



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

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### Statement on USAID's Top Management Challenges and OIG's Continuing Oversight

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Testimony Before the U.S. House of Representatives Committee on Appropriations  
Subcommittee on State, Foreign Operations, and Related Programs  
"Critical Management Issues – U.S. Diplomatic and Development Agencies"  
April 14, 2021*

Madam Chairwoman, Ranking Member, and Members of the Subcommittee:

Thank you for the opportunity to discuss the major management challenges USAID faces in providing development and humanitarian assistance. The USAID Office of Inspector General is responsible for oversight of USAID—which had \$30 billion in budgetary resources for fiscal year 2020 and will be the focus of this testimony—as well as the Millennium Challenge Corporation, U.S. African Development Foundation, and Inter-American Foundation. We also continue to work with the Inspector General for the U.S. International Development Finance Corporation (DFC) to support the effective transition of oversight activities to his office. Across these agencies, and in concert with our oversight partners, we continue to promote effectiveness, efficiency, and accountability in U.S. foreign assistance programs and address the fraud, waste, and abuse that jeopardize their success.

The inherent complexity of coordinating and implementing foreign assistance—especially in areas affected by crisis and conflict—and the urgency to respond to the COVID-19 pandemic create major challenges for USAID. As the Agency exercises flexibility to adapt to different country contexts and ensure beneficiaries receive the assistance they desperately need, it must maintain strong safeguards and risk management practices to overcome these challenges.

Our independent oversight remains critical to helping agencies advance U.S. foreign assistance objectives during this challenging time. We remain committed to the health and safety of our employees—who I commend for their skill, dedication, and accomplishments over the past year—and of those we work with worldwide. Our focus on strategic, cross-cutting oversight enables us to drive actions that get at the root of significant problems affecting USAID's complex programs and operations.

Our report on top management challenges facing USAID in fiscal year 2021 demonstrates the impact of our work.<sup>1</sup> My statement today highlights the top management challenges—including the COVID-19 response and other key risk areas—that need USAID’s attention now and into the foreseeable future.

## **Oversight of USAID’s COVID-19 Response**

The COVID-19 pandemic poses a significant public health crisis. More than a year after its emergence—and in the wake of 130 million confirmed cases and 2.8 million deaths as of April 2021—COVID-19 has disrupted economies, strained democratic institutions, and deepened existing humanitarian crises. The pandemic also emerged in an international environment marked by increasing great power competition and disinformation campaigns by hostile actors.

USAID was tasked with responding to COVID-19 overseas, receiving additional appropriations beginning in March 2020 to do so. While the Agency leveraged its experience responding to other disease outbreaks such as Ebola and Zika, the rapid spread of COVID-19 worldwide exacerbated challenges USAID faces, especially in nonpermissive settings, and increased risks related to monitoring programs and global health supply chains. USAID had to respond to a multifaceted global emergency that forced almost all staff to shift to virtual work, while many overseas staff departed their posts. USAID began to program significant levels of COVID-19 funding as both implementers and beneficiaries also faced similar constraints caused by lockdowns, border closings, supply chain disruptions, and movement restrictions.

The pandemic required a whole-of-government effort. Our past work has identified interagency coordination, especially related to responding to public health emergencies, as a challenge for USAID.<sup>2</sup> Although our work has helped position USAID to better respond to COVID-19, the scope and scale of the pandemic and its impact have stretched the Agency, and competing interagency priorities remain a significant challenge area. For example:

- Our recent audit found that USAID’s ventilator donation program marked a significant departure from the Agency’s customary practices for responding to public health emergencies and its original pandemic plans.<sup>3</sup> While USAID initially focused on preventative measures to thwart the spread of COVID-19, the National Security Council directed the Agency to spend about half of its global health funding from the March 2020 supplemental funding on ventilators for the sickest patients. Directives from the National Security Council

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<sup>1</sup> USAID OIG, “Top Management Challenges Facing USAID in Fiscal Year 2021,” November 13, 2020. As required by statute, we annually identify and report the top challenges facing the agencies we oversee and the progress made in managing them. Visit [our website](#) to view all OIG reports referred to in this statement.

<sup>2</sup> USAID OIG, “Lessons From USAID’s Ebola Response Highlight the Need for a Public Health Emergency Policy Framework” (9-000-18-001-P), January 24, 2018.

<sup>3</sup> USAID OIG, “USAID Had Limited Control Over COVID-19 Ventilator Donations, Differing From Its Customary Response to Public Health Emergencies” (4-936-21-002-P), February 24, 2021.

specified the recipient countries, how many ventilators to send, and which models to use, which did not align with USAID’s initial response planning.

- This audit also found that USAID had limited control over ventilator donations and that monitoring mechanisms were not in place at the time of delivery. USAID had limited information about the location of ventilators within countries. The need to effectively track ventilators is underscored by the work of OIG special agents in recovering 191 stolen USAID-procured ventilators en route to El Salvador. We plan to follow up on actions the Agency is taking to locate ventilators and establish an asset management tracking platform.

Looking ahead, OIG remains committed to robust oversight of ongoing and new USAID pandemic response efforts and funding. Given U.S. commitments to support the international delivery of COVID-19 vaccines, we are focused on the risks of fraud facing this effort and have forged relationships with oversight counterparts at leading international organizations involved in vaccine delivery. We are conducting an evaluation of USAID’s efforts to develop and implement a COVID-19 vaccine strategy and an audit examining the ability of USAID’s overseas missions to monitor programs during the pandemic. We are also planning work on USAID’s efforts to address the second-order effects of COVID-19, identify new pandemic threats, and preserve gains in its HIV, malaria, and tuberculosis programs in the wake of COVID-19.<sup>4</sup>

## **Managing Risks Inherent to Humanitarian Assistance and Stabilization Activities Amid a Public Health Emergency of International Concern**

In fiscal year 2020, USAID spent approximately \$6.6 billion on humanitarian assistance activities. The United Nations estimated that 235 million people—1 in 33 people worldwide—would need humanitarian assistance and protection in 2021, the highest figure in decades.<sup>5</sup>

The inherent risks in crisis and conflict settings demand distinct approaches for planning, implementation, and monitoring that enable flexible but controlled responses. The flow of billions of dollars in aid and assistance also creates opportunities for fraud and diversion of U.S.-funded goods to the black market and terrorist or other armed groups. Further, sexual exploitation and abuse has been a longstanding problem in the foreign aid sector given the inherent power imbalance between aid workers and vulnerable beneficiaries. USAID has taken steps to understand, evaluate, and mitigate risks to help prevent fraud and other abuses before they occur. Nevertheless, our work continues to identify vulnerabilities that inhibit USAID assistance from having the intended impact or reaching those who need it most. For example:

- USAID guidance and practices do not always encourage transitioning from humanitarian assistance, as we found in Iraq. Though the number of internally displaced Iraqis steadily declined following the territorial defeat of ISIS in 2017, USAID has yet to ensure transition

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<sup>4</sup> USAID OIG, “COVID-19 Oversight Plan for Fiscal Years 2021-2022,” October 22, 2020.

<sup>5</sup> United Nations Office for the Coordination of Humanitarian Affairs, “Global Humanitarian Overview 2021,” December 10, 2020.

planning was incorporated into its annual planning process, conduct forums for coordinating humanitarian assistance with longer-term stabilization efforts, and ensure implementers submitted complete transition plans for their projects when required.<sup>6</sup>

- In crisis settings, USAID often works through public international organizations (PIOs), like the World Food Program, to reach beneficiaries. Yet doing so limits USAID’s control and visibility over U.S.-funded humanitarian assistance, and in turn, limits its ability to identify and mitigate risks.

Our recently completed and ongoing work highlights constraints on USAID awareness of threats to its programming. For example:

- Prior to making humanitarian assistance awards, USAID follows a range of due diligence measures to mitigate the risk of assistance inadvertently falling into hands of terrorist organizations. However, our work has identified vulnerabilities in USAID’s vetting practices and limitations in accessing and monitoring national security information.<sup>7</sup> Certain USAID-funded implementers have also concealed past ties to designated terrorist entities when bidding on USAID awards by falsifying a certification designed to reveal this information.
- USAID may contract third-party monitors—often hired locally, and who may have fewer access restrictions—to observe on-the-ground programming on USAID’s behalf. Our recent work in Iraq and Africa’s Lake Chad region illustrates how gaps in USAID management have limited the use and effectiveness of this monitoring technique.<sup>8</sup>

USAID has similarly faced challenges in managing acute risks related to fraud and criminal behavior in crisis settings. For example:

- Our multiyear investigation revealed bid rigging, contract steering, and invoicing schemes that compromised humanitarian assistance intended for displaced Syrians. As a result of our work, a major international, nongovernmental organization (NGO) paid \$6.9 million to settle a False Claims Act case related to grossly inflated invoices submitted to USAID, and an NGO procurement official who pled guilty to a related bribery charge was extradited.

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<sup>6</sup> USAID OIG, “Enhanced Guidance and Practices Would Improve USAID’s Transition Planning and Third-Party Monitoring in Iraq” (9-266-21-003-P), February 19, 2021.

<sup>7</sup> USAID OIG, “Limits in Vetting and Monitoring of National Security Information Pose Risks for USAID Humanitarian Assistance and Stabilization Programs,” Classified Advisory, January 15, 2020.

<sup>8</sup> USAID OIG, “Enhanced Guidance and Practices Would Improve USAID’s Transition Planning and Third-Party Monitoring in Iraq” (9-266-21-003-P), February 19, 2021; “USAID Has Gaps in Planning, Risk Mitigation, and Monitoring of Its Humanitarian Assistance in Africa’s Lake Chad Region” (4-000-21-001-P), October 15, 2020.

- A recent audit found that USAID lacked a framework for managing fraud risks in a humanitarian response. While USAID had taken initial actions to mitigate related risks in its Syria response, it did not sustain monitoring of cross-border activities susceptible to fraud.<sup>9</sup>
- While USAID has increased its focus on protecting beneficiaries from sexual exploitation and abuse, USAID still faces barriers in responding to allegations, preventing perpetrators from recirculating through the aid sector, and holding implementers accountable for failing to detect, report, or respond to allegations.

USAID continues to make progress toward understanding and mitigating risks in crisis settings. Its recent actions include establishing three new bureaus to promote coordination and improve field support, regularly assessing new risks and evaluating approaches for strategically managing them, issuing new Agency guidance to codify vetting policies and procedures, and providing training and guidance for staff and implementers on when and how to use third-party monitors.

We have audits underway that focus on activities in Venezuela and Yemen and USAID's efforts to prevent and respond to allegations of sexual exploitation and abuse. To help protect U.S. funding from malevolent actors, we will continue to prioritize addressing allegations of fraud and misconduct affecting humanitarian assistance, conduct fraud awareness briefings for USAID staff and implementers, and leverage new and existing relationships with oversight counterparts working in humanitarian assistance and stabilization settings.

## **Promoting Local Capacity and Improving Planning and Monitoring To Achieve Sustainability of U.S.-Funded Development**

USAID's development programs complement broader U.S. Government diplomacy and defense efforts to safeguard and advance U.S. national security and economic interests. USAID has recognized that the long-term success of international development depends on host country commitment and capacity to sustain gains. Yet our audits reveal ongoing challenges to achieving sustainability of U.S. foreign assistance programs, particularly when the imperative to achieve specific development outcomes competes with goals to develop local capacity. For example:

- USAID has recognized the importance of strengthening health systems to meeting overall health goals and improving countries' abilities to react to large-scale health emergencies. While USAID aimed to strengthen countries' overall health systems, programs instead prioritized gains tied to primary health goals—like achieving an AIDS-free generation—because of how those health goals were tracked and received designated funding.<sup>10</sup>

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<sup>9</sup> USAID OIG, "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), March 4, 2021.

<sup>10</sup> USAID OIG, "More Guidance and Tracking Would Bolster USAID's Health System Strengthening Efforts" (4-936-20-001-P), October 21, 2019.

- Some USAID missions in Africa operated parallel supply chains alongside host government systems and hired consultants to do the work of government officials. The Agency took this approach to ensure global health goals were met and that beneficiaries had uninterrupted access to critical medicines for malaria, tuberculosis, and HIV/AIDS, but in doing so, missed opportunities to build local capacity.<sup>11</sup>

USAID also continues to face challenges in providing effective oversight and conducting evaluations of the activities it implements. For example:

- USAID requires operating units to conduct at least one performance or impact evaluation during each Democracy, Human Rights, and Governance (DRG) project to help expand the Agency’s knowledge base. However, we found USAID focused primarily on less costly performance evaluations, with some missions in Europe and the Middle East lacking substantive impact evaluations.<sup>12</sup>
- Effective monitoring of large awards like USAID’s \$9.5 billion award to implement procurement and supply management activities for the Global Health Supply Chain Program is key to ensuring that health commodities such as medicines and supplies are delivered as planned. However, USAID could not determine the extent to which reported performance metrics of its largest supply chain project reflected actual improvements in performance.<sup>13</sup>
- USAID engages with the private sector to help achieve sustainability. In a recent audit, OIG identified six engagement approaches that USAID generally used in an effort to boost private sector investment in foreign development, but also found that insufficient Agency-wide guidance, data, and metrics limited USAID’s ability to conduct, manage, and oversee engagement with the private sector.<sup>14</sup>

Our recent and ongoing investigations further illuminate how gaps in effective oversight and monitoring of activities can result in shortfalls in USAID programs and fraud, waste, and abuse. For example:

- We found that a Ugandan implementer failed to report fraudulent activity on a social marketing health project and the implementer’s staff solicited bribes from USAID field staff to conceal the reporting of nonexistent activities. USAID terminated the implementer’s

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<sup>11</sup> USAID OIG, “USAID’S Global Health Supply Chain Would Benefit From More Rigorous Risk Management and Actions To Enhance Local Ownership” (4-936-20- 002-P), July 10, 2020.

<sup>12</sup> USAID OIG, “Additional Actions Are Needed To Improve USAID’s Democracy, Human Rights, and Governance Programs” (8-000-20-001-P), November 26, 2019.

<sup>13</sup> USAID OIG, “Award Planning and Oversight Weaknesses Impeded Performance of USAID’s Largest Global Health Supply Chain Project” (9-000-21-004-P), March 25, 2021.

<sup>14</sup> USAID OIG, “Improved Guidance, Data, and Metrics Would Help Optimize USAID’s Private Sector Engagement” (5-000-21-001-P), December 9, 2020.

cooperative agreement based on an OIG referral and issued a \$4.9 million dollar bill of collection in April 2020.

- Another investigation similarly uncovered systemic mismanagement, inadequate internal controls, and insufficient financial accounting by a U.S.-based university, which affected a development project in Honduras. As a result of our investigation, USAID issued a \$4.4 million bill of collection to the university in July 2020.

Despite these issues, USAID continues to take steps to improve sustainability, increase local capacity, and enhance oversight of its activities. For example, in response to our related audit recommendations, USAID revised its vision for strengthening health systems, outlining how countries can increase the capacity of their local health systems and shift the focus of investments from specific functions and disease areas to integrated approaches for strengthening health systems. USAID also updated country strategies to increase emphasis on sustainability and self-reliance and increased awards to local organizations in recipient countries. The Agency is still working to use data to better manage its engagement with the private sector.

We have numerous audits underway that further our oversight in the areas of program sustainability and monitoring activities. This includes audits that will assess how USAID is addressing risks associated with direction to increase President's Emergency Plan for AIDS Relief (PEPFAR) funding to local organizations in Africa, assess how USAID missions are using third-party monitoring data to oversee programs in Asia, and determine the capacity of USAID missions to monitor activities under COVID-19-related restrictions.

## **Reconciling Priorities With External Stakeholders To Efficiently and Effectively Advance U.S. Foreign Assistance Objectives**

U.S. foreign assistance involves multiple Government agencies, donors, and local actors—each having its own priorities and strategies for advancing shared interests. Achieving development goals around the world often goes beyond unilateral efforts by USAID, depending on multilateral efforts where USAID may be the lead agency, a key partner organization, or a significant financial backer of responses. To further U.S. foreign policy and national security objectives, USAID must exercise its role and responsibility as the premier development agency by effectively navigating the divergent priorities and functions of multiple stakeholders to achieve complementary but distinct goals. Doing so is critical to enabling USAID to respond quickly to changing priorities even when decisions extend beyond its immediate control and authority.

Our work has examined USAID adaptations to external factors influencing its operations and work to coordinate with other agencies and international organizations to advance development objectives. USAID has frequently had to make strategic adjustments in response to policy developments outside of its control. For example:

- Decisions made outside of USAID have affected the Agency’s staffing and impacted its ability to monitor programs and ensure their sustainability. Past quarterly reporting on Iraq has highlighted the effects of posture adjustments and deteriorating security conditions on staff levels in Iraq, bringing USAID expatriate staff levels down by more than 75 percent as USAID’s programs in the country grew. In Afghanistan, we found that while USAID made staffing cuts per State Department direction, it did not fully assess the risks that corresponding programming cuts could have on the sustainability of its investments, or properly prepare staff or stakeholders for risks associated with these staff reductions.<sup>15</sup>
- A recent OIG memo on lessons from the fiscal year 2019 budget process highlighted interagency constraints on budget execution, describing how outside factors—such as external reviews and differing opinions on the direction of foreign assistance programming— affect USAID’s ability to obligate funds.<sup>16</sup>

Our work also addresses challenges USAID has encountered in coordinating with others to promote effective programming:

- Effective coordination between USAID and the State Department can help maximize resources and outputs and avoid redundancies in achieving U.S. foreign policy goals around DRG programs. Our audit found that this coordination primarily occurs in the field, but that not all missions had established or maintained DRG work groups—and therefore, the agencies may miss opportunities for strengthening DRG coordination in the field.<sup>17</sup>
- In some cases, legal requirements prevent USAID from supporting beneficiaries who would otherwise fit the profile of a targeted population. A recent audit found that this was the case with USAID’s crime and violence prevention program in El Salvador, where U.S. and local laws prevented USAID from working with individuals at the highest risk of engaging in criminal and violent activity, including active gang members and chronic offenders associated with MS-13. While the Treasury Department granted USAID a 2-year license to include gang members as program beneficiaries, the authorization took about 2 years, delaying programs for the highest risk group.<sup>18</sup>

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<sup>15</sup> USAID OIG, “USAID Needs To Implement a Comprehensive Risk Management Process and Improve Communication As It Reduces Staff and Programs in Afghanistan” (8-306-21-002-P), March 19, 2021.

<sup>16</sup> USAID OIG, “Lessons From USAID’s FY 2019 Budget Process Highlight Interagency Constraints and Areas That Require Continued Attention,” Memorandum, March 2, 2021.

<sup>17</sup> USAID OIG, “Additional Actions Are Needed To Improve USAID’s Democracy, Human Rights, and Governance Programs” (8-000-20-001-P), November 26, 2019.

<sup>18</sup> USAID OIG, “USAID/El Salvador’s Crime and Violence Prevention Programs Need to Focus More on High-Risk Individuals To Advance Security Goals” (9-598-21-001-P), November 30, 2020.



- USAID frequently relies on PIOs to implement key programs and activities. We reported in late 2018 that USAID’s insufficient oversight of PIOs put its programming at risk.<sup>19</sup> This work prompted USAID to include a standard award provision for PIO awards with a requirement to report fraud and misconduct allegations directly to OIG.

Maximizing partnerships with U.N. agencies and multilaterals and reconciling differences among Federal agencies are important to effectively and efficiently advance U.S. foreign assistance objectives. USAID continues to take steps to address challenges in doing so. For example, USAID now has a dedicated office to provide better oversight of PIOs.

To ensure USAID’s investments are safeguarded to the maximum extent possible, we coordinate extensively with oversight partners at the State Department and Defense OIGs on oversight of contingency operations. We also coordinate with the State Department, Department of Health and Human Services, and Peace Corps OIGs on oversight of international HIV/AIDS, malaria, and tuberculosis programs. Additionally, we worked with DFC OIG in an advisory role to assist in establishing that office as it builds internal capacity. We have established key relationships with counterpart oversight offices throughout the world—such as the European Anti-Fraud Office, the Integrity Vice Presidency of the World Bank Group, and Inspectors General of the World Food Program and the Global Fund—as well as equivalent units at UNICEF and Gavi, to ensure fraud and corruption risks are mitigated through joint investigations and information sharing.

## **Addressing Vulnerabilities and Implementing Needed Controls in Agency Core Management Functions**

To carry out its mission effectively and efficiently, USAID relies on a network of support functions for managing Agency awards, finances, information, and human capital. USAID has made progress in strengthening its controls over core management functions, but our recent audits and investigations show that gaps in USAID’s controls remain. These gaps are even more critical to address due to the additional operational challenges presented by the pandemic.

- *Award Management.* Our audit of USAID’s grant close-out process identified weaknesses in communication, procedures, award de-obligation, documentation, and employee training and certification—along with over \$178 million that USAID could de-obligate from expired awards and put to better use.<sup>20</sup> Our audit of USAID’s procurement and management of its \$9.5 billion award to implement procurement and supply management activities for its Global Health Supply Chain Program determined that weaknesses in planning and evaluation

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<sup>19</sup> USAID OIG, “Insufficient Oversight of Public International Organizations Puts U.S. Foreign Assistance Programs at Risk” (8-000-18-003-P), September 25, 2018.

<sup>20</sup> USAID OIG, “USAID Complied with the GONE Act but Still Has a High Risk of Delayed Grant Closeout” (0-000-20-002-C), March 31, 2020.

processes hindered USAID's ability to fully support key decisions made in the design and award of the contract.<sup>21</sup>

- *Financial Management.* USAID must comply with financial management requirements to ensure the Agency maximizes its resources. While our audit of USAID's financial statements for fiscal years 2020 and 2019 did not identify any material weaknesses in USAID internal control over financial reporting, we identified two significant deficiencies related to recording accrued expenses and account management.<sup>22</sup>
- *Information Management.* USAID depends on sound information systems for all facets of business. In the past year, the Agency's expanded use of telework to protect the health and safety of staff during the pandemic has increased risks to the Agency's information systems and calls for additional diligence. In June 2020, USAID's Chief Information Officer reported a 400 percent increase in cyberattacks on the Agency since the start of the pandemic. Our most recent audit of USAID's information security program identified needed improvements in risk management, configuration, and identity and access management; security training; information security continuous monitoring; and contingency planning.<sup>23</sup>
- *Human Capital Management.* USAID has faced challenges maintaining an adequately trained workforce at the staffing levels needed to accomplish its mission. In the last 10 years, about one-third of our performance audits identified staffing or training as a cause of or factor that contributed to reported shortcomings. While the Agency is making efforts to develop a strategic workforce plan to align its human capital with current and future goals, we have an ongoing audit that will look at USAID's human capital hiring mechanisms.

In addition, whistleblower retaliation against employees of USAID implementers who report fraud or misconduct in the performance of a USAID award remains a concern. Between 2018 and 2020, we recorded a 21 percent increase in whistleblower retaliation allegations received by OIG.

## **Concluding Observations About Continued Oversight**

We appreciate your abiding interest in our work and continuing support for our office's independent oversight mandate. We greatly value opportunities like this to share our observations and keep Congress fully informed with respect to oversight of development and humanitarian assistance programs and operations. We value your continued engagement as

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<sup>21</sup> USAID OIG, "Award Planning and Oversight Weaknesses Impeded Performance of USAID's Largest Global Health Supply Chain Project" (9-000-21-004-P), March 25, 2021.

<sup>22</sup> USAID OIG, "Audit of USAID's Financial Statements for Fiscal Years 2020 and 2019" (0-000-21-001-C), November 16, 2020.

<sup>23</sup> USAID OIG, "USAID Generally Implemented an Effective Information Security Program for Fiscal Year 2020 in Support of FISMA" (A-000-21-004-C), January 7, 2021.

essential to our mission, especially in light of the COVID-19 pandemic and the challenging, high-risk environments in which foreign assistance programs operate.

USAID OIG remains committed to maintaining the highest levels of accountability, adding value, and ensuring that USAID and the other foreign assistance entities we oversee prudently use every dollar they receive. Our fiscal year 2020 audit and investigative returns amounted to nearly four times the amount we receive to support our operations. In addition to these financial returns, our recommendations have triggered foundational changes in policy and programming around global health and humanitarian assistance, Agency procurements, and accountability over awards to PIOs.

We will continue to maximize our impact by taking a strategic approach to our work and leveraging key partnerships within the oversight community and with the agencies we oversee. This includes working closely with the State Department and DFC OIGs to coordinate our work around common oversight areas to further optimize our efforts.