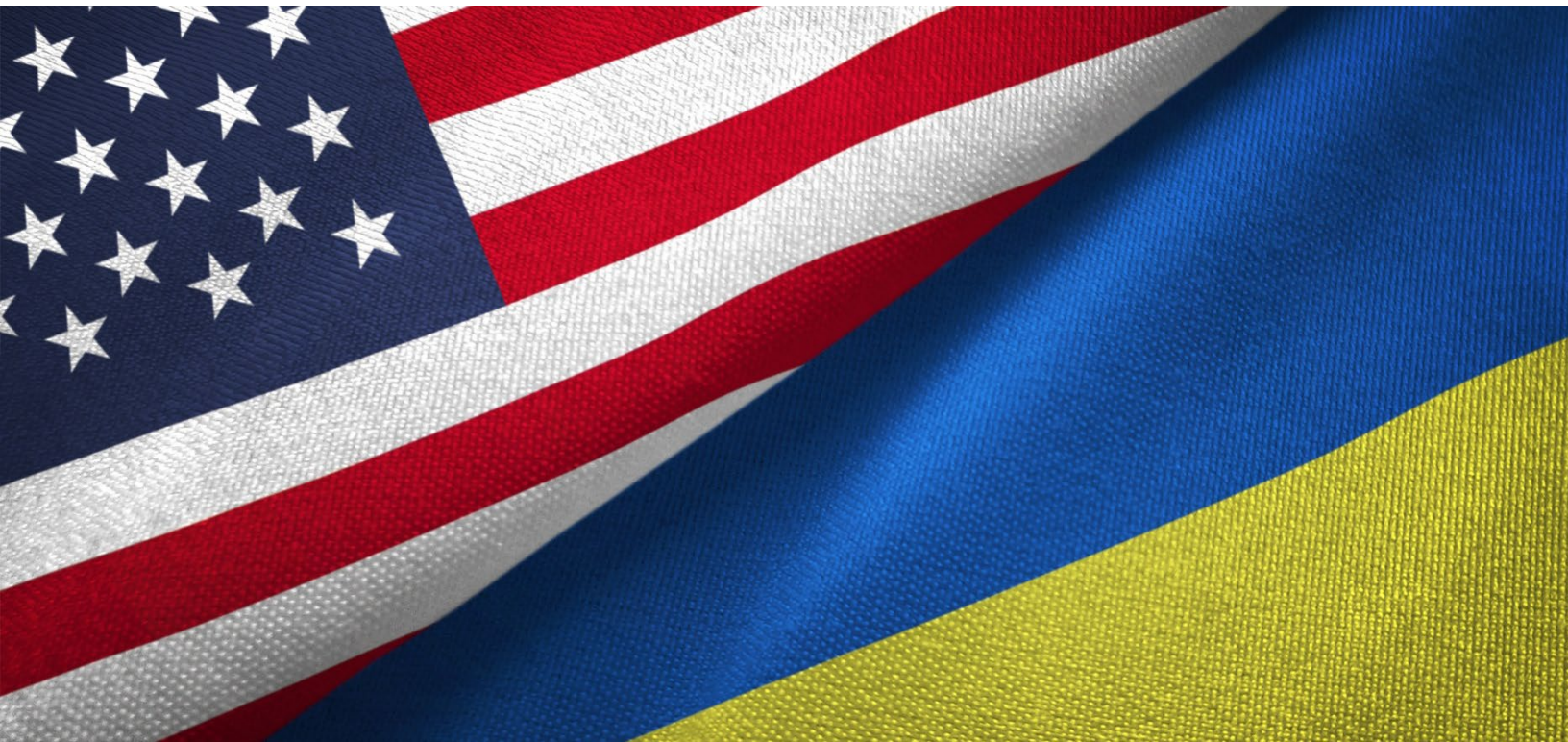




ADVISORY
NOTICE


Key Considerations to Inform USAID's Response in Ukraine



*USAID Office of Inspector General
July 22, 2022*



ADVISORY NOTICE

DATE: July 22, 2022
TO: Samantha Power, Administrator of USAID
FROM: Nicole L. Angarella, Acting Deputy Inspector General 
SUBJECT: Key Considerations to Inform USAID's Response in Ukraine

Purpose

The purpose of this advisory is to highlight key lessons from prior oversight work that are relevant to USAID's developing response in Ukraine. As the Office of Management and Budget (OMB) has stated, collaboration between an agency and its Office of Inspector General (OIG) on the front end of new or expanded programs "ensures expertise is brought to bear to ensure programs are constructed in ways that strike the balance right between efficient results, equitable access, and program integrity, including minimal waste, fraud, and abuse."¹

In preparing this advisory, we drew from prior investigations, audits, and other oversight channels and considered the Top Management Challenges we report for USAID annually.² USAID remains responsible for safeguarding entrusted funding from Congress and the American taxpayer, while also being timely and flexible in its efforts. Continued diligence will help ensure USAID uses its significant influx of funding for Ukraine effectively, efficiently, and with appropriate oversight. It is our hope that this advisory helps inform the Agency's efforts toward this end.

¹ OMB, "Promoting Accountability through Cooperation among Agencies and Inspectors General" (OMB M-22-04), December 3, 2021.

² Visit oig.usaid.gov for our publicly available reports and more information about USAID OIG.

Background

The Government of the Russian Federation's military invasion of Ukraine in February 2022 has left 15.7 million people in need of humanitarian assistance, according to the United Nations (U.N.) Office for the Coordination of Humanitarian Affairs (OCHA). As of July 13, 2022, OCHA reported that 5.8 million displaced people had fled Ukraine into neighboring countries and that an additional 6.3 million people were internally displaced within the country.³

USAID is playing a major role upholding the U.S. government's commitment to Ukraine and the Ukrainian people. Congress provided USAID \$8.5 billion in supplemental appropriations for direct budget support to the Government of Ukraine. In addition, by July 2022, USAID had committed over \$780 million in humanitarian assistance to help address the country's unfolding complex emergency. To implement its multifaceted response to the crisis in Ukraine, USAID is working with nongovernmental organizations (NGOs), U.N. agencies like the World Food Programme, and Public International Organizations (PIOs) such as the World Bank. USAID has partnered with these organizations to meet urgent humanitarian needs and help ensure the continuation of governmental functions, such as paying teachers and healthcare workers, as well as maintaining utilities in hospitals.

Key Considerations

The risks and challenges we share in this advisory for USAID's consideration relate to procurement, direct cash assistance programs, contributions to World Bank funding mechanisms, sexual exploitation and abuse (SEA), program monitoring, and stakeholder coordination.

Procurement

As seen with USAID responses in other complex environments, criminals are likely to seek opportunities to defraud Ukraine-related programs for personal gain.

Our work on USAID's response to the crisis in Syria illustrates risks to USAID-funded procurements. For example, our multiyear investigation led to the extradition and 40-month U.S. prison sentence for a senior NGO official who coordinated a collusive bidding scheme for the procurement of food and supplies intended for those displaced by the conflict in Syria. We found that the procurement official bribed officers from other NGOs to obtain confidential procurement information and provided this information to his preferred companies in exchange for kickbacks, ensuring that certain sub-awardees had an advantage over other bidders. These actions resulted in inflated costs to the U.S. government and delivery of substandard food and clothing kits to people in need.

A related investigation led to a \$6.9 million civil settlement with an international NGO whose staff participated in the collusion and kickback scheme referenced above.

³ OCHA, "Ukraine Situation Report" July 13, 2022.

Further, our audit of USAID's fraud risk management in its Syria response found that the same NGO's procurement systems and data were inadequate.⁴ The NGO's controls to prevent ineligible suppliers from participating in bids were not designed properly, thereby increasing risks of bad actors accessing USAID-funded awards. We also identified \$11.6 million in questioned costs due to the NGO's noncompliance with all applicable regulations, policies, and procedures designed to mitigate risk to USAID funds.

Sound procurement practices and safeguards for USAID-funded programs are critical in any high-stakes response. Further, entities are required to promptly report allegations of criminal activity affecting USAID awards, to both USAID and OIG, in accordance with their mandatory reporting obligations. To date, OIG has received 12 fraud and misconduct allegations related to the Ukraine response. Only one report was from a U.N. agency, which was forwarded to us by USAID, not reported to OIG directly. Emphasizing to USAID's implementers the need to promptly report fraud and misconduct allegations to both USAID and OIG helps ensure program integrity. Similarly, effective reporting pathways are key because they enable us to use our law enforcement authorities to conduct prompt investigations to hold bad actors accountable.

USAID also captures information regarding prospective award recipients at the application stage through pre-award certifications, assurances, representations, and other statements made by the applicant. Such information provides material information for USAID to consider in its award selection process. Through recent casework, we identified a vulnerability in the Agency's ability to safeguard its programming from influence by corrupt actors. Namely, USAID's pre-award certifications do not capture information detailing whether prospective award recipients have engaged with actors sanctioned by the U.S. government for corrupt activity. Similar to its existing pre-award certifications related to an NGO's prior support to terrorist organizations, we noted that adding an anti-corruption certification to the pre-award process could provide an enforcement mechanism in the form of criminal, civil, and administrative remedies for those awardees who conceal their ties to sanctioned corrupt actors.

Direct Cash Assistance Programs

USAID has planned to provide a portion of its humanitarian aid in the form of direct cash assistance to Ukrainians for the purchase of food, household items, shelter, safe drinking water, and other supplies through local markets. Cash assistance comes with inherent risks because it is highly fungible and difficult to track. This month, we transmitted a situational alert to USAID concerning cash-based programming to support Venezuelan migrants in Colombia. The alert described:

- Numerous allegations that community leaders, local government officials, or leaders of displaced-person camps demanded money or political support in exchange for

⁴ 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.

program enrollment, thus increasing the potential for coercion or SEA of beneficiaries.

- Allegations that beneficiaries received duplicative payments by providing false biodata during cash enrollment.
- Reports that individuals impersonated staff to charge prospective beneficiaries enrollment fees and obtain personally identifiable information.

USAID is likely to encounter similar risks with direct cash assistance programs in Ukraine. As we learned with USAID's response to the Venezuela regional crisis, strong risk mitigation controls can help safeguard programming. Clear communication with international NGOs, U.N. agencies, and local partners about their obligation to report allegations of fraud, exploitation, and diversion is also important, as is amplifying reporting mechanisms available for individual complainants to come forward.

Contributions to World Bank Funding Mechanisms

By mid-July, the U.S. government, through USAID and in coordination with the U.S. Department of the Treasury, had contributed \$4 billion to funding mechanisms established by the World Bank for Ukraine. USAID anticipates that the remaining \$4.5 billion will be provided by September. The World Bank establishes these funding mechanisms, like the Multi-Donor Trust Fund and Public Expenditures for Administrative Capacity Endurance Fund, to centrally channel resources from many donors and ensure that the Government of Ukraine can continue to operate and respond to critical needs.

These World Bank-administered funding mechanisms can present oversight challenges for USAID. We previously audited USAID's practices related to the World Bank's Afghanistan Reconstruction Trust Fund and found that although USAID's agreement with the World Bank stipulated that donors could review or evaluate activities financed through its trust fund, USAID had not formally conducted an evaluation of trust fund activities.⁵ In addition, USAID agreement officer representatives did not meet essential oversight responsibilities for the Agency's donation to the trust fund, such as monitoring progress and maintaining adequate files. These weaknesses were due in part to undefined roles and responsibilities and to inadequate coordination and communication between the agreement officer representatives and mission technical offices.

USAID addressed our II recommendations to improve the Agency's use and oversight of the Afghanistan Reconstruction Trust Fund. Corrective actions included developing policies and procedures to enhance verification and promote safeguards for certain types of disbursements and improving how USAID/Afghanistan tracked Afghanistan Reconstruction Trust Fund performance. Similar safeguards could help USAID strengthen coordination and oversight of its substantial contributions to World Bank funding mechanisms for Ukraine. The U.S. Department of State recently highlighted risks of corruption within Ukraine, stating, "While the government publicized several attempts to combat corruption, it remained a serious problem for citizens and

⁵ USAID OIG, [USAID Planning and Monitoring Gaps Weaken Accountability for Results Through the Afghanistan Reconstruction Trust Fund](#) (8-306-17-004-P), August 16, 2017.

businesses alike.”⁶ With funding provided directly to the Government of Ukrainian through the World Bank, consistent coordination with World Bank can help ensure program integrity and proper use of USAID funding for its intended purposes.

Sexual Exploitation and Abuse

SEA betrays the very people that USAID’s programs are designed to support. The U.N. estimates that women and children comprise more than 90 percent of the population fleeing Ukraine and experience elevated risk of SEA by aid workers. This danger also threatens families that have been separated by the conflict, particularly unaccompanied children, who are uniquely vulnerable to the risks of SEA and human trafficking. The estimated 6.3 million people internally displaced persons in urgent need of support and protection also remain vulnerable to SEA. In addition, a reported lack of oversight at border crossings to account for different organizations and volunteer groups working in the region could lead to unmonitored access for potential SEA perpetrators.

Ensuring that SEA perpetrators are held accountable remains a concern for OIG and USAID. Last year, Administrator Samantha Power stated, “For far too long... [p]erpetrators were able to go from organization to organization, often climbing the leadership ranks without accountability.” This rang true with an aid worker in Madagascar who reportedly used his position of power to sexually exploit a 15-year-old beneficiary. Our 2021 referral to USAID’s Compliance Division led to his government-wide debarment following reports that he had recirculated to another aid organization while under investigation by his previous NGO employer. With much of USAID’s Ukraine humanitarian assistance programming implemented through NGOs and U.N. agencies, USAID can emphasize the need for these organizations to: report SEA allegations, work to ensure that allegations involving staff are quickly addressed, and take swift measures to protect and care for survivors.

USAID has prioritized creating a robust framework for preventing SEA, working effectively with OIG on coordinated responses to SEA allegations. Our May 2021 audit found that USAID should implement additional controls to prevent SEA, and the Agency is working to address the eight remaining recommendations to clarify responsibilities, reporting requirements, tracking, and controls.⁷

In funding the Ukraine response, it is critical that USAID utilize all mechanisms in its toolkit to prevent and deter SEA. These include establishing safe and visible channels for survivors or witnesses to report incidents of SEA and, in collaboration with OIG, using all available remedies, including suspension and debarment, to prevent the recirculation of sexual predators in its Ukraine response and across the world.

Program Monitoring

Ongoing and systemic monitoring is essential to inform the design and implementation of USAID’s Ukraine response. Our oversight work calls attention to challenges USAID has experienced monitoring programs effectively, particularly in non-permissive conflict-

⁶ Department of State, “2021 Ukraine Human Rights Report” April 15, 2022.

⁷ USAID OIG, “[USAID Should Implement Additional Controls To Prevent and Respond To Sexual Exploitation and Abuse of Beneficiaries](#)” (9-000-21-06-P), May 12, 2021.

affected areas where humanitarian access to beneficiaries and activity sites remains limited.

Third-party monitors, for example, can help USAID mitigate access limitations if used and managed effectively. In Africa's Lake Chad region, we found that a lack of a formal planning process hindered third-party monitoring.⁸ USAID issued a third-party monitoring contract for just one of four countries in the region, approximately four years after identifying the need for this monitoring support. In Iraq, we found that USAID's management of its third-party monitor left some observations without timely follow-up or resolution.⁹ Weak tracking systems increased the risk that significant third-party monitor findings would be left unaddressed, particularly with frequent staff rotations.

Our oversight of USAID's response in Syria noted additional challenges for the Agency's monitoring of cross-border activities. USAID took steps to identify and address fraud risks but did not follow through on several key actions. For example, the Agency did not increase the frequency of site visits to warehouses storing donated goods as planned. USAID also did not sustain monitoring to ensure corrective actions were implemented on time and operating effectively.

Aided by our recommendations, USAID has taken steps to improve its use of third-party monitors in the Lake Chad region and Iraq and strengthen its fraud risk management for especially risky Syria cross-border activities. These best practices from prior experiences can inform USAID's tailored approach for monitoring its Ukraine response.

Stakeholder Coordination

Working in the interagency sphere has been a top management challenge for the Agency, particularly when decisions extend beyond USAID's immediate control and authority. This challenge relates to USAID's Ukraine response, which calls for extensive coordination to underpin USAID's strategic and tactical decisions and risk management.

Challenges may arise for USAID when objectives and approaches diverge among stakeholders. For example, our recent audit of USAID's response to the Venezuela regional crisis found that in 2019, USAID's Office of the Administrator, with direction from the National Security Council and U.S. Department of State, directed USAID to pre-position humanitarian commodities along the Venezuela–Colombia border—a step that increased operational risks and contributed to the destruction of USAID commodities such as ready-to-use supplemental food.¹⁰ As USAID operates its Ukraine response alongside other U.S. government agencies, ensuring clear communication,

⁸ USAID OIG, [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.

⁹ 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.

¹⁰ USAID OIG, [Enhanced Processes and Implementer Requirements Are Needed To Address Challenges and Fraud Risks in USAID's Venezuela Response](#) (9-000-21-005-P), April 16, 2021.

processes for documenting directives, and joint strategic plans may help mitigate barriers to a coordinated response, as well as prevent fraud, waste, and abuse.

Concluding Observations

USAID OIG is fully dedicated to providing comprehensive oversight over USAID's Ukraine response. The intent of our audit, evaluation, and investigative work is to ensure that USAID's vital programming for people affected by the conflict in Ukraine is executed in a manner that is effective, efficient, and transparent, and that those who seek to defraud or abuse USAID's programs are held accountable. We will continue to engage with USAID officials in Washington, D.C.; Poland; and Ukraine to inform our oversight efforts.

We appreciate the emphasis by USAID leadership on cooperation with OIG's oversight efforts over Ukraine and other responses, and the right and obligation of USAID employees to report alleged misconduct affecting USAID programming and operations, promptly and directly to OIG.

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