



Office of Inspector General

MEMORANDUM

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CC: [REDACTED]

FROM: [REDACTED]

SUBJ: Fraud Alert Pertaining to Conversion of U.S. Dollars to Local Currencies in Conjunction with Complex Emergencies

USAID-OIG is alerting BHA to a vulnerability in its established process for converting U.S. Dollars (USD) into local currencies during the implementation of Humanitarian Assistance awards for designated Complex Emergencies.¹

Background

In crisis areas, such as Syria and Yemen, several different exchange rates exist, to include unofficial or black market exchange rates. Also, many countries designated by USAID as Complex Emergencies² have robust informal currency exchange systems, most often referred to

¹ A “Complex Emergency” is defined as long-term man-made disasters that threaten the lives and livelihoods of populations such as civil strife, civil war, acts of terrorism, international wars, and industrial accidents.

https://www.usaid.gov/sites/default/files/documents/1880/Emergencies_Guide.pdf

² USAID Complex Emergency Country Fact Sheets, available at <https://usunrome.usmission.gov/mission/mission-usun/usaid/>.

as a “hawala,”³ which means “change” or “transform” in Arabic.⁴ The use of unofficial exchange rates, which can vary as much as two to six times more than the official rates,⁵ and unregulated currency exchanges systems, such as hawalas, have caused a substantial disparity in rates used by USAID implementers which can result in 1) a lack of a “paper trail,” as the transactions are unlikely to be identifiable under USAID award spending; 2) inflated or deflated invoices; and 3) inhibited USAID and OIG oversight.

Multiple OIG investigations involving the use of these unofficial exchange rates and unregulated currency exchange systems have revealed the following vulnerabilities:

- 1) USAID implementers’ use of unregulated or unlicensed Money Transfer Agents (MTA) may result in the absence of records necessary to detail currency exchanges and thus creates challenges in determining the actual currency exchange rate utilized. This leaves both the implementer and USAID vulnerable to fraud.
- 2) USAID implementers operating in countries that are designated as Complex Emergencies (e.g. Syria) AND do not have a USAID Mission Director, who is typically responsible for providing the implementer with currency conversion protocols.

Based upon these vulnerabilities, OIG’s perceived risks to USAID funding are outlined below:

Insufficient Supporting Documentation from Unregulated or Unlicensed MTAs

The use of unlicensed or unregulated MTAs generally does not yield any documentation denoting the amount of currency exchanged, the currency exchange rate recognized during the transaction, and any applicable fees which may have been paid. This lack of supporting documentation may violate grant and contract requirements for USAID awards, may affect allowability of costs, and increases the possibility of fraud.⁶

Federal regulations that USAID applies to U.S.-based NGOs, require the financial management system of each Federal awardee to provide the following:

Records that identify adequately the source and application of funds for federally funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.⁷

³ Use of the term Hawala is synonymous with MTA or Informal Money Transfer Agent (IMTA). However, not all Hawalas are unlicensed or unregulated.

⁴ United States Department of the Treasury, The Hawala Alternative Remittance System and its Role in Money Laundering, available at <https://www.treasury.gov/resource-center/terrorist-illicit-finance/documents/fincen-hawala-rpt.pdf>.

⁵ Comparison of the Historical Currency Rates since 2015 from www.xe.com (Official) vs. sp-today.com (Unofficial).

⁶ 2 CFR § 200.403(g).

⁷ 2 CFR § 200.302(b)(3).

Further, 2 CFR § 200.334 requires the retention of “financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award” for a period of three years.

For non U.S.-based NGOs, ADS 303, Mandatory Reference, M2, requires grant recipients to “maintain financial records, supporting documents, statistical records and all other records, to support performance of, and charges to, this award.”

The lack of documentation from the use of unlicensed or unregulated MTA’s contravenes regulations intended to protect Federal awards and creates an absence of USAID records necessary to detail an implementer’s use of currency exchange rates.

Recently, OIG received an anonymous complaint that alleged a USAID implementer, for projects in Syria, withdrew USAID funds from bank accounts in Lebanon and physically carried the cash across the border into Syria. The cash was then converted to Syrian pounds using an unofficial money exchange system. The complainant alleged that during this currency exchange, the implementer’s employee embezzled a portion of the funds for personal gain. OIG was able to substantiate that USAID funds were transported across the Lebanon-Syria border; however, the implementer was unable to provide any original source documentation regarding the currency exchange transactions. Because of the lack of documentation and volatile nature of unofficial exchange rates, OIG was unable to confirm whether any embezzlement of USAID funds occurred.

Thus, a lack of documentation poses a risk of increased fraud, such as embezzlement, diversion of funds, and fraudulent invoicing, may violate Standards for Internal Control in the Federal Government, and hinders USAID and OIG’s oversight of USAID programming, which is especially critical to prevent significant risk from those who seek to exploit vulnerabilities during the ongoing global pandemic.^{8 9}

Existing Policies for U.S.-Based NGOs are not Triggered During Complex Emergencies

Regions designated by USAID as Complex Emergencies are even more susceptible to other risks, in addition to lack of documentation, related to currency exchanges. Many of these regions lack formal banking infrastructure, which increases the need for informal exchange systems. It also requires additional USAID oversight, as these environments already create increased vulnerabilities for additional fraud. In addition to these difficulties posed by Complex Emergencies, U.S.-based implementers do not have necessary USAID oversight or guidance related to currency exchanges required by USAID’s own policies.

According to USAID’s Standard Provisions for U.S.-based NGOs, a Chief of Party “**must** consult with the Mission Director who must provide, in writing, the procedure the recipient and

⁸ Standards for Internal Control in the Federal Government is also referred to as the “Green Book” as published by the Government Accountability Office

⁹ Office of Inspector General, Top Management Challenges Facing USAID in Fiscal Year 2021, available at <https://oig.usaid.gov/sites/default/files/2020-11/TOP%20MANAGEMENT%20CHALLENGES%20Facing%20USAID%20in%20Fiscal%20Year%202021.pdf>.

its employees must follow in the conversion of United States dollars to local currency (emphasis added).”¹⁰ OIG is unaware of a parallel provision for non-U.S. based implementers.

While this policy requires U.S.-based implementers to consult with USAID for their currency exchange procedures, some awards are implemented in countries declared Complex Emergencies and lacking a formal, designated Mission Director.¹¹ This creates a void in providing the required consultation with U.S.-based program implementers for these areas. As such, USAID implementers utilize varying methods for the conversion of currency, which as noted above, lacks necessary documentation, hinders OIG oversight, and exposes USAID to increased risks of financial fraud, such as embezzlement, diversion of funds, and fraudulent invoicing.

Conclusion

USAID-OIG is available to address any questions you may have regarding the vulnerabilities noted in this memorandum. This matter is being referred to your office for review and to take any action it deems necessary or appropriate. If you have questions or require additional information, please contact [REDACTED]

¹⁰ USAID Automated Directive System (ADS) 303 Mandatory Reference for U.S. based Non-governmental Organizations, M15.

¹¹ Currently, USAID has designated the following as Complex Emergencies: Afghanistan, Yemen, Central African Republic, Democratic Republic of Congo, Ethiopia, Horn of Africa, Iraq, Lake Chad Basin, Libya, Mali, Pakistan, Philippines, South Sudan, Sudan, Syria, Ukraine, and Yemen.