

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

Ukraine Response: Action Needed to Enhance Oversight of Energy Procurements

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Audit



Office of Audits, Inspections, and Evaluations



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

DATE: March 28, 2025

TO: Julie Nenon
Acting Mission Director
USAID/Ukraine

Frederick “Rick” Guy
General Counsel
USAID

FROM: Gabriele Tonsil /s/
Acting Assistant Inspector General for Audits, Inspections, and Evaluations

SUBJECT: Ukraine Response: Action Needed to Enhance Oversight of Energy Procurements

This memorandum transmits our final audit report. Our audit objectives were to (1) assess USAID/Ukraine’s oversight of the Energy Security Project’s procurement process and (2) determine the extent to which USAID/Ukraine verified that the Project delivered equipment and materials to recipients as intended. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in Appendix D.

The report contains five recommendations to improve USAID/Ukraine’s oversight of energy procurements. USAID agreed with all five recommendations. After reviewing information you provided in response to the draft report, we consider two closed (recommendations 1 and 2), one resolved but open pending completion of planned activities (recommendation 5), and two open and unresolved (recommendations 3 and 4).

For recommendation 5, please provide evidence of final action. Please work with us to resolve recommendations 3 and 4.

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

Contents

Report in Brief.....	1
Introduction	2
Background	3
USAID/Ukraine Did Not Define Requirements to Receive Procurement Information Essential to Its Oversight of the Energy Security Project and Did Not Perform a Mandatory Assessment of a Ukrainian Government-Controlled Company	5
USAID/Ukraine Reviewed Subcontracting Notices as Part of Its Procurement Oversight but Did Not Define the Deadline for Notice Submission for Over a Year	6
USAID/Ukraine Was Not Aware of Issues the Contractor Identified for Eleven Months	7
USAID/Ukraine Did Not Perform a Required Assessment for a Subcontract with a Ukrainian Government-Controlled Company for Which It Later Identified Vulnerabilities	9
USAID/Ukraine Verified the Delivery of Sampled Energy Equipment and Materials, but Information Gaps Exist and Not All Inventory and Property Requirements Were Met	11
USAID/Ukraine Used Several Monitoring Efforts to Verify and Identify Issues With the Delivery of Energy Equipment and Materials	12
USAID/Ukraine’s Monitoring Efforts Were Limited in Geographic Coverage and Focused on Certain Equipment Categories	15
The Energy Security Project Contractor Did Not Consistently Meet Inventory and Property Requirements for Sampled Goods	17
Conclusion	20
Recommendations	20
OIG Response to Agency Comments	22
Appendix A. Scope and Methodology	23
Appendix B. Subcontracting Vulnerabilities of a Ukrainian Government-Controlled Energy Company and USAID/Ukraine’s Corrective Actions in Response	25
Appendix C. Tetra Tech and EnCompass Verifications Completed as of February 2024	26
Appendix D. Agency Comments	27

Pursuant to Pub. L. No. 117-263 § 5274, USAID OIG provides nongovernmental organizations and businesses specifically identified in this report 30 days from the date of report publication to submit a written response to USAID OIG. Comments received will be posted on <https://oig.usaid.gov/>. Please direct inquiries to oignotice_ndaa5274@usaid.gov.



Report in Brief

Why We Did This Audit

Russia has conducted an intensive campaign to destroy Ukrainian electricity infrastructure since its full-scale invasion of Ukraine in February 2022. To respond to the wartime needs of Ukrainians for electricity, gas, and heating, USAID's Mission in Ukraine (USAID/Ukraine) modified its largest energy sector award, the Energy Security Project (the Project). The Project shifted from its pre-invasion focus on facilitating market reforms and energy diversification to a focus on procuring energy equipment and materials to support the Government of Ukraine's energy sector stabilization efforts.

Since November 2022, USAID/Ukraine has increased the Project's value from \$85 million to \$920 million and extended its period of performance from June 2023 to June 2025. Tetra Tech, a global consulting and engineering firm, implements the Project for USAID.

Given substantial increases in funding for the Project and the shift toward energy-related procurements, we conducted this audit to (1) assess USAID/Ukraine's oversight of the Project's procurement process and (2) determine the extent to which USAID/Ukraine verified that the Project delivered equipment and materials to recipients as intended.

What We Recommend

We made five recommendations to improve USAID/Ukraine's oversight of the Project's procurement processes and monitoring of equipment and material deliveries. The Agency agreed with all five.

What We Found

USAID/Ukraine did not define requirements to receive procurement information essential to its oversight of the Energy Security Project and did not perform a mandatory assessment of a Ukrainian government-controlled company. While USAID/Ukraine provided oversight of Tetra Tech's subcontracting practices, it received little to no advance notice from Tetra Tech for seven subcontracts in our sample with a total value of \$67.5 million, limiting its ability to identify and resolve any issues prior to subcontract signature. Additionally, USAID/Ukraine did not receive an internal Tetra Tech procurement compliance report until 11 months after the company completed it. Lastly, USAID/Ukraine did not conduct an Agency-required assessment for a \$17.5 million subcontract with a Ukrainian government-controlled company with known vulnerabilities. Without timely and complete information, USAID/Ukraine is not positioned to effectively address procurement issues.

USAID/Ukraine verified the delivery of sampled energy equipment and materials, but information gaps exist, and not all inventory and property requirements were met.

USAID/Ukraine verified the delivery of energy equipment and materials through several monitoring efforts. However, we found gaps in these efforts that limited the information available for Agency oversight. In particular, we found that monitoring efforts were limited geographically and focused primarily on a few types of equipment, such as generators. In addition, we found that Tetra Tech had not fully resolved issues that monitors identified with inventory, branding, and property transfer documentation as of June 2024. Without a unified delivery monitoring system to capture information from multiple reporting mechanisms, USAID/Ukraine may miss opportunities to correct delivery issues promptly.

Introduction

Russia has conducted an intensive campaign to destroy Ukrainian electricity infrastructure as part of its full-scale invasion of Ukraine that began in February 2022. Russian capture of Ukrainian territory, followed by wholesale destruction of generation, transmission, and distribution systems, has led to deficits in available generation capacity that have caused rolling blackouts across the country.¹ Between early 2022 and April 2023, available generation capacity declined 51 percent.² Since March 2024, Russia has escalated its attacks, further damaging Ukraine's power generation capacity and putting civilians at risk of a humanitarian crisis during the winter.³ As of December 2024, Ukraine's energy sector had suffered an estimated \$20.5 billion in damages due to Russia's continual attacks.⁴

To respond to these wartime needs, USAID's Mission in Ukraine (USAID/Ukraine) shifted the focus of its largest energy sector award, the Energy Security Project (the Project), from facilitating market reforms and energy diversification to a focus on procuring energy equipment and materials. Since November 2022, USAID/Ukraine has increased the Project's award ceiling from \$85 million to \$920 million and extended the period of performance from June 2023 to June 2025. Using this additional funding, USAID/Ukraine added a task to procure up to \$695 million of equipment and materials to support continuity of operations and reconstruction of Ukraine's energy institutions.⁵ Tetra Tech, a global consulting and engineering firm, implements the Project for USAID/Ukraine.

Given substantial increases in funding for the Project and the shift toward energy-related procurements, we conducted this audit to (1) assess USAID/Ukraine's oversight of the Project's procurement process and (2) determine the extent to which USAID/Ukraine verified that the Project delivered equipment and materials to recipients as intended.

To answer our objectives, we reviewed USAID/Ukraine's oversight process and monitoring efforts for equipment and materials procured and delivered under the Project from February 2022 to June 2024 and conducted site visits in Ukraine in February and April 2024. To assess the procurement process, we compared USAID/Ukraine's contracting policies and procedures and the Project's procurement manual against the procurement files from a judgmental sample of 25 of 101 subcontracts. We selected our sample based on subcontract value, equipment type, and variety of vendors.

To determine the extent of delivery verification, we aggregated and compared the Project's internal monitoring efforts to USAID/Ukraine's third-party monitoring efforts and directly

¹ United Nations Human Rights Monitoring Mission in Ukraine, *Attacks on Ukraine's Energy Infrastructure: Harm to the Civilian Population*, September 19, 2024.

² United Nations Development Programme, *Towards a Green Transition of the Energy Sector in Ukraine: Update on the Energy Damage Assessment*, June 20, 2023.

³ Group of 7+ Ukraine Energy Coordination Group and the Government of Ukraine, *Statement Promoting Sustainable Green Recovery of Ukraine's Energy System*, November 15, 2024.

⁴ World Bank, Government of Ukraine, European Union, United Nations, *Ukraine - Fourth Rapid Damage and Needs Assessment (RDNA4): February 2022 - December 2024 (English)*, February 25, 2025.

⁵ The Project's award ceiling was \$920 million as of June 2024.

observed a judgmental sample of 21 of 2,644 inventory items. We based our sample selection on the variety of equipment types we could directly observe in and around the Kyiv region. We also conducted interviews with USAID/Ukraine and Tetra Tech personnel responsible for contracting, procurement and grants, logistics, internal audits, and delivery verifications. We conducted our work in accordance with generally accepted government auditing standards. Appendix A provides more detail on our scope and methodology.

Background

USAID created the Project as a 5-year (2018–2023), \$85 million project to strengthen Ukraine’s energy security by improving energy regulations and policy and building the resilience of the country’s energy supply. The Project aimed to transform Ukraine’s energy sector to support affordable, reliable, and secure energy for all Ukrainians. USAID awarded the contract for the Project to Tetra Tech.

To respond to the wartime needs of the Ukrainian energy sector, USAID/Ukraine modified the Project’s contract in November 2022 to extend the period of performance by 2 years (through June 2025) and to increase the total estimated cost of the contract to \$244 million. This modification sought to provide critical assistance to the Government of Ukraine to maintain operation of its electricity, gas, and heating networks during Russia’s full-scale invasion, while continuing to support the reforms necessary for Ukraine to fully integrate its energy markets into the European Union’s market. The modification also added a task to the Project to procure and deliver a wide array of energy sector equipment to support the Government of Ukraine’s energy sector stabilization and restoration effort.

Since the November 2022 modification, USAID/Ukraine further increased the Project’s award ceiling and budget for equipment and materials procurements. As of June 2024, the award ceiling was \$920 million, which included about \$695 million to purchase energy equipment and materials needed to sustain, repair, or reconstruct Ukraine’s energy network.

As of October 2024, the Project had procured \$441 million in energy equipment and materials across 282 subcontracts. Of the \$441 million, \$249 million in goods were delivered to recipients, and \$192 million in goods were under contract but not yet delivered. The size of the subcontracts varied considerably, from about \$1,300 (for a welding machine) to \$25.7 million (for seven transformers).



Source: OIG analysis of interviews with USAID/Ukraine personnel

To continue procuring energy goods for Ukraine after the Project ends in June 2025, USAID/Ukraine signed a \$439 million, 5-year contract with Tetra Tech (April 2024–April 2029) to implement a follow-on energy project, the Securing Power, Advancing Resilience and Connectivity (SPARC) Activity.⁶ SPARC aims to provide strategic technical and procurement assistance to the Government of Ukraine and enhance the reliability, affordability, and security of Ukraine’s electricity, natural gas, and heating sectors. As part of the award, Tetra Tech must procure a range of energy sector equipment in response to current wartime needs in Ukraine.

Energy Security Project Oversight Roles

Multiple entities play a part in overseeing the procurement and delivery of Project equipment and materials. In addition to USAID/Ukraine and Tetra Tech, the global consulting firm EnCompass conducts oversight as the third-party monitor for the Project through a contract with USAID/Ukraine. These entities’ oversight roles are summarized in Table I.

Table I. Oversight Roles for the Procurement and Delivery of Energy Security Project Equipment and Materials

Entities	Roles and Responsibilities
USAID/ Ukraine	<ul style="list-style-type: none"> – Oversees Tetra Tech’s compliance with contract terms and conditions. – Reviews Tetra Tech’s notices about its plans to award new subcontracts. – Communicates with senior Tetra Tech officials to resolve compliance issues. – Plans monitoring and oversight activities and meets regularly with Ukrainian government partners on assistance needs. – Meets regularly with Tetra Tech’s procurement team to track ongoing procurements and deliveries and to discuss any challenges. – Reviews monitoring reports produced by Tetra Tech and the third-party monitor.
Tetra Tech	<ul style="list-style-type: none"> – Administers the Project’s procurement process, including preparing requests for quotations, evaluating bids, and signing subcontracts with vendors. – Conducts internal reviews of the Project’s compliance with procurement regulations and policies. – Inspects and verifies certain deliveries through site visits. – Reports findings from internal reviews and inspections to senior Project officials.
EnCompass	<ul style="list-style-type: none"> – Serves as the third-party monitor for the Project. – Verifies the delivery and use of select equipment through site visits. – Subcontracts with a local organization to conduct in-person site visits.

Source: OIG analysis of USAID documentation and interviews with USAID/Ukraine personnel and contractor representatives.

USAID Oversight Requirements

USAID’s oversight requirements for Tetra Tech’s procurement process have changed over the course of the Project. From June 2018 to December 2022, the Project’s contract required Tetra Tech to obtain written consent from the responsible mission employee before awarding

⁶ USAID/Ukraine awarded SPARC to Tetra Tech in April 2024 under full and open competition.

subcontracts.⁷ In August 2022, USAID approved Tetra Tech’s contract purchasing system, indicating that the U.S. government had determined that Tetra Tech’s purchasing policies and practices provided adequate protection of the government’s interests.⁸ The approval reduced the federal oversight requirements for USAID’s involvement in Project subcontracting.

Since December 2022, the Project’s contract has required Tetra Tech to provide advance notice to the responsible mission employee before awarding subcontracts. In light of the purchasing system approval, USAID/Ukraine removed the requirement for Tetra Tech to obtain this employee’s consent before awarding subcontracts. Instead, in accordance with Federal Acquisition Regulation (FAR) 52.244-2, “Subcontracts,” USAID/Ukraine modified the contract to require Tetra Tech to notify the responsible mission employee “reasonably in advance” of entering into subcontracts.⁹ These notifications allow USAID/Ukraine to review Tetra Tech’s plans for new subcontracts and to resolve any potential concerns before the subcontracts are signed. The notifications must include basic information about each subcontract, such as a description of the energy equipment or materials being purchased, the name of the subcontractor, and the value of the subcontract.

USAID/Ukraine Did Not Define Requirements to Receive Procurement Information Essential to Its Oversight of the Energy Security Project and Did Not Perform a Mandatory Assessment of a Ukrainian Government-Controlled Company

USAID/Ukraine reviewed Tetra Tech’s subcontracting notices as part of its procurement oversight of the Project. However, the mission did not define the deadline for Tetra Tech to submit these notices for over a year. As a result, USAID/Ukraine received little to no advance notice from the company for multiple subcontracts in our sample with a total value of \$67.5 million. Additionally, USAID/Ukraine did not review findings from an internal compliance report promptly because it was not aware of the findings until 11 months after Tetra Tech completed the report. Lastly, USAID/Ukraine did not conduct an Agency-required assessment

⁷ In accordance with FAR 52.244-2 requirements for contractors without approved purchasing systems, the Project’s contract required Tetra Tech to request consent from the responsible mission employee prior to entering into any (i) cost-reimbursement, time-and materials, or labor-hour type subcontracts, or (ii) fixed-price subcontracts exceeding either the simplified acquisition threshold or five percent of the prime contract’s total estimated cost.

⁸ An approved purchasing system means that the government has reviewed the contractor’s purchasing policies and practices and determined that they are efficient and provide adequate protection of the government’s interests in accordance with FAR 44.3, “Contractors’ Purchasing System Reviews.” USAID’s determination to approve Tetra Tech’s purchasing system had a retroactive effective date of June 2020.

⁹ In accordance with FAR 52.244-2 requirements for contractors with approved purchasing systems, the modified contract required Tetra Tech to notify the responsible mission employee “reasonably in advance” of entering into any (i) cost-plus-fixed fee subcontract, or (ii) fixed-price subcontract exceeding either the simplified acquisition threshold or five percent of the prime contract’s total estimated cost.

for a subcontract awarded to a Ukrainian government-controlled company that had known vulnerabilities.

USAID/Ukraine Reviewed Subcontracting Notices as Part of Its Procurement Oversight but Did Not Define the Deadline for Notice Submission for Over a Year

USAID/Ukraine's advance review of Tetra Tech's subcontracting notices is one of the few formal procedures it has in place to provide oversight of the Project's procurement process. USAID/Ukraine began reviewing notices of Tetra Tech's plans to award new subcontracts in December 2022, but it did not define the deadline for submission of the notices for a further 15 months. Without a clear deadline, USAID/Ukraine received little to no advance notice before Tetra Tech awarded seven subcontracts in our sample with a total value of \$67.5 million. As a result, USAID/Ukraine had limited opportunity to identify and resolve potential contractual issues before the subcontracts were awarded.

Since the Project's contract modification in December 2022, mission personnel have been responsible for reviewing notices of Tetra Tech's intent to award new subcontracts covered by FAR 52.244-2. Responsible mission employees described their oversight of the Project's subcontracting as minimal and high-level since USAID determined that Tetra Tech's purchasing system complied with federal laws, regulations, and policies. The responsible mission employee for the Project stated that they review the notices for contractual appropriateness and conformance to contract terms and conditions, including subcontractor eligibility and the level of competition obtained. If an issue is identified during the review, the responsible mission employee raises it directly with Tetra Tech staff for resolution, which may include directing the Project to hold a procurement until the questions are resolved.

To determine the extent to which USAID/Ukraine received timely and complete advance notices from Tetra Tech, we reviewed procurement documentation for 19 subcontracts requiring advance notice executed as of December 2023.¹⁰ We found that all of the notices included the required procurement information. Furthermore, since December 2023 USAID/Ukraine has updated some of its subcontracting procedures to expand the information required in the notices. For example, the responsible mission employee told us in March 2024 that they asked Tetra Tech to include the degree of competition sought during procurement and a justification if competition was limited.

However, we also found that USAID/Ukraine received little to no advance notice before Tetra Tech awarded more than a third of the subcontracts we reviewed. For 7 of the 19 subcontracts in our sample (about 37 percent), the responsible mission employee was not notified in advance of the subcontract's signature date. Specifically, the mission received four notices on the same day the subcontracts were signed and three notices after the subcontracts were already signed.

¹⁰ Specifically, we selected a judgmental sample of 25 out of a total of 101 subcontracts based on dollar amount, vendor, and item representation. Nineteen of the 25 subcontracts required Tetra Tech to notify the responsible mission employee in advance. Of the remaining 6 of the 25 subcontracts we reviewed, 5 subcontracts required and obtained this employee's consent, and 1 subcontract did not require consent because it was a firm fixed-price contract below the simplified acquisition threshold.

These seven contracts had a total value of \$67.5 million. Tetra Tech staff explained that they submitted the three notices late due to wartime urgency, specifically to ensure that procured equipment was delivered during the winter heating season in Ukraine.

We found that USAID/Ukraine received little to no advance notice for the subcontracts because it did not define the submission deadline for 15 months after advance notification became a requirement. Specifically, USAID/Ukraine did not clarify the term “reasonably in advance” in the December 2022 contract modification that established the advance notification requirement or in the subsequent contract modifications. In March 2024, in response to a subcontracting notice received one day before contract signing and ambiguity around the submission deadline, USAID/Ukraine directed Tetra Tech via email to provide the mission with the notices 5 business days in advance to ensure adequate review time. The responsible mission employee told us that in response to this email directive, Tetra Tech requested flexibility in the requirement due to the fast pace of wartime procurements. The official added that USAID/Ukraine asked Tetra Tech to make its best efforts to adhere to the 5-day deadline, and that Tetra Tech has made efforts to comply with this direction.

While USAID/Ukraine has defined “reasonably in advance” for the Project, it has not defined “reasonably in advance” in the contract for the follow-on energy project SPARC. Without a clear deadline for SPARC to enable adequate time to review the notices, USAID/Ukraine may not be able to identify and resolve potential contractual issues before subcontracts are signed. For example, the mission would need to intervene if Tetra Tech intended to award a subcontract to a vendor ineligible to receive USAID awards,¹¹ or if Tetra Tech intended to select a vendor without having obtained the appropriate level of competition.¹²

USAID/Ukraine Was Not Aware of Issues the Contractor Identified for Eleven Months

In April 2023, Tetra Tech completed an internal compliance report containing 26 findings related to the Project’s procurement process and compliance with federal requirements. However, USAID/Ukraine did not become aware of these findings until 11 months later, which hindered its ability to respond to the issues promptly.

USAID’s Automated Directives System (ADS) 596 establishes that USAID managers are responsible for assessing and monitoring controls. Further, the policy states that USAID managers are responsible for evaluating findings from audits and other reviews, determining corrective actions, and implementing those actions promptly.¹³

¹¹ A vendor may be found ineligible for a subcontract under different circumstances, such as if the vendor is debarred or suspended (FAR 52.209-6), or if the subcontract involves supplies or services from prohibited sources (FAR 25.701).

¹² Per FAR 52.244-5, “Competition in Subcontracting,” except for certain circumstances, prime contractors must select subcontractors on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract.

¹³ ADS Chapter 596.3.4, “Management’s Responsibility to Continuously Monitor, Assess and Improve Internal Control,” March 2023.

Tetra Tech conducted the internal compliance review as part of the Project’s audit function.¹⁴ The Project contract did not require Tetra Tech to perform the review. However, in February 2023, a Tetra Tech official explained to the responsible mission employee that the review would provide assurance to USAID and Tetra Tech’s management that Tetra Tech conducted procurements in compliance with applicable rules and regulations. Additionally, the official stated that the review would assist USAID in its determination to extend authority for Tetra Tech to use its approved purchasing system for future procurements. The resulting internal compliance report focused on the effectiveness of the Project’s internal controls and compliance with federal requirements. It also highlighted various risks in the Project’s procurement process, as illustrated in Table 2.

Table 2. Sample of Risks Identified by Tetra Tech in the Energy Security Project Procurement Process

Finding Details	Risk Identified by Tetra Tech
Tetra Tech executed some contracts prior to finalizing the necessary paperwork and receiving internal approvals.	Lack of adherence to internal controls could create significant risk related to the Project’s ability to execute procurements under its approved purchasing system.
Tetra Tech did not consistently save anti-terrorism verification and additional due diligence checks in the project files. ^a	Continued inconsistencies in how the Project is conducting these searches could lead to unnecessary risk to the organization.
Tetra Tech did not always keep evidence of past performance reference checks (when applicable) on file.	The Project risks not being able to substantiate the assessments being made about vendors during the proposal evaluation stage.
Generally, technical evaluation committees were comprised of individuals who worked closely on the same technical teams.	This may create the risk where individuals who normally work together feel pressured to align evaluation scores with those of their supervisor or peers.

^a We reviewed anti-terrorism verifications and additional due diligence results in project files to determine whether Tetra Tech checked if potential subcontractors were debarred, suspended, or sanctioned by the U.S. Government. We found no issues concerning these checks. Source: OIG analysis of the Project’s internal compliance report.

As of March 22, 2024, Tetra Tech reported that it had closed or completed 22 of the 26 procurement findings in the report. However, instead of closing the findings promptly, Tetra Tech shifted some deadlines for recommendation closure by 8 to 12 months. Tetra Tech initially planned to close all the findings by July 2023, but it later revised the due date for 11 actions to March or June 2024. For example, Tetra Tech initially stated that it would recruit a cost and pricing specialist in June 2023 to address deficiencies in internal cost estimates. The company later moved this closure date to June 2024. Tetra Tech explained that delays in implementing the recommendations were due to competing demands on its staff to complete

¹⁴ Tetra Tech explained that the Project has its own audit function, which is aimed at ensuring compliance with federal and USAID contractual and regulatory requirements, avoiding corruption, and performing annual compliance reviews to identify and address weaknesses in the Project and SPARC procurement programs.

urgent purchases. Tetra Tech also noted that preparing training and briefing materials took longer than anticipated.

During our visit to Ukraine in April 2024, the responsible mission employee told us that they were not aware of the internal compliance report. Tetra Tech did not provide USAID/Ukraine with a summary of the findings and the full compliance report until March and June 2024, respectively. We found that the lack of a contract clause directing Tetra Tech to promptly inform USAID/Ukraine of instances of noncompliance, compounded by staff turnover,¹⁵ led the mission to be unaware of the report findings for 11 months after completion.¹⁶ As a result, USAID/Ukraine was unable to evaluate the compliance issues and ensure that Tetra Tech took corrective actions on a timely basis consistent with ADS 596 requirements. Further, according to the responsible mission employee, USAID/Ukraine had no standard procedures to follow up on the contractor's internal compliance findings.

In June 2024, after the audit team brought the compliance report to USAID/Ukraine's attention, a responsible mission employee stated that they were looking into the details of the report and would take remedial actions to address prior issues. Also in June 2024, USAID/Ukraine modified the Project's contract with a new requirement for Tetra Tech to promptly inform the mission of any instances of procurement noncompliance and provide remedies or alternative solutions. USAID/Ukraine also incorporated this requirement into the follow-on energy contract, SPARC, awarded to Tetra Tech.

Because USAID/Ukraine updated these contract requirements, we are not making a recommendation to ensure that procurement noncompliance issues are reported to the responsible mission employee in a timely manner. However, standard procedures to follow up on such noncompliance issues would ensure that USAID/Ukraine addresses identified issues promptly as required by ADS 596.

USAID/Ukraine Did Not Perform a Required Assessment for a Subcontract with a Ukrainian Government-Controlled Company for Which It Later Identified Vulnerabilities

USAID policies require the completion of an assessment called a determination and findings (D&F) before a contractor awards a subcontract to an enterprise in which a foreign government has a controlling interest. However, USAID/Ukraine did not perform the required D&F before Tetra Tech awarded a subcontract to a Ukrainian government-controlled company that had known vulnerabilities.

Under the Code of Federal Regulations (CFR), foreign government-controlled companies are not eligible to become suppliers unless USAID approves an eligibility waiver.¹⁷ In addition, ADS

¹⁵ One responsible mission employee received a presentation from Tetra Tech about the compliance review in March 2023 prior to report completion. However, there were multiple staff changes in the summer of 2023, and the subsequent employee taking on that role did not receive the report from Tetra Tech.

¹⁶ According to the responsible mission employee, the mandatory disclosure requirements in the contract require the contractor to disclose any fraud, waste, abuse, or violation of law. Absent these issues, the contractor would not be required to provide the report to USAID/Ukraine unless otherwise specifically required in the contract.

¹⁷ 22 CFR § 228.13.

302 establishes USAID policy requirements for contracting and subcontracting with a foreign governmental organization. For subcontracts, ADS 302.3.3 stipulates the contractor must request approval to subcontract with a foreign parastatal organization¹⁸ and a D&F must be approved prior to subcontract consent.¹⁹ Among other requirements, the mission must address the following elements in the D&F:

- An explanation of why the organization is the most appropriate source of supply.
- A statement regarding the adequacy of the responsibility determination performed by the prime contractor.
- A statement from the mission director indicating that making the award is in the best interest of the government.

Additionally, the D&F is subject to clearance by the USAID Senior Procurement Executive if the subcontract is valued at or above \$500,000.

In July 2023, the USAID/Ukraine mission director signed a waiver allowing Tetra Tech to procure equipment from a foreign government-controlled organization, in alignment with Federal regulations. Subsequently, Tetra Tech awarded a \$17.5 million subcontract for energy equipment to a Ukrainian government-controlled company. However, USAID/Ukraine did not prepare a D&F in alignment with USAID policy because the mission believed a D&F was not required.

Although USAID/Ukraine determined that the company was government-controlled for the waiver required by the applicable CFR, the mission determined that the Government of Ukraine did not have sufficient controlling interest to require the D&F. According to the mission, ambiguous ADS 302 definitions of foreign government control led to this decision. After the mission made this decision, one USAID/Ukraine stakeholder noted that this interpretation would create a loophole in USAID policies if adopted. In contrast, we concluded that a D&F should have been prepared based on our review of USAID policies and consultation with the USAID's Office of Acquisition and Assistance and OIG's Office of General Counsel.

In September 2023, upon learning about potential irregularities with this subcontract, a responsible mission employee for the Project performed an ad hoc review of Tetra Tech's subcontract procurement process for the government-controlled company. As a result of this review, the employee identified six vulnerabilities. For example, the employee reported various issues related to the company's responsibility, including questionable profit margins, need for advanced payment, and changes to its bid after being notified it was the successful bidder.²⁰ The

¹⁸ Per ADS 302.3.3, foreign government-owned parastatal organizations are firms operated as commercial companies in which foreign governments or foreign agencies have a controlling interest.

¹⁹ FAR 1.701 defines D&F as a special form of written approval by an authorized official that is required by statute or regulation as a prerequisite to taking certain contract actions. The "determination" is a conclusion or decision supported by the "findings" that the proposed action is justified. The findings are statements of fact or rationale essential to support the determination.

²⁰ FAR 9.104-1 establishes requirements for a contractor to be determined responsible. For example, a prospective contractor must have adequate financial resources, be able to comply with the proposed delivery schedule, have a record of satisfactory integrity and business ethics, and be otherwise eligible to receive an award.

employee also identified vulnerabilities in the subcontract procurement process, such as influence by USAID at the solicitation phase to allow the company to participate, potentially causing Tetra Tech staff to infer the Agency preferred the company.²¹

USAID/Ukraine reported it took corrective actions to address all six vulnerabilities.²² Among other things, the mission modified the award to require Tetra Tech to obtain consent from the responsible mission employee for subcontracts with a state-owned enterprise. See Appendix B for a more detailed discussion of the vulnerabilities identified and corrective actions taken by USAID/Ukraine. The mission employee who performed the review of the procurement process also recommended that a D&F be performed for future procurements. However, we found that a risk of noncompliance with USAID policy persists due to the mission's previous decision not to perform a D&F.

If USAID/Ukraine had performed a D&F, the procurement process for the company would have been subjected to a higher level of scrutiny prior to execution, which would have allowed the mission to mitigate some of the identified vulnerabilities before Tetra Tech awarded the subcontract. Particularly, the D&F would have required the mission to explain why the company was the most appropriate source of supply and why the corresponding award was in the best interest of the government despite problems with the company, such as questionable financial information, past insolvency, and previous ownership by an oligarch. A Tetra Tech staff member explained that Tetra Tech had few remedies to recover government funding if the company ceased production prior to final delivery because there was no advance payment guarantee and the contract schedule required full payment prior to delivery of the equipment.²³

In addition, the D&F would have required USAID/Ukraine to document how the mission or Tetra Tech would handle or mitigate potential issues such as nonperformance, fraud, or funds mismanagement in relation to the subcontract. Further, the higher level of scrutiny and clearance required by the D&F would have allowed the mission to mitigate any perception of influence or preference when a USAID stakeholder provided instructions allowing the subcontractor to participate during the solicitation phase.

USAID/Ukraine Verified the Delivery of Sampled Energy Equipment and Materials, but Information Gaps Exist and Not All Inventory and Property Requirements Were Met

USAID/Ukraine verified the delivery of sampled energy equipment and materials through several monitoring efforts. However, we found gaps in these efforts that limited the information

²¹ A USAID/Ukraine stakeholder provided instructions to Tetra Tech allowing the subcontractor to compete a day after Tetra Tech notified interested parties that bidders were not eligible to bid if they were owned or controlled by any government.

²² We did not perform testing to confirm Tetra Tech's implementation of the corrective actions.

²³ We found that the government-controlled company delivered all procured energy equipment in 2024, though the equipment was delivered an average of 52 days after the contractual delivery date. We did not perform procedures to determine the reasonableness of the delay.

available for oversight. In particular, we found that monitoring efforts were limited in geographic coverage and focused on a few types of equipment. In addition, we found that Tetra Tech did not address inventory and property requirements for all delivered equipment.

USAID/Ukraine Used Several Monitoring Efforts to Verify and Identify Issues With the Delivery of Energy Equipment and Materials

USAID/Ukraine used multiple monitoring efforts to verify that energy equipment and materials reached the intended recipients, were in operation, and were being used as intended. USAID's risk management policies require management to implement internal controls to reasonably verify the effectiveness and efficiency of operations, compliance with applicable laws, and safeguarding of assets.²⁴ We found that USAID/Ukraine used a combination of management reviews conducted by Tetra Tech and recipient feedback gathered by a third-party monitor to verify the delivery of energy equipment and materials, in alignment with these policies.

Multiple USAID policies emphasize the importance of program monitoring. For example, ADS 201 describes program monitoring as a key component of performance management²⁵ and ADS 596 requires USAID managers and staff to assess and monitor controls through audits, reviews, or other methods. Recognizing that insecurity and conflict constrain USAID personnel's ability to conduct direct observations, USAID's policies allow staff to remotely monitor projects and use third-party monitors to support oversight.

Due to the ongoing war and security procedures implemented by the U.S. Embassy in Ukraine, USAID/Ukraine staff had limited ability to travel outside of Kyiv to verify the delivery of energy equipment and materials. As an alternative, the mission utilized third-party monitoring conducted by EnCompass and field audits conducted by Tetra Tech to verify delivery of energy equipment.²⁶ In addition, the employee responsible for the Project reported that the mission reviewed recipient documentation for certain materials, such as salt and methanol, conducted virtual reviews of transformer production, and held meetings with Government of Ukraine recipients to assess their satisfaction with the support provided by Tetra Tech.

We reviewed monitoring reports that Tetra Tech and the third-party monitor, EnCompass, produced from February 2022 to February 2024. In total, EnCompass and Tetra Tech produced 27 monitoring reports on the Project for USAID/Ukraine during this 2-year period and conducted 242 verifications.²⁷ Tetra Tech and EnCompass performed 81 percent of these verifications in person. We found that EnCompass and Tetra Tech generally verified that

²⁴ USAID, ADS, Chapter 596, "Management's Responsibility for Enterprise Risk Management and Internal Control," partial revision, March 9, 2023.

²⁵ USAID, ADS, Chapter 201, "Program Cycle Operational Policy," partial revision, July 17, 2024.

²⁶ USAID/Ukraine hired an additional third-party monitor, Grafikaprom LLC, through a \$9,200 purchase order to inspect 330 generators the mission delivered under multiple activities, including the Project. We found that some photos associated with the 137 verifications that Grafikaprom LLC conducted of the Project's generators did not include legible serial numbers. As a result, we determined that these data were not sufficiently reliable and did not include Grafikaprom LLC's monitoring effort in our count of verifications.

²⁷ We defined verification as a set of activities (e.g., site visit and document review) intended to verify the delivery and use of a selected piece of equipment or materials at a specific location.

selected goods were delivered to intended recipients and identified useful information that USAID/Ukraine could use to make decisions about future procurements (see Table 3).

Table 3. Operational Issues Identified by Tetra Tech and EnCompass

Date	Monitor	Issue
May, July 2023	EnCompass	Recipients reported concerns over the availability of spare parts and technical support for drones, as well as their utility, because of their susceptibility to electronic warfare.
January 2024	Tetra Tech	Thirty mobile boiler houses were undergoing modification by the vendor because attached trailers were not certified to carry the boiler houses' weight.
February 2024	Tetra Tech	One pump delivered to a boiler house was removed from service by the recipient because it wasn't functioning properly.

Source: OIG analysis of EnCompass and Tetra Tech monitoring reports.

Similarly, through our testing and site visits from February to April 2024,²⁸ we found that all the equipment and materials we observed (21 of 21 inventory line items) were delivered to the correct recipients and that all recipients were either “somewhat” or “very satisfied” with the goods they received.²⁹ For example, Figure I shows a photo of Tetra Tech-purchased pipes used to transport hot water for heating in a city in Ukraine and a photo of a bucket truck used for the repair and maintenance of local utility infrastructure. Recipients stated that they were “very satisfied” with these goods.

²⁸ Due to security considerations, we selected goods for testing based on their proximity to Kyiv. To ensure a greater diversity in our sample, we also sought to include a variety of item types. Because of rapidly changing security conditions, our sample had to be adjusted several times during the audit.

²⁹ The audit team only asked this question to 19 recipients. Since we visited a gas turbine and associated components prior to completing installation, we did not determine whether recipients were satisfied with the equipment.

Figure 1. Examples of Energy Equipment in Ukraine Purchased Through the Energy Security Project



Left: Pipes purchased by Tetra Tech transport hot water in a Ukrainian city. Right: A bucket truck purchased by Tetra Tech supports maintenance work on powerlines next to a rural road in Ukraine. Photo credits: OIG (April 2024).

Like EnCompass' and Tetra Tech's monitors, we also observed issues affecting the operational use of purchased equipment in our testing, as shown in Table 4.

Table 4. Operational Issues Identified by OIG's Audit Team

Date	Issue
February 2024	The recipients reported that they were unable to obtain cold weather add-ons for a generator's battery from the manufacturer because the components were not available in Ukraine. They developed an alternative solution to enable startup during cold winter months.
February 2024	Tetra Tech delivered an approximately \$15 million gas-powered turbine in January 2023, but it was not yet operational at the time of our visit. ^a According to Tetra Tech and USAID/Ukraine personnel, delays in site selection and the shipment of certain parts, as well as other technical and regulatory challenges, led to the yearlong build-time.
April 2024	Recipients of a boiler house stated that the manufacturer never provided startup and calibration testing. As a result, staff bypassed the computerized controls when operating the boiler house due to a lack of training and calibration. According to recipients, these modifications decrease the fuel efficiency of the boiler house. ^b

^a According to a mission employee, the turbine was tested and certified as operational soon after our visit in February 2024. Tetra Tech's field audit team conducted a follow-up visit in May 2024 and verified that the turbine was operational.

^b In May 2024, Tetra Tech's field audit team followed up with the recipients and recommended that they use the warranty terms to ensure the functionality of the automated system.

Source: OIG direct observations.

USAID/Ukraine’s Monitoring Efforts Were Limited in Geographic Coverage and Focused on Certain Equipment Categories

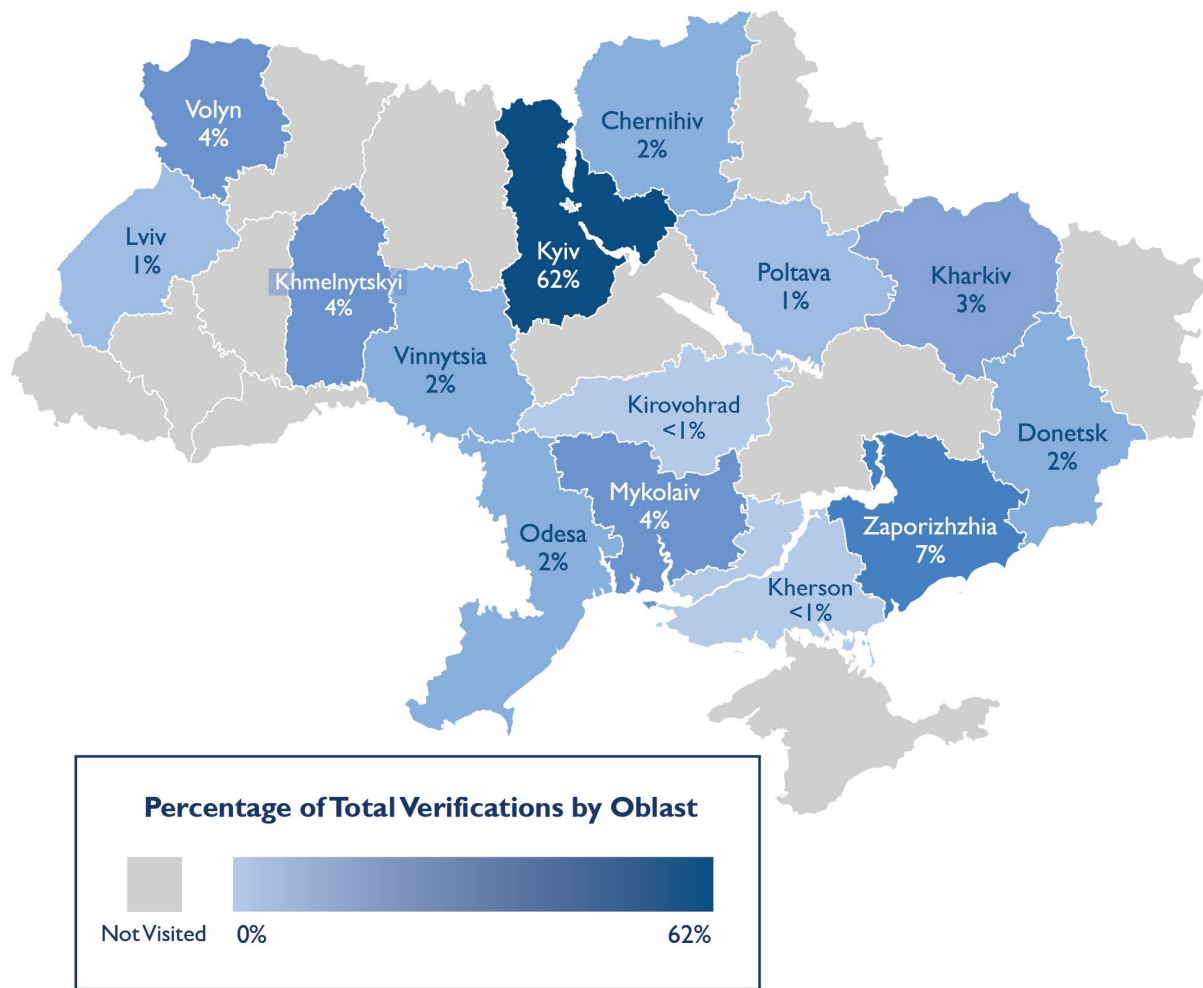
Federal standards for internal control require management to use quality information to achieve objectives and address risks.³⁰ Although USAID/Ukraine’s monitoring efforts produced useful information on Tetra Tech’s delivery of energy equipment and materials, we found gaps that limit their utility. Specifically, we found that the majority of Tetra Tech and EnCompass verifications took place in Kyiv oblast³¹ and focused extensively on certain types of goods.

As seen in Figure 2, Tetra Tech and EnCompass completed nearly two-thirds of delivery verifications in Kyiv oblast (151 of 242, or 62 percent of all verifications). Zaporizhzhia had the second highest number of verifications with 7 percent, while Tetra Tech and EnCompass conducted 5 percent or fewer verifications in the remaining Ukrainian oblasts. A responsible mission employee confirmed that USAID/Ukraine was aware of the emphasis on Kyiv for delivery verifications and planned to focus additional third-party monitoring on difficult-to-reach oblasts in 2024.

³⁰ U.S. Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government* (GAO-14704G), Principle 13, “Use Quality Information,” September 2014.

³¹ Ukraine is divided into 24 provinces known as oblasts, one autonomous republic, and two municipalities with oblast status. For the purposes of our analysis, we did not separate Kyiv City municipality from Kyiv oblast.

Figure 2. Tetra Tech and EnCompass Delivery Verifications Conducted in Ukraine, by Oblast, as of February 2024



Note: Percentages do not total 100 due to rounding and because 5 percent of verifications did not specify location.
 Source: OIG analysis of third-party and Tetra Tech monitoring reports.

In addition, EnCompass and Tetra Tech monitoring efforts focused extensively on certain types of goods. Most verifications were for generators (56 percent), drones (14 percent), and boiler houses (8 percent). Monitors conducted no verifications for cogeneration units and fewer verifications for electrical equipment (1 percent) as of February 2024, despite these categories making up about 8 and 11 percent, respectively, of the total cost of delivered items as of December 2023. Appendix C provides additional details on the share of verifications by equipment type.

We acknowledge that USAID/Ukraine has no control over the security situation in Ukraine, which impacts the areas monitors are able to visit. However, we found that USAID/Ukraine lacked a formal plan to coordinate the disparate monitoring efforts, which also contributed to the gaps in coverage described above. For example, Tetra Tech’s field auditors conducted an initial set of verifications in April and May 2023 based on ad-hoc planning that did not involve

EnCompass. EnCompass staff stated that they discussed monitoring priorities with USAID/Ukraine and Tetra Tech, but USAID/Ukraine focused their 2023 verifications on limited types of equipment.³² The following constraints also impacted Tetra Tech's and EnCompass' verifications:

- *Security Constraints:* Security constraints limited Tetra Tech's activities to areas near the Kyiv region in both 2023 and 2024. EnCompass reported that security constraints also impacted its 2023 verifications. However, a responsible mission employee stated that EnCompass would be able to verify deliveries in additional oblasts in 2024 because it employed local field monitors.
- *Scope of Verifications:* USAID/Ukraine limited EnCompass' 2023 verifications to generators, excavators, and drones as part of a pilot study of third-party monitoring. EnCompass prioritized sites that received multiple types of equipment, but did not prioritize specific regions in Ukraine. Tetra Tech included more types of goods in its review and made verification decisions based on site accessibility and the value of delivered equipment.
- *Frequency of Verifications:* Tetra Tech completed a single set of verifications in April and May of 2023. In 2024, Tetra Tech began conducting monthly verifications. In contrast, EnCompass performed a pilot study of verifications from May to September 2023, but as of June 2024 had not completed any additional verifications. A responsible mission employee stated that USAID/Ukraine updated EnCompass' third-party monitoring contract for 2024, but as of June 2024, EnCompass had not finalized its site visit plan for the year.

Without a comprehensive plan to coordinate disparate monitoring efforts that addresses gaps in geographic coverage and types of equipment verified, USAID/Ukraine will continue to have gaps in its verification. These gaps affect USAID/Ukraine's ability to monitor purchased equipment and materials to determine whether goods were delivered to the correct recipients and are being used as intended. While we acknowledge that no plan will be able to fully resolve security limitations for in-person site visits, we found that monitors successfully completed remote verifications in addition to in-person site visits during the period under review.

The Energy Security Project Contractor Did Not Consistently Meet Inventory and Property Requirements for Sampled Goods

We found that for sampled goods, Tetra Tech did not take the necessary steps to meet its requirements for inventory, branding, and property transfer. Tetra Tech's procurement manual requires the Project to maintain an inventory of purchased goods, obtain signed forms of recipient delivery acceptance and transfer of property ownership, and ensure that purchased goods have appropriate USAID branding.³³ We found that nearly half of the goods we tested (10 of 21, or 48 percent) had no recorded serial number in Tetra Tech's inventory system,

³² According to USAID/Ukraine, the mission did not seek to avoid overlap between EnCompass and Tetra Tech verifications because EnCompass verifications serve as an independent check of Tetra Tech's verifications.

³³ Tetra Tech ES, Inc., Procurement Manual (revision 2), January 28, 2020.

43 percent lacked branding (see example in Figure 3), and roughly 10 percent of all tested goods lacked the appropriate signed acceptance or title transfer forms.³⁴

Figure 3. Comparison of Purchased Generators With and Without USAID Branding



Left: A Tetra Tech-purchased generator without a USAID decal in temporary storage at a local Ukrainian facility. Right: A Tetra Tech-purchased generator with a USAID decal in use as an emergency power source at a local Ukrainian hospital.

Photo credits: OIG (April 2024).

For example, Tetra Tech’s inventory list stated “N/A” for the serial number for two boiler houses, but we found that each had a unique numerical identifier during our April 2024 site visits in Ukraine. In addition, Tetra Tech did not obtain the required fully signed acceptance forms from the recipient of a \$15 million gas turbine due to discrepancies in the property accounting and customs forms. These findings reflect persistent issues identified in other verification reporting, as shown in Table 5.

Table 5. Compliance Issues Identified by Monitors

Issues Identified	Tetra Tech	EnCompass
Serial Numbers	<p>In June 2023, Tetra Tech’s field audit team reported that it identified missing serial numbers in property transfer documents and that the Project database was missing serial numbers for equipment.</p> <p>In January 2024, Tetra Tech reported that serial numbers were missing from 26 of 45 title transfer forms and 15 of 42 acceptance forms.</p>	<p>Throughout 2023 reporting, EnCompass identified 8 of 94 goods with errors in serial numbers reported in Tetra Tech’s inventory list.</p>
Branding	<p>In June 2023, Tetra Tech’s field audit team reported that 31 of 70 verified goods lacked USAID branding.</p>	<p>Throughout 2023 reporting, EnCompass reported that 49 of 94 verified goods lacked USAID branding.</p>

³⁴ Specifically, 10 percent of goods lacked signed acceptance forms and 14 percent lacked the signed title transfer forms.

Issues Identified	Tetra Tech	EnCompass
	In January 2024, Tetra Tech’s field audit team reported that 19 of 50 verified goods lacked USAID branding.	
Title Transfer	In January and February 2024, Tetra Tech reported that title transfer documentation was missing or incomplete for seven generators.	EnCompass did not check whether acceptance and title transfer forms were completed as part of its verifications.

Source: OIG analysis of Tetra Tech and EnCompass reporting.

EnCompass and Tetra Tech’s field auditors attributed these deficiencies to human error or lack of sufficient controls. For example:

- *Human Error:* In one instance, a Tetra Tech staff member attributed acceptance documentation issues for the gas turbine to errors made by the shipping company, which repackaged certain spare parts, leading to confusion when reconciling the equipment lists. In another instance, EnCompass attributed a discrepancy with a closely matching but inaccurate serial number as a typographical error.
- *Lack of Sufficient Controls:* For inventory, a Tetra Tech staff member explained that staff had no written standard operating procedure on what documentation to use when entering serial numbers into the inventory. The field audit team recommended that all handover documents include serial numbers to improve tracking.

As of June 2024, Tetra Tech had not yet completed corrective actions for all deficiencies identified in 2023. For example:

- In June 2023, Tetra Tech found inventory inaccuracies and made three recommendations to improve tracking. One year later, Tetra Tech reported that only one of the three recommendations had been closed. Tetra Tech reported that its inventory review to correct serial numbers had not yet been completed, and it had not yet incorporated a contractual requirement for vendors to submit photos when accepting deliveries.
- Both Tetra Tech and EnCompass identified equipment lacking USAID branding in their 2023 verifications, but Tetra Tech did not make any recommendations on branding in its June 2023 report. In January 2024, Tetra Tech’s field audit team again found equipment missing USAID branding and recommended integrating branding as a requirement in the procurement process. While Tetra Tech reported it closed this finding in June 2024, it reported that it was still working on branding issues related to previously delivered items.

We found that these shortcomings persisted over time because USAID/Ukraine lacked a centralized and formal monitoring system to track the issues Tetra Tech and EnCompass identified. ADS 596 establishes USAID’s responsibility for assessing and monitoring internal controls for USAID programs using a variety of information sources. It states that USAID managers are responsible for promptly evaluating findings from audits and other reviews and

determining and implementing corrective actions that resolve issues brought to management's attention.³⁵

While Tetra Tech began providing a summary of verification findings in a spreadsheet to responsible mission personnel in March 2024, EnCompass only documented findings in its site visit reports and did not develop a tracking system to monitor findings. Mission personnel said they reviewed verification reporting, and one responsible mission employee stated that they provided feedback to Tetra Tech and followed up on systemic issues. However, we found that USAID/Ukraine did not have a formal tool to track and monitor the findings across the disparate verification efforts, and it was unclear how often the reports were reviewed by USAID stakeholders throughout 2023. The mission did not begin following up on Tetra Tech's verification findings until May 2024, and a responsible mission employee was unaware of any mission tracking of EnCompass' 2023 findings.

Without a unified monitoring system to capture information from multiple reporting mechanisms, USAID/Ukraine may miss opportunities to correct newly identified or persistent deficiencies. This increases the risks of noncompliance with applicable laws and requirements, as well as the possibility of fraud, waste, and abuse of USAID's contributions to support Ukraine's energy infrastructure.

Conclusion

The Energy Security Project has played a critical role addressing the needs of the Ukrainian energy sector following Russia's full-scale invasion. USAID has budgeted more than \$1.3 billion to respond to wartime energy needs in Ukraine and procure equipment and materials to repair and reconstruct Ukraine's energy network after continual Russian attacks. While the Project was implemented by Tetra Tech, a contractor with an approved purchasing system, USAID/Ukraine did not ensure that Tetra Tech complied with federal requirements for subcontracting notices. USAID/Ukraine also missed opportunities to minimize risks in the procurement process and to reduce information gaps in equipment verification procedures. Due to the urgency of energy procurements and the interplay among various stakeholders involved in equipment monitoring efforts in Ukraine, it is critical for the mission to establish clear oversight policies, procedures, and monitoring plans to safeguard the integrity of these initiatives and achieve their goals.

Recommendations

We recommend that the USAID Mission Director for Ukraine take the following actions:

1. Develop standard guidance for the Securing Power, Advancing Resilience and Connectivity Activity that defines a "reasonably in advance" subcontract notification and stresses that urgent procurements are not exempt from this requirement.

³⁵ USAID, ADS, Chapter 596, "Management's Responsibility for Enterprise Risk Management and Internal Control," partial revision, March 9, 2023.

2. Implement procurement oversight policies and procedures for the Energy Security Project and the Securing Power, Advancing Resilience and Connectivity Activity to track and ensure corrective actions are taken to respond to the risks and procurement issues the contractor identifies.
3. Implement a comprehensive monitoring plan for items procured through the Energy Security Project and the Securing Power, Advancing Resilience and Connectivity Activity, to ensure that verification processes are aligned to track progress toward intended outcomes and address any identified gaps.
4. Implement a unified system to track, monitor, and address findings and recommendations from Energy Security Project and Securing Power, Advancing Resilience and Connectivity Activity delivery verification efforts.

We recommend that the USAID Office of General Counsel take the following action:

5. Coordinate with the Office of Acquisition and Assistance to define and communicate what factors should be considered when determining whether a foreign government has a controlling interest in an organization for the purposes of ADS 302.3.3.

OIG Response to Agency Comments

We provided our draft report to USAID on January 24, 2025. On March 14, 2025, we received the Agency's response, which is included as Appendix D of this report. The Agency also provided technical comments, which we considered and incorporated as appropriate.

The report included five recommendations. USAID agreed with all five recommendations. We consider two of them closed (recommendations 1 and 2), one resolved but open pending completion of planned activities (recommendation 5), and two open and unresolved (recommendations 3 and 4).

We acknowledge management decisions on all but two recommendations. We acknowledge management decisions on recommendations 1, 2, and 5. However, we do not acknowledge management decisions on recommendations 3 and 4 for the reasons below.

For recommendation 3, USAID/Ukraine provided its January 2025 third-party monitoring policy, which covered the Energy Security Project and the Securing Power, Advancing Resilience, and Connectivity activity, and asked for the recommendation to be closed upon issuance of the audit report. However, USAID/Ukraine's third-party monitoring contract was terminated on February 26, 2025, pursuant to a directive from the Secretary of State. Consequently, the mission needs to provide a revised action plan and target date to close the recommendation.

For recommendation 4, USAID/Ukraine provided a template for a tracker to track, monitor, and address findings for the energy projects' delivery verification. However, USAID/Ukraine's award for the Energy Security Project was terminated on February 26, 2025, pursuant to the Secretary of State's directive. In addition, the mission reported that the Securing Power, Advancing Resilience, and Connectivity activity has not yet delivered energy equipment. As a result, USAID/Ukraine needs to provide an updated target date and evidence of implementing its tracker to close the recommendation.

Appendix A. Scope and Methodology

We conducted our work from October 2023 through January 2025 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted this audit to (1) assess USAID/Ukraine's oversight of the Energy Security Project's procurement process and (2) determine the extent to which USAID/Ukraine verified that the Project delivered equipment and materials to recipients as intended.

In planning and performing the audit, we gained an understanding and assessed internal controls that were significant to the audit objectives. Specifically, we designed and conducted procedures related to three of the five components of internal control as defined by the U.S. Government Accountability Office (GAO).³⁶ These were Control Activities, Information and Communication, and Monitoring.

The audit focused on the procurement and delivery of energy equipment and materials under the Project. The audit covered the period from Russia's invasion of Ukraine in February 2022 to June 2024. We conducted our audit in Frankfurt, Germany, and multiple locations in the United States. In addition, we conducted site visits in the Kyiv oblast of Ukraine in February and April 2024.

To answer both audit objectives, we identified relevant criteria through a review of GAO's Standards for Internal Control in the Federal Government, USAID's Automated Directives System, and the Federal Acquisition Regulation. We interviewed USAID/Ukraine personnel with roles related to oversight of the Project's procurement process and a staff member from USAID's Bureau for Management, Office of Acquisition and Assistance. In addition, we interviewed Tetra Tech personnel responsible for contracting, procurement and grants, logistics, internal audits, and delivery verifications for the Project, as well as the chief of party.

To develop our sample of subcontracts and equipment for review, we relied on computer-processed data for the Project's subcontract and inventory information. To check the reliability of the project's subcontract data, we judgmentally selected 7 subcontracts from a population of 54 contracts completed as of October 2023 based on dollar amount, location, and commodity type, and traced their information to source documents to verify the accuracy of relevant data elements. Additionally, we cross-checked this data with the project's inventory data. While the results of our testing cannot be generalized to the population of subcontracts, we determined that these data sets were sufficiently reliable for sampling purposes.

To address our first audit objective, we chose a judgmental sample of 25 subcontracts for energy equipment and materials. We selected this sample from the 101 subcontracts that were executed as of December 2023. When selecting our sample, we prioritized higher dollar

³⁶GAO, Standards for Internal Control in the Federal Government (GAO-14-704G), September 2014.

subcontracts while ensuring a variety of subcontract values, item types, and vendor representation. Selected subcontracts represented \$146 million, or 60 percent of the total population value (\$245 million). Our findings cannot be used to make inferences about USAID/Ukraine's oversight over other procurements. However, we determined that our method for selecting the 25 subcontracts in our sample was appropriate for our audit objectives, and that the selection would generate valid, reliable evidence for our audit findings and conclusions.

To answer audit objective one, we reviewed USAID/Ukraine's contracting policies and procedures and Tetra Tech's procurement manual to understand the procurement process. We developed a data collection instrument to assess the sampled procurement files against contract requirements for (1) USAID notification, (2) sanctioned source prohibitions, and (3) prohibitions on subcontracting with foreign government-controlled entities. Additionally, we reviewed all procurement issues identified by Tetra Tech and USAID/Ukraine within our audit period to determine whether the issues were resolved and what actions USAID/Ukraine took to follow up.

To address the second audit objective, we selected a judgmental sample of 21 inventory items delivered under the Project through December 2023, which had a total value of \$20 million. We selected this sample from a population of 2,644 items with a total value of \$101 million. We selected this sample primarily based on security restrictions in Ukraine, with a focus on items the audit team could directly observe in and around Kyiv oblast. We also prioritized having a variety of types of equipment. Our findings cannot be used to make inferences about the delivery and end use of other equipment and materials. However, we determined that our method for selecting the 21 items in our sample was appropriate for our audit objectives, and that the selection would generate valid, reliable evidence for our audit findings and conclusions.

To further assess the reliability of the Project's inventory, we compared the serial numbers in the inventory list to the selected items we directly observed, and we compared the unit cost stated in the inventory with purchase or disposition documentation. For reporting relying on the total cost of delivered equipment, the audit team considers the inventory data generally accurate; however, it may underrepresent the value of delivered pipes.

To answer audit objective two, we aggregated and compared Tetra Tech's internal monitoring efforts for the Project to USAID/Ukraine's third-party monitoring efforts to determine the extent of delivery verification. Additionally, we conducted direct observations, completed a structured questionnaire, and reviewed handover and disposition documentation for the 21 selected inventory items to determine whether the equipment conformed to inventory descriptions, was with the intended recipients, and was operating or in an acceptable condition.

Appendix B. Subcontracting Vulnerabilities of a Ukrainian Government-Controlled Energy Company and USAID/Ukraine’s Corrective Actions in Response

Vulnerability	Details	Corrective Actions
Perception of Influence	USAID/Ukraine influenced the procurement at the solicitation phase to allow the company to participate, potentially causing Tetra Tech to infer that USAID preferred the company.	Since July 2023, the mission has reminded contractors that only the responsible mission employee can provide direction beyond those authorities delegated to another staff member in the delegation letter.
Waiver Timing	USAID/Ukraine provided instructions to Tetra Tech allowing the company to compete prior to completing a waiver required by federal regulation.	In October 2023, the mission modified the Project’s award to require Tetra Tech to inform the responsible mission employee promptly if a government-controlled entity engages as a potential bidder.
Instructions to Project Staff	The responsible mission employee was not included in instructions from USAID/Ukraine to Tetra Tech allowing the company to compete.	The mission current standard contract language states that implementing partners must inform the responsible mission employee promptly if a foreign government-controlled organization engages in a procurement as a potential bidder. ^a
Subcontract Evaluation Committees	The evaluation committee for the subcontract was made up of a majority of staff from a Ukrainian entity that provides services for electricity transmission.	In January 2024, the mission provided guidance to Tetra Tech indicating there should never be a non-Tetra Tech staff majority in the evaluation committee.
The Company’s Bids	The company notified Tetra Tech that it did not have the capacity to fulfill all the lots for which it bid after all other bids had expired.	In October 2023, the mission provided guidance to Tetra Tech indicating that a vendor’s bid is ineligible if it is changed after deadline for submission.
Subcontract Responsibility Determinations	Red flags in the company’s potential responsibility, such as questionable financial information, warranted further inquiry.	In October 2023, the mission directed Tetra Tech to update its procurement manual to require responsibility determinations. Additionally, USAID/Ukraine intends to complete a determination and findings (D&F) prior to the award of any future subcontract to a qualifying organization.

^a The mission did not indicate when it revised the standard contract language to include this requirement. Source: USAID/Ukraine information memorandum and corresponding corrective actions reported by the mission.

Appendix C. Tetra Tech and EnCompass Verifications Completed as of February 2024

Equipment Type	Percentage of Total Value of Deliveries ^a	Percentage of Total Verifications
Turbine ^b	16%	<1%
Generator	11%	56%
Electrical Equipment	11%	1%
Shelter Kits	11%	<1%
Boiler Houses	10%	8%
Pipes and Valves ^c	10%	1%
Chemicals	9%	7%
Cogeneration Units	8%	None
Other	6%	2%
Vehicle	4%	2%
Excavator	3%	7%
Backhoe Loaders	<1%	None
Drones	<1%	14%

^a Measured as the percentage of the total cost of equipment delivered in each category as of December 2023. These percentages are approximate. The percentages don't total 100 due to rounding.

^b One turbine was procured under the Energy Security Project. It was verified once, resulting in <1% of total delivery verifications. However, we do not expect multiple verifications of a single piece of equipment.

^c We tested a sample of 21 items in the inventory to compare the total cost listed in the inventory to source documentation. We found that pipes and valves may be underrepresented.

Source: OIG analysis of Tetra Tech inventory and EnCompass and Tetra Tech site visit reports.

Appendix D. Agency Comments

MEMORANDUM



TO: Toayoa D. Aldridge - Assistant Inspector General

Office of Audits, Inspections, and Evaluations

FROM: Julie Nenon - Acting Mission Director, USAID/Ukraine

Rich Guy - General Counsel, USAID

DATE: March 13, 2025

SUBJECT: Management Comments to Respond to the Draft Audit Report Produced by the Office of Inspector General (OIG) titled, Ukraine Response: Action Needed to Enhance Oversight of Energy Procurements (Task No. 881U0323)

The U.S. Agency for International Development (USAID) would like to thank the Office of Inspector General (OIG) for the opportunity to provide comments on the subject draft report.

While we continue to respond to OIG's audit findings and recommendations, please note that pending changes in foreign assistance policies, programming, and staffing may impact the Mission's and the Agency's ability and timing in implementing them.

As a general matter, to ensure that the OIG's findings are appropriately interpreted within context upon publication, we request that the audit report notes that, at the time of the issuance of this report, USAID/Ukraine has addressed four recommendations (the fifth being beyond the Mission's purview).

*In addition, we strongly request that the "What We Found" Executive Summary of the report include language to the effect that during the course of the audit, **the OIG identified no actual fraud, waste, or abuse, as well as no negligence on the part of USAID staff.***

USAID’s MANAGEMENT RESPONSE TO THE RECOMMENDATIONS CONTAINED IN THE DRAFT AUDIT REPORT

The audit draft report contains four recommendations for the USAID/Ukraine Mission and one recommendation addressed to the USAID Office of General Counsel (GC). The Agency agrees with the recommendations, reports on significant progress already made to address the recommendations, and herein provides plans for implementing the recommendation directed to the GC.

Please find below the Management’s response to the recommendations contained in the draft audit report produced by the OIG.

Recommendation No. 1

Develop standard guidance for the Securing Power, Advancing Resilience and Connectivity Activity that defines a “reasonably in advance” subcontract notification and stresses that urgent procurements are not exempt from this requirement.

Management Response:

The Mission agrees with the recommendation. The Securing Power, Advancing Resilience and Connectivity Activity (SPARC) was modified through Modification No. 2 in October 2024 to define “reasonably in advance” included in subcontract notification.

The draft audit report notes on page 6 para 1 and page 7 para 2 that USAID/Ukraine received little to no advance notice before Tetra Tech awarded seven subcontracts in its sample with a total value of \$67.5 million and as a result, had limited opportunity to identify and resolve potential contractual issues before the subcontracts were awarded.

USAID/Ukraine would like to highlight that no specific performance issues were identified by the OIG with respect to these sampled subcontracts.

Target Completion Date:

Since the recommended action has already been implemented, we request that the OIG close this recommendation upon issuance of the final audit report.

Recommendation No. 2

Implement procurement oversight policies and procedures for the Energy Security Project and the Securing Power, Advancing Resilience and Connectivity Activity to track and ensure corrective actions are taken to respond to the risks and procurement issues the contractor identifies.

Management Response:

The Mission agrees with the recommendation. In August 2024, the USAID Office of Acquisition and Assistance (OAA) introduced Standard Operating Procedures (SOP) for procurement

oversight related to the Energy Security Project (ESP) and the SPARC activity through periodic spot checks, ensuring compliance with approved actions and documenting results. The SOP is provided as an annex to these management comments.

The draft audit report notes that in August 2022, USAID approved Tetra Tech’s contract purchasing system, indicating that the U.S. government had determined that Tetra Tech’s purchasing policies and practices provided adequate protection of the government’s interests in accordance with Federal Acquisition Regulation (FAR) 44.3, “Contractors’ Purchasing System Reviews.” The report goes on to state on page 5 para 1 that this approval *reduced the federal oversight requirements* for USAID’s involvement in project subcontracting.

USAID would like to point out that in light of the purchasing system approval, USAID/Ukraine *appropriately* removed the requirement for Tetra Tech to obtain USAID’s consent before awarding subcontracts *and* in accordance with FAR 52.244-2, “Subcontracts,” USAID/Ukraine modified the contract to require Tetra Tech to notify the authorized Mission staff member “reasonably in advance” of entering into subcontracts.

The draft audit report, on page 6 para 2 and page 9 footnote 17 also notes that USAID/Ukraine’s oversight of the project’s subcontracting was *minimal* and *high-level* since the authorized Mission staff member determined that Tetra Tech’s purchasing system complied with federal laws, regulations, and policies.

USAID does not agree with this statement, and this also contradicts the remainder of the paragraph in the draft report, where the OIG reports that the authorized Mission staff member for the project stated that they review the notices for contractual appropriateness and conformance to contract terms and conditions, including subcontractor eligibility and the level of competition obtained. If an issue is identified during the review, USAID/Ukraine raises it directly with Tetra Tech staff for resolution, which may include directing the Project to hold a procurement until the questions are resolved.

The draft report on page 12 footnote 25 states that the Ukrainian energy company delivered all equipment in 2024; however, the company delivered the equipment an average of 52 days after the contractual delivery date. This statement implies that there was some performance issue underlying the delay, but OIG has not identified any such performance issues in the report.

Target Completion Date:

Since the recommended action has already been implemented, we request that the OIG close this recommendation upon issuance of the final audit report.

Recommendation No. 3

Implement a comprehensive monitoring plan for items procured through the Energy Security Project and the Securing Power, Advancing Resilience and Connectivity Activity, to ensure

that verification processes are aligned to track progress toward intended outcomes and address any identified gaps.

Management Response:

The Mission agrees with the recommendation. USAID/Ukraine, as guided by the Agency's Program Cycle Operational Policy, already takes a comprehensive approach to monitoring activities implemented by our partners. Namely that all awards require the partner to submit a Monitoring, Evaluation, and Learning (MEL) Plan to the COR for approval within 90 days of implementation. Additionally, the policy states that USAID/Ukraine must perform site visits to provide oversight over agreements/awards, inspect implementation progress and deliverables, verify monitoring data, and learn from implementation.

However, in non-permissive environments, such is the case in Ukraine during an ongoing, active war, where Contracting Officer's Representatives (CORs) are often unable to visit sites directly, engaging in third-party monitoring supports the Mission in its activity oversight. USAID/Ukraine issued Mission Notice No. 2024-099 on May 20, 2024, and a revision on January 22, 2025 through Mission Notice No. 2025-011, detailing USAID Ukraine's Third Party Monitoring (TPM) Policy. This policy provides guidance on how to address findings from third party monitoring visits. The Mission Notices are provided as annexes to these management comments.

USAID/Ukraine staff continue to verify progress during in-person (where possible) and virtual site visits and meetings with implementing partners and program beneficiaries, stakeholder consultations, and check-ins with other donors, international partners, and local organizations. In the case of ESP, the project has also hired its own monitors to supplement their own oversight of procurement. Due to the ongoing complexities of implementing activities in Ukraine, USAID has adopted a multi-faceted approach to ensure accountability, effectiveness, and impact of its activities. Together, these tools foster learning, enhance decision-making, and ensure that activities are effectively contributing to the Mission's strategic objectives. As of December 2024, the Mission has begun conducting TPM for all eligible activities.

Target Completion Date:

Since the recommended action is already implemented, we request that the OIG close this recommendation upon issuance of the final audit report.

Recommendation No. 4

Implement a unified system to track, monitor, and address findings and recommendations from Energy Security Project and Securing Power, Advancing Resilience and Connectivity Activity delivery verification efforts.

Management Response:

The Mission agrees with the recommendation. The Mission did create a unified tracker to track, monitor, and address findings for ESP and SPARC delivery verification. The Mission also issued Mission Notice 2024-099 on May 20, 2024 revised through Mission Notice No. 2025-011 dated January 22, 2025, detailing USAID/Ukraine's Third Party Monitoring (TPM) Policy. These Mission Notices are provided as annexes to these management comments.

As detailed in the TPM policy, TPM site visits supplement direct staff site visits in hard to reach locations to verify if the delivery of physical goods, provision of services, or delivery of training align with implementing partner reports. Due to the volume of equipment and services delivered, TPM is directed to follow a stratified randomized sampling approach based on geographic distribution and dollar value of assistance, to enable verification of a representative sample of recipients. The TPM contractor provides bi-weekly site visit reports per activity intervention to the Program Office MEL team and activity AOR/COR. This policy also provides detailed guidance on how to address findings from third party monitoring visits.

The audit report notes on page 17 that USAID Ukraine did not have a comprehensive monitoring plan and on page 15 para 2 states that the majority of Tetra Tech and EnCompass verifications took place in Kyiv oblast (151 of 242, or 62 percent of all verifications). The conclusion of the finding states that coverage was limited by inferring that the 62 percent Kyiv oblast-focused verifications are too high or misaligned, without further explanation. This finding thus does not identify a gap in coverage or highlight any specific issues that arose as a result.

It is critical to recognize that due to the active war in Ukraine, USAID/Ukraine and Tetra Tech staff are limited in the places where they can travel to monitor, evaluate, and verify. And as noted above, USAID/Ukraine has been working closely with its third-party monitoring mechanism to ensure robust verification.

Target Completion Date:

Since the recommended action is already implemented, we request that the OIG close this recommendation upon issuance of the final audit report.

Recommendation No. 5

We recommend that the USAID Office of General Counsel coordinate with the Office of Acquisition and Assistance to define and communicate what factors should be considered when determining whether a foreign government has a controlling interest in an organization for the purposes of ADS 302.3.3.

Management Response:

The USAID Office of the General Counsel agrees with the recommendation. The Office of the General Counsel will work with the USAID Office of Acquisition and Assistance to take actions to

address this recommendation, subject to the caveat above regarding the uncertainties relating to USAID and foreign assistance policies writ large.

Given the significant engagement between USAID/Ukraine, Office of the General Counsel, and the Office of the Inspector General on the appropriate way to characterize the inconsistencies between two ADS chapters that led to the lack of a Determination and Finding as referenced in the draft audit report, and given that Recommendation No. 5 reflects the final result of this productive engagement, we ask that the OIG remove any reference to “mandatory” or “required”/“Agency-required” when it makes references to the assessment both in the “What We Found” Executive Summary section and throughout the draft report.

Target Completion Date:

USAID’s Office of the General Counsel and Office of Acquisition and Assistance have completed technical discussions about this recommendation. Subject to the above-noted caveats regarding the uncertain status of USAID and foreign assistance policies, we intend to complete full implementation by December 31, 2025.

Supporting Documents

Annex A SPARC Award Modification # 2

Annex B SOP for procurement oversight

Annex C Mission Notice 2024-099

Annex D Mission Notice 2025-011



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