



TOP Fiscal Year 2019 **MANAGEMENT CHALLENGES**



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

CONTENTS

	Message From the Inspector General	I
I.	Managing Risks Inherent to Providing Humanitarian and Stabilization Assistance	3
2.	Strengthening Local Capacity and Improving Planning and Monitoring To Promote Sustainability of U.S.-Funded Development	8
3.	Reconciling Interagency Priorities and Functions To More Efficiently and Effectively Advance U.S. Foreign Assistance	12
4.	Addressing Vulnerabilities in Financial and Information Management	16
	Appendix. Fiscal Year 2019 and Prior-Year Top Management Challenges for USAID	19

This page is intentionally blank.

Message From the Inspector General



Ann Calvaresi Barr
Inspector General

USAID's foreign assistance programs provide humanitarian aid to people in countries recovering from natural disaster and periods of armed conflict, as well as assistance in combating the spread of disease and addressing food insecurity, child and maternal mortality, illiteracy, and gender inequality. USAID manages nearly \$30 billion in budgetary resources annually to expand economic growth, create markets and trade partners for the United States, and promote stable and free societies. In addition to promoting good will abroad, these investments help advance U.S. national security interests.

To help ensure the U.S. Government achieves maximum return on these investments, OIG provides independent oversight of USAID.¹ As part of this oversight, the Reports Consolidation Act of 2000 (Public Law 106–531) requires USAID to include in its performance and accountability report a statement by the Inspector General summarizing the most daunting challenges and the progress made in managing them.

Based on our recent audits and investigations, we identified four top management challenges for USAID for fiscal year 2019:

- ***Managing Risks Inherent to Providing Humanitarian and Stabilization Assistance.*** Managing fraud and other risks in foreign assistance programs is difficult, particularly in environments beset by conflict or natural disaster. Our work continues to expose weaknesses in USAID's planning and monitoring that reduce the timeliness and impact of assistance particularly in the nonpermissive environments USAID frequently works in. This demonstrates the need for improved risk assessment, identification, and mitigation plans to counter com-

¹ OIG also provides oversight of the Millennium Challenge Corporation, the U.S. African Development Foundation, the Inter-American Foundation, the Overseas Private Investment Corporation, and overseas contingency operations as part of lead inspector general initiatives (described in section 8L of the Inspector General Act, as amended).

plex corruption schemes, and effective monitoring and evaluation to mitigate the growing threat of diversions to terrorists.

- ***Strengthening Local Capacity and Improving Planning and Monitoring To Promote Sustainability of U.S.-Funded Development.*** Promoting sustainability in countries that receive U.S. funding for development is central to USAID's goal to end the need for foreign assistance. However, our work points to the need for more rigorous upfront assessments of country capacity to build local skills and ensure public- or private-sector participation and financial backing to continue development activities and services after U.S. involvement ends. For example, USAID provided funding for a \$20 million irrigation system in Pakistan without reaching an agreement with stakeholders on who would maintain the system after the project ends, and the Haitian Government stalled on planned reforms considered key to the success of a USAID-funded project to expand electricity generation.
- ***Reconciling Interagency Priorities and Functions To More Efficiently and Effectively Advance U.S. Foreign Assistance.*** Foreign assistance that involves multiple U.S. Government agencies presents significant challenges in managing short- and long-term U.S. objectives. Gaps in USAID-Department of State coordination over basic restructuring plans underscored these challenges. Our oversight of USAID activities related to the Ebola response in West Africa, sustainable energy in Haiti, and other foreign assistance efforts in fragile states worldwide continues to show that competing priorities, differing policies and procedures, and additional layers of review complicate and impede multiagency response and development activities.
- ***Addressing Vulnerabilities in Financial and Information Management.*** Effective and reliable financial and information systems are vital to the stewardship of U.S. Government resources. However, meeting strict Federal financial and information management requirements for promoting transparency and accountability remains a challenge for USAID, despite noteworthy actions to better ensure compliance.

In addition to meeting the requirements of the Reports Consolidation Act, this document will help inform our work and frame our dialogues with Congress and the 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 programs and management and, when appropriate, recommending actions to help address the challenges we identify.

If you would like to discuss or have any questions about USAID's top management challenges for fiscal year 2019, please contact me at 202-712-1150.



Displaced people fleeing from Boko Haram attend a World Food Programme (WFP) and USAID food distribution at the Asanga refugee camp near Diffa, Niger, following attacks by Nigeria-based Boko Haram fighters. Photo: Issouf Sanogo / AFP (June 16, 2016)

Chapter I.

Managing Risks Inherent to Providing Humanitarian and Stabilization Assistance

In June 2017, the United Nations estimated that \$23.5 billion would be needed to assist 141 million people in 37 countries affected by natural disasters and conflict. Devastating public health crises—such as the Ebola outbreak—and the continued operation of extremist groups like the Islamic State of Iraq and Syria (ISIS) further exacerbate the need for humanitarian and stabilization assistance worldwide. USAID is a global leader in responding to crises, and reports expending an average of approximately \$2.6 billion on humanitarian and stabilization assistance annually.¹

The risks of fraud, waste, and abuse in these humanitarian and stabilization settings are acute. The environments are typically characterized by political, economic, and environmental volatility, and USAID must often work with nongovernmental organizations (NGO), contractors, and public international organizations (PIO) to procure and distribute food, healthcare, shelter, water and sanitation, and other relief

¹ For fiscal years 2013 through 2017 as reported in USAID's agency financial reports.

supplies.² At the same time, USAID frequently must coordinate with multiple U.S. Government agencies and international donors, while ensuring that its assistance does not adversely affect local markets or fall prey to corruption—risks that have intensified with the growing scale and duration of humanitarian relief operations. While speed and flexibility are crucial to saving lives and providing relief, strategic planning and risk mitigation underpin an effective response.

Managing the risks inherent to responding to crises has been a longstanding challenge for USAID—especially when short-term humanitarian responses evolve into a protracted presence, as in Syria, Iraq, and Somalia. USAID evaluates operational context, implementer capacity, and beneficiary need when making funding decisions to determine whether the risk of inaction outweighs the risk of providing assistance. USAID's actions can and do include a variety of award-specific restrictions to address particular risks for implementers and programs. However, our investigations and audits continue to expose weaknesses in USAID planning and monitoring that reduce the timeliness and impact of assistance and create opportunities for bad actors to exploit vulnerabilities:

PIO Oversight. USAID relies on PIOs to help coordinate and implement responses to crises in nonpermissive environments.³ While USAID has influence over PIOs through its awards and U.S. participation on some PIO executive boards, USAID has been challenged in overseeing PIOs, which are subject to fewer Federal restrictions than other types of implementers. As we reported in our September 2018 audit report, USAID had not taken sufficient steps to manage PIOs, such as aligning its PIO policies and processes with Federal internal control standards; establishing and documenting clear authorities, roles, responsibilities, and standards for properly vetting, managing, and overseeing PIOs; and conducting thorough and timely assessments of past PIO performance. In addition, while USAID cited discrete risks in some awards, USAID lacks a comprehensive or effective policy to adequately identify, assess, and manage risks with PIOs, or set time or funding thresholds that would trigger a more formalized risk management process. Instead, USAID relies heavily on PIOs to assess and manage their own risks. USAID awards to PIOs working in Syria and Iraq now span more than 6 years and total \$2.6 billion without a formal process for identifying and assessing risk. These awards are particularly vulnerable to risks of fraud, waste, and abuse because USAID had not designed the awards with the internal control standards appropriate for the context.

Responding to Public Health Crises of International Concern. The 2014 Ebola epidemic in West Africa was one of the deadliest infectious disease outbreaks in modern history. The United States was the largest international donor in the response, appropriating around \$5.4 billion, with USAID operating as the lead Federal agency. USAID's strategy provided needed flexibility to adapt to changing circumstances, including evolution of the disease. However, several factors complicated the response, including a lack of policies for whole-of-Government coordination and delays obtaining emergency funding. In addition, USAID's needs assessments were insufficient to inform decisions, and frequent staff turnover coupled with weak handover procedures for rotating response teams further diminished the Agency's efforts. One official said staff operated with too few people to follow the money and determine whether support was reaching intended beneficiaries. Ultimately, USAID procured \$4.6 million in excess medical supplies, and most USAID-funded treatment centers and care units opened after the majority of Ebola cases had already been confirmed; as a result, some centers and units never saw patients.

² PIOs are organizations made up of multiple governments, such as U.N. organizations—the World Food Programme, the United Nations Children's Fund, and the World Health Organization—or international finance organizations.

³ USAID provided a reported \$2.6 billion to PIOs for Iraq and Syria between January 2012 and March 2018.

Identifying and Curbing Fraud and Corruption in Nonpermissive Environments. Nonpermissive environments like Iraq and Syria are particularly vulnerable to individuals who are intent on stealing U.S. funds and goods and depriving beneficiaries of assistance. For example:

- In July 2017, the United States pledged \$150 million to an Iraq stabilization project aimed at helping Iraqis return to communities freed from ISIS occupation. However, the pledge was placed on hold due to fraud allegations. Following a joint investigation, USAID and the United Nations Development Programme agreed to additional requirements for funding that required strengthening internal controls, expanding monitoring of stabilization activities, controlling information sharing on contract details, enhancing fraud prevention training, and establishing a full-time Iraq-focused investigator. We are also reviewing USAID's activities in Iraq as part of an ongoing audit.
- USAID's cross-border relief programs for internally displaced Syrians have been vulnerable to complex fraud schemes. For example, an individual with close ties to host-country officials abused his position to control and manipulate tenders to companies he was affiliated with for personal profit. These actions reduced the quality of humanitarian assistance delivered to refugee camps on the Jordan-Syria border. In another example, a USAID implementer manipulated procurements in favor of vendors that offered bribes and kickbacks, shortchanged deliveries, and was caught substituting products in USAID-funded supply kits with items of lesser quality. A separate incident exposed a ring of Turkish vendors who colluded with corrupt staff from four USAID implementers. USAID has taken action to improve award management, program oversight, internal processes, and fraud prevention efforts; however, we continue to receive and substantiate allegations of fraud and mismanagement and to uncover similar issues in ongoing investigations. An ongoing audit is looking at USAID's oversight of selected implementers delivering humanitarian assistance in response to the Syrian crisis.

Preventing Support to Terrorists. USAID and its implementers must take steps to ensure that U.S. foreign assistance does not support groups designated as foreign terrorist organizations.⁴ This includes implementing monitoring and oversight procedures to ensure assistance is not diverted from intended beneficiaries. However, the risks inherent to providing assistance in nonpermissive environments can be exacerbated in states with weak democratic systems and accountability where these groups operate, often with great influence over the local communities that USAID is working to assist. For example:

- Under the threat of Hay'at Tahrir al-Sham (HTS)—a designated terrorist group operating in northern Syria—an NGO's employees knowingly diverted thousands of USAID-funded food kits worth millions of dollars to ineligible beneficiaries (including HTS fighters) and submitted falsified beneficiary lists. A USAID third-party monitor reported the diversion, and our investigation resulted in USAID suspending the program and the NGO terminating dozens of employees. This example illustrates the risk USAID takes when operating in these high-stakes circumstances.
- In northwest Syria, an OIG investigation found that staff of a USAID-funded implementer were affiliated with or sympathetic to known terrorist groups. The NGO ultimately suspended portions of its program to reverify the identities of all of its beneficiaries, adapted its program to the changing risk environment, and terminated or asked for the resignation of a number of employees.
- Years of conflict and escalating violence perpetuated by Boko Haram and ISIS in West Africa have displaced an estimated 2.5 million people in the countries surrounding the Lake Chad Basin. We are currently auditing USAID's response to the crisis in part to assess its actions to prevent terrorist organizations from obtaining USAID humanitarian funds.

⁴ Designated as such by Executive Order 13224, the Specially Designated Nationals and Blocked Persons List published by the Office of Foreign Assets Control, or the Department of State's State Sponsors of Terrorism List.

While USAID takes steps to ensure the integrity of its implementers—by requiring applicants of assistance awards to disclose any prior material support provided to terrorist entities and verifying that contractors are not blocked from receiving USAID funds—we have identified vulnerabilities with its process. For example, OIG investigations with the U.S. Attorney’s Office for the Southern District of New York have revealed multiple instances when USAID implementers falsely certified that they had not previously provided material support to blocked entities. Such false certifications deprive USAID of reviewing accurate information, which could materially influence its decision to fund an implementer. Further, USAID’s requirement to disclose past material support to terrorist organizations concerns only implementers applying for assistance awards, not contracts. We notified USAID of these vulnerabilities—which particularly affect high-risk programs in nonpermissive environments such as Afghanistan, Iraq, and Syria where terrorist groups operate—and understand the Agency is working on corrective action.

Detecting and Reporting Sexual Exploitation and Abuse (SEA). Unstable and crisis environments leave vulnerable groups particularly at risk for SEA. In February 2018, it came to light that an international NGO covered up claims of SEA violations in Haiti in the wake of the January 2010 earthquake. In March 2018, we sent a memorandum to the USAID Administrator highlighting vulnerabilities in USAID’s SEA-related reporting requirements for implementers. We noted that under the Agency’s policy for awardees and subawardees, the standard for disclosing to the Agency and OIG allegations of SEA committed by their employees was limited to complaints of human trafficking or procurement of commercial sex. Other forms of sexual misconduct were not required to be reported. In addition, the policy afforded implementers the discretion to report only allegations they deemed credible—a threshold that may delay reporting and keep the Agency and OIG from independently and promptly assessing and responding to allegations of sex trafficking and prostitution. For example, OIG received delayed notice of SEA allegations in crisis areas—in one case several years after it became known to the implementer.

USAID has recognized the need for changes to its traditional approach to humanitarian response and stabilization efforts to address the increased complexity and longer duration of associated crises as they have evolved. Notably, USAID has taken several actions, including the following:

- In response to OMB Circular A-123,⁵ USAID developed and approved in July 2017 an Agency-wide risk profile—based on security, legal, fiduciary, and other risks often found in nonpermissive environments—to help inform its programming decisions. USAID issued internal guidance that assigns roles and responsibilities, and provides an overarching framework for assessing, treating, and monitoring risks across USAID and at individual missions.⁶
- In August 2018, after receiving the draft of our PIO audit report, USAID revised its policy for agreements with PIOs. According to USAID, the new Senior Obligation Alignment Review and revised ADS Chapter 308 empower USAID to safeguard taxpayer funds and encourage accountability among PIOs and other implementers. USAID clarified roles and responsibilities for staff involved in the oversight and management of agreements with PIOs, and offered training to staff on request. USAID also said it has taken steps to codify a risk management plan and is designing a new unit for assessing and addressing the performance of PIOs and leading policy coordination with the Agency. However, key areas remain in progress, including access to information, monitoring, and cooperation with OIG. Further, USAID still needs to revise its enterprise risk management process to address risks specific to PIOs.

5 OMB Circular A-123, as updated in 2016, mandated that Federal agencies institute a comprehensive enterprise risk management system.

6 “Governance Charter for Enterprise Risk Management and Internal Control at USAID: A Mandatory Reference for Automated Directives System (ADS) Chapter 596,” August 2017; “Enterprise Risk Management Risk Profile Implementation Guidance,” updated May 2018; “Risk Management Discussion Note,” updated June 2018; and “Risk-Appetite Statement,” June 2018.

- USAID has suspended funding for certain programs and activities, suspended and debarred companies and individuals, and included special conditions and modified language in some awards to help address specific risks of working in nonpermissive environments.
- USAID agreed to take steps to improve its response to future public health crises of international concern. This includes developing policies for identifying health response triggers; building a stronger cadre of cross-sectoral teams; establishing guidelines for reprogramming funds and transferring resources; and researching opportunities to build flexibility into existing awards to respond more quickly to emerging crises.
- To eliminate duplication at headquarters and in the field, USAID submitted to Congress a reorganization proposal to merge its Offices of U.S. Foreign Disaster Assistance and Food for Peace into one bureau, the Bureau of Humanitarian Assistance. USAID anticipates that the proposed bureau will elevate USAID's humanitarian influence and strengthen the impact of its work to respond to humanitarian crises.
- In February 2018, the USAID Administrator reaffirmed the Agency's zero tolerance for sexual misconduct, exploitation, or abuse of any kind among Agency staff or implementers. This message was reinforced at the Administrator's "Forum on Preventing Sexual Misconduct," which was joined by the Inspector General and representatives from key implementers and U.N. agencies. In March 2018, the Administrator established the Action Alliance for Preventing Sexual Misconduct, joined by a liaison from OIG, in order to address sexual misconduct of all forms in the aid community. The Action Alliance worked with OIG in updating standard award provisions and establishing additional guidance clarifying that all forms of sexual misconduct which affect beneficiaries should be reported to USAID and OIG, not just those involving trafficking or commercial sex.

Related OIG Products

- "Insufficient Oversight of Public International Organizations Puts U.S. Foreign Assistance Programs at Risk" (8-000-18-003-P), September 25, 2018.
- "Lessons from USAID's Ebola Response Highlight the Need for a Public Health Emergency Policy Framework" (9-000-18-001-P), January 24, 2018.
- "Assessment and Oversight Gaps Hindered OFDA's Decision Making About Medical Funding During the Ebola Response" (9-000-18-002-P), January 24, 2018.
- "Oversight in Challenging Environments: Lessons Learned From the Syria Response," Feature Report, November 9, 2017.



Man inspects apricots grown in an orchard established by the Satpara Development Project near the town of Skardu in Gilgit-Baltistan Province. Photo: USAID/Pakistan (February 9, 2015)

Chapter 2.

Strengthening Local Capacity and Improving Planning and Monitoring To Promote Sustainability of U.S.-Funded Development

USAID strives to end the need for foreign assistance and support partner countries on their journey to self-reliance. To achieve its goal, USAID has to ensure that U.S.-funded development is sustainable—that it endures after U.S. involvement ends. USAID therefore calls for investing in communities that have a stake in continuing activities and services, building the skills of local stakeholders, and promoting planning for sustainability, which could include public- or private-sector participation and financial backing.

Since 2005, international best practices for supporting sustained development—incorporating principles from the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008), and the Busan Partnership for Effective Development Co-operation (2011)—have encouraged increased use of local systems to implement donor-funded programs as a strategy to improve sustainability. USAID's initiatives have embraced these principles, and in 2016 USAID updated its development program cycle policy with an emphasis on promoting sustainability through local ownership.¹ However, USAID faces challenges working with local partners and host-country governments that have underdeveloped capacity, financial

¹ USAID's Local Solutions initiative evolved from USAID Forward, an Agency-wide reform that aimed in part to shift program funding directly to partner governments and local organizations, while strengthening partner capacity. By fiscal year 2015, USAID estimated that it had obligated \$2.6 billion to Local Solutions activities. The Agency retired USAID Forward in 2017.

systems, and internal controls. We are finalizing an assessment that looks back at USAID's efforts to strengthen local capacity, enhance and promote country ownership, increase sustainability, and implement risk mitigation procedures.

Successful and sustainable foreign assistance programs also rely on a cycle of rigorous planning, learning, monitoring, and evaluation. If carried out effectively, planning helps ensure programs are logically designed, complement larger strategies, and have the resources needed to achieve objectives. Monitoring and evaluation promote accountability, help assess and adapt programs before they get off track, and inform decisions about current and future programming.

While USAID has improved program planning, monitoring, and evaluation, challenges remain. We continue to find issues in these areas that affect implementation and ultimately the sustainability of USAID's programs. For example:

- USAID's HIV/AIDS project in Cambodia, launched in November 2012, piloted innovations in HIV/AIDS prevention and treatment. While the project was designed to strengthen local organizations to minimize the need for future external funding after the project was implemented, continued support from other donors was a key assumption for project success. However, an early and abrupt decrease in funding from the Global Fund to Fight AIDS, Tuberculosis, and Malaria required the project to substantially reduce the number of local centers for excellence it had planned for. At the same time, the project lacked performance indicators to quantify progress in implementing planned innovations and to measure the impact of the project's efforts to build local capacity. Without reliable performance data, USAID cannot ensure that innovations are cost-effective or that they reliably inform decisions to expand or scale up innovations to reach larger populations.
- USAID/West Bank and Gaza's Conflict Mitigation and Management Program had not undergone an evaluation—even though the program had been ongoing since 2004 and made over 100 grants to local and international organizations. Without one, USAID lacked a tool for determining long-term impact and improving the effectiveness of future grants. The mission recently initiated an evaluation that is expected to be completed in May 2019.
- Sustaining a USAID-funded project to expand electricity generation in Haiti has also been problematic. Under the U.S. Government's plans for Haiti post-earthquake reconstruction, USAID/Haiti was tasked with managing the construction, operation, and maintenance of a new power plant that offered modern electricity services to its customers—including a new multidonor industrial park that is expected to create jobs and grow Haiti's economy—and for progressively expanding the plant's capacity and service area. The Haitian Government, however, stalled on planned reforms that the project's design considered key to its success and sustainability. Weaknesses in USAID oversight further challenged project implementation. Staffing shortages resulted in mission staff spending less time on planning and performance monitoring than needed, limiting the mission's ability to anticipate challenges and gauge actual progress and financial health.

As we reported in prior years, USAID has been challenged to implement sustainable development programs in Pakistan, including large and highly visible infrastructure projects. We continue to identify challenges in Pakistan, which remains a recipient of significant U.S. Government funding in the region. For example:

- USAID provided funding to Pakistan's Satpara Development Project without adequate planning for sustainability. Specifically, the mission did not reach an agreement with stakeholders on who would operate and maintain the \$20.9 million agricultural productivity project—intended to improve the

supply of irrigation water and construct irrigation systems—after USAID/Pakistan’s involvement ends, scheduled for December 2018. The project’s plan assumed Pakistan’s Public Works Department (PWD) would manage the irrigation system because the Satpara region does not have a provincial irrigation department, which typically manages irrigation systems. However, PWD had no prior experience managing irrigation systems and did not plan to take over responsibility. As a result, maintenance has not been done on completed canals, and the irrigation system has already shown signs of deterioration. In addition, the mission did not resolve downstream water access concerns, and water scarcity prompted water rights holders to halt the flow from the Satpara Dam to the irrigation system.

- USAID’s investment in the Gomal Zam Multipurpose Dam project aimed to provide Pakistanis with consistent generation of additional electricity. The project was designed to add 17.4 megawatts of generation capacity to the national electric grid, provide drinking water, and help with flood control. However, after the Gomal Zam Multipurpose Dam was completed in June 2013 and handed over to the Pakistani Government, Pakistani officials reported that the operation of the hydroelectric component was sporadic. In October 2016, system failures and damages shut down electricity generation altogether, which has yet to be fully restored. While the system failures occurred after project completion, USAID had not worked with Pakistan’s Water and Power Development Authority to develop and implement a plan to restore electricity generation and identify safeguards to prevent similar damage in the future.

In 2018, USAID began a strategic transition focused on building country self-reliance—defined as the ability of a country’s government, civil society, and private sector to plan, finance, and implement solutions to solve its development challenges. USAID has developed high-level metrics to identify strengths and weaknesses, help inform strategic decisions, and ultimately determine a country’s level of commitment and capacity to be self-reliant.

USAID has taken steps to build local capacity. For example, it has established external partnerships with the International Organization for Supreme Audit Institutions and signed a memorandum of understanding with the Government Accountability Office (GAO) in April 2016 to enhance the oversight capabilities of audit organizations in developing countries. However, the success of these partnerships will depend on how USAID leverages them.

USAID has also stepped up efforts to improve planning and monitoring—longstanding challenges cited in our past Top Management Challenges reports. Notably, the Agency updated and added rigor to its policy for program design and management in September 2016. Recognizing the need to build the Agency’s capacity to fully implement the policy, USAID’s Bureau for Policy, Planning and Learning has developed new training, tools, and technical assistance to support USAID missions in doing appropriate program planning and monitoring as part of the program cycle. As of August 2018, the Agency had trained more than 3,000 staff in performance monitoring and evaluation, and approximately 900 staff had completed courses in project design. These actions, if implemented fully and well, should help address the Agency’s planning and monitoring challenges but will require sustained management focus to ensure programs and projects are effectively designed and meet performance expectations.

USAID’S first Agency Risk Profile,² approved by the Administrator in July 2017, includes sustainability. The Executive Management Council on Risk and Internal Control, comprising USAID assistant administrators and chaired by the Deputy Administrator, recognized the significance of sustainability as a risk and developed a risk mitigation plan in response. Agency leadership recognizes that even with these mitigation

² The risk profile was developed in response to OMB Circular A-123, which mandates that Federal agencies institute a comprehensive enterprise risk management system.

efforts in place, this is a critical risk and may require additional remediation through the enterprise risk management (ERM) process, which provides for regular monitoring of the risk and its mitigation plan. The Agency also included risks related to planning and monitoring in the risk profile and will continue to monitor and manage these risks through its ERM process.

While the Agency continues to take action to promote sustainability, assess and mitigate risk, and build accountability, significant risk remains, and we will continue to monitor USAID's efforts to strengthen capacity and promote sustainability. Our ongoing audits will examine issues related to sustainability in USAID's programs for democracy and governance, and global health supply chain management.

Related OIG Products

- “Misjudged Demand, Stalled Reforms, and Deficient Oversight Impeded USAID/Haiti’s Sustainable Electricity Goals” (9-521-19-001-P), November 13, 2018.
- “Sustainability of Improvements Under USAID/Pakistan’s Satpara Development Project Is at Risk” (5-391-18-003-P), September 26, 2018.
- “Incomplete Evaluations and Cut in Funding From Another Donor Could Impede USAID/Cambodia HIV/AIDS Efforts” (5-442-18-002-P), April 6, 2018.
- “Pakistan’s Gomal Zam Dam Has Not Generated the Electricity Anticipated Despite Millions in USAID Investments” (5-391-18-001-P), February 12, 2018.



Worker dons personal protective equipment in preparation for a new patient at the Monrovia Medical Unit, created by USAID as part of an interagency response to Ebola. Photo: USAID/Neil Brandvold (January 31, 2015)

Chapter 3.

Reconciling Interagency Priorities and Functions To More Efficiently and Effectively Advance U.S. Foreign Assistance

Implementing foreign assistance programs, projects, and operations that involve multiple U.S. Government agencies has presented significant challenges for USAID in achieving its core mission. In particular, coordination with the Department of State—which makes policy and funding decisions for operations related to political and security crises—has complicated USAID’s project planning and execution. Despite broad interagency guidance on the Department of State’s role in politically sensitive environments, USAID employees are sometimes unclear how best to manage additional layers of review, nimbly respond to changing priorities, address both U.S. diplomatic and development goals, and balance short- and long-term priorities.

The joint USAID-Department of State reform effort conducted in 2017 demonstrated the complexity in aligning complementary yet distinct missions and underscored USAID’s persistent challenge in imple-

menting programs, projects, and operations that involve other U.S. Government agencies.¹ Our point-in-time review of the joint reform effort highlighted uncertainty about its direction and end goals, and noted that disagreement and limited transparency on decisions related to the consolidation of functions and services led to questions about what the reform effort had achieved. USAID staff also voiced concerns related to the Agency's separate reform plan, including a lack of transparency and inclusivity in its development. Since then—amid leadership turnover at the State Department and ambiguity on the future of joint redesign efforts—USAID forged ahead with its independent transformation initiative, considered “one of the most significant restructuring efforts in the institution's history.”² In August 2018, USAID outlined its proposed plans to Congress through nine congressional notifications.

The Ebola response and efforts to rebuild Haiti after its 2010 earthquake also show the difficulty of managing and safeguarding international development and humanitarian assistance funds while helping advance U.S. foreign policy priorities:

- Response to the 2014 Ebola virus outbreak in West Africa called for a level of U.S. and international coordination that was unprecedented for USAID. While USAID effectively managed several aspects of its response to the outbreak, coordination challenges internally and with key stakeholders affected operational effectiveness. Notably, differing approaches and delayed coordination between USAID and the U.S. Centers for Disease Control and Prevention (CDC) complicated the U.S. response. Despite its experience with public health crises of international concern, the Agency has relied on incomplete guidance for managing response efforts, leaving responders to re-create processes for controlling new public health emergencies. Our audit of USAID's Ebola response concluded that a response policy framework would better position USAID to quickly launch a coordinated response and get ahead of a disease's epidemiological curve.
- State Department commitments to the Haitian Government for postearthquake reconstruction fell heavily on USAID/Haiti to implement, including a project to provide sustainable electricity services. The mission lacked the staff needed to plan for and monitor efforts to meet both the State Department's priority for generating reliable electricity for the industrial park and USAID's broader development goal of expanding modern electricity service to Haitians. Moreover, the State Department's assumptions about the Haitian Government's appetite for energy sector reform and commercial demand for electricity did not materialize, requiring USAID/Haiti to shift its long-term strategy for the power plant from government to private management and reduce its expansion goals. Mission staff told us pressure from leadership to show results led to an accelerated rollout that outpaced the project's ability to modernize metering, billing, and customer outreach, and remove illegal connections. Ultimately, USAID's project did not meet its goals for modernization and expansion and will continue to rely on U.S. Government support until USAID/Haiti can transfer the power plant to a private sector operator or otherwise conclude the project.

USAID has been responsive to our recommendations to improve coordination. For example, USAID reports that it has taken steps to work with other U.S. agencies to clearly identify and regularly test roles, capabilities, and responsibilities for use in future public health emergencies of international concern. USAID also agreed to direct the implementation of a communication and coordination strategy for how the Agency will work with other responders, and USAID's Office of U.S. Foreign Disaster Assistance

1 Seven weeks after freezing Federal hiring, the President issued Executive Order 13781 on March 13, 2017, “intended to improve the efficiency, effectiveness, and accountability of the executive branch.” A month later, OMB followed up with Memorandum M-17-22, requiring executive branch agencies including USAID and the Department of State to submit reform plans and workforce plans to OMB by September 2017.

2 Michael Igoo, “USAID chief unveils major organizational shakeup,” Devex News, April 9, 2018.

committed to incorporating handover procedures for members of rotating response teams into its Response Management System. Furthermore, the heads of USAID and CDC issued a joint statement to their staff encouraging productive working relationships to deepen teamwork and consideration of how the agencies can strengthen collaboration. With regard to Haiti, USAID agreed to formalize its plan to conclude the power plant project and to address staffing concerns that undercut project monitoring and implementation. We continue to monitor USAID's efforts to improve interagency coordination with our ongoing work on USAID's Power Africa initiative.

USAID recognizes the challenges in reconciling interagency stabilization and humanitarian assistance priorities, particularly in politically sensitive environments, and is committed to improving its coordination with others. In May 2018, the State Department and USAID finalized and launched the Stabilization Assistance Review (SAR), which provides guidelines and best practices to optimize U.S. foreign assistance and advance stabilization efforts in conflict-affected areas. At the direction of the National Security Council, USAID and the Departments of State and Defense are working together to implement SAR recommendations and apply SAR in priority countries. The agencies emphasized their commitment in the SAR to institutionalize learning, evaluation, and accountability, noting that they "cannot continue to take the same approach and expect different results." However, closer coordination is new and will require shifts in policies, process, and culture. Notably, a September 2018 report by GAO on stabilization efforts determined that U.S. agencies still need to formally document their agreement, roles, and responsibilities to enhance coordination and reduce the potential for duplication, overlap, and fragmentation.³

According to USAID officials, the Agency and the State Department are also cooperating on research and training. They are leading an interagency policy research initiative to inform U.S. assistance to fragile countries—in particular, to improve efforts to prevent violent conflict, including mass atrocity and violent extremism. Recommendations coming out of the initiative will help coordinate assistance to advance prevention goals. Further, USAID encouraged staff to apply for the Department of State's "National Security Executive Leadership Seminar" and the midlevel equivalent, "Navigating the Interagency." Both courses build collaboration and knowledge across the interagency foreign affairs community, focusing on national security. In August 2018, USAID announced an in-house training called "Building Interagency Capacity and Skills: Working with Partners to Increase Development Impact" to teach staff techniques and best practices for interagency communication, policy development, and decision making.

USAID is also advancing its transformation initiative with proposed structural changes announced in nine congressional notifications. Among these, USAID proposed a Bureau for Policy, Resources, and Performance that includes (1) an Office of Development Policy to advance USAID's development policy leadership and coherence and (2) an Office of Bilateral and Multilateral Engagement to set Agency policy and standards, identify best practices, support Agency engagement with donors, and identify and create needed functions for Agency-wide coordination and oversight of multilateral organizations.

USAID's actions have the potential to improve interagency coordination. However, doing so will be an ongoing challenge for USAID, particularly in areas where the Agency does not have full authority to act.

Related OIG Products

- "Misjudged Demand, Stalled Reforms, and Deficient Oversight Impeded USAID/Haiti's Sustainable Electricity Goals" (9-521-19-001-P), November 13, 2018.

³ "U.S. Agencies Have Coordinated Stabilization Efforts but Need to Document Their Agreement" (GAO-18-654), September 27, 2018.

- “USAID Redesign Efforts Have Shifted Over Time” (9-000-18-003-P), March 8, 2018.
- “Lessons From USAID’s Ebola Response Highlight the Need for a Public Health Emergency Policy Framework” (9-000-18-001-P), January 24, 2018.
- “Assessment and Oversight Gaps Hindered OFDA’s Decision Making About Medical Funding During the Ebola Response” (9-000-18-002-P), January 24, 2018.



First-year female students at Dakahlia STEM (Science, Technology, Engineering, and Math) School in Egypt perform lab experiments. Photo: OIG (April 13, 2016)

Chapter 4.

Addressing Vulnerabilities in Financial and Information Management

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

Financial Management

Reconciling Intragovernmental Transactions. To provide accountability and transparency in intragovernmental transactions, Federal agencies, referred to as “trading partners,” must reconcile any accounting differences. These differences can occur if trading partners use different accounting periods or methodologies for classifying and reporting transactions. The Department of Treasury reported that as of September 30, 2017, USAID had \$488 million in unreconciled transactions with its trading partners. Treasury uses scorecards to track unreconciled differences and rank each agency by its contribution to Government-wide differences. According to the scorecard at the end of the third quarter of fiscal year 2018, USAID was the 19th largest contributor (out of 140 agencies), with differences of \$377 million. USAID's ongoing efforts to improve its reconciliation process and eliminate differences are likely to resolve timing differences. However, other differences, such as those caused by accounting errors, require additional ef-

fort by USAID and its trading partners to resolve. We are following this in our ongoing audit of USAID's financial statements, which we conduct annually.¹

Reconciling the Fund Balance With Treasury Account. A material weakness related to the Agency's Fund Balance With Treasury (FBWT) reconciliations in USAID's financial statements for fiscal years 2017 and 2016 indicates that material misstatements of the Agency's financial statements may not be prevented, or detected and corrected, on a timely basis. In the past, USAID did not reconcile the FBWT account with Treasury's fund balance each month, or research and resolve any identified differences in a timely manner. Instead, USAID adjusted its FBWT account to agree with Treasury's fund balance. While USAID has made progress in reconciling its fund balance with Treasury's and has reduced the unreconciled amount, large unreconciled differences remain. As of September 30, 2017, the net difference between USAID's general ledger and the amount in Treasury's records was approximately \$214 million, of which \$83 million was due to outstanding unreconciled items and \$131 million was unexplained. This difference accumulated because of ongoing problems with a legacy system and data migration, and the continued lack of an integrated system to control reconciliations performed by USAID missions around the world. USAID management is still working to resolve this issue. Reconciliation will remain a challenge until a remediation plan is approved and actions are fully implemented and assessed.

Improving Award Management. Full and open competition is required when awarding U.S. Government contracts, except in unusual and compellingly urgent circumstances or when other qualified sources are lacking; for grants and cooperative agreements, USAID encourages competition to identify and fund the programs that best achieve Agency objectives. Under certain circumstances, eligibility to bid may be restricted to a particular type of organization or other limitation, typically for sole-source awards, as long as a justification for using sole-source awards is fully documented and approved by appropriate authorities. For example, we found that a USAID contractor operating in Syria had not adequately documented justification for 36 of 41 sole-source subawards it made—leading us to question \$5.6 million in costs. USAID's Office of Acquisition and Assistance agreed that documentation was lacking and that the Agency should have held the contractor accountable for complying with Agency policy. Still, although the Agency determined the questioned costs were not allowable, it did not plan to collect them from the contractor because USAID had approved the awards. The Agency cited factors—primarily violence in the region—that prevented exploring other options for competition.

Given USAID's reliance on awards to implement its programs around the world—approximately \$17.6 billion annually—effective awards management is key to ensuring that implementers achieve program objectives. However, this is a challenge for the Agency. For example, over the past decade, we have made a total of 3,365 recommendations in more than 400 performance and financial audit reports that address implementer underperformance, inadequate awards management, and documentation. We are currently conducting an audit to assess the Agency's acquisition and assistance processes. Specifically, we are assessing how the Agency manages its awards to implementers, and its use of common management tools. In addition, we will be assessing USAID's stewardship of expired and canceled awards.

Information Management

Federal Information Technology Acquisition Reform Act (FITARA). FITARA was enacted in December 2014 to reform and streamline the U.S. Government's information technology acquisitions, including strengthening chief information officers' accountability for their agencies' IT costs, schedules, performance, and security. We identified several areas in which USAID did not comply with FITARA requirements, such as not having the chief information officer (CIO) report directly to the Agency head

¹ An audit of USAID's annual financial statements is required by the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994 (Title IV of the Government Management Reform Act of 1994, P.L. 103-356).

and not providing the CIO with adequate oversight and decision authority over all budget execution activities related to the use of IT resources. Until these issues are addressed, USAID faces a challenge with achieving the aims of FITARA.

Related OIG Products

- “USAID Has Gaps in Conforming With the Federal Information Technology Acquisition Reform Act” (A-000-19-004-C), November 9, 2018.
- “Closeout Audit of Costs Incurred by Chemonics To Pursue a Peaceful Transition to a Democratic and Stable Syria, Under Award AID-OAA-TO-13-00003, January 7, 2013, to October 6, 2016” (3-000-18-008-N), February 20, 2018.
- “Audit of USAID’s Financial Statements for Fiscal Years 2017 and 2016” (0-000-18-001-C), November 15, 2017.

Appendix

Fiscal Year 2019 and Prior-Year Top Management Challenges for USAID

Fiscal Year 2019 Challenges	Prior-Year Challenges
<ul style="list-style-type: none">Managing risks inherent to providing humanitarian and stabilization assistance	<ul style="list-style-type: none">This challenge was not reported as a discrete challenge last year. However, elements of it were included in the challenge related to improving program planning and monitoring.
<ul style="list-style-type: none">Strengthening local capacity and improving planning and monitoring to promote sustainability of U.S.-funded development	<ul style="list-style-type: none">Strengthening country ownership and local capacity to promote sustainability of U.S.-funded developmentImproving program planning and monitoring
<ul style="list-style-type: none">Reconciling interagency priorities and functions to more efficiently and effectively advance U.S. foreign assistance	<ul style="list-style-type: none">Reconciling interagency priorities and functions to more efficiently and effectively advance international development.
<ul style="list-style-type: none">Addressing vulnerabilities in financial and information management	<ul style="list-style-type: none">Meeting Governmentwide financial and information management and security requirements

This page is intentionally blank.

Report fraud, waste, and abuse

USAID OIG Hotline

Email: ig.hotline@usaid.gov

Complaint form: <https://oig.usaid.gov/complainant-select>

Phone: 202-712-1023 or 800-230-6539

Mail: USAID OIG Hotline, P.O. Box 657, Washington, DC 20044-0657

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