



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

Weaknesses in Oversight of USAID's Syria Response Point To the Need for Enhanced Management of Fraud Risks in Humanitarian Assistance

AUDIT REPORT 8-000-21-001-P
MARCH 4, 2021

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MEMORANDUM

DATE: March 4, 2021

TO: USAID/Bureau for Humanitarian Assistance, Assistant to the Administrator, Sarah Charles

USAID/Bureau for Management, Acting Assistant Administrator, Colleen Allen

FROM: Middle East/Eastern Europe Regional Audit Director, David Thomanek /s/

SUBJECT: Weaknesses in Oversight of USAID's Syria Response Point To the Need for Enhanced Management of Fraud Risks in Humanitarian Assistance (8-000-21-001-P)

This memorandum transmits the final report on our audit of USAID's oversight of the International Rescue Committee (IRC), the selected implementer delivering humanitarian assistance for the Syrian crisis response. Our audit objectives were to (1) assess USAID's and IRC's responses to fraud risks identified by Office of Inspector General (OIG) investigations in Syria cross-border activities through fiscal year 2017 and (2) determine whether USAID's and IRC's corrective actions were implemented and operating effectively.

In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in appendices C and D.

The report contains four recommendations, including determining the allowability of \$11,601,969 in questioned costs (\$11,595,045 ineligible costs and \$6,924 unsupported costs). After reviewing information you provided in response to the draft report, we consider recommendations 1, 2, and 3 resolved but open pending completion of planned activities. For these recommendations, please provide evidence of final actions to the Audit Performance and Compliance Division.

We consider recommendation 4 open and unresolved. Please provide us with an updated management decision including your determination on the allowability of the questioned costs, the amount of questioned costs allowed and/or disallowed, and a

target date for collecting the disallowed amounts, copying the Audit Performance and Compliance Division.

We appreciate the assistance you and your staff provided to us during this audit.

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INTRODUCTION

According to the United Nations, the ongoing civil war in Syria has devastated the country and led to a refugee crisis in neighboring countries and beyond. Insecurity, destroyed infrastructure, and limited economic opportunities affecting especially vulnerable groups such as children, older adults, and people with disabilities have resulted in a need for water, protection, health services, and food. The United Nations estimated 11 million people will require humanitarian assistance in 2020, with nearly 5 million in acute need.¹

To help the Syrian people recover from this crisis, USAID provided more than \$5.6 billion between 2012 and 2020 in humanitarian assistance. USAID's Offices of U.S. Foreign Disaster Assistance (OFDA) and Food for Peace (FFP), then within the Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA),² worked with nongovernmental and public international organizations to provide emergency assistance. Operations were carried out by implementers inside Syria and in neighboring countries where displaced Syrians took refuge. Through a component of this response—referred to as Syria humanitarian response cross-border activities—implementers procured items including emergency food, shelter materials, blankets, water treatment systems, hygiene kits, and medical supplies from international and local suppliers and transported them across borders from Jordan, Iraq, and Turkey to be delivered to those in need in Syria.

In complex emergencies such as Syria—which are by their very nature unstable and insecure—managing cross-border activities is challenging. Limited oversight left USAID's Syria humanitarian response vulnerable to fraud and abuse, as revealed by OIG investigations beginning in 2015 that uncovered complex fraud schemes affecting the quality and effectiveness of humanitarian assistance delivered to refugee camps.³ By September 2017, OIG investigations had received 109 allegations of fraud schemes including bid-rigging, bribery, collusion, kickbacks, and product substitution across eight USAID implementers, five subawardees, and dozens of suppliers. Our assessment of the eight USAID implementers showed IRC was at a heightened risk for fraud schemes considering award value, past audit results, and the number of referrals concerning the implementer, among other factors.

Our objectives were to (1) assess USAID's and IRC's responses to fraud risks identified by OIG investigations in Syria cross-border activities through fiscal year 2017 and

¹ United Nations, Global Humanitarian Overview 2020.

² In June 2020, USAID established the Bureau for Humanitarian Assistance as the Agency's lead for international humanitarian assistance, bringing together resources of the former OFDA and FFP into seven offices under the new bureau.

³ OIG investigative work began when allegations of fraud in USAID Syria response were received in February 2015 and concluded with issuance of referral letter to USAID in March 2016. The scope of the OIG investigation focused on humanitarian assistance activities conducted between April 2012 through December 2015.

(2) determine whether USAID's and IRC's corrective actions were implemented and operating effectively.

Audit work was performed on USAID's and IRC's corrective actions taken between December 2015, when OIG issued its first investigative referral on IRC to USAID, and September 2017, when IRC planned to complete over 90 percent of its pledged corrective actions.⁴

To answer the audit objectives, we reviewed applicable requirements, assessed documentary and testimonial evidence, conducted interviews, and tested the operating effectiveness of selected anti-fraud controls implemented by IRC field offices. We conducted audit fieldwork in Frankfurt, Germany, where OIG's Middle East/Eastern Europe Regional Audit Office is located, and visited USAID offices in Washington, DC; IRC headquarters in New York City, NY; and field offices in Amman, Jordan; and Erbil and Dohuk, Iraq. We also worked remotely with USAID officials located in Turkey and IRC officials in Kenya. We assessed the operating effectiveness of key IRC anti-fraud controls based on a stratified random sample of payments made between December 2015 through September 2017 to 32 suppliers for a total of \$21.4 million, from a total of 120 payment transactions amounting to \$24.5 million. Because of data limitations, we did not project the results of our test to the population. We conducted our work in accordance with generally accepted government auditing standards. Additional information on our scope and methodology is presented in appendix A.

SUMMARY

OIG's investigations into USAID's Syria humanitarian response revealed significant programmatic weaknesses and fraud and abuse in Agency programs delivering assistance in and around Syria. Accordingly, OIG issued fraud referrals to USAID between December 2015 and September 2016. In March 2016, USAID's Suspending and Debaring Official (SDO) issued a Show Cause Notice to IRC outlining concerns that needed immediate attention. In response, IRC developed a corrective action plan designed to improve its anti-fraud controls, the control environment, and subaward management. IRC pledged that 90 percent of these controls would be implemented by September 2017. While USAID's OFDA and FFP, and IRC aimed to address fraud risks revealed by OIG investigations, USAID did not develop a fraud risk management framework that could have enabled it to identify and address all significant fraud risks to achieving program objectives, as required by Federal internal control standards. A fraud risk management framework could have guided how the Agency commits resources to combat fraud, regularly assesses risks to determine a fraud risk profile, designs and implements an anti-fraud strategy, and evaluates outcomes to adapt responses. Our findings also point to broader implications for the Agency's humanitarian assistance programming beyond Syria, as the program vulnerabilities and fraud risks revealed by

⁴ The audit did not assess actions IRC may have taken after September 30, 2017.

OIG investigations were not unique to IRC and USAID lacked a fraud risk management framework to guide its humanitarian assistance responses.

Our review of corrective actions taken by USAID and IRC from December 2015 through September 2017 found that some planned actions were not implemented, and others, while implemented, did not operate effectively. While USAID took actions, including deobligating funding and reducing future funds for IRC efforts as planned, OFDA and FFP did not fully follow through on planned actions to improve monitoring of IRC's Syria cross-border activities to reduce the risk of fraud. For example, OFDA and FFP:

- Did not increase the frequency of site visits to IRC warehouses to monitor activities.
- Provided limited anti-fraud training to USAID staff.
- Were slow to require implementers to undertake comprehensive anti-fraud measures.

After USAID's Compliance Division reviewed IRC's remedial measures and the Agency's SDO decided not to proceed with initiating a Government-wide suspension or debarment of IRC in February 2017, USAID offices did not identify who was responsible for following through on monitoring IRC's pledged corrective actions or enter into a binding agreement, such as an administrative agreement or specific award condition(s), that could have required IRC to adhere to its corrective actions and implementation schedule. As a result, the Agency stopped monitoring IRC's progress. We found that not all pledged corrective actions were implemented, and not all those that were implemented were operating effectively. For example, less than half of the 146 anti-fraud control corrective actions (39 percent) that IRC pledged to have completed by September 2017 met that target, including all corrective actions related to risk assessment, which remained incomplete. Further, 7 out of the 16 approved positions in IRC's newly established Ethics and Compliance Unit were unfilled as of November 2017, leaving ethics and anti-fraud training and risk management without necessary resources to ensure compliance. Finally, our review of select IRC anti-fraud corrective actions taken to strengthen the procurement system and processes also revealed that IRC did not always comply with all applicable regulations, policies, and procedures, particularly in relation to allowable costs. We identified \$11,601,969 in questioned costs⁵—specifically, \$11,595,045 ineligible costs⁶ and \$6,924 unsupported costs—during the audit period. IRC has recently reported to OIG that they have taken additional corrective actions

⁵ 2 CFR 200.84, "Questioned Cost," defines "questioned costs" as a cost that is questioned by an auditor because of an audit finding: (a) which resulted from a violation or possible violation of statute, regulation, or the terms and conditions of a Federal award, including funds used to match Federal funds; (b) where the costs, at the time of the audit, are not supported by adequate documentation; or (c) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

⁶ OIG classifies unallowable or unreasonable questioned cost based on 2 CFR 200.84 (a) and (c), respectively as *ineligible*. We classify unsupported questioned cost that is based on 2 CFR 200.84 (b) as *unsupported*. OIG's classification for questioned cost is consistent with the Agency's definition per the Automated Directives System (ADS) Chapter 595.6, "Audit Management Program."

since September 2017; however, OIG did not assess these actions as they were completed outside the scope of our audit period which ended in September 2017.

We made three recommendations to improve USAID's anti-fraud controls for its humanitarian assistance response and one recommendation to determine the allowability of questioned costs and recover funds, as appropriate. The Agency agreed with three of our recommendations and partially agreed with the remaining recommendation.

BACKGROUND

Mitigating fraud risks when operating in crisis environments like Syria has been a longstanding challenge for USAID, which has been noted in prior reports from OIG and other oversight organizations. OIG's report on top management challenges facing USAID in fiscal year 2017 identified the need for the Agency to improve its management of humanitarian assistance in nonpermissive environments and to overcome challenges such as finding qualified implementers and gaining access to projects for appropriate monitoring. OIG's subsequent top management challenges reports have reiterated the importance of identifying and mitigating risks to ensure that people in need—not corrupt actors—receive U.S. foreign assistance when working in challenging environments such as Syria.⁷ In 2016, the U.S. Government Accountability Office (GAO) also reported that USAID could improve fraud oversight of Syria humanitarian assistance.⁸

The Federal internal control standards require agencies to consider the potential for fraud when identifying, analyzing, and responding to risks. According to the standards, this is performed by understanding (1) types of fraud, (2) fraud risk factors, and (3) responses to fraud risk so that the risks are effectively mitigated.⁹ In 2015, GAO issued the Fraud Risk Management Framework to help agencies manage fraud risks by committing resources to combat fraud, regularly assessing fraud risks to determine a fraud risk profile, designing and implementing an antifraud strategy, and evaluating outcomes to adapt antifraud activities.¹⁰ Adherence to the Framework was mandated by the Fraud Reduction and Data Analytics Act of 2015¹¹ and guidelines established by Office of Management and Budget Circular A-123.¹²

⁷ USAID OIG, [“Top Management Challenges”](#) reports for fiscal years 2017-2020.

⁸ GAO's “Syria Humanitarian Assistance” (GAO-16-629), June 2016, reported on the Syria humanitarian response provided by the State Department, USAID, and their implementers. GAO found that the agencies assessed some risks of providing aid inside Syria, but most implementers had not assessed risk of fraud and the agencies could improve fraud oversight.

⁹ GAO's “Standards for Internal Control in the Federal Government,” Principle 8, “Assess Fraud Risk” (GAO-14-704G), September 2014.

¹⁰ GAO's “Framework for Managing Fraud Risks in Federal Programs” (GAO-15-593SP), July 2015.

¹¹ Pub. L. No. 114-186, “Fraud Reduction and Data Analytics Act of 2015,” June 30, 2016.

¹² Office of Management and Budget Circular No. A-123, “Management's Responsibility for Enterprise Risk Management and Internal Control,” M-16-17, July 15, 2016, states that agencies should implement the leading practices in GAO's guidance for managing fraud risks.

Starting in 2015, OIG investigations of USAID’s Syria response cross-border activities in Turkey identified several types of fraud schemes that reduced the quality and effectiveness of humanitarian assistance delivered to Syrians affected by the war. By September 2017, when this audit was initiated, OIG investigations had resulted in \$8 million in savings, program suspensions, and suspension or debarment actions against individuals or companies involved in the fraud schemes. OIG has continued to receive and substantiate allegations of fraud and mismanagement and uncovered similar issues in ongoing investigations into USAID’s Syria humanitarian response. As of June 30, 2020, OIG had received 301 allegations and opened 32 investigative cases involving 37 implementers of humanitarian assistance for Syria.

Various USAID offices were involved with addressing or responding to the investigative findings related to IRC’s Syria response cross-border activities. Table I summarizes the key roles and responsibilities of each of these offices.

Table I. Key Roles and Responsibilities of USAID Offices Related to Investigative Findings for IRC Syria Activities

USAID Office	Key Roles and Responsibilities
Management Bureau	
Office of Management Policy, Budget and Performance’s Compliance and Oversight of Partner Performance Division (the Compliance Division)	• Receives referrals from OIG as well as allegations from other sources, evaluates contractor or grantee compliance issues, manages corrective actions with implementers, and takes suspension or debarment actions against those entities deemed to lack present responsibility managing U.S. Government funding. • USAID’s suspending and debarring officer considers entities for exclusion from future contracting and assistance in response to facts and circumstances suggesting a lack of present responsibility.^a
Office of Acquisition and Assistance (OAA)	• Supports foreign assistance goals through the awarding and management of USAID’s awards. • Agreement officers are responsible for taking necessary actions at the award level, including suspensions and terminations of awards.
Bureau for Democracy, Conflict, and Humanitarian Assistance^b	
Office of U.S. Foreign Disaster Assistance (OFDA)	• Led and coordinated USAID’s humanitarian assistance in response to disasters overseas. • The Middle East Crisis Humanitarian Response (MECHR) team within OFDA was responsible for overseeing and coordinating the humanitarian responses in Syria.
Office of Food for Peace (FFP)	• Worked through implementers to provide food assistance to vulnerable populations. • FFP programs included food assistance activities to help beneficiaries inside Syria and Syrian refugees in neighboring countries meet basic food needs and overcome life-threatening food insecurity.

^a ADS chapter 303.3.29, “Grants and Cooperative Agreements to Non-Governmental Organizations.”

^b In June 2020, resources of OFDA and FFP were consolidated into the new USAID Bureau for Humanitarian Assistance (BHA). As the successor to the OFDA and FFP in the Bureau for Democracy,

Conflict, and Humanitarian Assistance, BHA provides a holistic approach to USAID's programming across the spectrum of preparing for, responding to, mitigating, and preventing disasters (ADS 101.3.1.17). Source: OIG analysis of USAID documentation.

IRC is a global humanitarian aid nongovernmental organization that assists people affected by conflict and disaster, with activities in more than 40 countries. Between 2012 and 2019, IRC was awarded over \$222.7 million in USAID funding to implement Syria humanitarian response activities. This included cross-borders activities that were run by IRC's field offices located in Jordan, Turkey, and Iraq, as well as activities inside Syria. Activities were implemented directly by IRC and through subawardees. USAID-supported activities for Syria were related to health; relief commodities; water, sanitation, and hygiene; economic recovery; protection services for women and children; and food security and involve procurement, storage, transport, and distribution of food, non-food items, and pharmaceuticals. Goods procured by IRC field offices were transported across country borders into Syria.

USAID AND IRC TOOK INITIAL STEPS TO ADDRESS FRAUD RISKS IDENTIFIED BY OIG INVESTIGATIONS, BUT THE AGENCY LACKED A FRAMEWORK TO MANAGE FRAUD RISKS IN HUMANITARIAN ASSISTANCE RESPONSES

During the audit period (December 2015 through September 2017), multiple USAID offices took steps to address fraud risks that OIG investigations identified in IRC's Syria cross-border activities. Also, in response, IRC developed a corrective action plan designed to improve its anti-fraud controls, control environment, and subaward management. However, as of June 2020, USAID had not adopted a fraud risk management framework that could have enabled the Agency to identify and address significant fraud risks facing its Syria response, as well as other humanitarian assistance efforts.

Multiple USAID Offices Designed Actions in Response to OIG Investigative Findings That Were Reported to the Agency in 2015 and 2016

Federal internal control standards require USAID and its implementers to identify and respond to fraud risks associated with achieving program objectives.¹³ USAID policy further requires managers and staff to assess and improve the effectiveness of internal controls for programs based on sources, including OIG investigation reports.¹⁴

¹³ GAO's "Standards for Internal Control in the Federal Government," Principle 8, "Assess Fraud Risk" (GAO-14-704G), September 2014.

¹⁴ ADS Chapter 596.3.2, "Management Responsibility for Internal Control."

In line with these requirements, during 2015-2017, multiple USAID offices took actions to improve program oversight related to IRC's activities based on fraud risks revealed by OIG investigators. For example:

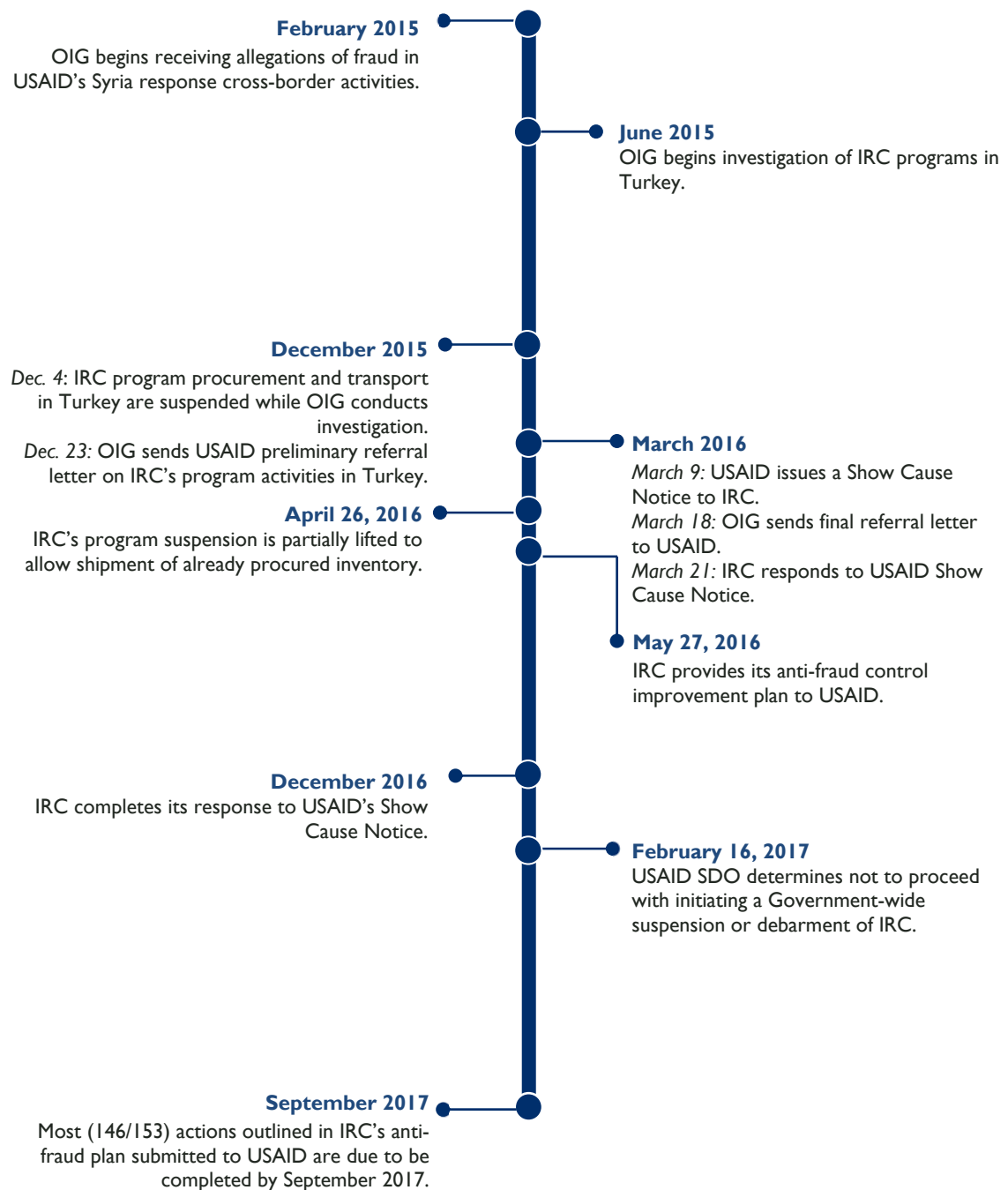
- *Compliance Division.* In response to OIG referrals, USAID's SDO issued a Show Cause Notice to IRC in March 2016. The notice outlined concerns related to IRC's procurement management, asked IRC to address its responsibility in those areas, and advised IRC that USAID began the process of collecting information to determine whether IRC should be excluded from future U.S. Government awards. The Compliance Division held discussions with IRC senior management, reviewed documentary evidence in support of IRC's corrective actions, and concluded that IRC had taken sufficient remedial measures and adequately addressed internal control concerns to help guard against future fraud schemes and issues revealed by the OIG investigations. In February 2017, USAID's SDO approved the Compliance Division's recommendation not to proceed with initiating a Government-wide suspension or debarment of IRC. The SDO made this decision on the basis that IRC demonstrated that the remedial measures it had undertaken sufficiently addressed the internal control concerns and were adequate to help address OIG investigation findings.
- *Office of Acquisition and Assistance.* In 2015, USAID's agreement officer for IRC's Syria program suspended procurement and transport of non-food items and pharmaceuticals by IRC/Turkey to allow the OIG investigation process to occur. After OIG concluded its investigation of IRC/Turkey and issued a referral in 2016, the agreement officer (1) partially lifted the suspension to allow for shipment of pharmaceuticals that were already procured and stored in the IRC warehouse in Turkey, (2) added special conditions to the award to strengthen controls and safeguards, in coordination with OFDA and FFP, and (3) reduced funding for the IRC/Turkey award by \$10 million.
- *Offices of U.S. Foreign Disaster Assistance and Food for Peace.* OFDA and FFP designed actions to (1) strengthen internal processes, (2) enhance internal capacity, (3) increase fraud awareness and prevention, and (4) diversify levels of monitoring for Syria humanitarian response activities. These actions included increasing monitoring site visits, considering past performance in future funding, requiring award applicants to submit risk mitigation information as part of proposals, establishing a risk mitigation team, increasing fraud awareness for implementer and USAID staff, requiring anti-fraud training for third-party monitors, and contracting for food and non-food inspection.

IRC Designed Actions To Improve Anti-Fraud Controls, Its Control Environment, and Subaward Management

In December 2016, IRC completed its response to USAID and issued a corrective action plan to improve its anti-fraud controls, the control environment, and subaward management to help mitigate against program vulnerabilities and allegations of fraud noted in USAID's March 2016 Show Cause Notice to IRC. The plan included enhancing fraud risk management, improving due diligence in recruiting staff and selecting suppliers,

establishing an Ethics and Compliance Unit, and developing a new subawardee management system. IRC committed to complete most of the anti-fraud corrective actions (146 out of 153) by September 2017. Figure 1 shows key events leading up to IRC's corrective action plan.

Figure 1. Timeline of OIG's Investigation Into Fraud in IRC's Syria Cross-Border Activities in Turkey and Related Response



Source: OIG analysis of USAID and IRC documentation.

USAID Had Not Adopted a Fraud Risk Management Framework To Inform Corrective Action Plans for Its Syria Response

In reviewing Federal internal control standards and guidance for managing fraud risks, we identified a broader weakness in the way USAID responds to humanitarian crises: the lack of a fraud risk management framework. This was in contrast to Federal internal control standards, which require managers to assess and respond to fraud risks associated with achieving program objectives.¹⁵ In addition, this ran counter to GAO's framework for managing fraud risks in Federal programs, mandated by the Fraud Reduction and Data Analytics Act of 2015 and OMB Circular A-123, which states that agencies can effectively manage fraud risks by adopting a framework consisting of (1) committing resources to combat fraud, (2) regularly assessing fraud risks to determine a fraud risk profile, (3) designing and implementing an anti-fraud strategy with specific activities to mitigate assessed fraud risk, and (4) evaluating outcomes to adapt responses and improve fraud risk management.¹⁶

While OFDA and FFP began taking initial steps to address identified fraud risks, the actions were mostly reactive and not designed to broadly address fraud risks affecting USAID's Syria humanitarian response. In contrast to Federal requirements, USAID had not adopted a fraud risk management framework to guide how it would design actions to identify and address all significant fraud risks to its Syria humanitarian response. This led to OFDA and FFP not implementing key elements of a fraud risk management framework. In particular, OFDA and FFP did not:

- Dedicate resources to regularly conduct comprehensive assessments of fraud risks.
- Develop an anti-fraud strategy to address risks.
- Require IRC to assess fraud risks to inform the design of its corrective actions.

OFDA and FFP lacked a fraud risk management framework and had limited resources dedicated to fraud risk management. For example, OFDA hired a risk mitigation advisor in October 2016 and a risk mitigation assistant a year later. However, other priorities—including responding to OIG investigation team requests and addressing whether USAID funding was susceptible to risks posed by sanctioned groups in high-threat areas, combined with limited resources, prevented the team from conducting risk assessments and developing a comprehensive anti-fraud strategy. As of September 2017, OFDA was planning to establish the Award, Audit, and Risk Management Team and recruit more staff to work on risk management.

While our audit work focused on assessing corrective actions by USAID and IRC as they related to IRC's Syria activities through fiscal year 2017, our findings also point to broader implications for the Agency's humanitarian assistance programming. As of June 2020, the resources of OFDA and FFP were reorganized into the newly established Bureau of Humanitarian Assistance (BHA). At that time, USAID did not have fraud risk

¹⁵ GAO's "Standards for Internal Control in the Federal Government," Principle 8, "Assess Fraud Risk."

¹⁶ GAO's "Framework for Managing Fraud Risks in Federal Programs" (GAO-15-593SP), July 2015.

management framework procedures to guide the Agency's humanitarian assistance responses and help ensure that activities carried out in high-risk environments included all necessary anti-fraud activities. Until USAID's BHA has a framework for managing fraud risks in place, it will lack adequate assurance that all significant risks to the success of its humanitarian assistance responses have been identified and successfully addressed.

USAID DID NOT SUSTAIN MONITORING OF IRC, CONTRIBUTING TO CORRECTIVE ACTIONS THAT WERE NOT IMPLEMENTED AND OTHERS THAT WERE NOT OPERATING EFFECTIVELY

According to Federal internal control standards, agency management is required to complete corrective actions to remediate internal control deficiencies on a timely basis and promptly resolve audit and review findings for internal control to be effective.¹⁷ These standards also state that "components of internal control must be effectively designed, implemented, and operating, and operating together in an integrated manner, for an internal control system to be effective". The U.S. Code of Federal Regulations requires non-Federal entities, such as IRC, to establish and maintain effective controls over Federal awards.¹⁸

In response to OIG investigative findings, USAID designed corrective actions to enhance anti-fraud controls, and throughout 2016 IRC also provided to USAID lists of its planned corrective actions. However, OFDA and FFP did not fully implement key planned actions to reduce the risk of fraud and the Agency did not monitor IRC's implementation of corrective actions to ensure that all were completed and operating effectively.

OFDA and FFP Did Not Follow Through on Several Key Planned Actions To Reduce the Risk of Fraud

The Agency completed some of its corrective actions designed to strengthen its anti-fraud controls for Syria cross-border activities. For example, OAA, in coordination with OFDA, deobligated funding and reduced future funds for IRC efforts as planned. However, OFDA and FFP did not increase site visits or provide sufficient anti-fraud training to staff, and they were slow to require implementers to assess fraud risk and develop related mitigating measures. Specifically:

Plans To Increase Site Visits Fell Short. In their response to the audit team's inquiry about the status of corrective actions, OFDA and FFP reported that since December 2015, they increased frequency of warehouse visits by DARTs,¹⁹ including conducting site visits

¹⁷ "Standards for Internal Control in the Federal Government," Appendix I, "Requirements" (GAO-14-704G), September 2014.

¹⁸ 2 CFR 200.303(a), "Internal controls."

¹⁹ Disaster assistance response teams (DART) are technical expert teams stood up by OFDA in the field to assist with the management of the U.S. Government's response to a declared international disaster.

to the warehouses in Gaziantep, Turkey, to every 1 to 2 months, and deployed technical experts to Turkey and Jordan. However, during the audit period, December 2015 to September 2017, the DART conducted only one visit to IRC warehouses in Turkey and one visit to the IRC warehouse in Jordan. In addition, during that period, technical experts conducted only three visits to IRC field offices in Jordan and Turkey, which was a decrease from seven visits reported for the period before December 2015. Finally, no plan was established for site visits to Iraq and neither the DART nor technical experts visited IRC/Iraq during the audit period. The DART reported that it accompanied technical experts and OIG teams during their visits to IRC warehouses, but did not provide site visit reports to show the audit team that they conducted independent inspections. According to USAID, limitations on site visits were due to security measures and denials of several DART travel requests by the Regional Security Officer at the Consulate General in Erbil, Iraq. However, no support was provided to exhibit a request or denial.

In addition, during the audit period, recommendations made following site visits in Turkey were not always acted on promptly. For instance, during the Turkey DART site visits in January 2016, the team determined that approximately \$200,000 of pharmaceuticals procured under an award that ended in October 2015 were still in the warehouse. The Turkey DART recommended that IRC transport them to Syria to avoid further wastage and warehousing risks. However, the pharmaceuticals were kept in the warehouse for another 18 months until they had to be either donated because the award was closed out or destroyed because they expired.

Due to infrequent site visits, some issues went undetected in IRC's Iraq warehouse. These included not maintaining product samples needed to control for product substitution—one of OIG's prior investigative findings—and issues with inventory warehousing that the audit team observed, such as damaged boxes and exposed inventory in a warehouse in Iraq (see photos below).



Damaged boxes and exposed inventory in the IRC warehouse in Dohuk, Iraq. Photos: OIG (April 2018)

Anti-fraud training opportunities for staff were limited. Federal internal control standards state that providing the necessary training and tools to personnel is critical to achieving operational success, and management is responsible for assessing and addressing gaps in knowledge, skills, and ability.²⁰ OIG provided anti-fraud briefings to OFDA and FFP staff in fiscal years 2016 and 2017, and the OIG briefings became mandatory for new USAID hires. However, the DART staff responsible for overseeing the Syria humanitarian response operations in Turkey and Iraq expressed, first during an interview conducted as part of an internal review commissioned by OFDA and then again to our auditors, the need for specialized training to help them mitigate procurement fraud risks. To raise implementers' awareness about fraud prevention and compliance, OFDA and OIG jointly held a meeting with implementers in Turkey in 2016 and two meetings in Jordan in February and May 2017. Also, according to USAID, OIG provided a fraud awareness training video for FFP's June 2016 semiannual partner meeting, which was attended by partners working on the Syria humanitarian response. OFDA reported it planned to collaborate with OIG on holding more outreach activities but had not begun collaborating with OIG through September 2017. OFDA's statement of work for its risk mitigation advisor required the advisor to provide training on compliance with laws and regulations to Agency staff but, according to the advisor, other priorities and lack of management support prevented her from visiting field offices to conduct training.

Enforcement of comprehensive anti-fraud measures for awards was delayed. OFDA and FFP did not enforce comprehensive fraud risk management requirements for implementers prior to September 2017. In April 2017, OFDA required applicants for non-food item awards to describe, as part of their technical proposal, measures taken to reduce

²⁰ "Standards for Internal Control in the Federal Government," Principle 4, "Demonstrate Commitment to Competence" and Principle 10, "Design Control Activities" (GAO-14-704G), September 2014.

potential corruption and fraud in the distribution efforts. After September 2017, OFDA extended the requirements to include information on fraud risk assessment and mitigation strategies for all awards for Syria. However, these requirements for implementers to assess fraud risk and develop comprehensive anti-fraud measures were not implemented until 23 months after OFDA and FFP initially learned about the large-scale fraud schemes with procurement in Turkey and more than 3 years after fraud risk assessment became a requirement for nongovernmental organizations.²¹ According to staff we interviewed at the time, it was too early to judge the effect of the new requirements because proposals developed in compliance with the new anti-fraud requirements were still under review during our audit fieldwork visit. Similarly, FFP required award applicants to submit a risk assessment that was focused on proposed modalities and relevant mitigation measures, but these requirements did not become effective before September 2017.

USAID Did Not Sustain Monitoring of IRC's Corrective Actions To Ensure They Were Implemented on Time and Operating Effectively

After issuing the Show Cause Notice²² to IRC in March 2016, USAID's Compliance Division initially followed up with IRC through meetings and reviews of IRC's responses. Toward the end of the year, the Compliance Division concluded that IRC demonstrated that remedial actions taken had sufficiently addressed internal control concerns and were adequate to help guard against issues identified by OIG. In February 2017, the Compliance Division recommended that no action be taken against IRC to exclude it from receiving Federal awards. The USAID SDO approved this recommendation of "no action." Further, USAID did not enter into a binding agreement, such as an administrative agreement or specific award condition(s), which may have allowed USAID to bind IRC to agreed-upon remedial actions, in which case a material breach could be considered a cause for suspension, debarment, or award termination.

Although the majority of the anti-fraud measures were new and yet to be implemented, the Agency stopped monitoring IRC's progress toward completing planned corrective actions. According to USAID officials, lack of monitoring occurred because the Agency did not have a binding agreement. This situation also created confusion as to which office was responsible for monitoring IRC's progress in completing planned corrective actions. Specifically, USAID officials managing the IRC program and/or responding to the investigative findings did not identify who was responsible for monitoring IRC's remedial actions. The agreement officer's representative, the risk mitigation advisor, and OFDA's response manager all said that they were not familiar with IRC's anti-fraud control improvement plan with 146 corrective tasks that IRC pledged to complete by September 2017.

²¹ 2 CFR 200.303(a), "Internal controls."

²² The March 2016 letter informed IRC of concerns related to its subcontractor management, product substitution and quality control, and procurement processes, and invited IRC to address its present responsibility with respect to these areas.

We identified one issue that likely contributed to the lack of follow through with IRC, in the absence of an administrative agreement. USAID lacked clear guidance for determining how, and under what circumstances, an implementer's compliance with proposed remedial measures could be incorporated into specific award conditions for subsequent awards.

Our work showed the real effects of this lack of monitoring and guidance. Based on audit work performed on actions that were planned to be completed by September 2017, we determined that not all IRC corrective actions were implemented, and others while implemented did not operate effectively.²³

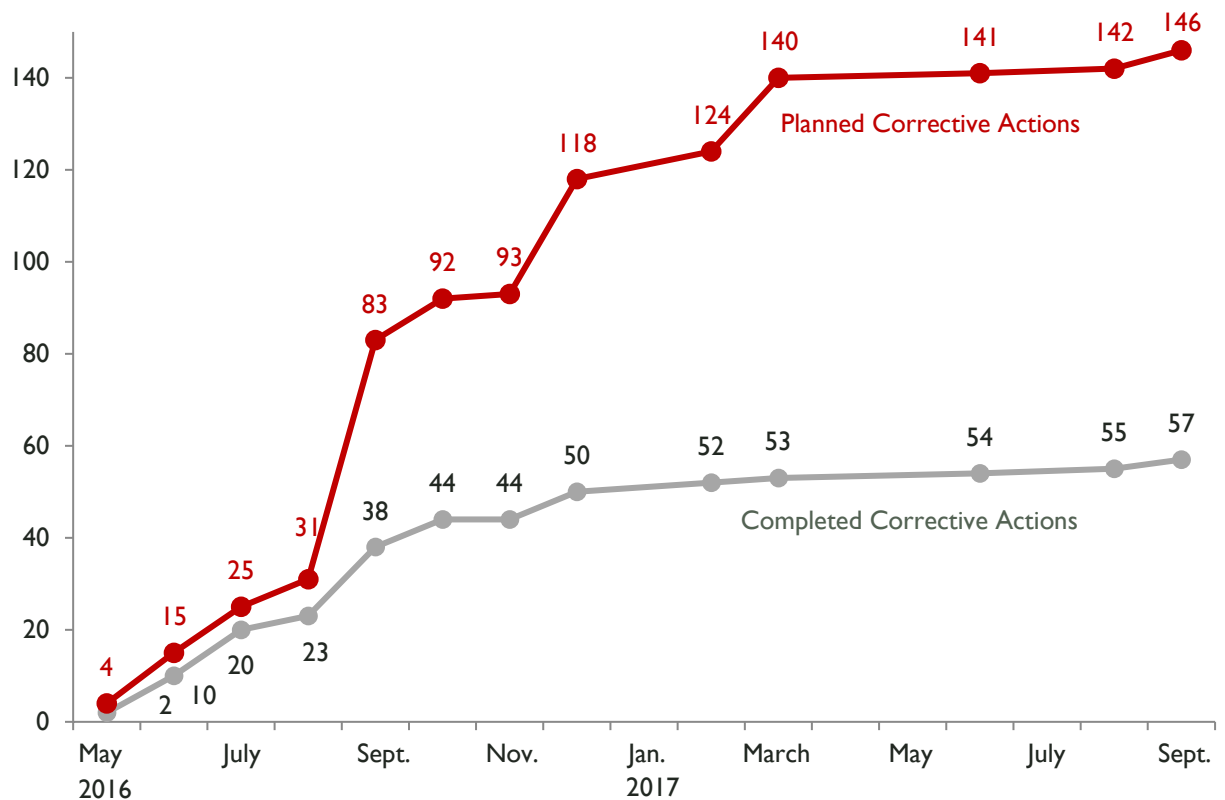
IRC Did Not Implement Some Planned Corrective Actions To Improve Anti-Fraud Controls

IRC designed 146 tasks to improve anti-fraud controls, engaged in organizational changes to enhance compliance, and launched a new initiative to strengthen subawardee management. While IRC placed some corrective actions into action, attention dissipated with time and more than half of planned anti-fraud controls were not implemented as of September 2017. In addition, IRC did not deploy all resources necessary to enhance ethics and compliance programs, and the implementer's subaward management corrective action plan did not include anticipated completion dates to assess progress against.

More Than Half of Planned Anti-Fraud Controls Were Not Implemented. The gap between planned corrective actions and implemented ones worsened over time, and IRC's completion of corrective actions slowed from November 2016 through at least September 2017. Ultimately, less than half of corrective actions (39 percent) that were planned to be completed by September 2017 met that target (see figure 2).

²³ As indicated, IRC recently reported to us that they have taken additional corrective actions since September 2017; however, we only reviewed actions within the audit scope.

Figure 2. Number of Completed IRC Anti-Fraud Corrective Actions, Compared to Targets

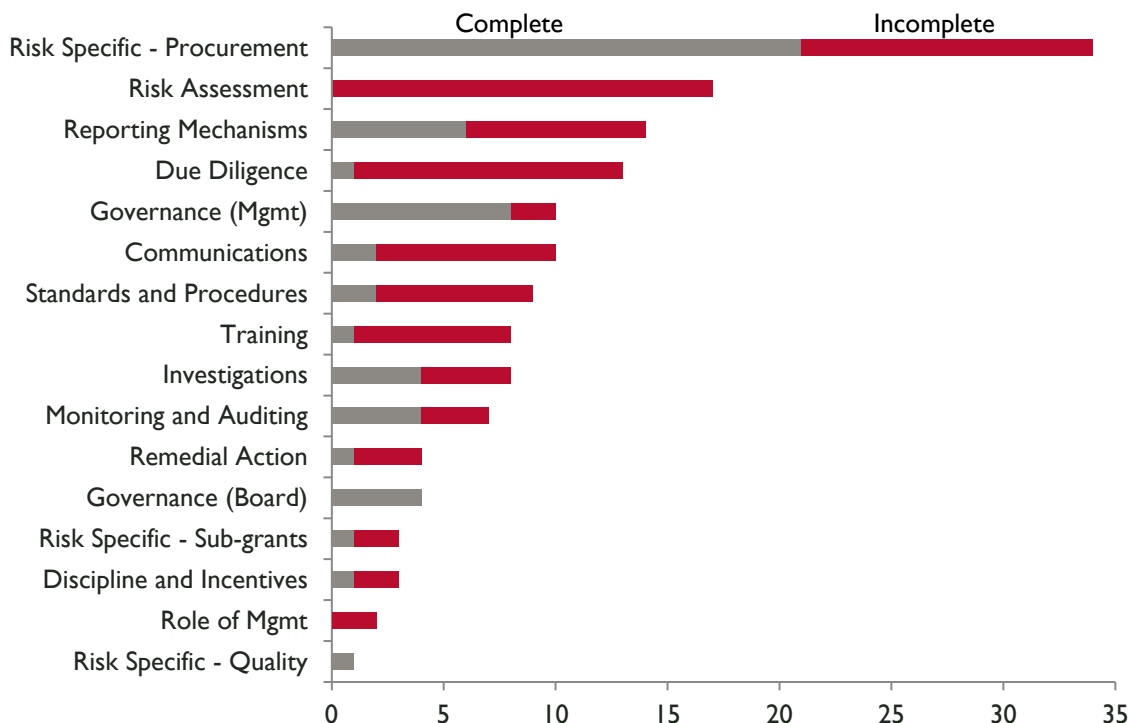


Note: IRC's anti-fraud control improvement plan provided to USAID showed anticipated completion dates. IRC provided a status report on November 14, 2017, but did not include an actual completion date for each task. Actions completed were assumed to have been completed as anticipated. No data was included for January, April, May, and July 2017. Corrective actions included in this analysis were limited to 146 tasks that were to be completed by September 2017.

Source: OIG analysis of IRC data.

The completion rate for IRC's planned anti-fraud control activities varied by category, and results were mixed (see figure 3). IRC completed all planned corrective actions assigned to its governing board, including chartering the Ethics and Compliance Unit and appointing a chief of compliance and ethics officer. Other areas received little attention. For example, none of the risk assessment corrective activities, including fraud risk assessment, took place as of September 2017. In another example, more than half of actions to improve due diligence in employment, anti-fraud and ethics training, communication of standards of integrity and ethics, and remedial actions against compliance violations were not completed as of September 2017.

Figure 3. Number of Completed IRC Anti-Fraud Corrective Actions by Category, as of September 2017



Source: OIG's analysis of IRC's anti-fraud control improvement plan.

Resources Necessary to Enhance Ethics and Compliance Were Not Deployed. IRC reported to USAID that it established an Ethics and Compliance Unit (ECU) composed of subunits for investigation; governance and training; and enterprise risk management. IRC put the unit into operation in April 2016, centralized reporting, experienced a surge in the number of issues reported, and improved its capacity for internal investigations and collaboration with the OIG investigation team. However, IRC did not initially deploy resources necessary for the ECU to fulfill its functions. As of November 2017, the vacancy rate for the ECU was 44 percent, or 7 vacancies out of 16 approved positions. The prolonged vacancies limited the ECU's ability to carry out its critical role in overseeing IRC's compliance program, including fighting fraud and abuse.

As a result of limited resources, the annual ethics training that was part of the corrective action plan was not provided in 2017, anti-fraud training was not mandatory and was provided to a limited audience, and risk management tasks were not completed.

Subaward Management Corrective Action Plan Did Not Include Anticipated Completion Dates To Assess Progress Against. IRC's corrective actions designed to improve subaward management, in response to OIG's investigation of IRC subawardees, did not have target dates, impeding assessment of progress. In addition, IRC did not provide sufficient

evidence of completion to the audit team for nine corrective actions.²⁴ Despite these limitations, our review of supporting documents and interviews with staff enabled us to determine that 8 of the 17 corrective actions had been or were being implemented by September 2017. Notably, IRC voluntarily stopped doing business with certain subawardees whom OIG investigations flagged for financial irregularities; improved monitoring of new subawardees; and initiated a new subaward management system.

Some Key IRC Anti-Fraud Corrective Actions Were Not Operating Effectively

As part of its anti-fraud efforts, IRC committed to improving its procurement system and processes. In its response to USAID's Show Cause Notice, IRC stated it would improve procurement management by (1) establishing anti-fraud procurement controls to improve the selection of suppliers; (2) improving online accessibility to procurement data by enhancing an existing system and using it as a temporary bridge until an enterprise resource planning system was rolled out; (3) creating and using an internal debarment database to prevent suspended/debarred suppliers from participating in bids; and (4) maintaining samples in warehouses to prevent suppliers from engaging in product substitution.

Our review showed that IRC made progress in establishing and documenting controls in procurement standard operating procedures and established independent reviews for its procurement. However, during our assessment of controls over procurement implemented by IRC from December 2015 through September 2017, we identified the following deficiencies in design and operating effectiveness:

Controls over supplier selection were not operating effectively. We tested the effectiveness of selected key anti-fraud procurement controls related to selecting eligible bidders, which were implemented by IRC as of September 2017, to address concerns over procurement.²⁵ We summarized and stratified payment data for IRC offices in Jordan, Iraq, and Turkey for procurements for IRC's Syria response cross-border activities, identified 120 payment transactions amounting to \$24.5 million, and randomly selected payments made to 32 suppliers for a total of \$21.4 million. Because IRC corrective actions were to be applied to all Syria activities, ineligible suppliers could change locations. To ensure our sample was representative, we included procurements managed by IRC offices in Turkey, Jordan, and Iraq.

Our review of selected key IRC anti-fraud corrective actions taken to strengthen the procurement system and processes found IRC did not always comply with all applicable regulations, policies, and procedures. The review identified \$11,601,969 in questioned

²⁴ We requested documents in support of the implementation of subaward management corrective actions in May 2018 and submitted follow-up requests in August and December 2018. In response, IRC provided some but not all documents requested.

²⁵ See appendix A for more details on our testing.

costs—specifically, \$11,595,045 in ineligible/unreasonable costs²⁶ and \$6,924 in unsupported costs²⁷—during the audit period.

Based on these testing results, we questioned \$11.6 million, as summarized in table 2 by location (see appendix B for more information).²⁸ These questioned costs included 91 percent of costs incurred by IRC/Iraq that engaged suppliers with ties to Turkey and did not receive visits by the DART for the 23 months following OIG investigations. According to USAID, such visits were limited due to security measures and denials of several travel requests by the regional security officer at the Consulate General in Erbil. Notable internal control deficiencies that we identified in our testing included:

- Independent reviews of procurement by IRC’s regional supply chain director, global supply chain quality assurance team, and procurement committees,²⁹ respectively, failed to address instances of noncompliance with anti-fraud internal controls. For example, IRC awarded contracts to suppliers based on unjustified sole-source waivers, extended contracts without proper market research to ensure costs were reasonable, and adjusted agreed-upon contract fees without proper justification and approvals.
- Controls to ensure the integrity of bid evaluations were not observed. We found instances where (1) procurement committee members were not approved by the country director and/or (2) members did not sign a code of conduct or conflict of interest statement as required by IRC standard operating procedures.
- In some instances, IRC did not conduct supplier due diligence as required. IRC did not always check references, conduct antiterrorism checks, conduct site visits to validate key information in proposals, or obtain signed codes of conduct and conflict of interest statements from suppliers.

Because of data limitations that prevented us from being able to determine the award population and eligibility of suppliers for U.S. Government funding, we did not project the results of our test to the population.

²⁶ 2 CFR 200.404, “Reasonable Costs” states: “A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to: . . . (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.”

²⁷ 2 CFR 200.403, “Factors Affecting Allowability of Costs,” states: “Except where otherwise authorized by statute, costs must meet the general criteria in order to be allowable under Federal awards: . . . [and] (g) be adequately documented.”

²⁸ We identified exception rates ranging from 25 to 89 percent. The sample exception rate is the number of exceptions found in the sample elements divided by the sample size.

²⁹ The procurement committee is responsible for the evaluation of bids submitted in response to a public invitation for bids.

Table 2. Summary of Questioned Costs by Location

IRC Office	Total Questioned Costs	Ineligible Costs	Unsupported Costs
IRC/Iraq	\$10,512,478	\$10,512,478	
IRC/Jordan	1,061,811	1,054,887	\$6,924
IRC/Turkey	27,680	27,680	
Total	\$11,601,969	\$11,595,045	\$6,924

Source: OIG testing of selected key anti-fraud controls over IRC's Syria response cross-border procurement.

The questioned costs identified were not in accordance with key provisions of the following:

- Title 2 of the Code of Federal Regulations, Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards."
- Title 2 of Code of Federal Regulations, Part 180, "OMB Guidelines to Agencies on Governmentwide Debarment and Suspension."
- USAID's award terms and conditions with IRC (Award AID-FFP-G-16-00090).
- IRC's procurement manuals and standard operating procedures in effect during the audit period (December 2015 to September 2017).

Procurement systems and data were inadequate. To address OIG fraud risks about collusion between IRC employees and local suppliers in Turkey, IRC reported that it enhanced online accessibility to procurement data to allow for better and independent oversight for procurement across the organization. This was achieved by improving an existing system that was to be used as a temporary bridge until IRC completed the development of the enterprise resource planning system.

However, IRC's existing procurement system still did not collect basic data on suppliers' ownership and awards' financial data and terms. As a result, IRC was unable to provide a list of suppliers by company name, company owner information, and contract terms such as start date, end date, and amount. For example, IRC established independent reviews in response to OIG findings on staff and supplier collusion and circumvention of controls by staff at the local level, but for these controls to be effective:

- Award financial data are necessary to identify awards that require independent reviews, especially when reviews are applicable to awards with an estimated total cost exceeding certain predetermined thresholds as established by IRC procurement policies.
- Award financial data and supplier ownership information are necessary to mitigate the risk of split-orders to circumvent independent reviews.

- Remote access to the procurement database is necessary because independent reviewers were located outside country offices.

In addition, other procurement data that IRC systems collected were incomplete and included errors. For example:

- A list of suppliers with contracts above \$100,000 was available, but IRC management did not have assurance that the list included all suppliers, and did not track the estimated costs of the contracts.
- A list of suppliers with contracts below \$100,000 that were entered into from December 2015 to April 2017 was not available.
- August 2016 payment data for procurements under the Syria activities managed by IRC in Turkey was missing. According to IRC, the data was lost.

Controls to prevent ineligible suppliers from participating in bids were not designed properly. According to USAID's standard award provisions for nongovernmental organizations, unless authorized by USAID, implementers must not transact or conduct business with any individual or entity that has an active exclusion on the U.S. Government's System for Award Management (SAM).³⁰ Before contracting for services or making any purchases, prime implementers are responsible for checking SAM to ensure that its potential suppliers are eligible to receive Federal funds.

However, we found that IRC standard operating procedures used by staff for supplier selection did not require staff to verify eligibility in the SAM database. Furthermore, the internal debarment database created and used by IRC was incomplete. The database did not include all entities excluded from doing business with the U.S. Government. Specifically, our testing revealed that 2 of the 12 entities debarred as a result of the OIG investigation were not included in IRC's database.

CONCLUSION

Strong integrated anti-fraud controls are critical to ensuring that implementers like IRC achieve intended results and USAID-funded commodities are not mismanaged or diverted to bad actors. IRC continues to be a USAID implementer in the region affected by the Syria humanitarian crisis. While USAID initially took actions in response to OIG investigations of IRC, the Agency did not follow through on its plans to strengthen Agency anti-fraud measures and monitor IRC's corrective action plan to completion. The lack of a binding agreement with IRC memorializing IRC's pledged remedial actions sowed confusion about who should verify execution of the pledged actions. Accordingly, our audit findings warrant a reassessment of IRC's progress in addressing corrective actions in response to OIG investigations, which IRC committed would be in place by September 2017. This includes determining the allowability of approximately \$11.6 million in questioned costs. While IRC recently reported to us that they have

³⁰ ADS 303maa, "Standards Provisions for U.S. Nongovernmental Organizations, A Mandatory Reference for ADS 300," May 2019.

implemented some additional corrective actions since September 2017, USAID still has little assurance that IRC's corrective actions are operating effectively or that they were implemented on time or at all. Yet, the fraud issues revealed by OIG investigations were not unique to IRC, pointing to the need for USAID's newly established BHA to take a strategic and holistic approach to monitoring fraud risks in its Syria response and other places around the world where the Agency provides humanitarian assistance. By adopting a robust fraud risk management framework and strengthening monitoring of implementers, USAID can better safeguard the integrity of U.S. taxpayer dollars and ensure that shelter, food, and medicine reach vulnerable populations in need.

RECOMMENDATIONS

We recommend that USAID's Bureau for Humanitarian Assistance take the following actions:

1. Implement a fraud risk management framework for humanitarian assistance responses that sets out procedures for conducting regular fraud risk assessments; developing fraud risk profiles, anti-fraud control activities, and a fraud strategy; and monitoring and incorporating feedback.
2. In coordination with the Bureau for Management, conduct an assessment of International Rescue Committee's progress in implementing corrective actions it pledged to complete in response to the 2016 Show Cause Notice, and evaluate any risk posed to current programming in determining whether any specific conditions should be incorporated into current and/or future awards to mitigate risk.

We recommend that USAID's Bureau for Management/Office of Acquisition and Assistance take the following actions:

3. In coordination with the Office of Management Policy, Budget and Performance's Compliance and Oversight of Partner Performance, conduct an assessment of the Agency's existing guidance for monitoring and oversight of pledged implementer corrective action plans and develop guidance for how and when such corrective action plans should be incorporated into agreements.
4. Determine the allowability of \$11,601,969 in questioned costs (\$11,595,045 ineligible and \$6,924 unsupported) and recover funds, as appropriate.

OIG RESPONSE TO AGENCY COMMENTS

We provided our draft report to USAID on December 4, 2020, and on January 5, 2021, received its response. That response can be found in appendix C of this report. On February 26, 2021, USAID withdrew its previous response and submitted a revised response, which can be found in appendix D.

The report included four recommendations. The Agency agreed with three recommendations (1, 3, and 4) and partially agreed with recommendation 2. For

recommendation 2, USAID disagreed with the recommendation language related to assessing IRC's progress in implementing corrective actions in response to the 2016 Show Cause Notice, stating that a close-out memorandum previously issued by the Agency met the regulatory requirement for considering the adequacy of the implementer's internal controls. We assessed the information for the partial disagreement and concur with the Agency's determination.

We acknowledge management decisions on recommendations 1, 2, and 3, and consider them resolved but open pending completion of planned activities. We do not acknowledge a management decision on recommendation 4 and consider it open and unresolved because a determination on the allowability of the questioned costs is pending.

We acknowledge the Agency's revised management comment to recommendation 4 and agree that it will be the cognizant Agreement Officer's responsibility to determine the allowability of costs which OIG has questioned in this audit. As is our standard practice, OIG categorizes "questioned costs" to include those which the audit determined are "ineligible" or "unsupported." Such practice is consistent with the Agency's policy in the Automated Directives Systems (ADS) (Chapter 595.6), which defines *Questioned Costs* within an audit as: "Cost determined to be potentially unallowable. It includes (1) ineligible costs (violation of law, regulation, contract, grant, cooperative agreement, etc., OR unnecessary or unreasonable expenditure of funds); and (2) unsupported costs (those not supported by adequate documentation at the time of the audit)." The purpose of this longstanding practice has been to provide the agreement officer (or contracting officer), and the report's readers, with the specificity needed to understand OIG's basis for questioning costs; and help agency officials make informed decisions as to whether or not to allow the costs (see ADS Chapter 592.3.2.7).

In addition, as a courtesy we provided our draft report to IRC on January 29, 2021, and incorporated technical comments we received as appropriate.

APPENDIX A. SCOPE AND METHODOLOGY

We conducted our work from September 2017 through December 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit followed up on the Agency's oversight of a selected Syria humanitarian assistance implementer and its response to address corrective actions to fraud risks identified by OIG investigations. We selected IRC from the eight USAID implementers of Syria response cross-border activities based on a risk assessment considering award value, past audit results, and the amount of fraud referrals, among other factors. Our audit objectives were to (1) assess USAID's and IRC's responses to fraud risks identified by OIG investigations in Syria cross-border activities through fiscal year 2017 and (2) determine whether USAID's and IRC's corrective actions were implemented and operating effectively.

Audit work was performed on USAID's and IRC's corrective actions taken between December 2015, when OIG issued its first investigative referral on IRC to USAID, and September 2017, when IRC planned to complete over 90 percent of its corrective actions submitted in response to USAID's Show Cause Notice dated March 9, 2016.

To plan and conduct our audit, we identified relevant Federal requirements, guidance, and standards for fraud risk management, including the following:

- The Fraud Reduction and Data Analytics Act of 2015
- GAO's "Standards for Internal Control in the Federal Government"
- GAO's "A Framework for Managing Fraud Risks in Federal Programs"
- OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"
- OMB Guidelines to Agencies on Governmentwide Debarment and Suspension
- USAID's Automated Directives System 300 series
- OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
- IRC's procurement manual and standard operating procedures

To gain an understanding of the Syria response operations and identify and assess the status of corrective actions, we interviewed OFDA and FFP officials, including the response manager, risk mitigation advisor, agreement officer's representative, and disaster assistance response team leads for Jordan, Iraq, and Turkey; the Compliance Division chief; and the agreement officer for IRC's Syria activities. From IRC, we met with senior management and staff, including the ethics and compliance officer, global

supply chain officer, internal audit director, head of donor compliance, country directors for Jordan and Iraq, regional supply chain director for the Middle East, global supply chain quality assurance team director, and supply chain coordinators for Jordan, Turkey, and Iraq.

To assess USAID's and IRC's responses to OIG investigative findings related to fraud in Syria response cross-border activities implemented by IRC, we:

- Reviewed OIG referrals to identify fraud schemes that affected IRC operations.
- Identified USAID's and IRC's corrective actions by reviewing relevant documents, including USAID's Show Cause Notice issued by the SDO, action memos and award agreements issued by OAA agreement officer; OFDA and FFP's list of corrective actions; and IRC's responses to the Show Cause Notice.
- Interviewed USAID and IRC officials to learn about corrective actions and any framework followed by USAID and IRC to develop measures necessary to address fraud risks and OIG findings.
- Concluded on the responses based on whether corrective actions, in the aggregate: (1) addressed control deficiencies that provided opportunities for fraud schemes revealed by the OIG investigation and (2) mitigated risks of fraud identified through risk assessments. For instance, we considered IRC's action to establish an Ethics and Compliance Unit, with an internal investigation team and compliance and training and development subunits, to be an effective response because the role of this unit was relevant to resolving OIG investigative findings. To draw our conclusion about the corrective actions, we verified if IRC developed and adapted its anti-fraud activities based on regular, comprehensive fraud risk assessments through September 2017.

To determine whether USAID's corrective actions were implemented and operating effectively, we requested the status of corrective actions from USAID as of September 2017, identified corrective actions applicable to IRC during the audit period, and validated the status as reported to us through interviews with USAID and IRC officials. We reviewed supporting documents, including records of follow-up meetings held by the Compliance Division with IRC, action memos issued by OAA agreement officer to deobligate funds and suspend IRC/Turkey program activities, OFDA's site visit reports, FFP's and OFDA's proposal guidelines, and agreement documents. To assess the operating effectiveness of USAID's corrective actions, we interviewed staff and reviewed documents to determine whether controls were applied by authorized officials with consistency and at relevant times.

To determine whether IRC's corrective actions were implemented during the audit period, we requested the status of corrective actions from IRC as of September 2017. To validate the reported status, we corroborated evidence obtained through interviews and reviews of supporting documents. We verified the status of 20 corrective actions described in IRC responses to USAID's Show Cause Notice, 146 anti-fraud improvement tasks, and 17 corrective actions taken to improve subawardee monitoring. We validated the status of these actions through (1) interviews with IRC officials in

headquarters and field offices, and, in some cases, with USAID officials, and (2) reviews of supporting documents.

We assessed the operating effectiveness of IRC key anti-fraud controls implemented during the audit period, based on a stratified random sample based on location. To identify key procurement controls, we considered the likelihood of a given control to prevent, detect, and correct fraud schemes identified by OIG investigations. For instance, we selected reviews of procurement by the regional supply chain director in Jordan, the global supply chain quality assurance team in Kenya, and the global supply chain officer in New York because independent reviews, if operating effectively, were likely to help safeguard against supplier and staff collusion that OIG investigations revealed in Turkey. We also selected these reviews because IRC considered them to be key anti-fraud controls. We stratified procurement data because selected controls were applicable to awards with an estimated total cost exceeding certain predetermined thresholds. To test selected controls, we summarized and stratified payment data for IRC offices in Jordan, Iraq, and Turkey for procurements for IRC's Syria response cross-border activities, identified 120 payment transactions made as of September 2017 amounting to \$24.5 million, and randomly selected a representative sample of payments made to 32 suppliers, or 27 percent of total payment transactions, for a total of \$21.4 million.³¹ We selected suppliers based on the amount of payments received rather than the estimated total cost of awards because of procurement data limitations described in the following paragraph. For each selected supplier, we reviewed procurement files to determine whether controls were applied by authorized officials with consistency and at relevant times and in compliance with applicable procurement standards.

Data limitations existed due to the lack of an awards listing by estimated total costs, lack of supplier ownership information, and incomplete and erroneous procurement data that was available. Although procurement data was unreliable, we used disbursement data for procurements to select awards and to render our conclusion. Because of these limitations, the award population and eligibility of suppliers for U.S. Government funding were undetermined, and therefore, we did not project the results of our test to the population.

We conducted audit fieldwork at the following sites: Frankfurt, Germany where OIG Middle East/Eastern Europe Regional Audit Office is located; Washington, DC, where USAID offices are located; and New York City, NY; Amman, Jordan; and Erbil, Iraq where IRC offices managing Syria response are located. We also visited IRC warehouses in Amman, Jordan, and Dohuk, Iraq. We worked remotely with USAID staff in Turkey and IRC staff in Kenya. We did not visit IRC/Turkey because in August 2017, IRC reduced its presence in Turkey and relocated its management and oversight of programming in northwest Syria to Jordan.

³¹ AICPA's Government Audit Quality Center recommends that for small populations between 52 and 250 items, a rule of thumb is to test a sample size of approximately 10 percent, but the size is subject to professional judgment inclusive of risk assessment consideration.

APPENDIX B. SCHEDULE OF QUESTIONED COSTS

Costs included in table 3 below were questioned based on the following criteria and conditions, as summarized in the Notes column.

- (1) 2 CFR 200.403, “Factors Affecting Allowability of Costs,” states that to be allowable under a Federal award, costs must be reasonable for the performance of the Federal award.
- (2) 2 CFR 200.404, “Reasonable Costs,” states that in determining reasonableness of a given cost, consideration must be given to whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award’s cost.
- (3) 2 CFR 200.303, “Internal Controls,” states that the non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.
- (4) 2 CFR 200.318 (c)(1), “General Procurement Standards,” states that the non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award, and administration of contracts.
- (5) 2 CFR 180.300, states: “When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified.”
- (6) USAID’s award to IRC states that IRC must seek USAID agreement officer approval of suppliers to be used for any direct procurement of food commodities from suppliers based in Turkey.
- (7) IRC’s procurement manual and standard operating procedures.

Table 3. Questioned, Ineligible, and Unsupported Costs by Country and Supplier³²

Supplier	Questioned Costs ^a	Ineligible Costs	Unsupported Costs	Notes
IRC/Iraq				
Supplier 1	\$9,510,400	\$9,510,400		IRC did not ensure that costs associated with this procurement complied with USAID award requirements and IRC procurement standards. Specifically, it did not ensure that the following requirements were met: • USAID approval is obtained prior to procurements of suppliers to be used for any direct procurement of food commodities from suppliers located in Turkey or of Turkish nationality. • Procurement committee approves and completes responsibilities. • Procurement committee conducts appropriate due diligence, including appropriate consideration of fraud red flags, such as instances of unsupported claims in the bid proposal, prior engagement in product substitution, and possible supplier collusion, all of which were noted by IRC. • Due diligence is conducted prior to supplier selection and included conducting independent reference checks, assessing the impact of lack of public information on the supplier, and following up and assessing the impact of allegations about a supplier's involvement in fraud and ethical violations.
Supplier 2	\$656,354	\$656,354		IRC did not ensure that costs associated with this procurement complied with IRC procurement standards. Specifically, it did not ensure that the following requirement was met: • Supplier due diligence includes reference checks conducted by IRC staff with at least three independent sources.
Supplier 3 (Multiple)	\$181,215	\$181,215		IRC did not ensure that costs associated with this procurement complied with Federal and IRC procurement standards. Specifically, it did not ensure that the following requirements were met:

³² Names of suppliers are withheld from this report because: (1) we did not assess controls established by the suppliers and no legal relationship exists between USAID and IRC's suppliers, (2) the underlying causes for the findings were weaknesses in IRC internal control, and (3) the extent to which suppliers publicly disclose their activities in Syria and Iraq was not determined.

Supplier	Questioned Costs ^a	Ineligible Costs	Unsupported Costs	Notes
				• All procurements with a value between \$2,500 and \$20,000 are subject to a formal, documented three-bid process using a request for quotation and a limited invitation to tender, unless conducted under the scope of a Master Purchase Agreement. • Bid analysis is conducted or a waiver is obtained for direct contracting. • Anti-terrorism check is conducted for supplier prior to making a procurement.
Supplier 4	\$123,825	\$123,825		IRC did not ensure that costs associated with this procurement complied with Federal procurement standards. Specifically, it did not ensure that the following requirements were met: • Supplier due diligence includes reference checks conducted by IRC staff with at least three independent sources. • Anti-terrorism check is conducted for suppliers prior to making procurement, not a year later.
Supplier 5	\$32,204	\$32,204		IRC did not ensure that costs associated with this procurement complied with Federal and IRC procurement standards. Specifically, it did not ensure that the following requirements were met: • Sole source procurements are supported by a justified procurement waiver. • Code of conduct is signed by the supplier before a procurement is made, not 2 years later. • Anti-terrorism check is conducted before a procurement is made, not 2 years later. • Independent reviews of procurement are conducted to ensure compliance with procurement standards.
Supplier 6	\$8,480	\$8,480		IRC did not ensure that costs associated with this procurement complied with IRC procurement standards. Specifically, it did not ensure that the following requirement was met: • A minimum of three quotes are required for all procurement valued \$2,500 or higher unless the procurement is made under a valid Master Purchase Agreement.
IRC/Iraq Totals:	\$10,512,478	\$10,512,478		
IRC/Jordan				
Supplier 1	\$452,850	\$452,850		IRC did not ensure that costs associated with this procurement complied with IRC procurement standards. Specifically, it did not ensure that the following requirements were met: • Sole source procurements are supported by a justified procurement waiver.

Supplier	Questioned Costs ^a	Ineligible Costs	Unsupported Costs	Notes
				• Supplier due diligence includes reference checks conducted by IRC staff with at least three independent sources. • Contracts and contract amendments are independently reviewed for compliance with procurement standards.
Supplier 2	\$322,893	\$322,893		IRC did not ensure that costs associated with this procurement complied with IRC procurement standards. Specifically, it did not ensure that the following requirements were met: • Bid selection members are approved by IRC country director. • Bid selection members sign conflict of interest statements. • Supplier due diligence includes reference checks conducted by IRC staff with at least three independent sources. • Contracts and contract amendments are independently reviewed for compliance with procurement standards.
Supplier 3	\$178,202	\$178,202		IRC did not ensure that costs associated with this procurement complied with IRC procurement standards. Specifically, it did not ensure that the following requirements were met: • Bid selection members are approved by IRC country director. • Bid selection members sign conflict of interest and code of conduct statements. • Price market research is conducted to support the fee-increase amendment and for contract extension. • Independent reviews of procurement are conducted to ensure compliance with procurement standards.
Supplier 4	\$55,909	\$55,909		IRC did not ensure that costs associated with this procurement complied with IRC procurement standards. Specifically, it did not ensure that the following requirements were met: • Payments to suppliers are made for authorized work based on contractual agreement. IRC paid the supplier for work performed before IRC received the proposal from the supplier and prior to issuing a statement of work to the supplier. • Purchase request, request for proposal, and statement of work are not split. • The procurement committee conducts appropriate due diligence, including appropriate consideration of fraud red flags, such as bids being very close to budget or cost estimate. • Negotiation with a bidder is made after completion of the bid analysis and is usually

Supplier	Questioned Costs ^a	Ineligible Costs	Unsupported Costs	Notes
				made by the supply chain team. • A purchase request initiates the procurement process, provides specification of deliverables, and is approved before the bid notice is published. • A statement of work is developed by IRC, instead of the supplier, and includes details specifying what the supplier should accomplish and deliver based on contractual agreement. • Existing contract is used if the contract has set negotiated prices. • Cost estimate used to price goods and services and select a winning bidder are determined based on market research. • Allocation of cost to OFDA's awards is based on whether the award that paid the expense benefits from it rather than whether the award has funds that would expire with approaching end-date of the award.
Supplier 5	\$20,887	\$20,887		IRC did not ensure that costs associated with this procurement complied with IRC procurement standards. Specifically, it did not ensure that the following requirements were met: • Sole source procurements are supported by documented justification and are approved. • Supplier due diligence is conducted prior to contract ratification. • Contracts and contract amendments are independently reviewed for compliance with procurement standards.
Supplier 6	\$19,905	\$19,905		IRC did not ensure that costs associated with this procurement complied with IRC procurement standards. Specifically, it did not ensure that the following requirements were met: • Bid analysis is conducted or a waiver is obtained for direct contracting. • Contractual agreement is ratified prior to making procurement instead of retroactive contracting. • Anti-terrorism check is conducted before contract is ratified and services are provided.
Supplier 7	\$4,435		\$4,435	IRC did not ensure that payment for this procurement was verified and approved in compliance with IRC financial policy and procurement standards.
Supplier 8	\$4,241	\$4,241		IRC did not ensure that costs associated with this procurement complied with IRC procurement standards. Specifically, it did not ensure that the following requirements were met:

Supplier	Questioned Costs ^a	Ineligible Costs	Unsupported Costs	Notes
				• Acquisitions are supported by documented, ratified contractual agreements. • Bid analysis is conducted or a waiver is obtained for direct contracting. • Code of conduct and conflict of interest statements are signed by suppliers. • Anti-terrorism check is conducted for supplier prior to making a procurement.
Supplier 9	\$2,489		\$2,489	IRC did not ensure that payment for this procurement was verified and approved in compliance with IRC financial policy and procurement standards.
IRC/Jordan Totals:	\$1,061,811	\$1,054,887	\$6,924	
IRC/Turkey				
Supplier 1 (Multiple)	\$12,050	\$12,050		<i>(Applies to all rows below)</i> IRC did not ensure that costs associated with this procurement complied with Federal procurement standards. Specifically, it did not ensure that the following requirement was met: • Supplier due diligence includes anti-terrorism check and is conducted before contract is ratified and services are rendered.
Supplier 2 (Multiple)	\$5,700	\$5,700		
Supplier 3 (Multiple)	\$5,430	\$5,430		
Supplier 4	\$4,500	\$4,500		
IRC/Turkey Totals:	\$27,680	\$27,680		
Grand Totals	\$11,601,969	\$11,595,045	\$6,924	

^a Procurement data used in testing was incomplete, included errors, and according to IRC included duplicates.

Source: OIG analysis of IRC procurements.

APPENDIX C. AGENCY COMMENTS



MEMORANDUM

TO: Middle East/Eastern Europe Regional Audit Director, David Thomanek

FROM: USAID/Bureau for Humanitarian Assistance,
Assistant to the Administrator, Trey Hicks /s/

USAID/Bureau for Management,
Assistant Administrator, Frederick Nutt

DATE: January 4, 2021

SUBJECT: Management Comments to Respond to a Draft Audit Report Produced by the Office of Inspector General (OIG) Titled, *Weaknesses in Oversight of USAID's Syria Response Point To the Need for Enhanced Management of Fraud Risks in Humanitarian Assistance* (Report 8-000-20-00X-P and Task No. 881R0517)

The Bureaus for Humanitarian Assistance (BHA) and Management (M) of the U.S. Agency for International Development (USAID) would like to thank the Office of Inspector General (OIG) for the opportunity to provide comments on the subject draft report on USAID's oversight of an organization that has been delivering humanitarian assistance inside Syria with our funds, hereafter referred to as "the implementing partner" or "IP." The Agency agrees with Recommendations 1, 3, and 4, and partially agrees with Recommendation 2. In the following pages, USAID provides technical comments on draft report 8-000-20-00X-P (Tab 1), explains our plans for implementing its recommendations, and details significant progress already made.

As the OIG's draft report correctly highlights, fraud and abuse did threaten USAID's humanitarian response in Syria in Fiscal Years (FYs) 2015 through 2017. Our partners flagged indicators of fraud, and the OIG's investigations uncovered complex fraud schemes that targeted humanitarian assistance delivered to refugee camps. USAID subsequently took 129 actions related to suspension and debarment in response to

investigative referrals provided by the OIG. American taxpayers, and the beneficiaries of their generosity in Syria, owe the OIG a debt of gratitude.

When the former Offices of U.S. Foreign Disaster Assistance (OFDA) and Food for Peace (FFP) within the Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA, now BHA) first received these fraud allegations from Syria, they took swift action to address the issues raised and prevent them from recurring. On December 7, 2015, DCHA/OFDA suspended the IP's cross-border humanitarian programs from the Republic of Turkey into Syria for more than four months. During this period, to understand the scope of the fraud, and the extent to which the risk of fraud remained unmitigated, DCHA/OFDA and DCHA/FFP coordinated closely with the OIG's investigators; the IP; and the Compliance Division of the Office of Management Policy, Budget, and Performance (MPBP) in the M Bureau.

In 2016, both DCHA/OFDA and DCHA/FFP funded the IP in question for activities in the region, and the two offices implemented risk-mitigation measures specific to the organization and its awards. First, DCHA/OFDA and DCHA/FFP established a third-party monitoring program in Syria. Because the OIG's investigations involved vendors used for cross-border operations from Turkey, DCHA/OFDA also required the IP to seek approval from the cognizant Agreement Officer (AO) at USAID before buying and transporting pharmaceuticals and other high-value items. Similarly, DCHA/FFP inserted four special conditions in its award to the IP for cross-border operations from the Republic of Iraq, including a requirement for the organization to seek the AO's approval for the direct procurement of food commodities from vendors based in Turkey (Tab 2). While DCHA/FFP continued to fund the IP through a subsequent cost-modification, the special conditions remained unchanged, and the award ended in May 2018.

Additionally, to mitigate the risk of procurement fraud within cross-border programming for Syria, DCHA/OFDA selected one Public International Organization to purchase all non-food items (NFIs) for all programs managed by non-governmental organizations (NGOs) that bring assistance from Turkey into Northwest Syria with funding from USAID. By establishing a closely monitored, single-source commodity pipeline, DCHA/OFDA effectively eliminated the primary risks of product-substitution, coercion, and the improper selection of vendors that had occurred with several NGO partners, including the IP that is the subject of this audit. Since the establishment of this system, BHA has not seen any renewed procurement problems of this type in Syria. These internal controls and programmatic innovations addressed the immediate risk of fraud identified by the OIG and have made USAID's resources for humanitarian assistance in Syria significantly less vulnerable to abuse and diversion.

As draft report 8-000-20-00X-P states, as a result of the OIG's investigations, DCHA/FFP and DCHA/OFDA also implemented broader measures "to (1) strengthen internal processes; (2) enhance internal capacity; (3) increase fraud awareness and prevention; and, (4) diversify levels of monitoring for Syria humanitarian response activities." DCHA/OFDA and DCHA/FFP subsequently expanded many of these activities beyond Syria, including by increasing monitoring site visits by U.S.

Government staff or third-party monitors, requiring all applicants to submit risk-mitigation information as part of proposals, establishing and expanding a risk-management team, and working with the OIG's Office of Investigations (OIG/I) to increase the awareness of fraud among our implementers and USAID's staff.

Nevertheless, BHA does see a need to improve our anti-fraud controls for humanitarian-assistance programs even further, in line with the OIG's recommendations in draft report 8-000-20-00X-P. Indeed, BHA will develop a risk-management framework for fraud to guide how the Bureau commits resources to combat fraud, regularly assesses the risk of abuse, designs and implements an anti-fraud strategy, and adapts to address response contexts. BHA also has begun vetting the organizations that are recipients of our humanitarian assistance in Syria, and their key personnel, through USAID's Partner-Vetting System.

To respond to Recommendation 3 of draft report 8-000-20-00X-P, the Office of Acquisition and Assistance in the M Bureau will remind the Agency's AOs and Contract Officers (COs) in writing of our existing policy and guidance for the monitoring and oversight of corrective-action plans to which our implementers have committed. This will include how and when AOs and COs should incorporate such corrective-action plans into grants, cooperative agreements, and contracts, as codified in [Chapter 303.3.9.2](#) of USAID's Automated Directives System and [Section 200.208 of Title 2 of the Code of Federal Regulations](#).

In response to the OIG's recommendations that pertain specifically to the IP that is the subject of this audit, BHA and relevant offices within the M Bureau will use the Agency's pre-award risk-assessment process to continue to assess the risks the IP might pose to our funding in future awards, and to impose specific conditions as warranted by our reviews. BHA and the M Bureau also will review the costs incurred by the organization that the OIG views as unsubstantiated. However, USAID disagrees with the OIG's recommendation to assess the IP's progress in implementing the corrective actions it pledged to complete in response to the Show Cause Notice issued by the Agency in 2016, a matter we consider closed; we provide our justification in the Management Comments below.

**COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
(USAID) ON THE DRAFT REPORT RELEASED BY THE USAID OFFICE OF
THE INSPECTOR GENERAL (OIG) TITLED, *WEAKNESSES IN OVERSIGHT
OF USAID’S SYRIA RESPONSE POINT TO THE NEED FOR ENHANCED
MANAGEMENT OF FRAUD RISKS IN HUMANITARIAN ASSISTANCE*
(8-000-20-00X-P and Task No. 881R0517)**

Please find below the Management Comments from the U.S. Agency for International Development (USAID) on draft report 8-000-20-00X-P produced by the Office of the USAID Inspector General (OIG), which contains four recommendations for USAID:

Recommendations for USAID’s Bureau for Humanitarian Assistance (BHA):

Recommendation 1: Implement a fraud-risk management framework for humanitarian-assistance responses that sets out procedures for conducting regular fraud-risk assessments; developing fraud-risk profiles, anti-fraud control activities, and a fraud strategy; and monitoring and incorporating feedback.

- **Management Comments:** USAID agrees with the OIG’s recommendation. BHA will develop a framework for managing the risk of fraud in our humanitarian-assistance activities by using recognized best practices in internal-control standards and risk-management, such as the [Framework for Managing Fraud Risks in Federal Programs](#), published by the Government Accountability Office. BHA’s framework will consist of a single overall strategy document, a Bureau fraud-risk profile with associated risk treatments, and procedures for developing key documents (such as fraud-risk assessments and risk profiles) at the response level.

The strategy document will consolidate all of BHA’s substantial existing measures to manage and mitigate the risk of fraud. These include global anti-fraud control activities, such as training and pre-award risk-management steps, as well as response-level risk-management strategies and risk profiles. A Bureau-wide fraud-risk profile, which will identify and address all significant fraud risks that affect BHA’s mission, will inform the fraud-risk strategy. BHA’s new Division of Audit, Risk, and Performance-Management (ARPM) will coordinate with BHA’s Risk and Internal-Control Working Group to develop this fraud-risk profile as a companion to BHA’s corporate Enterprise Risk-Management (ERM) Risk Profile, which BHA/ARPM will update and submit to the Agency in June 2021, in line with the Agency’s annual ERM cycle.

Based on the risk treatments identified in the fraud-risk profile, in July and early August 2021 BHA will develop procedures for developing key documents (such as fraud-risk assessments and risk profiles) at the response level. The Agency will design all of the documents that contribute to the framework for managing

the risk of fraud to support responsive management, and they will incorporate BHA's policies for monitoring and evaluation.

- **Target Completion Date:** September 15, 2021.

Recommendation 2: In coordination with the Bureau for Management, conduct an assessment of the implementing partner's progress in implementing corrective actions it pledged to complete in response to the 2016 Show Cause Notice, and evaluate any risk posed to current programming in determining whether any specific conditions should be incorporated into current and/or future awards to mitigate risk.

- **Management Comments:** USAID partially agrees with the OIG's recommendation, as described below.

USAID agrees with the OIG's recommendation to evaluate any risk posed to the IP's current programming to determine whether BHA should incorporate any specific conditions into current and/or future awards with the organization to mitigate risk. BHA conducts a pre-award risk assessment, for every new award and cost-modification, of each organization that receives USAID's humanitarian funding, in accordance with [Chapter 303.3.9](#) of our Automated Directives System (ADS) and [Section 200.205 of Title 2 of the Code of Federal Regulations \(CFR\)](#). Pre-award risk-assessments evaluate the risk posed by non-government organizations (NGOs) and for-profit applicants and facilitate a risk determination by the Agreement Officer (AO). In its pre-award risk-assessments, BHA considers data such as an applicant's financial statements; the significance and applicability of audit findings related to an NGO's internal control, compliance, and questioned costs; and whether the organization adequately addressed recommendations from the prior-year audit. Additionally, BHA's ARPM Division reaches out to each applicant to find out the status of its corrective-action plans and obtains reviews of its past performance with Federal funds.

As part of this process, BHA's ARPM Division reviews an applicant's latest Single Audit report (for U.S. NGOs) and recipient-contracted audit (for non-U.S. NGOs). These audit reports include assessments of an organization's ability to comply with applicable laws and regulations, and of its internal controls. In particular, an applicant's procurement and financial-management systems and policies must comply with [Part 200 of Title 2 of the CFR](#), with sufficient controls to manage the risk of procurement-fraud schemes, such as bid-rigging, bribery, collusion, kickbacks, and product-substitution. BHA created the ARPM Division precisely to provide dedicated staff and expertise related to risk-management, internal controls, and financial audits.

In response to this recommendation, BHA will conduct a pre-award risk-assessment of the IP for Fiscal Year (FY) 2021. To close out the recommendation, BHA will submit the assessment, as well as BHA's internal process guidance on conducting pre-award risk-assessments, to the OIG.

Nevertheless, USAID disagrees with the part of the recommendation that we should assess the IP's corrective actions related to the Show Cause Notice the Agency sent in 2016. According to [Section 180.125 of Title 2 of the CFR](#), the purpose of the U.S. Government's system for suspension and debarment is to protect the public interest and ensure the integrity of Federal programs by only conducting business with entities or individuals deemed to be "presently responsible." While Federal Departments and Agencies may use these procedures for suspension and debarment to exclude entities or individuals who are not presently responsible, Departments and Agencies may not use them for the purposes of punishment.

In 2016, USAID issued the Show Cause Notice to the IP in response to concerns related to bribery and kickbacks, collusion and bid-rigging, product-substitution, inadequate response to allegations of fraud, and alleged failure to cooperate with the OIG. Both the former Offices of Food for Peace (FFP) and U.S. Foreign Disaster Assistance (OFDA) in the Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA, now BHA) coordinated closely on the investigation with the OIG and the Compliance Division within the Office of Management Policy, Budget, and Performance (MPBP) in the Bureau for Management (M). Over the course of seven months, the IP submitted substantial documentation to M/MPBP's Compliance Division regarding the organization's own review of the allegations and major organizational changes it made in response. These submissions indicated that the IP had made significant progress in addressing concerns regarding its organizational internal controls, investigative capacity, and cooperation with the OIG, and that its controls were adequate to guard against future recurrence. The IP's plan of action was extensive in nature, and making changes and/or showing progress against it was the organization's responsibility.

USAID closed out this matter with a twelve-page memorandum that included 32 attachments that detailed the evidence and documentation used to make the close-out recommendation (Tab 3). With this close-out, the Agency considered the IP's internal controls as adequate, which is the regulatory requirement. We must note that, while USAID closed out this specific matter, the Agency subsequently took 129 actions related to suspension and debarment in response to referrals provided by the OIG as a result of investigations into our cross-border programs in Syria.

Based on the results of the IP's Single Audit reports for FY 2019 and 2020, DCHA/OFDA and DCHA/FFP determined that the IP continued to have the financial and management capabilities to perform programmatic activities under humanitarian awards from USAID. The independent public accounting firm that conducted the Single Audit qualified the IP as a low-risk organization. Moreover, the IP received an unmodified opinion on its financial statements, and the public accounting firm did not report any significant deficiencies or material weaknesses

in the organization's internal control, or any instances of material non-compliance. This assurance, in addition to the controls USAID maintains to prevent the type of fraud that occurred in 2016 in the programs funded in Syria by DCHA/OFDA and DCHA/FFP, supported BHA's decision to continue to fund the IP in FY 2020.

Therefore, a re-review of actions related to the 2016 timeframe would not be reflective of the IP's present responsibility, and could be considered punitive in nature.

- **Target Completion Date:** April 30, 2021.

Recommendations for USAID's Office of Acquisition and Assistance (OAA) in the Bureau for Management (M):

Recommendation 3: In coordination with the Office of Management Policy, Budget and Performance's Compliance and Oversight of Partner Performance [Divisions], conduct an assessment of the Agency's existing guidance for monitoring and oversight of pledged implementer corrective-action plans and develop guidance for how and when such corrective action plans should be incorporated into agreements.

- **Management Comments:** USAID agrees with the recommendation. In coordination with M/MPBP, M/OAA completed an assessment of ADS [Chapter 303](#) and determined that sufficient guidance currently exists for our AOs to determine the adequacy of implementers' action plans, when warranted, and for AOs to decide when to incorporate such corrective-action plans into USAID's assistance awards. Specifically, ADS [Chapter 303.3.9.2](#) and [Section 200.208 of Title 2 of the CFR](#) include all necessary policy and guidance. Our review found that the guidance includes the need to advise recipients regarding the nature of, and reason(s) for, any additional requirements; the nature of, and time allowed for, action(s) needed to remove them; and, the process for reconsideration/removal of them once the recipients have corrected the conditions that prompted them.

However, in light of the OIG's recommendation, M/OAA will remind all USAID's AOs and COs of the Agency's existing policy, including in a highlighted notice in an upcoming edition of the M/OAA Director's "At A Glance" newsletter.

- **Target Completion Date:** March 30, 2021.

Recommendation 4: Determine the allowability of \$11,601,969 in questioned costs (\$11,595,045 ineligible and \$6,924 unsupported) and recover funds, as appropriate.

- **Management Comments:** USAID agrees with the recommendation to review and determine the allowability of the IP's costs. The cognizant AO will determine the allowability of the questioned costs and initiate any consequent recovery of funds.
- **Target Completion Date:** April 30, 2021.

In view of the above, USAID requests that the OIG inform us when it agrees or disagrees with one of the Management Comments above.

APPENDIX D. AGENCY COMMENTS (REVISED)



MEMORANDUM

TO: Middle East/Eastern Europe Regional Audit Director, David Thomanek

FROM: USAID/Bureau for Humanitarian Assistance,
Assistant to the Administrator, Sarah Charles /s/

USAID/Bureau for Management,
Acting Assistant Administrator, Colleen Allen /s/

DATE: February 25, 2021

SUBJECT: Management Comments to Respond to a Draft Audit Report Produced by the Office of Inspector General (OIG) Titled, *Weaknesses in Oversight of USAID's Syria Response Point To the Need for Enhanced Management of Fraud Risks in Humanitarian Assistance* (Report 8-000-20-00X-P and Task No. 881R0517)

The Bureaus for Humanitarian Assistance (BHA) and Management (M) of the U.S. Agency for International Development (USAID) would like to thank the Office of Inspector General (OIG) for the opportunity to provide comments on the subject draft report on USAID's oversight of an organization that has been delivering humanitarian assistance inside Syria with our funds, hereafter referred to as "the implementing partner" or "IP." The Agency agrees with Recommendations 1, 3, and 4, and partially agrees with Recommendation 2. In the following pages, USAID provides technical comments on the draft report 8-000-20-00X-P (Tab 1), explains our plans for implementing its recommendations, and details significant progress already made.

As the OIG's draft report correctly highlights, fraud and abuse did threaten USAID's humanitarian response in Syria in Fiscal Years (FYs) 2015 through 2017. Our partners flagged indicators of fraud, and the OIG's investigations uncovered complex fraud schemes that targeted humanitarian assistance delivered to refugee camps. USAID subsequently took 129 actions related to suspension and debarment in response to investigative referrals provided by the OIG. American taxpayers, and the beneficiaries of their generosity in Syria, owe the OIG a debt of gratitude.

When the former Offices of U.S. Foreign Disaster Assistance (OFDA) and Food for Peace (FFP) within the Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA, now BHA) first received these fraud allegations from Syria, they took swift action to address the issues raised and prevent them from recurring. On December 7, 2015, DCHA/OFDA suspended the IP's cross-border humanitarian programs from the Republic of Turkey into Syria for more than four months. During this period, to understand the scope of the fraud, and the extent to which the risk of fraud remained unmitigated, DCHA/OFDA and DCHA/FFP coordinated closely with the OIG's investigators; the IP; and the Compliance Division of the Office of Management Policy, Budget, and Performance (MPBP) in the M Bureau.

In 2016, both DCHA/OFDA and DCHA/FFP funded the IP in question for activities in the region, and the two offices implemented risk-mitigation measures specific to the organization and its awards. First, DCHA/OFDA and DCHA/FFP established a third-party monitoring program in Syria. Because the OIG's investigations involved vendors used for cross-border operations from Turkey, DCHA/OFDA also required the IP to seek approval from the cognizant Agreement Officer (AO) at USAID before buying and transporting pharmaceuticals and other high-value items. Similarly, DCHA/FFP inserted four special conditions in its award to the IP for cross-border operations from the Republic of Iraq, including a requirement for the organization to seek the AO's approval for the direct procurement of food commodities from vendors based in Turkey (Tab 2). While DCHA/FFP continued to fund the IP through a subsequent cost-modification, the special conditions remained unchanged, and the award ended in May 2018.

Additionally, to mitigate the risk of procurement fraud within cross-border programming for Syria, DCHA/OFDA selected one Public International Organization to purchase all non-food items (NFIs) for all programs managed by non-governmental organizations (NGOs) that bring assistance from Turkey into Northwest Syria with funding from USAID. By establishing a closely monitored, single-source commodity pipeline, DCHA/OFDA effectively eliminated the primary risks of product-substitution, coercion, and the improper selection of vendors that had occurred with several NGO partners, including the IP that is directly discussed in this audit. Since the establishment of this system, BHA has not seen any renewed procurement problems of this type in Syria. These internal controls and programmatic innovations addressed the immediate risk of fraud identified by the OIG and have made USAID's resources for humanitarian assistance in Syria significantly less vulnerable to abuse and diversion.

As draft report 8-000-20-00X-P states, as a result of the OIG's investigations, DCHA/FFP and DCHA/OFDA also implemented broader measures "to (1) strengthen internal processes; (2) enhance internal capacity; (3) increase fraud awareness and prevention; and, (4) diversify levels of monitoring for Syria humanitarian response activities." DCHA/OFDA and DCHA/FFP subsequently expanded many of these activities beyond Syria, including by increasing monitoring site visits by U.S. Government staff or third-party monitors, requiring all applicants to submit risk-mitigation information as part of proposals, establishing and expanding a risk-

management team, and working with the OIG's Office of Investigations (OIG/I) to increase the awareness of fraud among our implementers and USAID's staff.

Nevertheless, BHA does see a need to improve our anti-fraud controls for humanitarian assistance programs even further, in line with the OIG's recommendations in draft report 8-000-20-00X-P. Indeed, BHA will develop a risk-management framework for fraud to guide how the Bureau commits resources to combat fraud, regularly assesses the risk of abuse, designs and implements an anti-fraud strategy, and adapts to address response contexts. BHA also has begun vetting the organizations that are recipients of our humanitarian assistance in Syria, and their key personnel, through USAID's Partner-Vetting System.

To respond to Recommendation 3 of draft report 8-000-20-00X-P, the Office of Acquisition and Assistance in the M Bureau will remind the Agency's AOs and Contract Officers (COs) in writing of our existing policy and guidance for the monitoring and oversight of corrective-action plans to which our implementers have committed. This will include how and when AOs and COs should incorporate such corrective-action plans into grants, cooperative agreements, and contracts, as codified in [Chapter 303.3.9.2](#) of USAID's Automated Directives System and [Section 200.208 of Title 2 of the Code of Federal Regulations](#).

In response to the OIG's recommendations that pertain specifically to the IP that is discussed in this audit, BHA and relevant offices within the M Bureau will use the Agency's pre-award risk-assessment process to continue to assess the risks the IP might pose to our funding in future awards, and to impose specific conditions as warranted by our reviews. BHA and the M Bureau will review the costs incurred by the organization that the OIG has questioned, including those characterized as ineligible or unsupported. The cognizant Agreement Officer (AO) is responsible for determining the allowability of costs under an award and will determine the eligibility and allowability of questioned costs. However, USAID disagrees with the OIG's recommendation to assess the IP's progress in implementing the corrective actions it pledged to complete in response to the Show Cause Notice issued by the Agency in 2016, a matter we consider closed; we provide our justification in the Management Comments below.

**COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
(USAID) ON THE DRAFT REPORT RELEASED BY THE USAID OFFICE OF
THE INSPECTOR GENERAL (OIG) TITLED, *WEAKNESSES IN OVERSIGHT
OF USAID’S SYRIA RESPONSE POINT TO THE NEED FOR ENHANCED
MANAGEMENT OF FRAUD RISKS IN HUMANITARIAN ASSISTANCE***

(8-000-20-00X-P and Task No. 881R0517)

Please find below the Management Comments from the U.S. Agency for International Development (USAID) on draft report 8-000-20-00X-P produced by the Office of the USAID Inspector General (OIG), which contains four recommendations for USAID:

Recommendations for USAID’s Bureau for Humanitarian Assistance (BHA):

Recommendation 1: Implement a fraud-risk management framework for humanitarian-assistance responses that sets out procedures for conducting regular fraud-risk assessments; developing fraud-risk profiles, anti-fraud control activities, and a fraud strategy; and monitoring and incorporating feedback.

- **Management Comments:** USAID agrees with the OIG’s recommendation. BHA will develop a framework for managing the risk of fraud in our humanitarian-assistance activities by using recognized best practices in internal-control standards and risk-management, such as the [Framework for Managing Fraud Risks in Federal Programs](#), published by the Government Accountability Office. BHA’s framework will consist of a single overall strategy document, a Bureau fraud-risk profile with associated risk treatments, and procedures for developing key documents (such as fraud-risk assessments and risk profiles) at the response level.

The strategy document will consolidate all of BHA’s substantial existing measures to manage and mitigate the risk of fraud. These include global anti-fraud control activities, such as training and pre-award risk-management steps, as well as response-level risk-management strategies and risk profiles. A Bureau-wide fraud-risk profile, which will identify and address all significant fraud risks that affect BHA’s mission, will inform the fraud-risk strategy. BHA’s new Division of Audit, Risk, and Performance-Management (ARPM) will coordinate with BHA’s Risk and Internal-Control Working Group to develop this fraud-risk profile as a companion to BHA’s corporate Enterprise Risk-Management (ERM) Risk Profile, which BHA/ARPM will update and submit to the Agency in June 2021, in line with the Agency’s annual ERM cycle.

Based on the risk treatments identified in the fraud-risk profile, in July and early August 2021 BHA will develop procedures for developing key documents (such as fraud-risk assessments and risk profiles) at the response level. The Agency will design all of the documents that contribute to the framework for managing the risk of fraud to support responsive management, and they will incorporate

BHA's policies for monitoring and evaluation.

- **Target Completion Date:** September 15, 2021.

Recommendation 2: In coordination with the Bureau for Management, conduct an assessment of the implementing partner's progress in implementing corrective actions it pledged to complete in response to the 2016 Show Cause Notice, and evaluate any risk posed to current programming in determining whether any specific conditions should be incorporated into current and/or future awards to mitigate risk.

- **Management Comments:** USAID partially agrees with the OIG's recommendation, as described below.

USAID agrees with the OIG's recommendation to evaluate any risk posed to the IP's current programming to determine whether BHA should incorporate any specific conditions into current and/or future awards with the organization to mitigate risk. BHA conducts a pre-award risk assessment, for every new award and cost-modification, of each organization that receives USAID's humanitarian funding, in accordance with [Chapter 303.3.9](#) of our Automated Directives System (ADS) and [Section 200.205 of Title 2 of the Code of Federal Regulations \(CFR\)](#). Pre-award risk-assessments evaluate the risk posed by non-government organizations (NGOs) and for-profit applicants and facilitate a risk determination by the Agreement Officer (AO). In its pre-award risk-assessments, BHA considers data such as an applicant's financial statements; the significance and applicability of audit findings related to an NGO's internal control, compliance, and questioned costs; and whether the organization adequately addressed recommendations from the prior-year audit. Additionally, BHA's ARPM Division reaches out to each applicant to find out the status of its corrective-action plans and obtains reviews of its past performance with Federal funds.

As part of this process, BHA's ARPM Division reviews an applicant's latest Single Audit report (for U.S. NGOs) and recipient-contracted audit (for non-U.S. NGOs). These audit reports include assessments of an organization's ability to comply with applicable laws and regulations, and of its internal controls. In particular, an applicant's procurement and financial-management systems and policies must comply with [Part 200 of Title 2 of the CFR](#), with sufficient controls to manage the risk of procurement-fraud schemes, such as bid-rigging, bribery, collusion, kickbacks, and product-substitution. BHA created the ARPM Division precisely to provide dedicated staff and expertise related to risk-management, internal controls, and financial audits.

In response to this recommendation, BHA will conduct a pre-award risk-assessment of the IP for Fiscal Year (FY) 2021. To close out the recommendation, BHA will submit the assessment, as well as BHA's internal process guidance on conducting pre-award risk-assessments, to the OIG.

Nevertheless, USAID disagrees with the part of the recommendation that we should assess the IP's corrective actions related to the Show Cause Notice the Agency sent in 2016. According to [Section 180.125 of Title 2 of the CFR](#), the purpose of the U.S. Government's system for suspension and debarment is to protect the public interest and ensure the integrity of Federal programs by only conducting business with entities or individuals deemed to be "presently responsible." While Federal Departments and Agencies may use these procedures for suspension and debarment to exclude entities or individuals who are not presently responsible, Departments and Agencies may not use them for the purposes of punishment.

In 2016, USAID issued the Show Cause Notice to the IP in response to concerns related to bribery and kickbacks, collusion and bid-rigging, product-substitution, inadequate response to allegations of fraud, and alleged failure to cooperate with the OIG. Both the former Offices of Food for Peace (FFP) and U.S. Foreign Disaster Assistance (OFDA) in the Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA, now BHA) coordinated closely on the investigation with the OIG and the Compliance Division within the Office of Management Policy, Budget, and Performance (MPBP) in the Bureau for Management (M). Over the course of seven months, the IP submitted substantial documentation to M/MPBP's Compliance Division regarding the organization's own review of the allegations and major organizational changes it made in response. These submissions indicated that the IP had made significant progress in addressing concerns regarding its organizational internal controls, investigative capacity, and cooperation with the OIG, and that its controls were adequate to guard against future recurrence. The IP's plan of action was extensive in nature, and making changes and/or showing progress against it was the organization's responsibility.

USAID closed out this matter with a twelve-page memorandum that included 32 attachments that detailed the evidence and documentation used to make the close-out recommendation (Tab 3). With this close-out, the Agency considered the IP's internal controls as adequate, which is the regulatory requirement. We must note that, while USAID closed out this specific matter, the Agency subsequently took 129 actions related to suspension and debarment in response to referrals provided by the OIG as a result of investigations into our cross-border programs in Syria.

Based on the results of the IP's Single Audit reports for FY 2019 and 2020, DCHA/OFDA and DCHA/FFP determined that the IP continued to have the financial and management capabilities to perform programmatic activities under humanitarian awards from USAID. The independent public accounting firm that conducted the Single Audit qualified the IP as a low-risk organization. Moreover, the IP received an unmodified opinion on its financial statements, and the public accounting firm did not report any significant deficiencies or material weaknesses in the organization's internal control, or any instances of material non-compliance. This assurance, in addition to the controls USAID maintains to

prevent the type of fraud that occurred in 2016 in the programs funded in Syria by DCHA/OFDA and DCHA/FFP, supported BHA's decision to continue to fund the IP in FY 2020.

Therefore, a re-review of actions related to the 2016 timeframe would not be reflective of the IP's present responsibility, and could be considered punitive in nature.

- **Target Completion Date:** April 30, 2021.

Recommendations for USAID's Office of Acquisition and Assistance (OAA) in the Bureau for Management (M):

Recommendation 3: In coordination with the Office of Management Policy, Budget and Performance's Compliance and Oversight of Partner Performance [Divisions], conduct an assessment of the Agency's existing guidance for monitoring and oversight of pledged implementer corrective-action plans and develop guidance for how and when such corrective action plans should be incorporated into agreements.

- **Management Comments:** USAID agrees with the recommendation. In coordination with M/MPBP, M/OAA completed an assessment of ADS [Chapter 303](#) and determined that sufficient guidance currently exists for our AOs to determine the adequacy of implementers' action plans, when warranted, and for AOs to decide when to incorporate such corrective-action plans into USAID's assistance awards. Specifically, ADS [Chapter 303.3.9.2](#) and [Section 200.208 of Title 2 of the CFR](#) include all necessary policy and guidance. Our review found that the guidance includes the need to advise recipients regarding the nature of, and reason(s) for, any additional requirements; the nature of, and time allowed for, action(s) needed to remove them; and, the process for reconsideration/removal of them once the recipients have corrected the conditions that prompted them.

However, in light of the OIG's recommendation, M/OAA will remind all USAID's AOs and COs of the Agency's existing policy, including in a highlighted notice in an upcoming edition of the M/OAA Director's "At A Glance" newsletter.

- **Target Completion Date:** March 30, 2021.

Recommendation 4: Determine the allowability of \$11,601,969 in questioned costs (\$11,595,045 ineligible and \$6,924 unsupported) and recover funds, as appropriate.

- **Management Comments:** USAID agrees with the recommendation to review and determine the allowability of the IP's costs. However, USAID must point out that by characterizing the majority of such costs as "ineligible" versus simply as "questioned" the OIG appears to supersede the role of the cognizant Agreement

Officer (AO) in determining the allowability of costs under an award. The OIG's audit report further does not provide a definition or indicate the basis for why a cost would be characterized as "ineligible" and does not address with specificity how or why it concluded that the majority of the IP's costs were ineligible, even in circumstances where it can be demonstrated that goods and services procured by the IP as part of its performance under the awards were delivered, despite apparent violations of the IP's own internal policies. Therefore the cognizant AO will engage directly with the IP to determine the allowability of the questioned costs and initiate any consequent recovery of funds, as may be necessary.

- **Target Completion Date:** June 30, 2021.

In view of the above, USAID requests that the OIG inform us when it agrees or disagrees with one of the Management Comments above.

APPENDIX E. MAJOR CONTRIBUTORS TO THIS REPORT

The following people were major contributors to this report: James Charlifue, audit director; David Thomanek, audit director; Timothy Lamping, assistant director; Robert Mason, assistant director; Leila Doulali, lead auditor; Laura Pirocanac, writer-editor; and Steven Ramonas, auditor.