TOP MANAGEMENT CHALLENGES

Facing USAID in Fiscal Year 2020

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

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Message From the Inspector General

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Inspector General

USAID's foreign assistance programs provide humanitarian aid to people in countries recovering from natural disasters and periods of armed conflict, as well as assistance in combatting the spread of disease and addressing food insecurity, child and maternal mortality, illiteracy, and gender inequality. USAID manages approximately $31 billion in budgetary resources annually to advance 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 can help strengthen U.S. national security interests.

To help ensure the U.S. Government achieves maximum return on these investments, the Office of Inspector General (OIG) provides independent oversight of USAID.[1] As part of our far-reaching oversight role, 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.

We identified four top management challenges for USAID for fiscal year 2020. These challenges are based on our recent audits, investigations, and other oversight work:

- ***Managing Risks Inherent to Providing Humanitarian and Stabilization Assistance*.** The flow of billions in assistance dollars in crisis environments creates prime opportunities for fraud and diversions of U.S.-funded goods to the black market or, in some cases, to terrorist groups. USAID continues to adapt its approach to managing these risks and address the complexities when short-term humanitarian responses evolve into a protracted presence. Notably, USAID has taken action to better ensure that implementer-, criminal-, and terrorist-related risks are identified, evaluated, and addressed in Agency response plans. USAID has also taken action to close gaps in responding to emerging health crises and protecting beneficiaries from exploitation and abuse. However, continued diligence, training, and monitoring will be critical to implementing a risk management

[1] OIG provides oversight of the U.S. Agency for International Development (USAID), Millennium Challenge Corporation (MCC), U.S. African Development Foundation (USADF), Inter-American Foundation (IAF), Overseas Private Investment Corporation (OPIC), and overseas contingency operations as part of lead inspector general initiatives (described in section 8L of the Inspector General Act, as amended).

culture—especially as USAID responds to emerging crises such as the economic and political turmoil in Venezuela and the latest Ebola outbreak in parts of Africa. Any operational deficiencies will continue to expose USAID programs to significant risk from those who seek to exploit USAID's vulnerabilities—particularly in the nonpermissive environments the Agency often works in.[2]

- ***Strengthening Local Capacity and Improving Planning and Monitoring To Promote Sustainability of U.S.-Funded Development***. The long-term success of U.S. foreign development depends on host country commitment to growth. However, countries often lack the capacity to build local skills and ensure public- or private-sector participation and backing to continue development activities and services after U.S. involvement ends. This has been the case with USAID's $9.5 billion Global Health Supply Chain-Procurement and Supply Management project. Since 2016, our investigations and joint operations with local authorities have revealed that host governments have been unable or unwilling to strengthen warehousing, security, and commodity distribution systems—allowing bad actors to steal lifesaving medicines and medical supplies. Weaknesses with planning and monitoring have also undermined the outcomes of Power Africa, Haiti reconstruction, and other USAID development projects. While USAID continues to take action to assess and mitigate risk and build accountability, significant sustainability risks remain.

- ***Reconciling Interagency Priorities and Functions To Efficiently and Effectively Advance U.S. Foreign Assistance***. U.S. foreign assistance frequently involves multiple Government agencies, donors, and host governments, each having its own authorities, priorities, and strategies for advancing shared interests. We have seen how operating without clearly defined policies and procedures at the start has impeded multi-agency efforts like Power Africa and the U.S. Ebola response. While USAID actions have the potential to improve interagency coordination, the Agency will continue to be challenged to plan for and adapt to agencies' shifting priorities, budgets, and staffing to further U.S. foreign policy and national security objectives.

- ***Addressing Vulnerabilities and Implementing Needed Controls in Agency Core Management Functions***. USAID's ability to carry out its mission and safeguard Federal funds depends on the integrity and reliability of its core business practices and systems. Without them, other safeguards—no matter how well they are designed and implemented—will not work effectively. While USAID has taken noteworthy actions to strengthen its controls over core management functions and bring its financial and information systems into compliance with strict Federal requirements, the Agency continues to work to instill rigor in its awards, financial, information, and human capital management.

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

My office 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 2020, please contact me at 202-712-1150.

[2] USAID describes a nonpermissive environment as a context, at the national or subnational level, in which uncertainty, instability, inaccessibility, or insecurity constrain USAID's ability to operate safely and effectively.

The U.S. Government airlifts humanitarian aid to Colombia for eventual distribution by relief organizations on the ground for Venezuelans impacted by the crisis in the country. Photo: U.S. Air Force Tech. Sgt. Gregory Brook (February 16, 2019)

Chapter 1.

Managing Risks Inherent to Providing Humanitarian and Stabilization Assistance

Identifying and mitigating risks is essential to ensure that people in need—not corrupt actors—receive U.S. foreign assistance. Without this risk awareness, USAID cannot effectively mitigate the threats that are inherent to many of the environments it works in. USAID continues to adapt its traditional approach to humanitarian assistance and stabilization efforts and improve its policies and procedures to manage this longstanding challenge.

According to the U.N. Office for the Coordination of Humanitarian Affairs, one person in 70 worldwide is caught up in a crisis and in need of humanitarian and stabilization assistance. Displacement, which largely stems from conflict, has been on the rise, with the most recent U.N. estimates identifying 62.8 million persons displaced within and across national borders, the highest figure on record. Public health crises and extremist group activities exacerbate the needs of these and other populations confronting threats to their survival. In December 2018, the United Nations estimated that $21.9 billion would be needed in 2019 to provide food, shelter, healthcare, and other emergency assistance to nearly 132 million people in 42 countries affected by natural disaster and conflict. The United States provides a significant portion of this funding. USAID alone reported expending approximately $4.1 billion in fiscal year 2018 on humanitarian and stabilization assistance.[3]

Crisis environments are by their very nature unstable and insecure, which creates substantial uncertainty and inaccessibility. Heightened security threats coupled with the flow of large amounts of money create prime opportunities for unscrupulous individuals to commit fraud and divert goods to the black market, advance other criminal schemes, or provide material support to terrorist entities. USAID has had difficulty managing these challenges, especially when short-term humanitarian responses evolve into a protracted presence, as demonstrated through our assessments of USAID's implementation and oversight of its programs.

- ***Overseeing Public International Organizations (PIOs).***[4] To navigate the complexities of operating in the nonpermissive environments USAID frequently works in, USAID relies on PIOs to help implement programs, coordinate international responses to crises, and collect data on the needs of beneficiaries. As of August 2019, USAID had $4.2 billion available to expend under existing agreements with PIOs. However, PIOs present unique risks for USAID, in part because they are subject to fewer Federal restrictions than other types of implementers. Despite these risks, USAID lacked sufficient policies for identifying, assessing, and managing PIO risks, relying instead on PIOs to take on this oversight role. In addition, USAID did not align its PIO policies with Federal internal control standards or develop clear documented standards for properly vetting, managing, and overseeing PIOs. USAID acknowledged the high stakes and has taken action to redefine its accountability over PIOs through revised policies released in August 2018 and August 2019. Yet implementing our other recommendations remains on the horizon. Notably, USAID is working to establish before March 2020 a dedicated, centralized entity with the authority and resources to assess and address (1) PIO performance, (2) PIO internal oversight effectiveness, (3) other crosscutting PIO oversight methods, and (4) oversight units operating across multiple organizations, using information from across the Agency. USAID also continues to negotiate requirements for PIOs to report serious criminal misconduct, both suspected and identified, in USAID-funded activities—a requirement that will better position USAID and OIG to safeguard taxpayer funds.

- ***Responding to Public Health Crises.*** On July 17, 2019, the Ebola outbreak in the Democratic Republic of the Congo (DRC) was declared a public health emergency of international concern. By July, USAID had obligated $127.8 million for responding to the DRC outbreak and $8.6 million for preparedness activities in neighboring countries[5]—making it the largest bilateral donor in the response effort, which involves multiple governments and agencies. Leading joint responses to a continually evolving crisis in insecure settings where communities distrust outsiders is rife with complications. USAID has confronted similar public health emergencies before—most recently from 2014 to 2016, when it led the U.S. Government response to the Ebola outbreak in West Africa, to which the U.S. Government appropriated $5.4 billion. However, as we reported in January 2018, while USAID's 2014 strategy provided the flexibility needed to adapt to changing circumstances, the Agency's response was characterized by delays and problems identifying needed resources. Programmatic inefficiencies and waste were largely due to a lack of policies to guide USAID's interaction with other U.S. responders. Ultimately, USAID purchased $4.6 million in unneeded medical supplies, and most USAID-funded treatment centers and care units opened after the

[3] USAID's "Fiscal Year 2018 Agency Financial Report," funding for humanitarian assistance, and conflict mitigation and stabilization.

[4] PIOs include U.N. organizations and international finance organizations.

[5] Burundi, Rwanda, South Sudan, and Uganda.

majority of Ebola cases had already occurred and progression of the outbreak was on the decline. As a result, some centers and care units never opened or treated patients.

USAID has made progress implementing our January 2018 recommendations, which aim to better position the Agency to respond effectively and efficiently to public health emergencies. However, some recommendations remain open, including those designed to enhance coordination and improve capabilities to adapt response efforts to changes on the ground. As we reported in our September 2019 advisory, heightened management attention to closing all of our recommendations is critical to rapidly and efficiently mobilizing staff, expertise, and supplies and avoiding the performance shortfalls we identified in USAID's last major Ebola response effort.

- ***Protecting Beneficiaries From Sexual Exploitation and Abuse (SEA).*** No misconduct is more egregious than exploitation and abuse of the very beneficiaries USAID aims to assist. While SEA can occur in all forms of programming, recent reporting indicates that it is more prevalent in humanitarian assistance and stabilization settings. In early 2018, it came to our attention that gaps in USAID's award requirements for reporting allegations of implementer staff sexually exploiting and abusing beneficiaries led to a number of allegations going unaddressed. The USAID Administrator confirmed that, at the time, implementers were not required to report all forms of alleged SEA to USAID. Certain sexual misconduct reporting requirements were limited to allegations that implementers deemed credible—a threshold that delayed independent assessments and responses by USAID and OIG. To help address SEA, the USAID Administrator established the Action Alliance for Preventing Sexual Misconduct, joined by a liaison from OIG to keep up-to-date on USAID's SEA policy decisions and communicate OIG's independent response on this issue to the Action Alliance and other key stakeholders. The Agency also clarified standard award provisions for SEA reporting, developed related performance management standards for its staff, and awarded a contract to increase its investigative capabilities for internal misconduct cases. In addition, the Agency issued guidance that SEA allegations should be immediately reported to both OIG and USAID. While SEA reporting appears to have increased—the OIG Hotline received 48 SEA-related disclosures in fiscal year 2019 compared to 9 in fiscal year 2017—USAID continues to finalize its new and revised SEA policies and procedures. Sustained management attention will be critical to ensuring active implementation in the field and an effective Agency response to SEA disclosures. Protecting beneficiaries from exploitation and abuse remains a high priority for our office, and we recently initiated an audit to assess USAID's actions to prevent and detect SEA and to promptly respond to SEA allegations.

Another high priority for our office is the risk of USAID-funded products being diverted to terrorist organizations and other armed groups in conflict settings. This risk is intensified by insufficient planning, monitoring, and risk mitigation in humanitarian assistance and stabilization settings. The fraud schemes that our agents pursue—some of which have involved diversions of USAID-funded commodities to terrorists—demonstrate the challenges in managing this risk.

- ***Diverting USAID-Funded Supplies to Terrorists.*** For years armed groups in northwestern Syria have profited from diversions of USAID-funded supplies. In one case, USAID's third-party monitoring team discovered a fraud scheme, and OIG's investigation confirmed that an implementer's employees submitted falsified beneficiary lists and diverted thousands of USAID-funded food kits worth millions of dollars to nonbeneficiaries, including fighters from Hay'at Tahrir al-Sham, a designated terrorist group. USAID temporarily suspended programming—a calculated cost avoidance of $87.9 million—

and the implementer terminated multiple employees.[6] In addition, our August 2018 referral prompted USAID to implement several major changes to its assistance programs in the region, including vetting of humanitarian assistance implementers in northwestern Syria and increasing the focus of third-party monitoring in high-risk areas. USAID resumed the humanitarian assistance programming in northwestern Syria in November 2018 after the issuance of a license from the U.S. Treasury Department's Office of Foreign Asset Control.

- ***Profiteering Off Aid for Displaced Syrians.*** Weaknesses in implementer procurement, logistics, and fraud reporting systems make USAID-funded commodities intended for displaced Syrians susceptible to individuals seeking to exploit these vulnerabilities for profit. In one case, a USAID implementer steered procurements to vendors that offered bribes and kickbacks, shortchanged deliveries, and substituted products in USAID-funded supply kits with items of lesser quality. In 2015, we learned that Turkish vendors and procurement staff from nongovernmental organizations were similarly involved as early as 2012 in bid rigging, collusion, bribery, and kickback schemes to deprive internally displaced Syrians of vital USAID-funded commodities. Results to date from our past investigation include the suspension of $239 million in program funds, the indictment of a ringleader in the scheme, and the debarment of 18 individuals and companies. Additionally, multiple employees were either terminated or resigned. OIG continues to work closely with the Department of Justice on False Claims Act and criminal proceedings and is conducting a related ongoing audit.

USAID Actions To Better Manage the Risks Inherent to Providing Humanitarian and Stabilization Assistance

USAID continues to adapt its approach to managing complex and protracted crises. Notably, the Agency has taken steps to better identify and mitigate risks unique to these challenging settings.

- USAID updated its Agency Risk Profile to include both the risks that arise from PIO grants and the risk of diversions to criminals or terrorists. Including both risks helps ensure that USAID develops a risk response plan that articulates responsibility for project activities and that USAID senior leaders routinely discuss and evaluate risks and response plans. However, in a progress assessment, USAID identified challenges to institutionalizing risk management, including a perception voiced by some staff that the process is largely a compliance exercise required by the Office of Management and Budget (OMB).[7] To counter this belief, USAID developed guidance on the importance of enterprise risk management and how to integrate it across programmatic and operational frameworks—but executing change and implementing a culture of risk management will require continued diligence, training, and monitoring.

- USAID revised its general policy guidance on PIO agreements to clarify authorities and processes for identifying, managing, and responding to risks associated with PIOs.[8] USAID's Office of U.S. Foreign Disaster Assistance and Office of Food for Peace also revised and distributed updates to

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[6] Cost avoidance refers to Federal funds that were obligated and subsequently set aside and made available for other uses as a result of an OIG investigation. This includes instances in which the awarding agency made substantial changes to the implementation of the project based upon an OIG referral. The key factor in classifying these instances as cost avoidance is that the funds were not deobligated.

[7] OMB Circular A-123, as updated in 2016, requires that Federal agencies integrate enterprise risk management into strategic planning and internal control processes to ensure Federal managers are effectively managing the unique risks an agency faces toward achieving its strategic objectives.

[8] USAID Automated Directives System (ADS) chapter 308, "Agreements with Public International Organizations," August 24, 2018, and August 15, 2019, partial revision; and mandatory reference for ADS chapter 308 (308mam), "Template for US-AID-World Bank (IBRD/IDA) Cost-Type Agreements (Single-Donor Trust Fund Contributions)," July 2, 2019.

the guidance and processes for making awards to PIOs, and developed an internal control policy framework to oversee and hold PIOs accountable for proper stewardship of Government resources. Yet actions to close other recommendations we made to improve the Agency's policies and processes for PIOs remain in progress.

- To improve its internal capacity to respond to international public health emergencies, USAID outlined steps that missions and bureaus can take in emerging health crises and established tools for implementing these steps. USAID also issued guidance for designing awards to be more adaptable and flexible and for expediting procedures for making awards, so that procurements during these emergencies can better meet the dynamic and exigent requirements of the response effort. In addition, USAID provided plans to develop an inventory of country-specific implementers and local actors that could be called on in an international health emergency response, and established handover policies and procedures for disaster response teams to promote continuity of operations.

- USAID continues to drive home its zero tolerance for SEA. In July 2019, USAID's Action Alliance for Preventing Sexual Misconduct released a draft policy articulating the Agency's approach and commitments to preventing and responding to the sexual exploitation and abuse of the populations USAID serves. In addition, the Action Alliance participated in OIG's July 2019 annual oversight roundtable, which focused on preventing SEA in developing countries and the importance of reporting. More than 200 people attended, including participants from USAID and representatives from over 100 nongovernmental organizations.

- USAID has begun reorganizing its operations to better align functions and create a more field-oriented structure.[9] According to USAID, its newly authorized Bureau for Humanitarian Assistance, which will merge the Offices of U.S. Foreign Disaster Assistance and Food for Peace, will streamline USAID's ability to deliver food and nonfood humanitarian assistance, better serving both U.S. foreign policy interests and people in need. In April 2019, USAID received congressional authorization to establish a new Bureau for Conflict Prevention and Stabilization to strengthen USAID's capacity to prevent conflict and respond to global crises in a more strategic, integrated way. USAID also received authorization to establish a new Bureau for Resilience and Food Security to strengthen the link between resilience, food, water and sanitation, and USAID's humanitarian assistance and stabilization efforts. According to USAID, all three new bureaus are expected to be established and operational by the spring of 2020.

USAID and OIG have continued their collaborative outreach to USAID staff and implementers. For example, in March 2019, the Assistant Inspector General for Investigations participated in meetings with senior officials from USAID's Office of Food for Peace, the United States Mission to the U.N. Agencies in Rome, and the U.N. World Food Programme to discuss oversight and fraud reporting related to USAID-funded activities. During these engagements, OIG reinforced the importance of information sharing and aggressive followup on fraud allegations in Yemen. Implementers, USAID employees, and PIOs also participated in OIG fraud awareness briefings on common fraud schemes and safeguards—reaching 3,721 individuals through 110 briefings around the world in the first half of fiscal year 2019 alone, including locations in Jordan, Iraq, and Washington, DC.

We will continue to monitor USAID's approach to humanitarian assistance and stabilization activities through our investigations and audits, including work that assesses USAID's response to the crises in Venezuela and the Lake Chad Basin complex emergency, efforts to remedy internal control weaknesses for a USAID implementer operating in Syria, and USAID's assistance to Iraq.

[9] Congress approved this undertaking in January 2019.

Related OIG Products

- "USAID's Response to the Ebola Virus Disease Outbreak in the Democratic Republic of the Congo" Advisory Notice, September 4, 2019.
- "Insufficient Oversight of Public International Organizations Puts U.S. Foreign Assistance Programs at Risk" (8-000-18-003-P), September 25, 2018.
- "Vulnerabilities in Reporting of Allegations of Sexual Exploitation and Abuse by USAID Implementers" Referral Memorandum, March 15, 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.

A peer educator trained under the USAID-funded Sauti Project discusses reproductive health and risky sexual behaviors with adolescent girls and young women during a home visit in Dar es Salaam, Tanzania. Photo: Zacharia Mlacha, Photoshare (May 17, 2018)

Chapter 2.

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

Strong planning and monitoring are essential to advance host country self-reliance and safeguard the U.S. Government's foreign investments. Building appropriate risk mitigation strategies and accountability measures into USAID programs at the start is also necessary to curtail corruption and exploitation and better ensure that programs save lives and improve citizens' well-being as intended. USAID recognizes the importance of addressing this challenge and continues to improve its approach to planning, monitoring, and risk mitigation.

Foreign assistance aimed at developing and strengthening countries' welfare, security, and basic infrastructure systems promotes stability and economic growth. While USAID policy calls for careful planning, monitoring, and rigorous risk assessments to achieve these goals, the policy's implementation too often falls short, presenting challenges for sustaining development efforts after U.S. Government assistance ends. Our audits and investigations have repeatedly shown the consequences of operating without hitting these marks—especially when programs rely on local entities with underdeveloped financial systems, internal controls, and competencies.

For example:

- ***The American University in Afghanistan (AUAF).*** A July 2018 joint investigative referral from OIG and the Special Inspector General for Afghanistan Reconstruction (SIGAR) raised serious doubts that AUAF had the control and accountability systems needed to safeguard U.S. Government investments, which total more than $100 million since 2005, to support American-model education programs for Afghan students in Kabul. The problems OIG and SIGAR identified ranged from failing to comply with accounting, timekeeping, and recordkeeping standards to issues with board governance, key personnel, and conflicts of interest. In response to the joint referral, USAID imposed stringent controls on AUAF, including putting in place a comprehensive administrative agreement with robust monitoring and internal control obligations. A material breach of the terms of the agreement would constitute a cause for AUAF's immediate suspension or debarment. While USAID responded strongly, the AUAF case illustrates the importance of thorough and timely risk mitigation and monitoring to ensure compliance with USAID award terms and responsible stewardship of U.S. funds and to proactively address problems at an early stage.

- ***Power Africa.*** The short supply of electricity is one of Africa's greatest development challenges. Led by USAID, the interagency initiative aims to add 30,000 megawatts of cleaner, more efficient electricity-generating capacity and expand access to 60 million new households and businesses in sub-Saharan Africa. However, inconsistent data collection and verification practices, along with changing methodologies for measuring progress, led to an overstatement of Power Africa's impact. For example, Power Africa included in one progress report the number of megawatts anticipated when deals were made—not the power actually generated—as well as projects envisioned but never built. Further, Power Africa included small-capacity solar lanterns and solar panels (enough to power a light and a phone charger) in the number of new connections reported, suggesting greater access to electricity sources than Power Africa envisioned for sustainable development. Notably, of the 10.6 million new connections Power Africa reported in 2017, 8.3 million (78 percent) were from solar lanterns that provided a single light. Based on our recommendations, Power Africa clarified impact reporting and agreed that the initiative would benefit from a systematic approach to data collection and quality assurance, but has yet to implement such an approach.

- ***Global Health Supply Chain–Procurement and Supply Management (GHSC–PSM).*** Lax warehousing, security, and commodity distribution systems have allowed bad actors to steal lifesaving medicines and medical supplies funded under USAID's $9.5 billion GHSC-PSM project. Since 2016, our investigations and joint operations with local authorities have revealed that host governments' inability or unwillingness to put in place appropriate controls have created the potential for large-scale, illicit resale of USAID-funded commodities to private businesses and public markets. In one case, our agents purchased diverted or stolen malaria medication on the DRC black market—enough to treat 63,000 patients—leading to the March 2019 indictment of two DRC nationals charged with conspiracy and theft of Government property. Safeguarding bed nets, antiretroviral treatment, family planning tools, and other commodities intended to save lives and improve the health of the most vulnerable populations will continue to be a challenge for USAID until additional precautions are put in place—such as procuring a third-party monitor, conducting financial audits, and improving longer-term efforts to improve commodity tracking. In the meantime, USAID noted it hired an expert to assess global health supply chain risks and is working to address recommendations from the August 2019 assessment. Securing USAID's global health supply chain remains a priority for our Office of Investigations, and our Office of Audit is evaluating USAID's procurement and management of its GHSC-PSM contract as well as how the Agency mitigates the root causes of in-country supply chain weaknesses.

- ***Haiti Reconstruction.*** USAID/Haiti was unequipped to properly plan or monitor the Agency's project to expand modern and sustainable electricity services in northern Haiti—a reconstruction priority following the country's 7.0 magnitude earthquake in 2010. USAID built a power plant for the Haitian Government and expected to hand over responsibility for running it by May 2016; however, the project did not progress as planned after the Haitian Government delayed reforms that were considered key to sustainability goals. When new efforts to transition the project to the private sector also stalled, USAID extended contracts and increased budgets to keep the lights on for Haitian households and an industrial park that provided thousands of jobs to neighboring communities. In response to our November 2018 report on delays and other impediments, the mission developed a contingency exit plan and extended the contract again to implement it. To address the broader staffing issues we reported, USAID adjusted its long-term staffing plan in Haiti to better align with the mission's needs and took action—reducing the French language requirement and providing financial incentives for tour extensions—to help attract Foreign Service Officers, positions that remain hard to fill due to difficult living conditions and security concerns.

As we reported in prior years, maintaining and reporting reliable data and providing effective guidance for tracking and verifying efforts—key to maximizing sustainability outcomes—continue to be a challenge for USAID and MCC.

- ***Identifying Millennium Challenge Corporation Sustainability Risks.*** Our audit of selected past MCC road infrastructure compacts that were initiated between 2006 and 2010 found that MCC identified risks to the sustainability of its road projects, but its efforts to mitigate or track the risks were inadequate in some cases. At the time MCC designed the four compacts we reviewed, it did not have comprehensive guidance for staff on how to develop, implement, and track risk mitigation measures to ensure sustainability of road projects, and post-compact visual road inspections revealed that some sections were in poor condition. In addition, MCC has not fully developed a standard set of guidelines for economic analysis of transportation sector projects—a lesson learned from its review of prior projects. MCC updated its guidance and tools to address risks to sustainability and require validating and tracking of data, but the guidance was still in draft. MCC also has yet to complete economic analysis guidelines for the transportation sector. As a result, MCC staff will continue to face challenges in collecting quality information across all road projects and promoting the sustainability of road investments, project goals, and economic growth in the partner countries.

- ***Developing Guidance on Strengthening Health Systems.*** Limited information on the progress of USAID's health systems strengthening activities affected the Office of Health Systems' ability to assess where additional guidance and support was needed across the Agency. Further, USAID had no centralized mechanism for tracking the progress of these activities at the country level or across missions. While our audit found that selected missions had aligned activities with USAID's vision for strengthening health systems, additional guidance and tracking would bolster the Agency's efforts. USAID agreed to disseminate guidelines to help missions determine an appropriate balance between health systems strengthening activities and direct health interventions, implement a mechanism to identify and track health systems strengthening activities across missions, and establish a set of indicators to track health systems strengthening progress at the country level.

- ***Gauging Afghanistan Development Progress.*** Under the U.S. Government's $800 million New Development Partnership with the Afghan Government, USAID was responsible for verifying progress toward achieving established performance indicators that would help Afghanistan become self-reliant. For each indicator achieved, the U.S. Government agreed to pay the Afghan Government $20 million from the multidonor Afghanistan Reconstruction Trust Fund. However, USAID did not adopt agency best practices for gauging achievement, leading to some ambiguous measures and outcomes related to the $380 million it had paid Afghanistan under the partnership. USAID recognized the challenges and ended the initiative early in order to hold the Afghan Government accountable for its self-reliance reform agenda. In its response to our audit, USAID reported it is applying lessons and best practices prior to disbursing any additional funding through the Afghanistan Reconstruction Trust Fund Incentive Program.

USAID Actions To Promote Sustainability of U.S.-Funded Development

In addition to its actions to address program-specific weaknesses, USAID has made crosscutting efforts to improve risk mitigation, local capacity development, planning, and monitoring. For example:

- In December 2018, USAID launched a new private sector engagement policy to promote sustainable, enterprise-driven development, and in April 2019, introduced the Financing Self-Reliance Framework to support engagement between the public and private sectors by targeting domestic revenue mobilization, enabling environments for private investment, and other factors for financing. We have an ongoing audit looking at USAID's use of private sector engagement and the metrics the Agency employs to evaluate performance—a challenge that USAID officials identified, which we noted in our May 2019 report on our bird's-eye view of selected U.S. Government agencies' use of private capital.

- In April 2019, USAID issued an updated policy framework that articulates the Agency's mission and vision to end the need for foreign assistance through country-led progress and sustained results. To achieve this vision, USAID's program cycle calls for careful planning, delivery, monitoring, and adaptation—and a clear understanding of the risks USAID can mitigate or is willing to accept to achieve desired outcomes.

- In June 2019, USAID updated its program cycle operational guidance—which it first issued in September 2016 to strengthen strategic planning, project design and implementation, and monitoring, evaluation, and learning—to include key considerations for nonhumanitarian programming in politically sensitive countries. The updated guidance states that Agency staff must assess such programming against a set of key considerations to ensure that the unique risks inherent to these contexts are appropriately managed.

- In June 2019, USAID required missions to transmit completed risk assessment tools for local partners—namely the Public Financial Management Risk Assessment Framework and Non-U.S. Organization Pre-Award Survey—to a central repository of record. This requirement complements USAID's stepped-up efforts to identify and mitigate risks through its enterprise risk management program. In July 2017, the USAID Administrator approved USAID's first Agency Risk Profile, which identified sustainability as a risk facing USAID programs. Subsequent profiles included risks with program cycle implementation. USAID's first Risk-Appetite Statement was internally released in July 2018 to help the Agency calculate risks and develop appropriate responses, emphasizing the importance of continually weighing costs and benefits. Senior leaders review risks identified in the Agency Risk Profile through a regular, established process that includes monitoring mitigating actions and updating them as necessary.

- In June 2019, Congress approved USAID's request to establish a Bureau for Development, Democracy, and Innovation. According to USAID, this new bureau—which stems from the 2017 joint USAID-State Department reform effort—will be a one-stop shop for field support and crosscutting areas that support country self-reliance. USAID anticipates that having a bureau dedicated to this agenda will lead to improved program design, access to technical services, and accountability.

Underpinning these actions is USAID's Journey to Self-Reliance—the Agency's approach to providing foreign assistance that emphasizes promoting capacity and commitment in host countries across all levels, from individuals to governing institutions and the private sector. In conjunction with its April 2019 Policy Framework, USAID issued Agency-wide guidance for operationalizing the Journey to Self-Reliance and developed training for staff on the new policies and procedures. These policies and procedures include several new requirements and tools for implementing the initiative and monitoring and tracking progress. For example, missions are required to use country roadmaps—tools developed centrally by USAID to illustrate the overall level of self-reliance for 136 low- and middle-income countries, based on 17 individual, publicly available, third-party metrics—as the starting point for determining each country's unique path to self-reliance. Each mission is also encouraged to develop a country development cooperation strategy by December 2020 to make the self-reliance agenda tangible.

However, the revamped approach may bear some of the same characteristics of USAID's Local Solutions, a now-retired initiative adopted under the USAID Forward reform agenda that ran from 2010 to 2016. Our related March 2019 audit found that, while USAID officials perceived positive impacts of Local Solutions efforts, the Agency lacked a viable means of measuring progress and could not substantiate this perception. Further, the Agency did not consistently apply tools that would ensure that local implementers follow risk mitigation procedures. As the Agency moves forward with its refocused attention on using and developing local entities' capacity, sustained management attention will be needed to ensure that the impact of its work is effectively collected, measured, and shared, and that risks are adequately identified and managed—particularly with regard to USAID's data-driven country roadmaps. We recently began an audit to assess USAID's new self-reliance metrics and the challenges USAID faces implementing activities as envisioned under the Journey to Self-Reliance.

We continue to monitor sustainability risks and efforts to mitigate them through our investigative work and audits, which include examining USAID's monitoring and evaluation activities in Afghanistan and education programs in Pakistan. We will also evaluate the effectiveness of MCC's Threshold Program and the reliability of MCC's economic and beneficiary data analyses, which drive programmatic decisions.

Related OIG Products

- "MCC Has Opportunities To Enhance Guidance and Tools for Sustaining Results of Road Infrastructure Compacts" (M-MCC-20-001-P), October 29, 2019.
- "More Guidance and Tracking Would Bolster USAID's Health Systems Strengthening Efforts" (4-936-20-001-P), October 21, 2019.
- "USAID Had Challenges Verifying Achievements Under Afghanistan's New Development Partnership" (8-306-19-001-P), July 24, 2019.
- "Select U.S. Agencies' Use of Private Capital in Advancing International Development" (9-000-19-004-P), May 3, 2019.
- "Despite Optimism About Engaging Local Organizations, USAID Had Challenges Determining Impact and Mitigating Risks" (5-000-19-001-P), March 21, 2019.
- "Misjudged Demand, Stalled Reforms, and Deficient Oversight Impeded USAID/Haiti's Sustainable Electricity Goals" (9-521-19-001-P), November 13, 2018.
- "Advisory Update on Global Health Supply Chain-Procurement and Supply Management Project," October 11, 2018.

USAID coordinates with the Ethiopian Government to distribute treated bed nets by camel to the Afar people in one of the most remote and disadvantaged regions in Ethiopia. Photo: David Getachew, Photoshare (February 14, 2018)

Chapter 3.
Reconciling Interagency Priorities and Functions To Efficiently and Effectively Advance U.S. Foreign Assistance

Implementing U.S. foreign assistance frequently involves multiple Government agencies, donors, and local actors, each having its own authorities, priorities, and strategies for advancing shared interests. Clearly defining and reconciling conflicting roles, responsibilities, policies, and processes—and being ready to make adjustments—is critical to coordinating multistakeholder aid and development efforts, and to furthering the U.S. Government's foreign policy and national security objectives. This remains a challenge for USAID in part because the ability to act often extends beyond USAID's immediate control and authority.

Balancing development and humanitarian goals with broader U.S. priorities and foreign policy and national security objectives remains a challenge for USAID in project planning, oversight, and execution. Divergent approaches and agency-specific strategic interests complicate interagency relationships and challenge USAID's ability to respond nimbly to changing priorities, manage associated risks, and advance complementary yet distinct missions. Extending this balancing act to an international stage that involves other governments, donors, and PIOs adds to the challenge. Ultimately, USAID cannot fully succeed without effective engagement with other U.S. Government entities and international stakeholders.

The fluid budget and operating environment of recent years exemplifies the challenge for USAID's program planning and oversight. When appropriations lapsed in December 2018, for example, USAID furloughed employees and suspended activities during the 34-day partial U.S. Government shutdown. The August 2019 reapportionment of unobligated balances similarly required USAID responses and unexpected adjustments in managing ongoing and planned programs. A possible rescission of up to $4 billion of foreign aid—though not ultimately carried out—also contributed to USAID's end-of-fiscal year backdrop. The following examples further demonstrate challenges associated with complex interagency priorities and functions.

- ***Interagency Staffing Decisions.*** In 2018 and 2019, some of USAID's major assistance programs—including those in Afghanistan, Central America, Iraq, Syria, and West Bank and Gaza—faced staffing and funding changes as a result of decisions made outside of the Agency. In Iraq, for example, USAID's team of direct-hire employees dropped from 26 to 5 due to the unstable security situation and extended ordered departure of Embassy personnel. While final decisions in some cases were pending as of September 30, 2019, these developments nevertheless present challenges for USAID in staffing key positions and offices, administering programs, managing related risks, and monitoring and sustaining ongoing activities. We regularly report on the impact of these types of changes in Afghanistan, Iraq, and Syria as part of our overseas contingency operations oversight. We also have ongoing and planned audits related to USAID staffing, including examining security in El Salvador and assessing USAID's efforts to manage risks associated with staffing changes and redirected priorities in Afghanistan.

- ***The U.S. President's Emergency Plan for AIDS Relief (PEPFAR).*** The U.S. Global AIDS Coordinator in the State Department tasked U.S. agencies involved in PEPFAR with channeling at least 40 percent of their PEPFAR funding to host country governments or local organizations by the end of 2019, and 70 percent by the end of 2020. PEPFAR's official fiscal year 2019 operational plan guidance incorporated this goal for each agency. While the directive aligns with USAID's Journey to Self-Reliance agenda, USAID reports that over the last three fiscal years, less than 35 percent of its funding (excluding supply chain commodity purchases) went to local partners. Scaling up work with local partners to meet the ambitious benchmarks while maintaining appropriate safeguards and quality standards will be a challenge for USAID given the complexities, uncertain capabilities, inexperience, and increased risks that come with working with local organizations. We plan to audit USAID's PEPFAR activities to identify risks in the local partner participation initiatives and opportunities to help USAID implement them more effectively.

While USAID is taking action to shore up its internal systems against diversions, fully protecting the integrity of Agency programs requires interagency cooperation. For example, informed by our work on diversions to Hay'at Tahrir al-Sham in northwest Syria, USAID engaged in discussions at the National Security Council on the U.S. Government's risk tolerance for diversions as well as interagency action that could be taken to mitigate these risks. USAID also worked with Treasury's Office of Foreign Asset Control to obtain a license to continue providing humanitarian assistance in northwest Syria. Since the issuance of the license, which requires prompt reporting of new diversions, our office has received a number of timely reports of new diversions that appear to have been mitigated quickly by USAID's implementers.

Managing PIOs in high-risk locations also requires interagency coordination. For example, USAID worked closely with the State Department to address a concern we raised about the independence and capacity of the oversight body of a PIO that received funding from both agencies. In Yemen, USAID coordinates extensively with the World Food Programme to assess the risk of diversions and proposed mitigation strategies. In Uganda, the Agency also coordinated with the World Food Programme, as well as the State Department, the Ugandan Government, the Office of the U.N. High Commissioner for Refugees, multiple international donors, and our office to address widespread beneficiary registration issues. To address coordination requirements and promote effective information sharing in complex environments, OIG participated in interagency work groups and signed memorandums of understanding with other donor countries and the oversight bodies of numerous PIOs.

However, a lack of comprehensive policies and procedures to drive interagency coordination has resulted in USAID spending valuable time coordinating roles during crises—as was the case with its response to the 2014 Ebola outbreak in West Africa—as well as challenges implementing complex programs like Power Africa. Establishing intragovernmental roles and responsibilities beforehand would allow USAID and other U.S. agencies to mitigate risks and execute their response plans sooner.

- ***Ebola.*** While USAID had previously responded to public health crises of international concern, it operated without a policy framework to launch a rapid and coordinated response to the 2014 Ebola outbreak in West Africa, leaving responders to re-create processes for controlling the virus. Further, differing approaches and delayed coordination between USAID and the U.S. Centers for Disease Control and Prevention (CDC) complicated the U.S. response. To improve interagency coordination, we identified a need for USAID to work with other U.S. agencies to clearly identify and regularly test roles, capabilities, and responsibilities for use in a major outbreak. While USAID has begun to address our recommendation related to this concern—including implementing a memorandum of understanding with CDC for international disaster assistance collaboration, which was used to delineate roles and responsibilities for CDC participation in the USAID-led Disaster Assistance Response Team (DART)—USAID had not worked out operational details surrounding temporary duty assignments and training prior to the recent DRC outbreak. According to USAID staff, this led to administrative complications to get CDC staff on DART.[10] In addition, USAID has not developed procedures for regularly testing roles and capabilities, which would enhance USAID's capability to coordinate a whole-of-Government response.

- ***Power Africa.*** Despite the complexity of the USAID-led, sub-Saharan Africa energy initiative—which involves the efforts of 12 U.S. Government agencies[11]—the Agency's Coordinator Office did not fully implement a portfolio-wide risk management program. Instead, Power Africa relied on participating agencies to follow their own policies and processes, which led to risk management gaps. For example, MCC's $257 million effort to promote power sector reform and rehabilitate a hydropower plant was delayed by 9 months due to the Ebola outbreak in Liberia, while political uncertainty in Tanzania led MCC to suspend its planned $473 million energy compact. While nearly all of the U.S. Government staff we interviewed held a favorable view of the Coordinator Office and credited it with spearheading interagency collaboration, operating without a portfolio-wide risk management program heightened Power Africa's exposure to political and economic risks indicative of the fragile environments in which it operates. USAID is working to implement our March 2019 recommendation to establish a portfolio-wide risk management program to ensure that risks are regularly identified, analyzed, monitored, and mitigated. However, until the program is fully implemented, Power Africa's risk awareness will be incomplete.

Other major changes outside USAID's sole purview have impacted the Agency's operations. Notably, the Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act) consolidated

[10] A CDC representative currently serves on the DRC DART as deputy and health technical lead.

[11] Four of the participating agencies fall under USAID OIG's purview: USAID, MCC, OPIC, and USADF. The other participating agencies are the Export-Import Bank, U.S. Army Corps of Engineers, U.S. Trade and Development Agency, and the U.S. Departments of Agriculture, Commerce, Energy, State, and Treasury.

USAID's Development Credit Authority and OPIC into a new agency: the U.S. International Development Finance Corporation (DFC).[12] The BUILD Act and DFC's reorganization plan indicate the need for strong linkages among DFC, the State Department, USAID, MCC, and other agencies to maximize development impact. Based on our audits, we shared our perspectives on some challenges DFC's new chairperson should consider as the new entity starts up. For example:

- Weaknesses in OPIC's project management could carry forward to DFC if they are not given special attention. Specifically, OPIC did not have a process for considering how its projects aligned with U.S. foreign policy goals, a formal mechanism to pursue opportunities for collaboration, or a rigorous process for identifying and mitigating project risks. In addition, OPIC's performance management framework did not include processes to align potential projects with its strategic goals or explain how project success would be defined and measured.

- Widespread problems in OPIC's internal control system and a lack of attention to process raise additional concerns as it transitions to DFC. Notably, OPIC did not comply with six of seven appropriations requirements we tested. For example, OPIC did not submit quarterly financial unobligated balance reports or its annual budgeted operating plan, or post these reports on its website, as required. In another instance, OPIC lacked basic documentation on travel and purchase cards, rendering it unfeasible to identify active cards or cardholders or review expenses from past years.

- While coordination across institutional lines will be key for this new entity, several interagency decisions remained unresolved leading into the transition. For example, DFC's path to establishing a new Enterprise Fund and coordinating responsibility with respect to a five-country, $21 billion sovereign loan guarantee portfolio is unclear.

- Questions also remain regarding the Chief Development Officer position, which will be responsible for ensuring collaboration, development impact, and monitoring projects codesigned with USAID. As DFC begins operations, it will be vital that the position has the resources, authority, and staff needed to carry out these responsibilities.

USAID Actions To Reconcile Interagency Priorities and Functions and Advance U.S. Foreign Assistance

While interagency coordination remains a challenge, USAID continues to take action within its authority. For example:

- To implement our recommendations to have a communication and coordination strategy for external engagement in an international public health emergency, USAID provided the National Security Council with information for a "Playbook for Early Response to High-Consequence Emerging Infectious Disease Threats and Biological Incidents," which includes strategies for engagement with the international community and coordination systems. In an October 2018 Agency Notice, USAID outlined the roles and responsibilities of its staff preparing for and responding to infectious disease outbreaks and provided four response scenarios that establish expectations for external coordination and response actions. USAID reiterated the notice in July 2019 when the World Health Organization elevated the DRC Ebola outbreak to a public health emergency of international concern.

[12] The BUILD Act of 2018, S.2463–115th Congress (2017-2018), signed into law October 5, 2018.

- To complement the President's National Security Strategy, USAID announced in December 2018 the Clear Choice Framework, which aims to ensure that efforts to encourage a host country's overall self-reliance include strengthening the country's capacity to make informed decisions in selecting among increasingly competitive development partners.[13] According to USAID, this internal document will be reflected externally in regional strategies and will bolster USAID's role in accomplishing U.S. foreign policy goals. USAID recognizes that putting this framework into practice will require (1) clear and consistent messaging on U.S. strategic development priorities, tailored to regional, country, and other contextual nuances; (2) strategic shifts in programming, informed by timely data; and (3) mobilizing proactive alliances with donor partners who share views and are willing to work to implement the Clear Choice agenda.

- According to USAID, the Agency included the risk of working in nonpermissive environments in its first Agency Risk Profile, approved in July 2017, and updated the risk in December 2018. This acknowledgment gives the risk visibility in USAID's enterprise risk management activity and led USAID to create a work group to explore options to more effectively communicate with other U.S. Government actors in fragile and conflict-affected countries.

- In August 2018, USAID requested authorization from Congress to establish a new Bureau for Policy, Resources, and Performance. This new bureau—created by restructuring its Bureau of Policy, Planning, and Learning and Office of Budget and Resource Management—is intended to provide a unified Agency voice and improve coordination with the State Department, OMB, Congress, and other external stakeholders. However, the Congressional Notification to make this change was still on hold as of September 30, 2019.

- According to USAID, the Agency continues to work to implement recommendations from the Stabilization Assistance Review. Launched in May 2018 by USAID and the State Department, the review provides guidelines and best practices to optimize foreign assistance and advance stabilization in conflict-affected areas. USAID reported establishing a work group with the State Department and a donor country to share lessons and operating practices on stabilization. Further, USAID reported that its soon-to-be established Bureau for Conflict Prevention and Stabilization—approved by Congress in March 2019—will establish a clear Agency lead of stabilization programming as directed in the review.

- USAID reported that it has taken other steps to improve coordination. For example, as coleaders of the Humanitarian Assistance Steering Council, USAID and the State Department are working together to align U.S. humanitarian assistance with U.S. foreign policy. As collaborators on the Strategic Prevention Project, USAID and the State Department evaluated assistance to prevent conflict in fragile countries and identified ways to align foreign assistance with principles for preventing conflict before violence erupts—with the goal of better serving U.S. interests over the long term.

These actions have the potential to improve interagency coordination. However, USAID will continue to be challenged to plan for and adapt to changing interagency priorities that affect its operations, particularly in areas where the authority to act is outside its purview. We continue to monitor and assess USAID's efforts to improve interagency coordination, including an ongoing audit to assess USAID and State Department coordination on democracy, human rights, and governance programs, and an audit we

[13] As directed by the President's National Security Strategy and the U.S. Department of State-USAID Joint Strategic Plan, the Clear Choice Framework proposes that economic diplomacy and development assistance are key tools in projecting U.S. leadership and enhancing U.S. national security and prosperity.

are planning to initiate on USAID's compliance with the Senator Paul Simon Water for the World Act of 2014, which calls upon the efforts of USAID and other agencies.

Related OIG Products

- "Handover Advisory for the U.S. International Development Finance Corporation," October 9, 2019.
- "Operation Inherent Resolve" Lead Inspector General Report to the U.S. Congress for the Period from April 1, 2019, to June 20, 2019.
- "Operation Freedom's Sentinel" Lead Inspector General Report to the U.S. Congress for the Period from April 1, 2019, to June 30, 2019.
- "Operation Inherent Resolve" Lead Inspector General Report to the U.S. Congress for the Period from January 1, 2019, to March 31, 2019.
- "Power Africa Coalesced Energy Efforts but Lacked Portfolio-Wide Risk Management and Consistent Measures of Progress" (4-698-19-001-P), March 7, 2019.
- "OPIC Investments Increased Chile's Energy Capacity, but Weak Processes and Internal Controls Diminish OPIC's Ability To Gauge Project Effects and Risks" (9-OPC-19-002-P), February 1, 2019.
- "Lessons from USAID's Ebola Response Highlight the Need for a Public Health Emergency Policy Framework" (9-000-18-001-P), January 24, 2018.

Village women in India use a laptop computer to search for information on reproductive health and family planning. Photo: Pranab Basak, Photoshare (January 1, 2017)

Chapter 4.

Addressing Vulnerabilities and Implementing Needed Controls in Agency Core Management Functions

Award, financial, information technology security, and human capital management are top management challenges reported Governmentwide. Without these core business practices and systems properly functioning, Federal agencies, including USAID and the other entities we oversee, cannot effectively and efficiently execute their missions. Efforts to address these management gaps are ongoing.

A Federal agency's ability to carry out its mission and ensure effective stewardship of Federal funds depends on the integrity and reliability of its core business practices and systems. Other safeguards—no matter how well they are designed and implemented—will not work effectively without them. Over the past few years, USAID has made notable progress in strengthening its controls over core management functions. However, the Agency has more work to do to meet strict and frequently complex requirements for managing awards, financial and information technology (IT) systems, and human capital. Bad actors continue to exploit these vulnerabilities to personally profit off U.S. foreign assistance programs and projects.

Award Management

Since 2008, USAID has expended approximately $17.8 billion annually on acquisition and assistance awards like contracts and cooperative agreements to implement its programs around the world. These awards are central to USAID's business model—without them, USAID would not have the staff, expertise, or capability to achieve its foreign assistance mandate, particularly in nonpermissive environments where USAID employees may have limited access. In managing these awards, USAID is responsible for overseeing implementers to ensure that they comply with Federal regulations and meet agreed-upon terms.

Over the past decade, we have made thousands of recommendations that point to a range of award management weaknesses—including implementer underperformance and insufficient award documentation—and questioned costs totaling $1.2 billion.[14] Our recent work continues to identify concerns related to USAID's management of its awards. For example:

- Approximately 43 percent of USAID's awards ending in fiscal years 2014, 2015, and 2016 failed to achieve on average half of the expectations outlined in the initial awards.[15] These shortfalls were largely due to a lack of rigor in the execution of USAID's award management process. Notably, USAID staff did not always adhere to Agency requirements for considering implementer performance before making an award, documenting implementer performance on award completion, and establishing or following award monitoring plans. According to staff responsible for managing USAID's awards, there was insufficient time to carry out their oversight roles, and in some cases their independence had been compromised—putting them in the position of making award decisions with undue influence. Poor recordkeeping practices, including incomplete records in USAID's official electronic filing system, further undermine USAID's award management. USAID's processes for terminating awards early—terminations for convenience when U.S. Government priorities change, or for cause, when implementers fail to meet the terms of their awards—are another critical element of award management that we are currently auditing.

- USAID lacks a requirement for prospective contractors to certify that they (1) have not provided within the past 10 years material support to individuals or entities that commit, advocate for, or facilitate terrorist acts and (2) will not provide support to such entities after receiving a USAID award. The current requirement applies only to prospective recipients of USAID's grants and cooperative agreements—not to prospective contractors. After we informed USAID of this gap in June 2018, USAID raised the concern before the full Federal Acquisition Regulation (FAR) principals and the Civilian Agency Acquisition Council for consideration of Governmentwide application. As of September 30, 2019, the FAR decision was still pending. While USAID has committed to consider adding such a certification to its contracts if the FAR does not adopt it and has begun assessing options, the gap remains. We also formally advised MCC leadership that absence of such a certification in its contracts precluded awareness of a contractor's potential ties to terrorist groups. MCC acknowledged the importance of the issue and committed to incorporating such certification into its award requirements but has not yet completed planned actions.

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[14] Questioned costs are either costs that are ineligible according to the terms of the award or costs that are unsupported by appropriate documentation.

[15] This estimate, based on our OIG-developed award-score analysis, can be generalized with an 85 percent confidence interval, allowing for a 5 percent margin of error.

Our investigations continue to expose bad actors intent on exploiting vulnerabilities in USAID's management of its awards to bilk the United States out of millions of dollars—illustrating the challenges USAID continues to encounter managing its awards. In uncovering abuse and complex fraud schemes around the world, our agents laid the groundwork for law enforcement and prosecutors to bring criminals to justice, as well as provided USAID the justification to retrieve ill-gotten funds and impose other punitive actions. For example:

- A joint OIG investigation with the State Department found that a grantee failed to maintain records for expenses, disregarded award requirements, and fabricated records of expenditures associated with the project. In July 2019, the Justice Department executed a False Claims Act settlement with the organization. The U.S. Government will recover $4.2 million, of which approximately $1.6 million will be paid to USAID in restitution.

- USAID withheld $7 million in payments to a subcontractor of Da Afghanistan Breshna Sherkat—Afghanistan's nationally owned power utility supported by USAID—after OIG agents determined that more than 800 invoices totaling approximately $900,000 had been falsified. USAID also committed to provide specialized ethics training and requested OIG-led workshops on how to detect fraudulent vouchers. In the first quarter of 2019, OIG held two workshops for USAID technical, financial, and procurement staff: one for USAID/Afghanistan staff and one for implementers.

- An ongoing joint investigation by OIG and the Federal Bureau of Investigation found that a USAID subcontractor failed to report foreign contacts of employees with access to national security information, as required. The joint investigation resulted in the termination of the $1.4 million subcontract in January 2019 and prevented approximately $970,000 of U.S. taxpayer dollars from going to the subcontractor.

- In January 2019, USAID terminated an award in Haiti, preventing approximately $350,000 from flowing to a contractor that, along with another USAID-funded grantee, double-billed USAID for activities that the two conducted jointly. OIG also confirmed that the grantee conducted noncompetitive procurements, like renting office space from a relative of the organization's managing partner.

- In January 2019, an implementer in Pakistan notified OIG that it had terminated its chief of party following our investigation that uncovered numerous bribery and fraud schemes. Conflict of interest was also apparent, as the individual approved a grant he had written while working for the recipient organization, awarded a grant to an implementer that provided him with an international all-expenses-paid trip, approved a grant to his previous employer where his brother was also employed, and directed his organization to hire one of his relatives.

- In December 2018, following an OIG investigation, USAID debarred a finance manager of a USAID-funded program in Latin America for a conviction stemming from embezzlement of $140,000. The former finance manager pleaded guilty to forging checks and cashing them for personal use, and was sentenced to 6 months' jail time, 6 months' house arrest, and full financial restitution.

- In November 2018, Malawian police arrested five individuals involved in a scheme to embezzle funds from a USAID-funded program. OIG's ongoing investigation in Malawi identified four implementer accounting personnel who embezzled over $60,000 from the program by submitting duplicate and fraudulent invoices and transferring the embezzled funds to a personal bank account.

In addition to actions taken against specific contractors and grantees, USAID has taken steps to improve award management, many in response to our recommendations. For example, in December 2018 USAID issued its first Acquisition and Assistance Strategy, which is intended to streamline the procurement process, promote innovation, and support the Agency's Journey to Self-Reliance agenda. The strategy stems from USAID's Effective Partnering and Procurement Reform project that also identified ways to improve accountability and award management responsibilities of contracting and agreement officer's representatives (CORs/AORs), those typically charged with day-to-day award oversight. In March 2019, USAID issued an Agency-wide notice reminding all staff of Federal requirements for rating contractor performance and offered related training and resources. In August 2019, USAID issued partial revisions to Agency guidance for acquisition and assistance—emphasizing the use of the Agency Secure Image and Storage Tracking System (ASIST), which now incorporates filing checklists standardized across USAID, requires appropriate staff to file supporting documents before approving voucher payments, and provides system reports to help staff identify missing documents.[16] These promising actions will need to be fully implemented and monitored to realize concrete improvements in USAID's management of its awards.

Financial Management

USAID's financial statements reflect the Agency's execution of its mission. USAID receives most of its funding from general Government funds administered by the Treasury Department and appropriated by Congress. For fiscal year 2018, USAID reported total budgetary resources of approximately $31 billion. While USAID has tightened its controls in recent years, it continues to work to reconcile accounts.

- ***Fund Balance With Treasury (FBWT).*** For more than 10 consecutive years, USAID's FBWT reconciliation account had been identified in the Agency's financial statement audits as a material weakness—indicating that a material misstatement of the Agency's financial statements may not be prevented, or detected and corrected, on a timely basis.[17] In the past, USAID did not reconcile its account with Treasury's fund balance each month, or promptly research and resolve any identified differences. Instead, USAID adjusted its account to agree with Treasury's fund balance. As of September 30, 2018, these differences totaled approximately $232.5 million. Of this amount, $101.5 million was due to explained outstanding items, but the remaining $131 million could not be explained. According to USAID, the Agency worked closely with Treasury and OMB and this year processed a backdated adjustment, which resolved the Agency's historical $131 million difference. As of September 30, 2019, the Agency said the remaining $44.3 million difference was fully explained by outstanding items.

- ***Intragovernmental Transactions.*** As of September 30, 2018, USAID had $468 million in unreconciled intragovernmental transactions. Of that amount, USAID was required to reconcile, resolve, and confirm $455 million, but did not resolve the differences. These differences can occur when Federal agencies transact with each other but use different accounting periods or methodologies for classifying and reporting the transactions, or make accounting errors. USAID has worked diligently to resolve unreconciled differences and has notably reduced differences from $3.6 billion in September 2014 to $353.5 million as of July 2019. Despite this decrease, the remaining differences make USAID the 19th major contributor (out of 142) to the Government's unreconciled differences, according to the Treasury's scorecard for tracking and ranking each agency's progress. USAID noted it has actively communicated with trading partners that represent the majority of the

[16] USAID ADS chapter 302, "USAID Direct Contracting" and ADS chapter 303, "Grants and Cooperative Agreements to Non-Governmental Organizations," August 1, 2019.

[17] The Government Management Reform Act of 1994, Public Law 103-356, requires USAID to submit audited financial statements to OMB annually.

Agency's differences; however, the corrective action plans that USAID developed in fiscal year 2015 have yet to be fully implemented.

We are following up on these issues in USAID's financial statement audit for fiscal years 2019 and 2018. We will also continue to provide oversight through mandatory annual financial statement audits as required for MCC, IAF, and USADF.

Information Management

Reliable and secure IT systems are essential for USAID and the other agencies we oversee to perform their mission-critical functions. The Federal Information Technology Acquisition Reform Act (FITARA)—enacted in December 2014 to streamline the U.S. Government's IT acquisitions—includes a provision for strengthening chief information officers' (CIO) accountability for their agencies' IT costs, schedules, performance, and security. However, USAID has not fully met this and other FITARA provisions. In November 2018 we reported that USAID met only 7 of 23 applicable baseline FITARA requirements and lacked a comprehensive framework to implement them.

USAID has taken steps to close some of our recommendations to strengthen IT management. Specifically, in May 2019 the USAID Administrator approved new policies related to the management and oversight of the Agency's IT resources, including elevating the CIO position to comply with FITARA's mandate.[18] Yet additional work is needed to enforce competency requirements for IT staff and improve inventory management. Moreover, USAID's actions to strengthen the CIO position may not achieve the intent of FITARA: USAID took corrective action to respond to our recommendation to give the CIO the roles, responsibilities, and authorities to oversee all annual and multiyear planning, programming, budget execution decisions, and reports related to IT resources, as required by FITARA, and the CIO now reports directly to the Administrator. However, the Assistant Administrator for Management oversees the CIO's day-to-day work, which could diminish the effectiveness and independence of the CIO's role in the Agency.

Capturing and processing meaningful data to inform decisions, adapt Agency programs, and proactively identify areas of risk also remains a challenge. According to USAID, numerous systems have proliferated throughout the Agency, and none of these systems provide a comprehensive picture of the activities USAID is carrying out in any specific geographic region. While the systems may serve their individual purposes, the Agency found that their continued propagation poses significant risks in terms of information security and data quality.

Our audits speak to these weaknesses in USAID's data infrastructure and information management. For example, USAID data on construction activities under its cooperative agreements and grants—which USAID estimates amounted to $1.4 billion between 2011 and 2013—are incomplete, unreliable, and difficult to access. Useful data on award performance and the construction type, location, cost, and source of engineering design are critical to inform decisions and mission efforts to advance country-specific goals. Without these data, the Agency misses opportunities to mitigate risks and identify and leverage best practices to effectively deploy technical expertise, including staff engineers. The Agency agreed to draw on current systems to implement our February 2019 recommendation for making comprehensive and reliable construction data readily available to missions and bureaus, and to implement broader action to further improve construction data and oversight.

[18] ADS chapter 509, "Management and Oversight of Agency Information Technology Resources," May 23, 2019.

Starting in late 2014, USAID began investing in the Development Information Solution to build one overarching application to meet USAID's information management needs. According to USAID, this system will enable the strategic planning, design, budgeting, procurement, implementation, monitoring, and evaluation of USAID's portfolio of projects, activities, and supporting management functions through one application. For example, USAID pointed to the system as its solution for tracking program awards and implementers involved in public health emergencies to address one of our January 2018 recommendations on the Ebola response. USAID estimated in March 2018 that this complex system would cost approximately $57 million to implement and will lead to cost savings of over $90 million, in part from the decommissioning of existing systems. However, some key milestones in implementing the system have been missed. We recently initiated an audit to assess elements of the Development Information Solution and included the system in the scope of our annual audit for USAID under the Federal Information Security Modernization Act of 2014. In our ongoing audit, we are reviewing the maturity of five functions associated with USAID's information security program.

To provide additional insight into USAID's information management, we are auditing the Agency's controls to protect information available in G Suite applications when accessed through personal devices.[19]

Human Capital Management

In the last 10 years, nearly one-third of our performance audits identified staffing or training as a cause or factor that contributed to reported shortcomings—shortcomings that affect USAID's ability to carry out its development and humanitarian assistance mission. For example, we reported in September 2019 that USAID's CORs and AORs devoted little time to the critical oversight roles delegated to them. Many respondents to our questionnaire considered their COR/AOR role to be a collateral duty. In Haiti, we reported that USAID had difficulty attracting and retaining qualified staff, and lacked contracting officers, monitoring specialists, and engineering support staff to plan and manage its electricity project that ultimately did not meet objectives to expand reliable and sustainable electricity in the country.

Despite USAID's actions to address our recommendations and improve human capital management, it remains a challenge. Notably, our March 2018 point-in-time review of USAID's redesign efforts identified human capital planning as a cornerstone for USAID's future programming. At the time, USAID submitted three workforce-related plans to OMB, but we found the plans were largely based on work from a prior project, and staff identified challenges with human resources and staffing data. The U.S. Government Accountability Office (GAO) recently reported that gaps in USAID's strategic workforce planning remain.[20] Specifically, GAO reported that USAID has yet to develop the tools needed to identify and meet staffing needs arising from the reforms in order to fully assess its workforce. Without a finalized plan and associated tools, USAID may not be positioned to ensure that it has the workforce needed to meet existing and emergent program demands—like implementing its substantial bureau restructuring efforts and the new Journey to Self-Reliance agenda. We have an audit underway that evaluates USAID's collection and use of information in human capital decisions.

Our investigative work also points to weaknesses in detecting USAID employee integrity violations. For example, a USAID senior medical adviser and activity manager for a Voluntary Medical Male Circumcision Program in Africa misused his official position to direct USAID program funds to a subawardee with whom he had a personal relationship. He resigned in October 2018, and in November 2018 the primary program implementer canceled the $300,000 subaward and withheld $15,000 in payment. In Ghana, a

[19] G Suite is a set of cloud computing, productivity, and collaboration tools, software, and products developed by Google.
[20] "USAID Reform: Efforts Address Most Key Practices but Could Improve in Performance Assessment and Strategic Workforce Planning" (GAO-19-609), September 11, 2019.

locally hired engineer restricted competition without appropriate USAID approvals and in violation of Ghanaian procurement law; the employee was terminated following our investigation. In South Sudan, locally hired employees were caught participating in bribery schemes and consequently lost their security clearances to work for the U.S. Government; one employee resigned after admitting to soliciting bribes from multiple vendors. Additional investigations involving USAID employee integrity concerns are ongoing, and USAID and OIG continue to monitor and strengthen oversight of these concerns through fraud awareness briefings, oversight roundtable meetings, and interagency work groups, including the Action Alliance for Preventing Sexual Misconduct.

Related OIG Products

- "USAID's Award Oversight Is Insufficient To Hold Implementers Accountable for Achieving Results" (9-000-19-006-P), September 25, 2019.
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