



MEMORANDUM

DATE: March 2, 2021

TO: Michele Sumilas, Acting Chief of Staff

FROM: Justin H. Brown, Counselor /s/

SUBJECT: Lessons From USAID's FY 2019 Budget Process Highlight Interagency Constraints and Areas that Require Continued Attention

The process of executing the foreign assistance budget is central to USAID's ability to deliver on its mandate and involves many levels of review and steps, some of which occur outside of the Agency. The fiscal year (FY) 2019 foreign assistance budget execution process was particularly challenging, effectively representing a stress test of the system that provides useful lessons for the future. The U.S. Government shutdown in FY 2019 impacted staff availability, and in the final 2 months of FY 2019, the White House Office of Management and Budget (OMB) ordered a temporary freeze on USAID foreign assistance funds while publicly discussing the possibility of a rescission and eventually ordering a reapportionment of funds. As a result, USAID budget execution processes were significantly disrupted, and budget staff reported working considerable amounts of time to respond to related constraints. We noted this in our 2020 Top Management Challenges memo as a leading expression of the challenge USAID faces in reconciling interagency priorities and functions.¹

After noting this issue in our Top Management Challenges memo and learning of stakeholder interest in the subject, we sought to better understand how USAID managed the process for executing foreign assistance funds and adapted to external factors. We examined USAID's budget execution processes during FY 2019, paying specific attention to Agency adaptations to the reapportionment—which impacted FY 2018 funds that were set to expire—and the FY 2019 653(a) process.² This memo provides information on the impact of external parties on USAID's budget process, remaining challenges, and resulting risks to the Agency if proper attention is not given to ensuring that improvements are sustained, particularly during a period

¹ USAID OIG, "Top Management Challenges Facing USAID in Fiscal Year 2020," November 20, 2019.

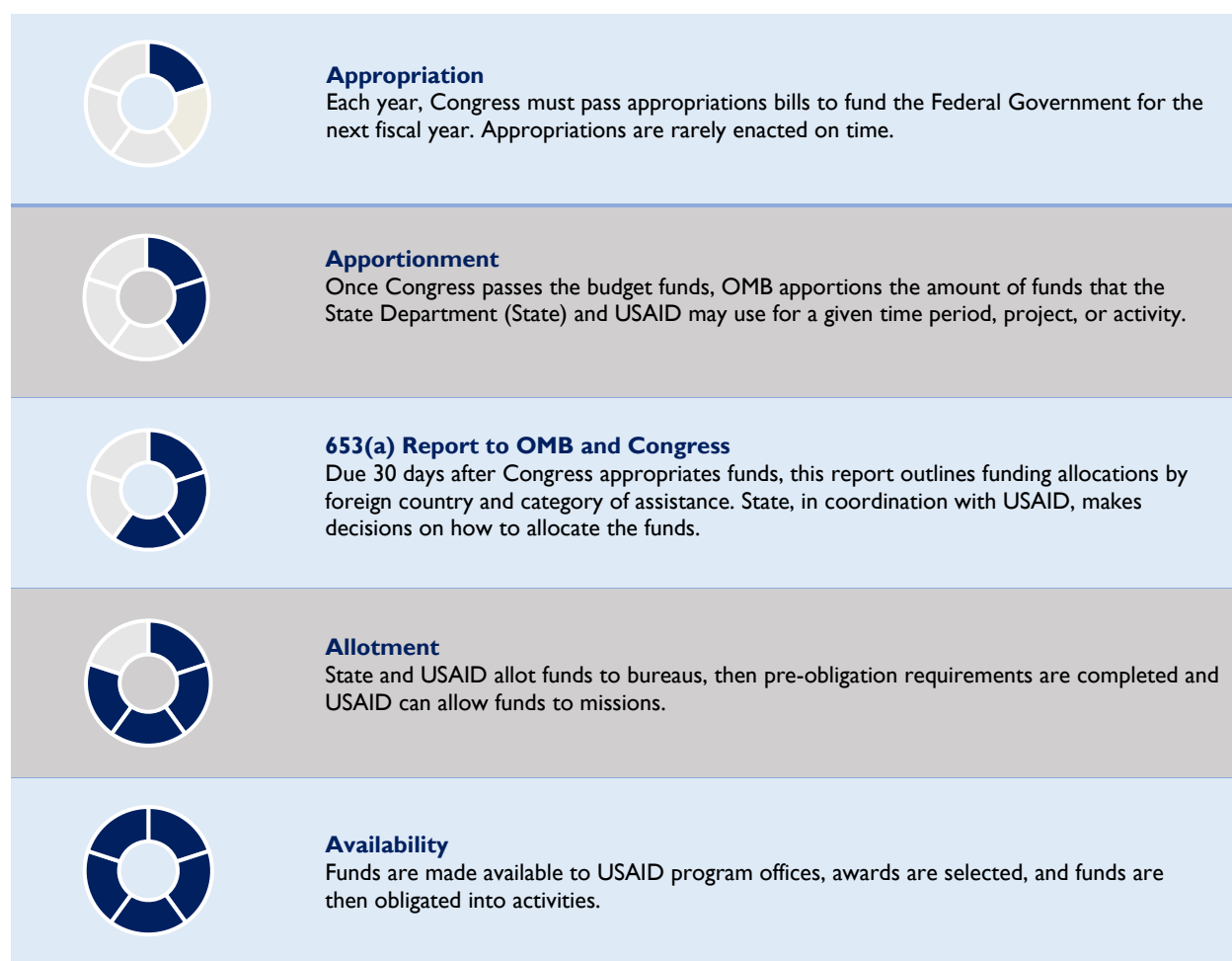
² Section 653(a) reports are due to Congress 30 days after an appropriations bill has been enacted and require the President notify Congress of the countries and organizations that will receive foreign assistance funds.

of transition, when priorities and interests may change. The conclusions are based on review of relevant documentation and interviews with USAID and State Department budget staff.

Many Parts of the Budget Execution Process Are Outside of USAID's Control

USAID has 2 years from the beginning of the fiscal year to obligate the bulk of its congressionally appropriated funding before it expires, but in practice, parts of the process that occur outside of USAID or in coordination with other parts of the U.S. Government substantially limit the time that the Agency has to obligate the funds. Figure I shows USAID's budget execution process and the flow of funds.

Figure I. Flow of Federal Funds to USAID, From Appropriation to Obligation



Note: According to the USAID Office of Budget and Resource Management (BRM), pre-obligation requirements may include: operational plans, country check list requirements, Section 7076(b) spend plans, congressional notifications, consultations with Congress, environmental compliance, terrorism risk-based assessments, Government-to-Government certification, and certification of nontaxation assistance. Mission requirements can include activity-level checklists and amendments to agreements with the host government.

Source: ForeignAssistance.gov, Foreign Assistance Act of 1961, and BRM.

Although the period of availability of funds for obligation begins at the start of the fiscal year, the appropriation of these funds often lags. In FY 2018, appropriations came 174 days after the fiscal year began. In FY 2019, this occurred 138 days after the fiscal year began.

After the President signs the appropriations act, responsibility for executing appropriated funds shifts to the executive branch. OMB apportions funds to both USAID and State's Office of Foreign Assistance (State/F)—a joint office supported by personnel from State and USAID. USAID bureaus then provide allowances to USAID missions. State has the delegated authority to approve the programming of foreign assistance funds; however, State and USAID have shared responsibility for administering certain foreign assistance accounts (for a listing of the accounts for which USAID has responsibility, see the appendix).

Section 653(a) of the Foreign Assistance Act of 1961 requires the President to notify Congress of the countries and organizations that will receive foreign assistance funding. State/F and BRM work to determine 653(a) budget levels for foreign assistance accounts based on a number of variables, including historic funding levels, request levels, technical group recommendations, remaining funds available by sector and the expenditure rate for remaining funds, policy decisions, directives, and administration priorities.

Section 653(a) reports are due to Congress 30 days after an appropriations bill has been enacted. In recent years, 653(a) reports have been issued at a substantially later date. A recent study by the U.S. Government Accountability Office (GAO) noted that 653(a) reports were provided to Congress between 110 and 260 days after the enactment of appropriations from FY 2015 to 2018.³ In addition, program funds are approved by State through operational plans, which describe how the funds align with country strategies, administration priorities, and congressional directives. According to BRM, USAID must then submit Congressional Notifications for funds not notified through the Congressional Budget Justification or requiring special notification, representing the bulk of its development assistance funding. Congressional Notifications expire 15 days after transmission, barring any holds placed by committees, which can further delay the availability of funds for obligation. Once clear of congressional requirements, OMB apportions funds, specifying the amount of funds that USAID may use according to a time period, program, project, or activity. USAID then takes action to implement programs, projects, or activities to make use of the appropriated funds, ensuring all pre-obligation requirements are met.

USAID typically implements activities through external organizations enlisted through a contract, grant, or cooperative agreement, depending on the type of work, the purpose of the funding, and the nature of the relationship between the Agency and the implementer. After the type of obligating instrument (assistance or contract) is determined and documented, USAID can obligate funds. This process can involve project design, solicitation, selection, and documentation of assistance award decisions in a negotiation memorandum.

USAID had approximately 12 and 11 months remaining of the 2-year period to obligate in FYs 2018 and 2019, respectively, before 2-year funds appropriated for those fiscal years expired. Notwithstanding these time constraints, OIG found that USAID has been successful in

³ GAO, "State Department Should Take Steps to Improve Timeliness of Required Budgetary Reporting," September 9, 2019.

ensuring that very little appropriated funding expires prior to obligation. OIG found that from FY 2010 to 2017, USAID received \$28.1 billion in appropriated funds that had statutory expiration between FYs 2016 and 2018. Of this amount, about \$5.7 million expired prior to obligation—approximately 0.02 percent over the 3-year period.⁴ In FY 2019, USAID reported that less than \$400,000 expired. However, historically much of the obligation activity occurred in the last quarter of the fiscal year, with 25-30 percent in September.

During FY 2019, USAID conducted two large-scale budget execution efforts simultaneously: finalizing 653(a) levels for FY 2019 funds for future obligation and finalizing obligation of FY 2018 funds before they expired. The following pages and figure 2 address these concurrent efforts and show how USAID personnel are simultaneously working on the budget process for four different fiscal years.

Figure 2. USAID’s Budget Activities During FY 2019

Executing the FY 2018 Budget	Executing the FY 2019 Budget	Justifying the FY 2020 Budget	Formulating the FY 2021 Budget
• Obligating funds expiring by September 30, 2019	• Participating in the Strategic Sector Reviews and technical earmark work group • Submitting 653(a) to Congress • Preparing operational plans and congressional notifications	• Defending the President’s budget • Testifying at Congressional hearings to justify budget	• Developing the FY 2021 budget request

Source: OIG analysis of BRM documents.

Differences on the Direction of Foreign Assistance Programming Complicated Budget Execution

USAID dedicates substantial time and resources to the budget formulation process. This work is based on USAID and State technical recommendations and Administration priorities and can aid in the execution of funds after appropriation.

The budget formulation process culminates with request levels for USAID funding that are consistent with the Administration’s priorities. These are, however, sometimes at odds with congressional priorities and levels. In recent years, these differences have been pronounced. The Administration’s budget request for State, Foreign Operations accounts for FY 2019, for example, ended up being approximately 22 percent less than the actual appropriation. Such discrepancies require budget staff to modify plans after an appropriation passes. For example, while the Administration did not request any funding for programming to address climate change, Congress applied directives for climate change programming in its appropriation,

⁴ USAID OIG, “USAID’s Use of Appropriated Funds Prior to Expiration and Cancellation,” July 27, 2020.

requiring Agency staff to develop plans to fund related activities after the formulation, justification, and appropriation processes had concluded.

In addition, Congress may apply earmarks, or conditions in the appropriation that direct the use of the funds provided. These spending requirements vary in specificity and affect agencies' ability to complete the 653(a) process in a timely fashion. GAO reported that such directives have become more detailed over time in the State, Foreign Operations appropriation, and noted that they are significant in volume, with 668 directives in FY 2017 and 657 in FY 2018. Complexities surrounding the authority to administer funding accounts further complicate the process of applying earmarks. For example, some earmarks apply globally and are met by multiple accounts administered by both State and USAID; in these cases, USAID and State must coordinate closely to ensure that earmark requirements are met.⁵

To ensure that Presidential- and Secretary-level strategy and policy directly inform final resource allocations, State/F developed a strategic sector review process with associated guidance. This guidance outlines three steps: (1) defining leadership initiatives and priorities, (2) holding sector-based roundtables, and (3) developing resulting technical budget recommendations. In FY 2019, roundtable sessions held in October and November generated priorities for countries based on trends and progress toward strategic goals. Meanwhile, November 2018 technical recommendations informed the FY 2019 653(a) process, as well as the budget formulation process for FY 2021. In FY 2018, the plenary and sector-specific roundtables extended from October 23 to November 16, with multiple sessions per day.

Despite this extensive process, USAID staff reported that over time it has become less clear how technical recommendations are considered in the budget allocation process in light of Administration priorities and earmarks. For example, staff said that to meet all directives with available funding, country earmarks must be overlaid with sector earmarks. Technical recommendations provided in many cases must be set aside to meet earmark requirements. USAID staff provided examples where country earmarks conflicted with the Agency's technical recommendations. Staff also noted instances where technical recommendations greatly exceeded countries' 653(a) allocations.

For planning, BRM reported it uses spreadsheets, PowerPoint, and the USAID budget system to track the previous year's 653(a) allocation, technical and regional bureau recommendations, and the current request.⁶ The 2019 strategic sector review and resulting technical recommendations for the FY 2020 653(a) allocations for the education sector provide an example of these differences.

BRM data show how some countries' requests match or differ from the technical recommendations. The previous year 653(a) levels for basic education in Jordan and Pakistan were more than double the levels recommended, whereas the 653(a) level for education in

⁵ For example, the Prevention of Failed States Through Public-Private Partnerships in section 7071(c) was a new \$10 million directive that requires State and USAID to submit a joint report to the committees on appropriations prior to the obligation of funds.

⁶ For FY 2021, BRM reported development of a new process that allows for automation of data into Tableau to expedite and streamline the review process.

Malawi was less than half the level recommended. Meanwhile, according to USAID staff, overall technical recommendations for Ethiopia were three times greater than 653(a) funding levels.

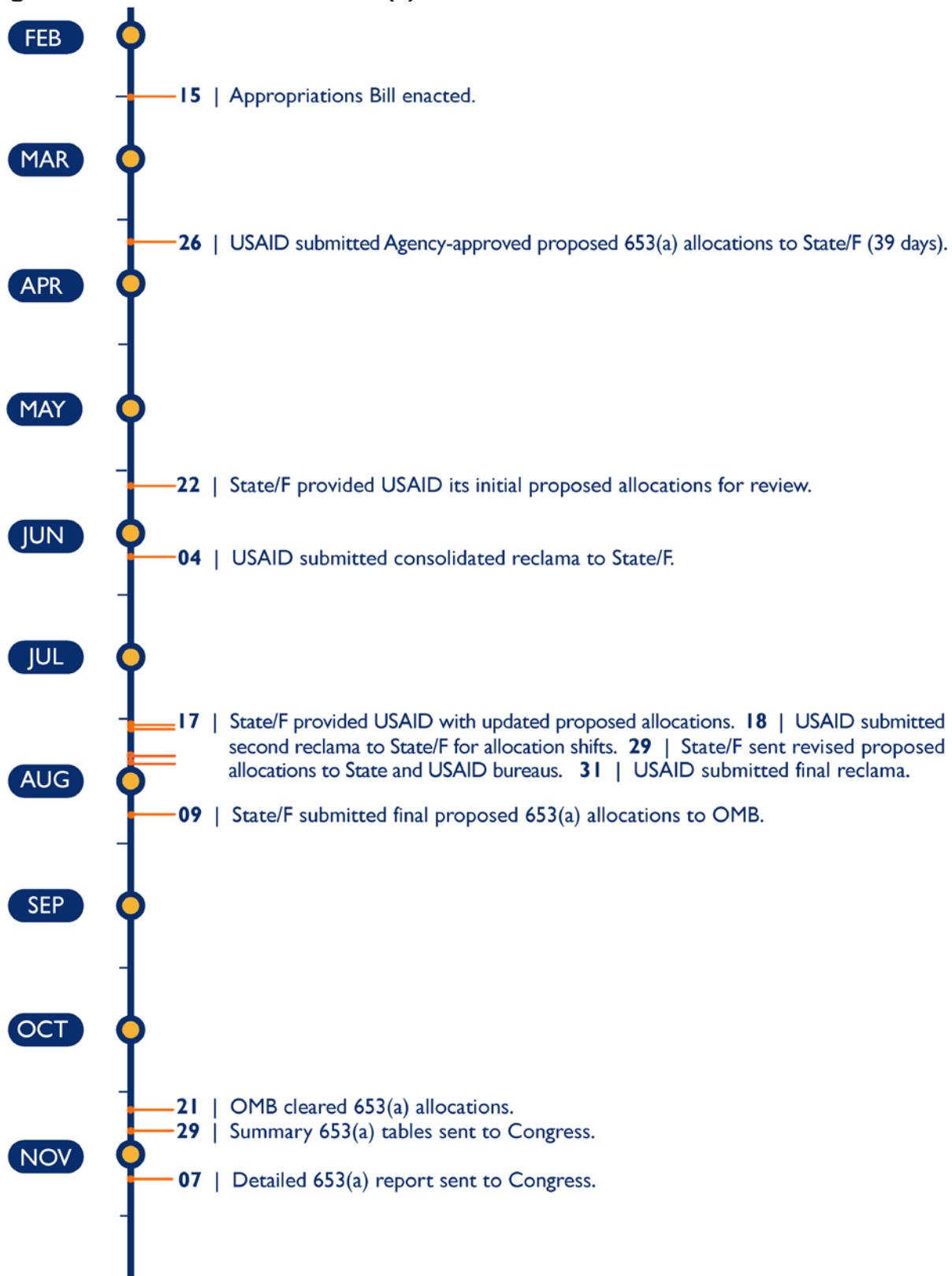
These constraints and competing priorities make it difficult for USAID to advance funding levels that reflect its assessment of what is most needed in a country. USAID's Journey to Self-Reliance aimed to combat some of these challenges and mitigate the need for future foreign assistance by helping countries solve their own development challenges through results-based interventions. USAID OIG issued an audit on USAID's self-reliance metrics and challenges USAID faces in implementing development activities as envisioned under this initiative. The audit found that missions in Ethiopia, Ukraine, and Zambia reported that 99, 68, and 93 percent, respectively, of obligations made in FY 2019 were done in line with various earmarks.⁷ These figures demonstrate how little discretion USAID has in how it obligates its funds.

USAID and State Reported Addressing Shortcomings in the FY 2019 653(a) Process

The interagency development of 653(a) reports for Congress on country- and sector-level allocations has played out over a number of months in recent years, rather than the maximum period of 30 days required by Congress. GAO examined the 653(a) process for State, Foreign Operations accounts during FYs 2015-18. As shown in figure 3, the FY 2019 653(a) process played out over a longer period than any other fiscal year since 2014, extending over 265 days.

⁷ USAID OIG, "USAID Updated Guidance to Address Inconsistent Use of Journey to Self-Reliance Metrics and Misalignment of Missions' Budgets," December 23, 2020.

Figure 3. Timeline of FY 2019 653(a) Process



Source: OIG analysis of BRM documentation.

External reviews beyond USAID’s control accounted for a significant portion of the FY 2019 653(a) process. For example, after State/F submitted the FY 2019 allocations, OMB clearance took 73 days; USAID staff said that OMB clearance averaged around a week or two in previous years. State/F took 53 days to provide BRM with initial allocations for review—reportedly due to the complexity of the allocations and the requirement to demonstrate that all earmarks and legislative requirements were met—and an additional 43 days to provide BRM with updated allocations after receiving its initial consolidated reclama. BRM had 16 days with the 653(a) report and 39 days when the report was with both State and USAID. In other words, the 653(a) report was not with USAID for 210 of the 265 days—or 79 percent—of the total time the process took to complete. Figure 4 shows the timeline for the FY 2019 report.

Figure 4. Number of Days the FY 2019 Report Was With USAID, State, and Other Stakeholders During the 653(a) Process



Source: OIG analysis of BRM documents.

According to State/F, much of the delay in the FY 2019 653(a) process was due to a change in coordination procedures between State/F and BRM. In prior years, State/F developed and sent draft allocations to BRM for comment. For FY 2019, BRM and State/F each developed its own separate proposed allocations that required significant time to reconcile. While State/F reported that it was expecting BRM priorities and a list of changes they could make, as done in previous years, State/F instead received a complete set of new proposed allocations for the Economic Support Fund and Development Assistance allocations.

According to BRM, it assumed the lead, consistent with the prior year in developing the initial draft allocations for core USAID funds such as Development Assistance and Global Health funding, based on USAID’s technical expertise. BRM staff also noted that the extended government shutdown in late 2018 and early 2019 limited staff availability to work on draft allocations.

For FY 2020, BRM developed initial 653(a) figures and took the lead for some funds and worked jointly with State/F to develop the final allocation. According to the Director of State/F, process reforms such as this one resulted in the submission of the FY 2020 653(a) report to Congress more than 70 days earlier than the FY 2019 report. In addition, BRM reported that it participated in an after-action review of the FY 2019 653(a) process jointly with State/F. USAID also reported participating in work groups across State/F and BRM to streamline the operational plan review process. Given the tight deadlines, competing interests in foreign assistance, and USAID’s lack of ownership in the budget process and reliance on State/F to make decision on core USAID funding, the Agency will need to continue to work closely with State while advocating for USAID’s equities.

USAID's Response to Reapportionment Highlighted the Need for Process Improvements

From August 3 to August 9, 2019, OMB froze USAID foreign assistance funds until OMB received an accounting of outstanding unobligated resources. According to USAID, at the time it had more than \$3 billion in unobligated balances of expiring FY 2018 funds. After the freeze was lifted, OMB ordered a reapportionment of these funds, in which USAID could only spend approximately 2 percent of remaining funds each day for the rest of the fiscal year.⁸

The usual obligation process is decentralized, with leadership restricted to monitoring high-level obligation figures; however, to ensure that the 2 percent threshold was not exceeded, BRM led a central process to coordinate weekly obligations across missions and bureaus. Without guidance to address this circumstance, USAID budget staff reviewed each individual action. USAID reported that it was able to obligate nearly all FY 2018 funds, with the exception of a few thousand dollars. However, the reapportionment process did significantly impact BRM and budget staff in regional and technical bureaus. These staff reported that the reapportionment process was very time-consuming, and in some instances may have resulted in less-than-ideal decision making.

USAID leadership can normally monitor topline budget execution, obligation, and pipeline financial information through its enterprise reporting dashboard, and portfolios are tracked at the bureau and office level. According to Agency budget staff, because the Agency's budget and financial systems do not track individual activity obligations or plans across the Agency and overseas missions, USAID manually balanced all Agency obligations in large spreadsheets to review and track every planned obligation. According to BRM, this measure was taken to avoid an Anti-Deficiency Act violation resulting from OMB's imposed restrictions on obligations.

Another complicating factor was that the Agency lacks a tool to track planned centrally managed obligations and associated transfers of funds from different bureaus and missions.⁹ These fund transfers are tracked by the individual bureau or by email and resulted in delays for decision making and obligations. In addition, technical bureau-based obligations and overseas mission-based obligations were being inadvertently double-counted in the spreadsheets, according to staff. As a result, the Chief of Staff, heads of bureaus, and the BRM Director met daily about obligations against individual awards.

USAID staff said that the daily review of spreadsheets to validate that individual decisions had been executed, along with the additional meetings, were extremely time-consuming steps that affected morale. The time pressures were reportedly felt across all bureaus and missions. Missions that traditionally obligate funds unilaterally were required to update the spreadsheet on any obligation they had made. Meanwhile, technical bureaus needing to obligate funds were held up because of the daily validation process.

According to staff, decisions were made based on which office or mission would have the best chance to obligate funds, or which mechanism would be easiest to obligate against, rather than

⁸ Some funds were not affected by the reapportionment, such as USAID's International Disaster Assistance and Complex Crises funds.

⁹ A centrally managed award is a mechanism that other bureaus and missions can buy into.

the best programmatic approach. In other instances, decisions were reportedly based on ensuring that political priorities were met, sometimes delaying obligations in support of other programs that were further developed and ready to be obligated against.

According to BRM, the 2 percent per day obligation limitation also resulted in the anomalous and inefficient practice of breaking out awards into subparts. For example, this was the case with the development agreement with the Government of Afghanistan—if it had been awarded at one time, as is the usual practice, it would have exceeded OMB’s restrictions on Agency obligations for a full week.

At the end of FY 2019, and after responding to the reappportionment, USAID/BRM conducted an internal after-action review to examine processes and identify challenges affecting timely obligations.¹⁰ BRM developed a draft report with conclusions and recommendations for improving USAID’s related processes and began taking some steps to address the identified issues:

- *Transparency of apportionments.* The FY 2019 process highlighted a lack of transparency in the apportionment process because BRM and USAID regional bureaus maintain responsibility for allocating funds, but State/F submitted all apportionments to OMB with the USAID Chief Financial Officer’s (CFO) clearance. To improve visibility for regional bureaus and BRM, and to increase the accuracy of budget data, BRM created and filled a position to assist with the review of apportionments.
- *Allotment holder roles and responsibilities.* BRM reported that the after-action review revealed the lack of a central list of official allotment holders, or heads of each bureau, and that these individuals were not aware of the responsibilities of the role. As a result, BRM reported that a list of USAID allotment holders has been created and is maintained by the CFO. Additionally, USAID policy was updated to state that “only obligating officials can sub-obligate funds.” BRM noted that in a future reappportionment, this step will help ensure accountability of allotments and prioritize approval of obligations at a top level rather than at the individual activity level.
- *Program-funded operational costs.* BRM found that many operating units were not adhering to the definition for program-funded operational costs, and that due to system limitations, enforcing correct accounting for costs was a manual process.¹¹ USAID’s budget planning system does not require program-funded operational costs to be itemized; therefore, it is difficult to track and cross-reference related costs. To address this issue, BRM stood up a new Integration Team to align budget and strategy and to better integrate the formulation and execution of program and operational expense funds for operational costs.

BRM has taken steps to address gaps highlighted in the after-action report, and the Acting Deputy Administrator issued guidance on the importance of obligating funds in a timely fashion to ensure efficient use of resources. Despite these notable actions, there are additional actions

¹⁰ BRM gathered feedback through an internal focus group and online survey of USAID bureaus and missions. After compiling challenge areas, BRM conducted separate sessions to discuss the challenges.

¹¹ Program-funded operational costs support positions that are not funded by operational expense funds, such as foreign service limited appointments, foreign service nationals, and personal services contractors, as well as associated administrative expenses, such as portions of ICASS bills at overseas missions and travel.

in the after-action report that should be considered, including standard operating procedures for central obligations and transfers, and improved Agency guidance and controls surrounding program-funded operational costs. Additionally, USAID should determine how to address limitations in Agency systems that led to manual tracking through spreadsheets.

CASE STUDY: AFGHANISTAN

2-Year Funds Mitigated the Impact of Delays in the Obligation Process for FY 2019 Funds

After OMB distributed appropriations to State and USAID, the two agencies allotted funds to the Office of Afghanistan and Pakistan Affairs (OAPA), which allows funds to the Afghanistan mission.¹² USAID/Afghanistan had a liaison with OAPA supporting the process and praised the coordination between the mission, State/F, and BRM. Budget staff noted that 2-year funds enabled USAID to obligate all FY 2019 funds 2 months before they expired. No programs were delayed, and once funds were obligated, an additional 4-5 year window began for the funds to be used. Given that funds had previously been allocated from FY 2018 and in prior years, there were sufficient funds to sustain programs during the obligation process in FY 2019.

Future Risks and Continuing Challenges

Budget execution is a fundamental process to ensure that aid is available and spent responsibly in support of foreign policy objectives and national security priorities. USAID expressed concern that an FY 2019 rescission would undermine the Agency's ability to support critical foreign policy and national security priorities, and the chairmen and ranking members of the Senate Committee on Foreign Relations and the House Committee on Foreign Affairs told OMB that cutting this programming would harm national security and undermine Congress' intentions for these funds.

While many of USAID's budget processes are outside of its control and influenced by competing priorities, wide stakeholder interest in foreign policy objectives will continue, as demonstrated by an abundance of directives and inquiries. USAID should ensure that BRM and budget staff have adequate resources to plan for future challenges and to address identified vulnerabilities.

BRM has taken steps to improve processes internally and with State to address weaknesses identified in the review of the FY 2019 653(a) process; however, we did not assess whether the improvements were appropriately codified or operationalized. USAID leadership must ensure that all corrective actions identified in the after-action report are evaluated, implemented as appropriate, and properly resourced.

¹² Bureaus and offices receiving allotments distribute the funds to lower levels by allowing the funds to specific organizational units within the bureau or office. See ADS 634.3.3.4

Appendix. USAID's Foreign Assistance Appropriations Accounts in the Fiscal Year 2018 Appropriations Act

This advisory focuses on select program funding accounts available for USAID's use. As indicated in the table below, several such accounts are available until expended. The scope of this advisory is limited to accounts provided in the form of 2-year funds: Assistance for Europe, Eurasia, and Central Asia; Democracy Fund; Development Assistance; Economic Support Fund; and Global Health Programs-USAID.

Appropriations account	Purpose	Period of availability for new obligations
Assistance for Europe, Eurasia, and Central Asia	For assistance to the independent states of the former Soviet Union in areas of urgent humanitarian needs, such as democracy and rule of law, and for assistance to eastern European countries that have taken substantive steps toward institutionalizing political democracy and economic pluralism.	2 years
Democracy Fund	For the promotion of democracy globally.	2 years
Development Assistance	For agriculture, rural development, and nutrition programs; American schools and hospitals abroad; and the Development Fund for Africa, among others.	2 years
Economic Support Fund	For the promotion of economic or political stability.	2 years
Global Health Programs	For USAID, generally used for assistance to build the capacity of public health institutions and organizations in developing countries, and family planning/reproductive health. For State, for the prevention, treatment, control, and research on HIV/AIDS.	2 years for funds apportioned to USAID; 5 years for funds apportioned to State
Complex Crises Fund	For supporting programs and activities to prevent or respond to emerging or unforeseen foreign challenges and complex crises overseas.	Until expended
International Disaster Assistance	For international disaster relief, rehabilitation, and reconstruction assistance.	Until expended
Transition Initiatives	For international disaster rehabilitation and reconstruction assistance to support transition to democracy and long-term development of countries in crisis.	Until expended

Source: GAO.