

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

Public International Organizations: USAID Did Not Consistently Perform Expected Due Diligence

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August 22, 2024

Evaluation



Office of Audits, Inspections, and Evaluations



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

DATE: August 22, 2024

TO: Christophe Tocco, Acting Assistant to the Administrator, USAID Bureau for Planning, Learning, and Resource Management

FROM: Paul K. Martin, Inspector General

SUBJECT: Public International Organizations: USAID Did Not Consistently Perform Expected Due Diligence

This memorandum transmits the final report on our evaluation of USAID's due diligence over funding to public international organizations (PIOs). Our objective was to determine the extent USAID performed expected due diligence over funding to selected PIOs. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in Appendix C.

The report contains three recommendations to improve USAID's oversight of PIOs. After reviewing information you provided in response to the draft report, we consider Recommendations 1 and 2 open and unresolved and Recommendation 3 resolved but open pending completion of planned activities.

For Recommendations 1 and 2, please provide additional documentation and revised management decisions, if necessary, within 30 days of issuance of this report.

For Recommendation 3, please provide evidence of final action to the Audit Performance and Compliance Division.

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

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Report in Brief

Why We Did This Evaluation

USAID regularly partners with multilateral organizations, including United Nations agencies such as the World Food Programme and UNICEF, and the World Bank. These organizations, also known as public international organizations (PIOs), deliver development and humanitarian assistance in complex, emergency situations. In the past year, USAID has relied heavily on PIOs to implement its humanitarian assistance programming for its pressing responses in Gaza and Ukraine.

While USAID's obligations, disbursements, and in-kind contributions to PIOs increased 282 percent from \$5.6 billion in fiscal year (FY) 2019 to \$21.4 billion in FY 2022, PIOs are not subject to the same rigorous oversight regulations as contractors, grantees, and other nongovernmental organizations. This limits USAID's insight into how PIOs manage U.S.-provided foreign assistance funds. Nevertheless, USAID's policies on managing PIO agreements include a variety of due diligence mechanisms to help ensure proper oversight of U.S. funds.

Our evaluation objective was to determine the extent USAID performed expected due diligence over funding to selected PIOs. We focused on the 67 PIOs that received \$45.9 billion total in USAID funding between FYs 2019 and 2022.

What We Recommend

We made three recommendations to USAID's Bureau for Planning, Learning, and Resource Management/Office of Development Cooperation to strengthen USAID's oversight of PIOs. The Agency agreed with two recommendations and partially agreed with one recommendation.

What We Found

USAID did not consistently use pre-and post-award due diligence mechanisms to ensure effective oversight of PIOs. Before making an award, USAID must perform an organizational capacity review (OCR) of the PIO to ensure it is capable of adequately safeguarding Agency resources. OCRs should be updated at least every 5 years. However, USAID did not conduct OCRs in line with Agency guidelines for more than 70 percent of PIOs. Rather than using OCRs to understand that challenges that PIOs faced when administering USAID funds, Agency staff relied more on Multilateral Organisation Performance Assessment Network assessments or other types of risk assessments and management plans.

Additionally, when an OCR included recommendations for corrective action, USAID did not have a formal follow-up mechanism to ensure that the Agency addressed the recommendations.

After making an award to a PIO, USAID can apply due diligence oversight mechanisms that vary by agreement type. A USAID official said most PIO agreements are made through cost-type awards, and the Agency's policy for these awards allows for spot checks related to USAID-funded activities. However, for the cost-type awards we reviewed, USAID officials generally did not perform spot checks. Moreover, USAID had limited guidance for conducting spot checks and did not track their occurrence or results.

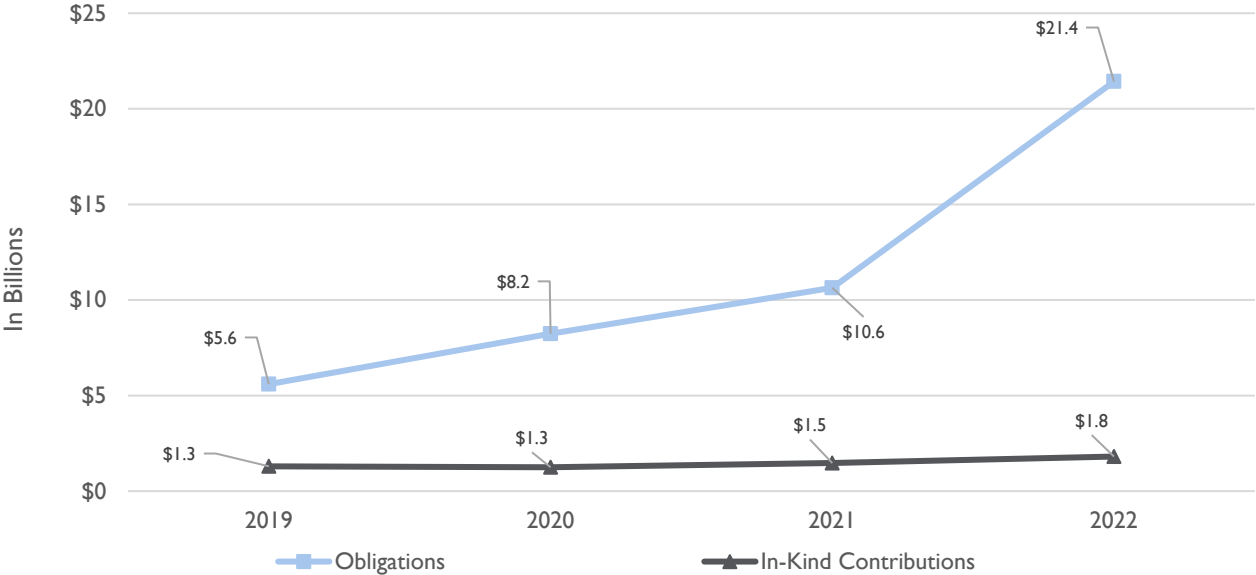
USAID has limited insight into how PIOs manage billions of dollars in U.S. funding, so the use of pre-and post-award due diligence mechanisms can help USAID officials ensure that a PIO is capable of safeguarding Federal funding. When USAID does not use these mechanisms, Agency officials lack access to information on potential vulnerabilities in a PIO's policy and organizational framework and project operations and management that might lead to waste or misuse of critical U.S. aid funds.

Introduction

USAID partners with multilateral organizations, including the World Bank and United Nations (UN) agencies such as the World Food Programme and UNICEF. Called PIOs by USAID, these organizations are often well positioned to deliver development and humanitarian assistance as a result of their access to conflict zones, such as Ukraine and Gaza. In addition, PIOs often have established networks that enable them to expedite delivery of U.S.-government-funded aid in complex emergency situations. Because PIOs are not generally subject to U.S. laws or business standards, clear oversight guidance is essential to safeguarding USAID’s foreign assistance funds and preventing fraud, waste, and abuse, including diversion of funds and goods or the inadvertent funding of groups supporting terrorism.

USAID’s obligations, disbursements, and in-kind contributions to PIOs have dramatically increased in recent years. As shown in Figure 1, in FY 2022 USAID obligated \$21.4 billion to PIOs, up from \$5.6 billion just 3 years earlier (a 282-percent increase).¹ In addition, USAID provides in-kind contributions of food, supplies, and services to PIOs of more than \$1 billion per year.

Figure 1. USAID’s Obligations and In-Kind Contributions to PIOs (FY 2019–2022)



Source: OIG-generated graph.

Despite this significant funding, PIOs are not subject to the same rules for internal controls, records retention, and access for audits and investigations that apply to nongovernmental organizations and contractors. This limitation restricts USAID’s insight into how PIOs use foreign assistance funds. Instead, USAID relies on PIO-specific policies to ensure proper

¹ A substantial portion of the funding increase to PIOs is attributed to the \$8.5 billion in direct budget support USAID provided to the government of Ukraine through the World Bank in FY 2022.

oversight of U.S. funds; these policies include a variety of due diligence mechanisms that vary by agreement type.

Our evaluation objective was to determine the extent USAID performed expected due diligence over funding to selected PIOs. To answer the objective, we assessed (1) USAID's compliance with Agency policy timelines to conduct pre-award due diligence; (2) the extent to which this pre-award due diligence incorporated required analysis; and (3) USAID's performance of spot checks as a form of post-award due diligence for cost-type awards. We issued an information brief in July 2023 as a precursor to this evaluation that described the due diligence tools available to the Agency when working with PIOs.²

The evaluation focused on the due diligence that USAID performed for PIOs managing USAID funding between FYs 2019 and 2022. We reviewed Agency policy and documentation for the 67 PIOs that obligated or disbursed USAID funds during these 4 years to determine whether USAID conducted required pre-award due diligence in accordance with established timelines. In addition, we conducted interviews with officials from multiple USAID offices including the Bureau for Planning, Learning, and Resource Management/Office of Development Cooperation, Bureau for Humanitarian Assistance, Bureau for Global Health, and Office of the Chief Financial Officer. We used a judgmental sampling methodology to select 20 of the 67 PIOs for further testing to determine whether USAID conducted the analysis required for pre-award due diligence and discretionary post-award due diligence. We conducted our work from March 2023 through May 2024 in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

Background

USAID's Bureau for Planning, Learning, and Resource Management/Office of Development Cooperation maintains the Agency's corporate relationships with PIOs and provides guidance and support to Operating Units that work with these partners. Part of this responsibility includes assigning PIOs to two categories based on funding level and prior Agency experience. The designation informs USAID's approach to reviewing PIO capacity—which is the PIO's ability to effectively manage and oversee expenditure of Federal funds—when determining whether to enter into an agreement. At least every 5 years, USAID must review its PIO determinations and reassess whether to recategorize the PIOs. The two categories include the following:

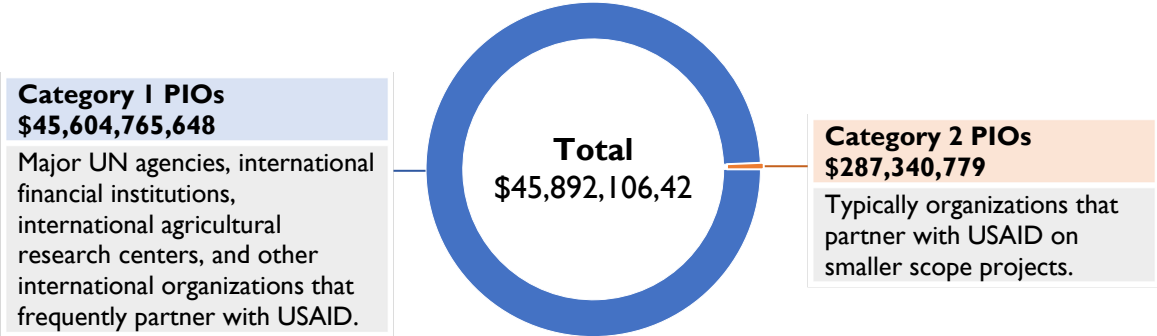
- *Category 1 PIOs*: major UN agencies, international financial institutions, international agricultural research centers, and other international organizations that frequently partner with USAID such as the World Bank, World Food Programme, UNICEF, and International Organization for Migration.

² USAID OIG, [Information Brief: USAID Due Diligence Practices for Working with United Nations Agencies and Other Public International Organizations](#), July 17, 2023.

- *Category 2 PIOs*: typically organizations that partner with USAID less frequently and on smaller scope projects such as the Pan American Health Organization, International Union for the Conservation of Nature, and UN Industrial Development Organization.

From FY 2019–2022, nearly all of USAID’s PIO funding went to Category 1 PIOs. Figure 2 illustrates USAID’s total funding to PIOs by category during this time.

Figure 2. USAID’s Total PIO Obligations (FY 2019–2022)



Source: Data obtained from USAID’s Bureau for Planning, Learning, and Resource Management/Office of Development Cooperation in March 2023 (unaudited).

USAID Due Diligence Mechanisms

Because PIOs have an intergovernmental composition, they are not generally subject to U.S. laws or business standards.³ USAID’s Automated Directives System (ADS) Chapter 308 outlines procurement, monitoring, and reporting policies and procedures, including pre- and post-award due diligence mechanisms, for agreements with PIOs.

Pre-Award Due Diligence Mechanisms

According to ADS 308, before making an award to a PIO, regardless of category or engagement type, USAID must perform an organizational capacity review (OCR). OCRs are desk reviews of a PIO’s publicly available materials on its policy and organizational framework as well as its operational and managerial capacity. The goal of the OCRs is to check these materials for information that may highlight concerns or risks USAID should consider to ensure that PIOs are capable of adequately safeguarding Agency resources.⁴ OCRs may include recommendations for USAID officials to address in their work with the PIOs. The category assigned to the PIO determines the USAID entity responsible for conducting the OCR before engagement. USAID’s

³ A 2018 USAID OIG audit report identified that USAID’s awards to U.S. nongovernmental organizations and contractors generally follow rigorous regulations that subject them to penalties and remedies for nonperformance. The report identified that due to Federal law and other international arrangements, less stringent rules apply to USAID’s awards to PIOs. In addition, awards to PIOs do not have the same strict requirements on internal control, monitoring, and access for audits and investigations as awards to other organizations.

⁴ USAID previously performed Responsibility Determinations, which were similar but less rigorous desk reviews that served as the primary source of pre-award due diligence for PIOs. OCRs replaced Responsibility Determinations in 2018.

Washington, DC-based Bureau for Planning, Learning, and Resource Management/Office of Development Cooperation reviews Category 1 PIO capacity, while individual USAID agreement officers (based in DC or overseas) review Category 2 PIO capacity. In addition, the OCR process varies slightly for PIOs in Category 1 versus Category 2. As summarized in Table 1, USAID considers and evaluates 13 factors for Category 1 PIOs and 11 factors for Category 2 PIOs. Appendix B provides the detailed list of factors from ADS 308.

Table 1. Factors Considered by USAID When Conducting OCRs

Factors
1. The quality of the PIO's past performance.
2. Internal and external audits, reviews, evaluations, and assessments of the PIO's U.S.-government-funded programs.
3. PIO assessments by non-U.S. government organizations.
4. The PIO's most recent audited financial statements.
5. PIO policies and procedures, including those on financial management, internal controls, and human resources.
6. PIO policies and procedures on ethics.
7. Projected budget, cash flow, and organizational charts.
8. PIO accounting, internal control, cost allowability principles, and accounting standards.
9. PIO policies and procedures on environmental and social safeguards.
10. Other information necessary to determine PIO management competence.
11. Other significant adverse information and the PIO's remediation plans.
12. <i>Category 1 Only:</i> The effectiveness of the PIO's governance structure.
13. <i>Category 1 Only:</i> U.S. government engagement with the PIO.

Note: All 13 factors apply to Category 1 PIOs, while factors 1–11 factors apply to Category 2 PIOs. Source: ADS 308.

Post-Award Due Diligence Mechanisms

After making an award to a PIO, USAID may apply a variety of discretionary due diligence oversight mechanisms, which vary by agreement type.⁵ These post-award due diligence mechanisms include the following:

- *Spot Checks:* USAID may conduct spot checks of PIO activities and financial information under engagements implemented through cost-type agreements.⁶ USAID does not have policies that govern spot checks, and the Agency and the PIO must mutually agree on spot

⁵ The due diligence mechanisms discussed in this report are specific to PIOs and are in addition to the monitoring, evaluating, and learning policies and procedures outlined in ADS 201. ADS 308.3.10 states that “after ensuring the sufficiency of a PIO’s Monitoring, Evaluation, and Learning capabilities through the OCR process, USAID [Operating Units] are expected to work with the recipient to use its procedures and systems for monitoring and evaluating progress in achieving the objectives of the agreement.”

⁶ According to ADS 308, for cost-type agreements to PIOs, payment is made by reimbursement or advance of funds for specific or categories of costs of goods and services to achieve the agreement purpose.

check procedures. Spot checks do not constitute financial, compliance, or other audits of USAID-funded activities and are undertaken in a manner consistent with the UN’s Single Audit Principle.⁷

- **Reviews/Evaluations:** USAID may review or evaluate activities at any time until the end of the agreement period for certain types of engagements. The review or evaluation must follow a mutually agreed-upon scope and procedures and does not constitute a financial, compliance, or other audit of the PIO.
- **Audits:** USAID has the right to audit its contributions to PIOs when the Agency is the sole contributor to a trust or when allowed by the terms of the engagement. In a narrow category of awards, USAID can perform audits on behalf of a PIO that receives USAID funds, conduct a financial review, or otherwise ensure accountability of the PIO by assessing its records and activities.

Table 2 illustrates the post-award due diligence mechanisms available for each PIO agreement type.

Table 2. PIO Agreement Types and Available Post-Award Due Diligence Mechanisms

PIO Agreement Types	Spot Checks	Reviews/Evaluations	Audits
In-Kind Contributions: Goods, commodities, or services instead of money.	-	-	-
Trust Funds: Financing arrangement where one or more donors contribute.	-	-	✓
Cost-Type Agreements: Payments by reimbursement, advance of funds, or letter of credit.	✓	✓	-
Project Contribution: Contribution to a PIO’s program, project, or activity.	-	✓	-
General Contribution: Contribution provided to a PIO for its overall operation and support based on an express statutory authority.	-	-	-
Regional Development Objective Agreement: Range of support from a regional bureau or mission to a regional PIO over a sustained period.	✓	-	✓
Fixed Amount Agreements: Set level of support based on milestones.	-	✓	-
Simplified Agreement: Instruments to fund quick or simple activities.	✓	-	-

Source: ADS 308 and mandatory references.

⁷ The UN Single Audit Principle is designed to avoid duplication of efforts by calling for donors providing funding to rely on the results of the audits coordinated by the United Nations Board of Auditors (UNBoA) and the Office of Audit and Investigations (OAI) to obtain assurance about the funds they provide to the PIO. In addition, UNBoA and OAI retain the exclusive right to carry out and coordinate audits of the PIO’s accounts.

USAID Did Not Consistently Use Pre- and Post-Award Due Diligence Mechanisms to Ensure Effective Oversight of PIOs

USAID policy requires desk reviews of a PIO's policy and organizational framework and operational and managerial capacity before the Agency enters into an agreement with a PIO. However, USAID did not prepare pre-award desk reviews in line with Agency timelines for more than 70 percent of the 67 PIOs to which it obligated about \$45.9 billion between FYs 2019 and 2022. Instead, USAID staff reported relying more on other types of assessments than the required pre-award desk reviews. Although these desk reviews generally included required factors and analysis, when they identified issues and offered recommendations, the Agency had no mechanism to track whether it took corrective actions. In addition, USAID rarely performed post-award spot checks on cost-type agreements.

USAID Did Not Conduct Timely OCRs as Required by Agency Policy for Over 70 Percent of PIOs, but Staff Reportedly Relied on Other Assessments to Understand PIO Issues

ADS 308 requires USAID to conduct an OCR before entering into an agreement with a PIO to ensure that the PIO can adequately safeguard Agency resources and to assist Operating Units with project design and funding decisions. OCRs should be updated at least every 5 years but may be updated more frequently if circumstances warrant.

Between FYs 2019 and 2022, USAID obligated about \$45.9 billion to 67 PIOs. Based on our review of the Bureau for Planning, Learning, and Resource Management/Office of Development Cooperation's OCR library and communication with the Office's officials, we determined that about 73 percent of the PIOs (49 of 67):

- did not have an OCR on file (11 PIOs);
- had a lapsed OCR (17 PIOs);⁸ or
- lacked an OCR at the start of the agreement, although one was performed during the agreement period (21 PIOs).

Some PIOs, including prominent USAID partners such as the World Food Programme, World Health Organization, and UNICEF, did not have a current OCR for several years. The Agency prepared Responsibility Determinations for these three PIOs in 2013; they lapsed in 2018. USAID failed to conduct OCRs on these organizations until 2022 (UNICEF) and 2023 (World Food Programme and World Health Organization).

Despite the lack of current OCRs—for considering key factors such as the PIO's past performance, internal controls, the results of internal and external audits, and safeguarding policies—USAID continued to make large awards to these and other PIOs. As shown in Table

⁸ We define a lapsed OCR as one where the 5-year period of validity has passed without another review.

3, from FY 2019–2022, USAID reported that these three PIOs received obligations totaling nearly \$16.9 billion—more than a third of all USAID PIO funding during those 4 years

Table 3. USAID Funding to Selected PIOs Without a Current OCR, FY 2019–2022

PIO	Obligations	Disbursements
UNICEF	\$2,194,754,231	\$1,535,309,262
World Food Programme	\$13,898,176,046	\$11,864,117,736
World Health Organization	\$792,193,604	\$756,230,171
Total	\$16,885,123,880	\$14,115,657,168

Source: USAID’s Policy, Learning, and Resource Management/Office of Development Coordination data (unaudited).

When OCRs lapsed on PIOs, Agency technical teams said that they continued to review the expired reports, which highlights the value of this type of information and the importance of ensuring that it is updated regularly. However, these teams said that they placed more reliance on other assessments and management plans—both internal (e.g., standard project development assessments) and external (e.g., the Multilateral Organisation Performance Assessment Network or MOPAN⁹)—to understand issues that PIOs faced. In addition, technical teams reported that they worked closely with PIOs as part of their daily duties. According to USAID officials, these technical teams had firsthand knowledge of key issues that needed to be addressed before they received the results of an OCR and often contributed information for the preparation of an OCR.

Due to turnover, USAID staff were unable to fully explain why the Agency failed to conduct OCRs in accordance with timelines established in ADS 308. However, we received the following information from the Agency in response to our queries:

- An official from the Bureau for Planning, Learning, and Resource Management/Office of Development Cooperation stated that USAID delayed some OCRs to better sync their timing with the latest MOPAN assessment, since these results were often included in OCRs. According to the official, USAID preferred to delay an OCR than to rely on an outdated MOPAN assessment.
- USAID officials said teams overseeing the award knew from experience if other forms of pre-award due diligence might be more appropriate, such as including additional provisions to require additional reporting in the agreements with PIOs.

⁹ MOPAN is an independent consortium of 20 member and observer countries with a mission to improve the effectiveness of the multilateral system. MOPAN periodically assesses PIOs on four areas of organizational effectiveness: strategic management, operational management, relationship and performance management, and results. These assessments are designed to identify strengths and areas for improvement in each PIO.

To ensure that USAID conducts OCRs for Category 1 PIOs in accordance with Agency requirements, the Bureau for Planning, Learning, and Resource Management/Office of Development Cooperation contracted with a consultant in September 2021 to perform this required pre-award due diligence. The Bureau for Planning, Learning, and Resource Management/Office of Development Cooperation developed workplans for planned OCR reviews in FY 2023 and FY 2024.

Without current OCRs, USAID's technical officers and financial management officials are limited in their ability to exercise pre-award due diligence over the Agency's substantial funding to PIOs. Conducting this pre-award due diligence would help USAID identify areas of weakness in a PIO's policy and organizational framework as well as the operations and management needed to fully inform project design and funding decisions.

Most Pre-Award Desk Reviews on File Generally Considered Factors Outlined in Agency Policy, but USAID Lacked a Formal Mechanism to Follow Up on Review Recommendations

ADS 308 outlines 13 factors for USAID to evaluate when conducting OCRs for Category 1 PIOs and 11 factors for OCRs for Category 2 PIOs to determine whether PIOs are organizationally capable of adequately safeguarding USAID resources. Before 2018, USAID performed Responsibility Determinations, which considered similar factors.

To determine whether OCRs and Responsibility Determinations on file addressed the applicable factors identified in ADS 308, we selected a judgmental sample of 20 of the 67 PIOs that received USAID funds from FY 2019–2022 and assessed the pre-award desk reviews on file for each PIO (15 OCRs and 5 Responsibility Determinations).¹⁰

Almost all of the 15 OCRs we reviewed generally considered the applicable factors outlined in ADS 308, while the 5 Responsibility Determinations generally considered the relevant aspects in place when USAID prepared those documents. Table 4 shows the number and percentage of OCRs and Responsibility Determinations that considered applicable factors.

¹⁰ The 15 OCRs covered 10 Category 1 and 5 Category 2 PIOs. The five Responsibility Determinations covered four Category 1 and 1 Category 2 PIOs.

Table 4. Consideration of Applicable ADS 308 Factors Within Pre-Award Desk Reviews of 20 Selected PIOs

Factors	OCRs Considered Factor Cat I	OCRs Considered Factor Cat 2*	Responsibility Determinations Considered Factor Cat I	Responsibility Determinations Considered Factor Cat 2**	Total Pre-Award Desk Reviews Considered Factor
1. The quality of the PIO's past performance.	9/10	5/5	4/4	1/1	19 of 20 95%
2. Internal and external audits, reviews, evaluations, and assessments of the PIO's U.S.-government-funded programs.	7/7	4/4	N/A	1/1	12 of 12 100%
3. PIO assessments by non-U.S. government organizations.	7/7	2/4	N/A	1/1	10 of 12 83%
4. The PIO's most recent audited financial statements.	8/10	5/5	4/4	1/1	18 of 20 90%
5. PIO policies and procedures, including those on financial management, internal controls, and human resources	10/10	5/5	4/4	1/1	20 of 20 100%
6. PIO policies and procedures on ethics.	7/7	4/4	N/A	1/1	12 of 12 100%
7. Projected budget, cash flow, and organizational charts.	8/10	5/5	1/4	1/1	15 of 20 75%
8. PIO accounting, internal control, cost allowability principles, and accounting standards.	5/7	3/4	N/A	1/1	9 of 12 75%

Factors	OCRs Considered Factor Cat I	OCRs Considered Factor Cat 2*	Responsibility Determinations Considered Factor Cat I	Responsibility Determinations Considered Factor Cat 2**	Total Pre-Award Desk Reviews Considered Factor
9. PIO policies and procedures on environmental and social safeguards.	6/7	4/4	N/A	1/1	11 of 12 92%
10. Other information necessary to determine PIO management competence.	10/10	4/5	4/4	1/1	19 of 20 95%
11. Other significant adverse information and the PIO's remediation plans.	7/7	4/4	N/A	1/1	12 of 12 100%
12. Category I Only: The effectiveness of the PIO's governance structure.	6/7	N/A	N/A	N/A	6 of 7 86%
13. Category I Only: U.S. government engagement with the PIO.	7/7	N/A	N/A	N/A	7 of 7 100%

N/A: Factor not required when conducting desk review.

* One PIO currently designated as Category 2 received an OCR when it was designated as Category 1.

** One Category 2 PIO performed a Responsibility Determination when an OCR was required.

Source: OIG analysis of USAID documentation.

While conducting many of these OCRs, reviewers identified weaknesses in the PIO's policy and organizational framework, operational and managerial capacity, or other ways for USAID officials to strengthen the PIO's ability to safeguard USAID funds. Six of the 15 selected OCRs included recommendations (40 percent). These 6 OCRs covered Category I PIOs and cumulatively made 25 recommendations to various levels of USAID leadership—for example, award managers, the PIO coordinator, and a PIO board member. These recommendations related to areas such as:

- performance evaluations of PIO activities;
- transparency, accountability, and access to PIO records;
- strategic risk management;
- environmental and social policies and procedures;

- ethics policies;
- sexual exploitation and abuse policies and procedures; and
- fraud detection.

However, USAID had no formal mechanism to ensure that the Agency implemented the recommendations and addressed the shortcomings.

According to USAID officials, OCR recommendations stem from issues that generally need to be addressed over a period of years rather than issues that can be remedied through “quick fixes” or day-to-day oversight. Furthermore, USAID officials said that because OCRs are not required to include recommendations, Agency policy does not address the tracking of follow-up actions taken in response to any recommendations made in OCRs.

According to ADS 308, OCRs are a tool for USAID officials to use as they design projects and make important funding decisions. For the 20 pre-award desk reviews we evaluated, USAID generally considered the factors required and determined that the PIOs were organizationally capable of adequately safeguarding USAID resources. However, several OCRs identified critical issues and offered recommendations to mitigate risks in working with individual PIOs. Without a formal mechanism to follow up on OCR recommendations, USAID cannot ensure that it is monitoring these critical issues or addressing gaps in PIOs’ management of U.S. foreign assistance.

USAID Generally Did Not Perform Discretionary Post-Award Spot Checks for Cost-Type Awards

After making an award to a PIO, USAID has the option to conduct additional due diligence that varies by agreement type, including spot checks, reviews or evaluations, and audits. An official from the Bureau for Planning, Learning, and Resource Management/Office of Development Cooperation said that cost-type awards are the most commonly used agreements with PIOs, for which spot checks are an available discretionary post-award due diligence mechanism.¹¹ We asked the Bureau for Planning, Learning, and Resource Management/Office of Development Cooperation for any procedures for using and following up on spot checks. However, the office did not request information on post-award actions from officials overseeing awards to PIOs.

Therefore, to evaluate the extent that USAID conducted post-award due diligence, we selected a sample of 68 awards made to the same 20 PIOs for which we assessed pre-award desk reviews. The awards represent varying geographic areas, award years, and award sizes. We interviewed or submitted a brief email questionnaire to agreement officers, agreement officer representatives (AORs), and PIO coordinators for the 68 awards to determine whether USAID

¹¹ ADS 308mab, “Standard Provisions for Cost-Type Agreements with Public International Organizations,” states that spot checks will be conducted using mutually agreed-upon procedures and the “recipient will provide all relevant financial information to USAID representatives and will explain, with appropriate concrete examples, how the accounts are managed and the procedures used to ensure transparency and accuracy in the accounts.”

conducted post-award due diligence. We received responses for 25 of the 68 awards (37 percent), comprising the following:¹²

- 17 cost-type awards
- 5 general contribution awards
- 2 project contribution awards
- 1 fixed-amount award

We limited our post-award due diligence conclusions to cost-type awards due to the low number of responses for other award types.

- Based on the responses we received, USAID performed spot checks in only 2 of the 17 cost-type awards (12 percent) representing more than \$20.6 million in USAID obligations during FY 2019–2022. Specifically:
 - One spot check was a financial and technical review led by USAID’s Regional Financial Management and Project Management teams overseeing the project and facilitated by members of the PIO.
 - The second spot check was an agreed-upon procedures engagement for a post-award review conducted by an independent accounting firm.

For the other 15 cost-type awards, representing nearly \$263.4 million, we found the following:

- For 7 of 17 cost-type awards (41 percent), respondents stated that no spot checks or post-award due diligence, as outlined in ADS 308 and its mandatory references, had been performed.
- For 8 of 17 cost-type awards (47 percent), respondents stated that spot checks had been performed; however, the review activities did not meet spot check requirements as outlined in ADS 308mab. Instead, these activities included typical monitoring/site visit reports, a performance indicator tracking sheet, an evaluation initiated by the PIO, a final progress report, and other documentation produced during routine award oversight.

Of the 15 cost-type awards lacking spot checks, 13 were PIOs without OCRs in place for the entire 4-year period, FY 2019–2022. Therefore, for these PIOs, USAID performed neither the required pre-award due diligence nor discretionary post-award spot checks.

Further, officials who oversaw cost-type awards to PIOs were unclear about the definition of a spot check. In addition to the responses stating that USAID performed spot checks for eight awards but did not meet the spot check requirements, this lack of clarity is demonstrated in that:

- Washington, DC-based officials provided trip reports and other examples of routine monitoring as evidence that they performed spot checks.

¹² We received 14 additional responses stating that the respondent was not the appropriate point of contact for the award.

- Other respondents referred to financial management and monitoring responsibilities as the responsibility of the AOR. The AOR designation letter outlines the position's expected financial management and monitoring responsibilities. The AOR conducts the routine activities included in the designation letter to ensure compliance with USAID's policies and procedures for contract management. These activities do not require the mutual agreement of USAID and the PIO.

Finally, USAID provided limited guidance for conducting post-award spot checks, which are performed at the award level. In addition, the Bureau for Planning, Learning, and Resource Management/Office of Development Cooperation did not have a mechanism to track whether the Agency performed spot checks or requirements for the Agency to share spot check results with the bureau. Without clear guidance, staff may be less likely to perform post-award spot checks and may miss identifying serious issues such as the diversion of vital U.S. assistance funds or goods.

Conclusion

USAID provides billions of dollars in aid to PIOs such as the World Food Programme and UNICEF, which are often well suited to deliver U.S.-funded humanitarian assistance due to their experience, proximity to conflict zones, and established networks. However, by not performing appropriate pre- and post-award due diligence, USAID limits its insight and ability to oversee this PIO funding, potentially leading to serious issues including diversion of funds or goods. Failure to fully understand the organizational capacity of a PIO could create significant reputational risk, particularly in humanitarian assistance programming in Gaza, for which Congress has recently required enhanced oversight due to the potential for diversion to designated terrorist organizations. By consistently performing comprehensive pre- and post-award due diligence, USAID will be better positioned to ensure vital humanitarian and developmental assistance reaches intended beneficiaries by making informed decisions regarding future awards to PIOs.

Recommendations

We recommend that the Bureau for Planning, Learning, and Resource Management/Office of Development Cooperation:

1. Develop and implement a process to track the status of organizational capacity reviews and ensure they are updated in accordance with Automated Directives System Chapter 308.
2. Develop and implement a formal follow-up mechanism to track the resolution of recommendations included in organizational capacity reviews.
3. Develop and communicate guidance on post-award spot checks to include a more detailed definition of spot checks, illustrative procedures and opportunities for their use, and procedures for appropriately communicating their results, when warranted.

OIG Response to Agency Comments

We provided our draft report to USAID on May 21, 2024. On August 5, 2024, we received the Agency's response, which is included as Appendix C of this report. USAID also provided technical comments, which we considered and incorporated as appropriate.

The report included three recommendations. We acknowledge management decisions on all three recommendations. We consider one recommendation resolved but open pending completion of planned activities (Recommendation 3), and two recommendations open and unresolved (Recommendations 1 and 2) pending more information and revised management decisions, if applicable.

In response to Recommendation 1, USAID developed a standard operating procedure (SOP) for how the Bureau for Planning, Learning, and Resource Management/Office of Development Cooperation intends to ensure that OCRs are updated in accordance with ADS 308. However, the SOP lacks details on how the Agency will prioritize the list of six to seven PIOs expected to receive updated OCRs each fiscal year, how the Agency will use that list to develop a work plan for its contractor, and how the proposed Cycle Tracker will contribute to the process.

In response to Recommendation 2, USAID developed a tracker to follow up on recommendations included in OCRs. While this tracker includes information on the recommended action from the OCR, the process owner, and the status of the recommendation, it lacks detail regarding a process to update and maintain the tracker, as required when actions are planned or taken to address the recommendations.

Appendix A. Scope and Methodology

We conducted our work from March 2023 through May 2024 in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. The evaluation focused on the due diligence that USAID performed for PIOs managing USAID funding from FY 2019–2022.

Our evaluation objective was to determine the extent USAID performed expected due diligence over funding to selected PIOs. To address the objective, we sought to determine (1) USAID's compliance with conducting OCRs in line with Agency policy timelines, (2) the extent to which OCRs incorporated required analysis, and (3) the frequency with which USAID conducted spot checks as a form of post-award due diligence for cost-type awards. We reviewed Agency policy and documentation for the 67 PIOs receiving obligations or disbursing USAID funds from FY 2019–2022 to determine whether USAID conducted pre-award due diligence. In addition, we conducted interviews with officials from various USAID offices including the Bureau for Planning, Learning, and Resource Management/Office of Development Cooperation, Bureau for Humanitarian Assistance, Bureau for Global Health, and Office of the Chief Financial Officer.

We used a judgmental sampling methodology to select 20 of the 67 PIOs for further testing. The 20 selected PIOs represented Category 1 and Category 2 PIOs and a range of organizations, including UN agencies, international financial institutions, and international agricultural research centers.

To assess whether pre-award desk reviews considered the factors outlined in ADS 308, we reviewed the OCRs and Responsibility Determinations on file for FYs 2019–2022 for each of the 20 PIOs.

For post-award due diligence testing, we selected a sample of 68 awards made to these 20 PIOs from FY 2019–2022. We selected the awards to represent a varying geographic area, award year, and award size. We interviewed or submitted a brief email questionnaire to 48 officials, including the agreement officers, AORs, or PIO coordinators for the 68 awards, to determine whether USAID conducted allowable post-award due diligence. We received 39 responses total. Fourteen responses simply communicated that the recipient was not the appropriate point of contact for the award. The other 25 responses related to the following:

- 17 cost-type awards
- 5 general contribution awards
- 2 project contribution awards
- 1 fixed-amount award

We based our conclusions on cost-type awards as we did not have sufficient evidence to support conclusions on other award types.

Appendix B. Full List of ADS 308 Factors Considered During Pre-Award Desk Reviews

ADS 308 Factors
1. The quality of the PIO's past performance with respect to USG and other donor-funded projects, including compliance with the terms and conditions of the funding agreements, efficiency and effectiveness of implementation, and extent of results achieved.
2. Internal and external audits, review, evaluation, and assessments of a PIO's USG-funded programs, including but not limited to those performed by the PIO itself, independent auditors, US Government Agency Inspectors General, the Government Accountability Office, and the Departments of State and Treasury.
3. PIO assessments by non-USG organizations, including the Multilateral Organization Performance Assessment Network (MOPAN), bilateral development partner reviews, and the Common Performance Assessment System for multilateral development banks (COMPAS).
4. The PIO's most recent audited financial statements, as prepared in accordance with the PIO's charter or governance structure and the independent auditor's opinion on those financial statements.
5. Applicable PIO policies and procedures regarding financial management, risk management and internal controls, procurement, property-management, audits, human resources, environmental and social safeguards, and other relevant and/or required policies (see section 308.3.10).
6. PIO policies and procedures regarding business integrity, ethics, sexual exploitation and abuse, conflicts of interest, and anti-corruption.
7. Projected budget, cash flow, and organization charts, as relevant.
8. Information on the PIO's accounting, internal control, and cost allowability principles, the PIO's accounting standards in use, and their consistency with internationally-accepted accounting standards.
9. PIO environmental and social safeguard policies and procedures, and any records of past performance.
10. Other information that may be necessary to fully assess whether the organization has the necessary management competence to plan and carry out the intended activity.
11. Any other significant and substantive adverse findings, and the adequacy of the PIO's actions to remediate them.
12. <i>Category I Only:</i> The effectiveness of the PIO's governance structure, governance processes, and leadership.
13. <i>Category I Only:</i> U.S. engagement with the PIO, including through the governance structure, technical collaboration, and funding arrangements.

Source: ADS 308.

Appendix C. Agency Comments



USAID
FROM THE AMERICAN PEOPLE

MEMORANDUM

TO: Inspections and Evaluations Division, Director, Amy Burns

FROM: Bureau for Planning, Learning and Resource Management,
A-AtA Roman Napoli

DATE: August 1, 2024

SUBJECT: Management Comments to Respond to the Draft Audit Report Produced by the Office of Inspector General (OIG) titled, Public International Organizations: USAID Did Not Consistently Perform Expected Due Diligence (Task No. EE100123)

The U.S. Agency for International Development (USAID) agrees with recommendation 1, partially agrees with recommendation 2, and agrees with recommendation 3. This memorandum outlines plans for implementing these recommendations and reports on significant progress already made.

Please find below the Management Comments from the U.S. Agency for International Development (USAID) on the draft report produced by the USAID Office of Inspector General (OIG), which contains three (3) recommendations for USAID:

Recommendation 1: Develop and implement a process to track the status of organizational capacity reviews and ensure they are updated in accordance with Automated Directives System Chapter 308.

- **Position:** USAID agrees with this recommendation.
- **Plan for Corrective Action:** USAID has improved the existing system in place to track OCRs through an enhanced standard operating procedure (SOP) to ensure the tracker is up to date with year-long work plans to ensure OCRs are conducted at the right time. This SOP provides a formalized process to ensure continuity and tracking when OCRs are due for renewal, including an up-to-date tracking matrix in Google sheets and annual work plans. The tracking matrix and annual work plans were provided to the OIG during the audit interviews (Tab 2). The SOP also strengthens PLR's capacity of current and

future staff to monitor the various processes to efficiently track progress. (Tab 3)

- **Target Completion Date:** USAID requests that this recommendation be closed upon issuance of the final report.

Recommendation 2: Develop and implement a formal follow-up mechanism to track the resolution of recommendations included in organizational capacity reviews.

- **Position:** USAID partially agrees with this recommendation. OCR recommendations are not required per USAID policy in ADS 308.3.2.1 (Tab 4), and where optional recommendations are included, they are for internal reference only and not directive to the PIOs. USAID does internally track the implementation of these recommendations (Tab 5) when the OCRs are updated every five years. The recommendations are guidelines and suggestions for USAID program managers and Operating Units to better understand USAID's "blue-sky goals" for our PIO partners. During the exit interview and a subsequent call with OIG, USAID explained that per ADS 308, recommendations are not required. To implement them as binding directives on B/IOs and PIO partners would go against the purpose of the OCRs as internal reference documents. When the team periodically updates the OCRs, they do look at what has changed including if any of the recommendations of the previous OCR have been addressed or need adjustment.

Plan for Corrective Action: Responsive to OIG's recommendations and as part of a plan for corrective action, PLR has begun to keep the OCR recommendations for Category 1 PIOs in a separate shared folder from the OCRs for ease of reference. PLR has also updated its [ProgramNet page](#) on OCRs, which is accessible to the entire Agency, to include the recommendations tracker and an explanation of the purpose of the OCR recommendations. Of note, per ADS 308, Category 2 PIOs are not in PLR's purview.

- **Target Completion Date:** USAID requests that this recommendation be closed upon issuance of the final report.

Recommendation 3: Develop and communicate guidance on post-award spot checks to include a more detailed definition of spot checks, illustrative procedures and opportunities for their use, and procedures for appropriately communicating their results, when warranted.

- **Position:** USAID agrees with this recommendation.
- **Plan for Corrective Action:** The Bureau for Planning, Learning and Resource Management (PLR), the Office of the General Counsel (GC), the Office of the Chief Financial Officer (CFO) in the Bureau of Management, and other relevant Bureaus will develop guidance to be added as a reference to ADS 308. It will provide instructions on how and when it may be appropriate to conduct post-award spot checks with definitions, possible processes, and examples. PLR will communicate the creation of this reference through an Agency Notice.

- **Target Completion Date:** August 2025

Regarding specific findings in the draft report, USAID submitted technical feedback to OIG on June 12, 2024 (Tab 6). There are statements in the draft report where the Agency strongly recommends corrections and/or clarifications as they seem to imply that PIO oversight is not performed seriously and they are a serious mischaracterization of the information provided to OIG. These comments constitute an important part of the Agency's Management Response.



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