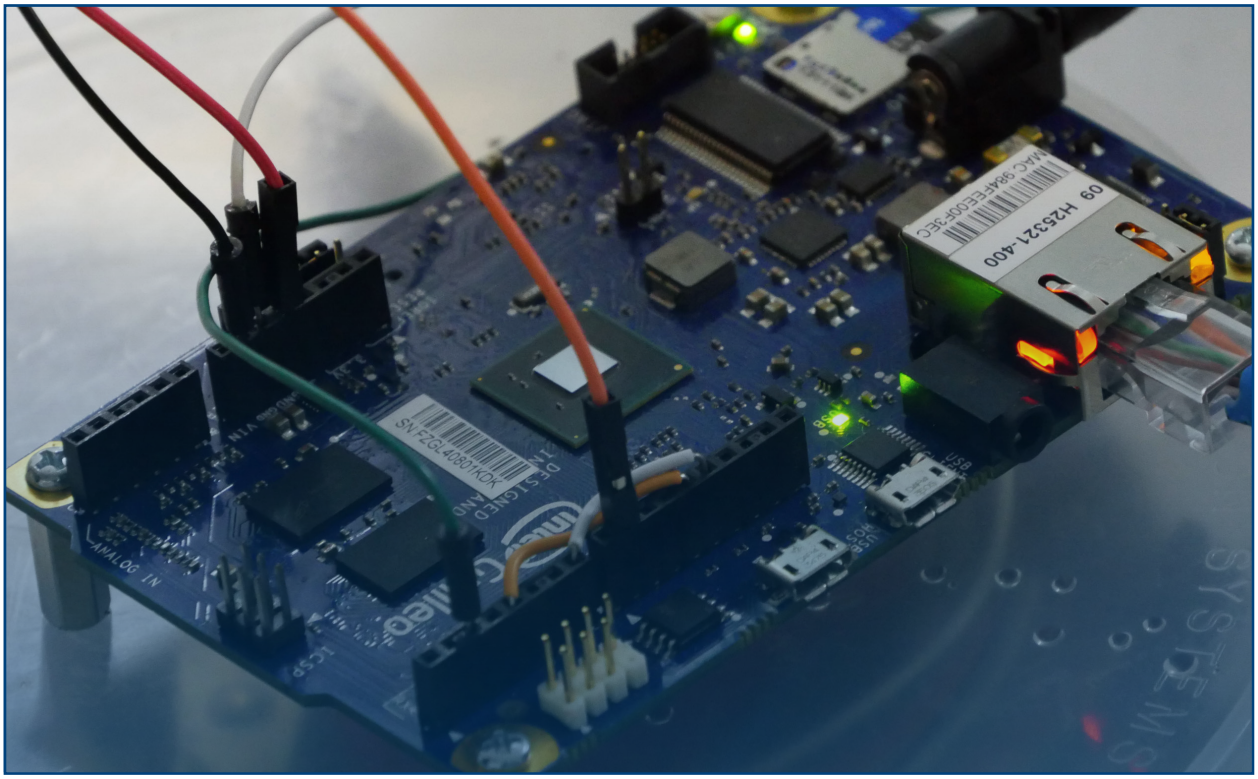
1 "Fraud Prevention and Compliance, A Pocket Guide for the Middle East Crisis Humanitarian Response," USAID Office of Inspector General, Office of Investigations, June 1, 2016.

gations and meetings with implementing partners across the region. The guide addresses internal control deficiencies, shares best practices for fraud prevention, and lists red flags for fraud. Although designed for the Middle East humanitarian response, the guide is also useful for USAID programs in other regions.

USAID reported that is has made progress addressing this challenge by offering training and guidance and by updating its policies. As of the end of fiscal year 2015, the Agency reported it has trained more than 1,600 staff in performance monitoring and evaluation, and in September 2016, the Agency updated its policy for program design and management. Until these actions translate into improvements, effective program design and contractor and grantee monitoring will remain a significant management challenge—one that will be put to the test as USAID designs, implements, and monitors future programs and initiatives like those under its Zika virus response program.

Related OIG Products

- "Working in Politically Sensitive Countries With Limited Resources Stymied Monitoring and Evaluation Efforts of Selected Middle East Missions" (8-000-16-003-P), September 30, 2016
- "Competing Priorities Have Complicated USAID/Pakistan's Efforts to Achieve Long-Term Development Under EPPA" (G-391-16-003-P), September 8, 2016
- "Fraud Investigations Expose Weaknesses in Syria Humanitarian Aid Programs," Statement of the Honorable Ann Calvaresi Barr, Inspector General, U.S. Agency for International Development, Before the Committee on Foreign Affairs, Subcommittee on the Middle East and North Africa, United States House of Representatives, July 14, 2016
- "Semiannual Report to the Congress, October 1, 2015 – March 31, 2016"
- "Review of USAID/Egypt's Adherence to Policy, Standards, and Best Practices in Designing Economic Growth Projects" (8-263-16-002-S), February 12, 2016
- "Audit of USAID/Paraguay's Democracy and Governance Program" (1-526-16-004-P), January 21, 2016
- "Audit of Selected Ebola-Response Activities Managed by USAID's Office of U.S. Foreign Disaster Assistance in Liberia" (7-669-16-002-P), December 4, 2015
- "Audit of USAID/Haiti's Feed the Future North Project" (1-521-16-001-P), October 21, 2015
- "Audit of USAID/West Africa's Staple Crops and Biotechnology Programs" (7-624-16-001-P), October 15, 2015



A pilot funded by USAID in partnership with Google uses motherboards like this to teach technology and job skills to university students in Cambodia, Laos, Myanmar, Thailand, and Vietnam. Photo: USAID/Richard Nyberg (February 16, 2016)

Chapter 5.

Meeting Governmentwide Financial and Information Management Requirements

The Federal Government has established strict financial and information management requirements to better ensure agencies are effective stewards of Government resources. We have continued to identify USAID's challenges in meeting these requirements.

Financial Management

Audits of U.S.-based contractors. To promote sound financial management, accountability, and oversight, including effective internal controls, Federal agencies are required by the Federal Acquisition Regulation, the Single Audit Act, and Office of Management and Budget guidance to obtain appropriate and timely audits of contractors. Historically, the Defense Contract Audit Agency (DCAA) audited USAID's contractors under a reimbursable agreement with USAID. However, section 893 of the fiscal year 2016 National Defense Authorization Act (NDAA) prohibited DCAA from performing audits for nondefense agencies until the backlog of Department of Defense DCAA-related audits dropped below 18 months. This prevented DCAA from performing audits of USAID funds, including those DCAA started but did not complete.[1]

1 In September 2016, the Department of Defense certified that DCAA's backlog was less than 18 months, restoring DCAA's ability to conduct contract audits for nondefense agencies. However, according to USAID officials, the Agency has not designated any new funds for DCAA to conduct incurred-cost audits.

Prior to the 2016 NDAA, USAID took several actions in an attempt to clear its audit backlog, including increasing funding for incurred-cost audits, using contracts with public accounting firms to augment DCAA's audit efforts, and funding a liaison position in DCAA to monitor audits requested by USAID and bring issues to appropriate DCAA management officials for resolution. However, with the enactment of NDAA, USAID needs to rethink its strategy to eliminate its audit backlog. The Agency will also need to deal with the over $2 billion that will not be audited because DCAA terminated ongoing audits of USAID-related contractors. The terminated audits are now subject to the Contract Dispute Act's statutory limitations, and the Agency can no longer collect any potential unallowable costs from these audits.

Reconciliation of intragovernmental transactions. The Department of Treasury reported that as of September 30, 2015, USAID had $15.3 billion in unreconciled transactions with other Federal agencies, referred to as "trading partners." When USAID and its trading partners record transactions in different accounting periods or use different methodologies to classify and report them, these differences must be reconciled to provide accountability and transparency. For example, if USAID provides services to another agency and classifies the transaction under accounts receivable, the other agency should classify the transaction under accounts payable. If either agency does not classify the transactions in this manner, the U.S. Treasury may not recognize the relationship between the two amounts and will report them as a difference for each agency. Although USAID has increased its efforts and continually researches intragovernmental activity to resolve unreconciled amounts, differences remain and reconciling them presents a challenge to the Agency.

Reconciliation of the fund balance with Treasury. Our audit of USAID's financial statements for fiscal years 2015 and 2014 identified a material weakness related to the Agency's Fund Balance with Treasury (FBWT) reconciliations that indicates a material misstatement of the Agency's financial statements may not be prevented, or detected and corrected promptly. USAID has made progress reconciling its FBWT account, but large unreconciled differences persist—largely because USAID adjusted, rather than reconciled, its FBWT account to agree with Treasury's fund balance. As of September 30, 2015, the net difference between USAID's general ledger and the amount in Treasury's records was approximately $172 million, $93 million of which was due to outstanding items. The remaining $79 million cannot be explained, and most of this amount has been reported in the no-year Development Assistance Fund.[2] This difference has accumulated because of a legacy system problem, data migration difficulties, and the lack of an integrated system to control reconciliations performed by missions around the world. Management asserts the difference cannot be reconciled and plans to work with Treasury and the Office of Management and Budget to resolve the unexplainable difference in December 2016. However, until these actions are fully implemented and the impacts assessed, reconciliation remains a management challenge.

Information Management

Executive Order 13526, Classified National Security Information. Executive Order (E.O.) 13526, signed in 2009, established a uniform system for classifying, safeguarding, and declassifying national security information. Our audit of USAID's implementation of the Executive Order found that USAID's classification policy does not meet E.O. 13526 requirements. We found persistent and systemic noncompliance related to program management, security education and training, self-inspections, the issuance of an Agency classification guide, reporting of program activities and results to the National Archives and Records Administration's Information Security Oversight Office (ISOO), and classification markings. We also found that USAID's implementation of the 11 recommendations in

2 The Development Assistance Fund supports the key factors for sustainable economic growth: trade and investment, agriculture, education, environment, health, and democracy.

our 2014 review was incomplete. Two corrective actions were not implemented, and seven were not implemented effectively to remedy the deficient condition. Given the depth, sensitivity, and persistence of the weaknesses we found in operations, reporting, and compliance, we consider them a significant internal control deficiency. Despite these weaknesses, our review did not find instances of persistent misclassification of derivatively classified information, and USAID's one originally classified document was properly classified. We recommended that the Office of the Administrator implement a corrective action plan to bring USAID's classified national security information program into full compliance with E.O. 13526 and ISOO regulations and directives. USAID management agreed with the recommendation and instructed its Office of Security director to develop a corrective action plan. The Agency expects to complete this action by March 29, 2017.

Federal Information Technology Acquisition Reform Act (FITARA). FITARA was enacted in December 2014 to reform and streamline the Government's information technology acquisitions, including strengthening chief information officers' accountability for their agencies' IT costs, schedules, performance, and security. In November 2015, the House Oversight and Government Reform Committee issued a FITARA Implementation Scorecard, which gave USAID an overall grade of "D." According to USAID's baseline implementation plan, most FITARA requirements will not be met until June 2017. We plan to initiate an audit this fiscal year of USAID's compliance with FITARA requirements.

Privacy Act of 1974. Our audit of USAID's privacy program for information technology resulted in 34 recommendations for the Agency to address weaknesses and risks related to potential noncompliance with major privacy laws, including the Privacy Act of 1974, as amended.[3] Although USAID has made progress in addressing these weaknesses by taking final action on 29 of the 34 recommendations, Agency officials acknowledged that USAID continues to have a significant deficiency in this area. Most significantly, USAID needs to determine and allocate the resources needed for the program. Agency officials plan to correct this deficiency by December 2016. Until that occurs and until all recommendations are resolved, a management challenge will exist.

Related OIG Products

- "USAID's Implementation of Executive Order 13526, Classified National Security Information, Needs Significant Improvement" (9-000-16-001-P), September 30, 2016
- "Audit of USAID's Financial Statements for Fiscal Years 2015 and 2014" (0-000-16-001-C), November 16, 2015
- "Audit of USAID's Implementation of Key Components of a Privacy Program for Its Information Technology Systems" (A-000-15-001-P), October 10, 2014

3 Because of its sensitive content, our audit report on USAID's privacy program limited distribution.

A dairy worker stretches out hot puebla cheese in El Salvador's Northern Zone, where MCC has supported vocational education in areas sought by employers. Photo: MCC/Eric Firnhaber (September 16, 2015)

Chapter 6.

Achieving Effective Development and Implementation of MCC Programs and Proper Stewardship of Corporation Resources and Information

The Millennium Challenge Corporation (MCC) was established in 2004 to lead a new approach to U.S. foreign assistance: reducing poverty through economic growth. MCC determines countries' eligibility for assistance through a competitive process using independent measures to score their policy performance in governance, economic freedom, and investment in people. Accurately assessing country capacity and developing sound compacts have been challenges for MCC.

Accurately Assessing Partner-Country Capacity

In principle, the MCC model requires partner countries to take the lead in identifying and analyzing binding constraints to economic growth and poverty reduction, developing compact proposals, implementing MCC-funded programs, and taking steps to sustain the programs when MCC funding ends—5 years after the compact enters into force. Country ownership therefore depends on the countries' capacity to develop, plan, and execute compacts.

However, in practice, some countries have lacked the institutional capacity and technical competence needed to manage and implement complex projects. For example, in August 2015, we reported that not all accountable entities—which are established by partner-country governments to carry out responsibilities and obligations under the compact—had the ability to develop contract plans and specifications in accordance with MCC's program procurement standards, nor did they have the marketing know-how to attract sufficient numbers of qualified contractors. Other entities lacked effective political leadership or commitment to implement MCC-funded projects successfully, as our June 2012 report on the Benin port project pointed out.

Designing and Implementing Compacts

In July 2015, we reported that a poor quality design study was responsible for significant delays in an irrigation rehabilitation project in Moldova. We similarly reported in March 2013 that in-kind land transfers planned to compensate those resettled under an MCC-funded irrigation project in Senegal were found to be unsuitable.

Completing complex sets of projects within the 5-year time span has been a persistent challenge for MCC. Our review of 23 early compacts determined that 9 had undergone significant modifications because of insufficient planning and difficulties with implementation, including cost escalation, contractor performance, design modifications, compliance with conditions precedent, and policy and institutional support in partner countries.

Sustaining Compact Benefits

Our prior work also identified concerns over the compacts' ability to achieve their ultimate objective—to sustain the projects MCC has invested in to reduce poverty through economic growth. Poor planning and implementation undermine sustainability. For example, untimely training for water user association members on the operations and maintenance of MCC-funded irrigation systems in Moldova deprived them of sufficient operating experience prior to the compact end date, increasing the risk that the associations would not have the capacity to manage and maintain the new irrigation systems.

Uncertainty over funding for completing projects that are not finished when the compact expires, limited resources and capacity for maintaining compact-funded infrastructure, and limited or no in-country presence after the compact ends make sustaining benefits a major challenge.

Being a Good Steward of Corporation Resources and Information

MCC plays a critical role in making sure that its funds are properly used by the accountable entities and in its operations. In May 2016, we reported that MCC was not in compliance with the Improper Payments Elimination and Recovery Act of 2010. Our audit demonstrated the need for MCC to conduct sufficient risk assessments and strengthen internal controls over improper payments to assist with proper stewardship of the agency's resources.

Our review of MCC's classified national security information program found it does not fully meet Federal requirements. Specifically, MCC's program policies and procedures omit key requirements for training, monitoring compliance, challenging classification, and fundamental guidance reviews. For example, MCC did not effectively conduct a self-inspection program in fiscal year 2015. Further, MCC did not have a policy for declassifying some of its board meeting transcripts and minutes that had reached their declassification dates. MCC planned to create such a policy that would cover review procedures. MCC also lacked documentation of key internal controls for derivatively classifying board meeting transcripts

and minutes, providing access to Department of State cables, and maintaining a security incident log. Lastly, we found that MCC had not implemented corrective actions effectively to address recommendations from our prior review in 2015. Until the corrective actions are implemented, MCC's classification policies and procedures remain a management challenge.

MCC has taken several actions to address these challenges, including revising the compact development process to have many planning activities completed prior to compact signing or entry-into-force. MCC also issued a number of guidelines to help MCC and partner countries better prepare the projects. Despite these actions, project planning and preparation, along with strengthening processes and tools to effectively manage implementation risks, continue to be management challenges.

Related OIG Products

- "Millennium Challenge Corporation's Implementation of Executive Order 13526, Classified National Security Information, Needs Strengthening" (M-000-16-001-S), September 30, 2016
- "Audit of the Millennium Challenge Corporation's Fiscal Year 2015 Compliance with the Improper Payments Elimination and Recovery Act of 2010" (M-000-16-002-C), May 13, 2016
- "Review of the Millennium Challenge Corporation's Procurement Process for Selected Country Programs" (M-000-15-006-S), August 12, 2015
- "Review of the Millennium Challenge Corporation's Transition to High-Value Agriculture Project in Moldova" (M-000-15-005-S), July 28, 2015
- "Audit of the Millennium Challenge Corporation's Funded Program in Senegal" (M-000-13-001-S), March 20, 2013
- "Audit of the Millennium Challenge Corporation's Programs in Mozambique" (M-000-13-003-P), January 31, 2013
- "Review of the Millennium Challenge Corporation's Compact Modifications" (M-000-12-006-S), July 16, 2012
- "Review of Millennium Challenge Corporation-Funded Project Activities in Benin" (M-000-12-005-S), June 3, 2012

Appendix

Fiscal Year 2017 and Prior Year Top Management Challenges for USAID and MCC

Table 1. Fiscal Year 2017 and Prior Year USAID Top Management Challenges

Fiscal Year 2017 Challenges	Prior Year Challenges
• Developing strategies to work effectively in nonpermissive and contingency environments	• Work in nonpermissive environments and overseas contingency operations
• Strengthening local capacity and sustainability while ensuring adequate oversight of USAID funds	• Limited sustainability • Inadequate risk mitigation for Local Solutions
• Reconciling interagency priorities to advance international development	• *Not a top management challenge in previous year*
• Improving program design and contractor and grantee monitoring	• Unreliable performance data • Cumbersome design and procurement processes • Weak management of human resources
• Meeting governmentwide financial and information management requirements	• Decentralized management of information technology and information security
• *Not a top management challenge for 2017*	• Lack of focus
• *Not a top management challenge for 2017*	• Uncertain budget environment

Table 2. Fiscal Year 2017 and Prior Year MCC Top Management Challenges

Fiscal Year 2017 Challenges	Prior Year Challenges
• Accurately assessing partner-country capacity • Designing and implementing compacts • Sustaining compact benefits • Being a good steward of corporation resources and information	• Developing compacts • Implementing compacts • Sustaining compact benefits • Managing finances efficiently