



# **OFFICE OF INSPECTOR GENERAL**

## **U.S. Agency for International Development**

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**Written Statement for U.S. Senate Committee on Appropriations**  
**Subcommittee on State, Foreign Operations, and Related Programs**

**A Review of the President's Fiscal Year 2026 Budget Request for the**  
**U.S. Department of State**

**May 20, 2025**

Chairman Graham, Ranking Member Schatz, and Members of the Subcommittee:

Thank you for your request to provide a written statement for the subcommittee's hearing on the State Department's Fiscal Year 2026 budget request. We appreciate the opportunity to share our views on the challenges related to the planned realignment and restructuring of U.S.-funded foreign assistance. As an independent oversight agency, the Office of Inspector General (OIG) does not set or direct policy, but our work is designed to inform those who do. We appreciate the subcommittee's historic and ongoing support of our work.

### **Independent Oversight Role of USAID OIG**

Congress created USAID OIG in 1980. For 44 years, USAID OIG has been the only office of inspector general in the Federal government whose sole mission is to oversee U.S.-funded humanitarian and development assistance implemented abroad. Through our dedicated law enforcement professionals, auditors, inspectors, evaluators, and specialized support staff, our experience providing oversight in crisis zones, from South Sudan to Haiti to Ukraine, enables us to offer early warning fraud indicators, lessons learned, and key considerations to Federal agencies designing and implementing new programming overseas.<sup>1</sup>

With an annual budget of less than a quarter of 1 percent of foreign assistance spending, USAID OIG continues to hold bad actors accountable, audit and recover billions of U.S. taxpayer dollars, and generate material improvements to foreign assistance programs and operations. As

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<sup>1</sup> For example, as USAID and the Department of State increased humanitarian assistance funding to Gaza last year, we sent an [advisory](#) to Congress and the administration that identified challenges in monitoring the aid, vetting recipients for terrorist ties, and overseeing funds administered through United Nations (UN) agencies.

the administration and Congress look to reform America's foreign assistance architecture, USAID OIG's statutorily mandated oversight of U.S.-funded foreign assistance continues unabated. Our active and ongoing work includes:

- Investigating 210 ongoing criminal, civil, and administrative matters to combat misuse of U.S.-taxpayer dollars spent overseas through fraud, corruption, and diversion of aid to terrorist organizations. This number is expanding.
- Engaging with the Department of Justice's (DOJ) Joint Task Force October 7 (JTF 10-7), an initiative that will seek justice for the victims of the October 7, 2023, terrorist attack in Israel and address the ongoing threat posed by Hamas and its affiliates.
- Conducting 42 ongoing audits, evaluations, and inspections examining USAID programs and operations, offering lessons, recommendations, and insights for the future administration of foreign assistance.
- Developing an aggressive oversight plan to examine and report in-depth on the transfer of foreign assistance functions from USAID to State.
- Engaging with Congress and the U.S. Mission to the United Nations (UN) to bolster oversight and accountability of funding to international organizations, based on our years of [leadership](#) in foreign assistance investigations.
- Producing ongoing statutorily mandated [reporting](#) to Congress on U.S. overseas contingency operations in Iraq, Syria, Afghanistan, and Ukraine, conducted in partnership with the OIGs of the Departments of Defense and State.
- Executing 75 statutorily mandated investigations into whistleblower retaliation, including preliminary and formal investigations, most of which involve foreign nationals and nongovernmental organizations (NGOs) overseas.

## Identification of Risks in the Realignment of USAID Functions

As the administration moves to merge USAID activities into the Department of State, we have identified the following items necessary to implement the realignment in a manner that prioritizes oversight, accountability, and efficient use of U.S. taxpayer dollars.

### I. Management and Administration of Awards Previously Held by USAID

As billions of dollars administered by USAID move to the State Department, consideration should be given to ensuring robust [accountability and oversight](#).<sup>2</sup> This includes tailoring standard award provisions to the specific category of recipient, from small/local NGO to global UN agency. Further, adequate resources and attention should be given to employing personnel with professional expertise in humanitarian and development projects and securely transferring information technology and payment systems to prevent exposure from malign actors.

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<sup>2</sup> We recently published a [memorandum](#) titled "Additional Observations on Challenges to Oversight and Accountability Over Foreign Assistance as a Whole" to flag for policymakers longstanding challenges and potential solutions to enhanced accountability over foreign aid.

## A. Need for New and Comprehensive Standard Award Provisions to Ensure Accountability Over Foreign Assistance Awards

Key to ensuring accountability and oversight of taxpayer-funded foreign assistance is the existence of standard award provisions that U.S.-funded awardees are required to follow. USAID established the extensive Automated Directives System (ADS) to govern all aspects of operational policy and standard award provisions, including pre-award, post-award, and audit requirements. The ADS contained hundreds of chapters dedicated to foreign assistance operations and program management, compared to the Department of State's much leaner provisions. Such ADS provisions were critical for addressing unique considerations and complications posed by different types of implementers (NGOs, contractors, international organizations) and contained useful pre-award certifications designed to identify material risks posed by prospective awardees. These included required certifications concerning whether an NGO seeking U.S. funds had engaged with designated terrorist organizations, required reporting of counter-fraud and compliance measures, and vetting of staff for past participation in terrorist organizations in regions such as Gaza, Lebanon, and Yemen.

The ADS clauses, which in many cases were prompted by USAID OIG recommendations and actual events that jeopardized foreign assistance, also leaned into aggressive mandatory disclosure requirements by implementers, including direct reporting of fraud allegations to USAID OIG at the subawardee level. As the Department of State takes over management of these awards, it will be essential to establish similarly robust standard award provisions, particularly those promoting accountability and oversight. Our suggestions on these clauses and other efforts to expand accountability in foreign assistance are addressed [in this memorandum](#).

## B. Holding Implementers Accountable and Recovering Questioned Costs

At the time of this writing, USAID OIG has 320 open recommendations from its audits, inspections, and evaluations of USAID programs and operations. This includes over \$54 million in questioned costs that are pending final evaluation by a USAID contracting or agreement officer for recovery back to the U.S. government. Either USAID and/or the Department of State should continue examining these costs and seek remedy for costs determined to be noncompliant with regulations.

Relatedly, the operational dissolution of USAID has included the reduction of personnel in its Suspension and Debarment Office. This has left numerous matters in a pending, unresolved status and has adversely impacted USAID's capability to effectively process new USAID OIG referrals of individuals and entities for government-wide exclusions. USAID OIG refers bad actors for exclusion based upon evidence of fraud, corruption, or diversion to terrorist organizations. Notably, USAID OIG had to refer its unprecedented [investigation](#) into the UN Relief and Works Agency (UNRWA)—identifying in March numerous individuals associated with Hamas and the October 7 terrorist attacks in Israel—to a different agency for suspension and debarment consideration in order to prevent their recirculation through other U.S.-funded organizations. No action has been taken to date by that agency.

### C. Ensuring Expertise of U.S. Officials Administering Foreign Assistance

Transfer of functions from USAID to the Department of State also risks the loss of institutional knowledge and professional expertise for administering billions of dollars in complex humanitarian and development programs, particularly in challenging overseas environments. USAID personnel had considerable expertise in monitoring and administering humanitarian and development programs. By one estimate, some 70 percent of USAID staff were highly specialized, including medical doctors, water and sanitation specialists, and engineers. The Department of State's hiring actions to ensure that this expertise is in place for administering complex foreign assistance programs will take time and resources—particularly as the Department of State is undergoing its own internal restructuring—and a demonstrated institutional knowledge management capability will take time and resources to establish or re-create.

Further, the billions of dollars in USAID-funded awards required contracting and agreement officers to have specific training and certification for necessary warrant levels. Niche expertise was essential to administer these unique and complex awards to international organizations, foreign recipients, and small, local implementers unfamiliar with U.S. regulations and agency-specific award provisions. Ensuring that the Department of State has sufficient resources and skill sets necessary to conduct proper award management is vital to ensuring programmatic success and identifying noncompliance, poor performance, financial irregularities, and criminal activity involving taxpayer funds.

### D. Preventing Legal Exposure for Incurred Costs Needed to Closeout Awards and Ensuring Proper Disposition of Program Assets

Untimely payment of costs incurred by USAID-funded implementers may expose the U.S. government to significant liabilities. Prompt Payment Act violations arising from delayed payments will accrue interest, and nonpayment to suppliers could result in litigation against the Federal government, adding costs to taxpayers. Notably, in fiscal year 2024, USAID globally incurred less than \$56,000 in Prompt Payment Act-related interest, compared to over \$1 million in estimated interest incurred between January and April 2025. It will be essential for USAID and/or Department of State officials to ensure timely payment for services performed, which includes having processes and capabilities in place to verify the accuracy of invoices and the stated work performed.

Further, unanticipated termination notices and delayed payments presented significant operational constraints for many USAID implementers, with some organizations effectively shuttering and abandoning USAID-funded assets. On March 13, USAID directed contract and agreement officers to instruct implementers to prepare expedited inventory lists and disposition plans for assets in four priority categories: critical security risk, high-value assets, reputational risk, and commodities. Our ongoing [audits](#) of asset disposition around the world have flagged concerns about USAID's ability to close out these awards and appropriately account for assets by July 1. For example, as of May 1, USAID/Southern Africa had not approved asset disposition plans for almost half of the awards it manages with high-value

property, such as mobile health clinics, valued at \$10 million. Delays in contract and grant closeouts may result in lapses in deobligation, unresolved questioned costs, and contractor claims for which no responsible authority is clearly defined, exposing the U.S. government to protracted legal challenges and financial risks.

Similarly, the expedited drawdown of USAID's overseas presence means early termination of leases for work and living space for Foreign Service Officers and other staff. Additionally, if vehicles and other U.S. government property overseas and domestically, like furniture and IT equipment, are not properly transferred to an approved entity, they will need to be sold at auction, typically returning only cents on the dollar. For example, in April, USAID announced that laid-off staff (nearly 4,000 U.S. direct hires) should keep all government-furnished electronic devices currently in their possession—such as laptops and iPhones—“for convenience.” Measures should be in place to ensure and validate that this equipment is appropriately wiped of any sensitive data and not compromised by malign parties.

#### E. Ensuring Integrity of Information Technology Systems as Data Is Migrated From USAID to the Department of State

Management of existing awards also may be impacted by loss or corruption of data that could occur during the merger. USAID uses systems such as the Global Acquisition and Assistance System, Agency Secure Image and Storage Tracking System, and Phoenix for contract management and payment. The transfer of these systems, as well as personnel and financial systems, to the Department of State must account for data migration risks such as loss or corruption of data. Compromised data risks duplicative, erroneous, or missed payments to awardees.

During any migration and integration process, sensitive data related to the administration of U.S. foreign assistance containing classified or personally identifiable information is vulnerable to unauthorized access, leaks, or breaches undermining system confidentiality and integrity. Data breaches may also result in violations of privacy laws. Just this month, we alerted USAID to concerns regarding [access to restricted information technology](#) areas at two missions amid the winding down of USAID operations.

Similarly, to ensure system integrity and continuity of operations, USAID's datacenter facilities, network communications, corporate applications, and use of the [usaid.gov](#) domain are essential for securely accessing the Agency's IT resources, which are key to fulfilling ongoing responsibilities. Disruptions or failures during system migration or impacting integration processes could materially impair ongoing operations of systems and services threatening programming that is transferred to State. Further, interruptions to USAID applications and data would also negatively impact USAID OIG's active and prospective criminal investigations and ability to advance high-profile ongoing cases.

Finally, migration of USAID systems into the Department of State presents unique compliance requirements, system integration challenges, and the potential exposure of sensitive data. Processes should also ensure that data sharing, system access, security controls, and data retention activities comply with Federal law and guidance including the Federal Information

Security Management Act of 2002, Privacy Act, Federal Records Act, National Archives and Records Administration regulations, E-Government Act, Freedom of Information Act, and the Inspector General Act. Noncompliance can result in legal liabilities, sanctions, and audits and can undermine public trust and overall agency accountability. USAID OIG audit and investigative data (including evidence) is subject to longer retention periods; therefore, the availability of and controlled access to that data must be properly maintained.

## II. Specific Challenges to Oversight of Foreign Assistance

Congress established USAID OIG in 1980 through Public Law 96-533, as an amendment to the Foreign Assistance Act of 1961. Under the IG Act, as amended, USAID OIG is mandated by law to oversee USAID and “any successor agency primarily responsible for administering part I of the Foreign Assistance Act of 1961.”<sup>3</sup> A vast portfolio of continuing, ongoing foreign aid exists, including residual or transferred USAID activities and contracts, grants, bilateral government agreements, trust funds, and other types of funding instruments signed under USAID-specific award provisions, all of which are subject to fraud, corruption, waste, abuse, and mismanagement. This includes potential theft of equipment in the field by terrorist organizations, submission of false or inflated invoices for payment, and other exposure to the national security, fiscal, and reputational interests of the United States. In pursuing this continued oversight, USAID OIG professionals—including law enforcement officers—must be granted prompt access to records, information and personnel at the Department of State to further ongoing and prospective investigations pertaining to current, residual, or legacy programming existing via USAID award agreements.

As noted above, we currently have 210 active and ongoing [investigations](#) many of which are in partnership with the Department of Justice and U.S. Attorneys’ Offices across the country as well as examinations of USAID’s currently administered awards, closeout process, disposition of assets in the field, and other ongoing and legacy activities. Coupled with the recent reductions and movements in USAID personnel responsible for agency programmatic oversight, USAID OIG’s independent oversight capability is vital in the near-term for reducing fraud, corruption, waste, and abuse and keeping the administration, the Congress and the public meaningfully informed as required by law. Adequate funds will be necessary in order to effectively accomplish this ongoing mission, while Congress considers options for the long-term independent oversight structure for foreign assistance.

### A. Need for Comprehensive Risk-Mitigation Measures and Program Oversight

We have previously reported vulnerabilities within USAID’s oversight and accountability mechanisms. This includes concerns about the limited scope of vetting of awardees for terrorist ties, failure to assess data provided by contracted third-party monitors, and delays in post-award vetting in emergency circumstances. USAID’s bureaus, particularly the Bureau for Humanitarian Assistance, made significant progress in these areas, which supported enhanced risk mitigation and program oversight efforts. However, challenges remain. The transfer of

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<sup>3</sup> 5 U.S.C.A. § 409(a).



programming to the Department of State should be accompanied by policies that establish rigorous vetting of award applicants, increased scrutiny of direct and indirect costs, strong internal oversight, and monitoring directly by Department of State officials or by third-party monitors in nonpermissive areas inaccessible to U.S. personnel.

## **B. Oversight of Awards to UN and Other Public International Organizations**

Any funding channeled through public international organizations, including UN agencies, will require specific and nuanced oversight. For over a decade, USAID OIG has been the primary entity conducting oversight over U.S.-funded foreign [assistance](#) implemented by UN agencies, and we have repeatedly worked to publicly [identify](#) the challenges to transparency and accountability in the UN system. Our forward-leaning approach has led to various memoranda of understanding with multilateral and bilateral oversight entities aimed at, among other things, ensuring that U.S. investigators can obtain the information they need from UN agencies to assess allegations of misconduct involving U.S.-funds. Such creative solutions to the unique oversight challenges presented by cross-border investigations involving UN agencies are the result of our deep expertise and established relationships with international partners. Retaining such knowledge, access and cooperation is vital to continuing to globally pursue criminals who defraud or corrupt foreign assistance.

## **C. Importance of Third-Party Monitoring**

USAID has long employed third-party monitoring as one of the mechanisms to supplement the Agency's efforts to ensure that projects and activities meet their objectives. However, many, if not all, of USAID's third-party monitoring contracts were terminated following the foreign assistance review. Third-party monitors are frequently used in overseas regions where U.S. officials are unable to safely travel to conduct site visits, such as eastern Ukraine and Gaza. They are also used to ensure that implementers meet applicable award requirements; have effective internal controls in place; and are not compromised by fraud, waste, and abuse. For example, following the recent termination of USAID's third-party monitoring mechanism in Ukraine, USAID cannot verify or monitor the delivery, installation, or use of products, purchases, or services rendered. Additionally, USAID terminated the contractor overseeing U.S. direct budget assistance and the "Extraordinary Revenue Acceleration" loans to the Ukrainian government through the World Bank's PEACE fund. Taxpayers would be well-served by having third-party monitoring mechanisms in place ahead of the transfer of awards to prevent gaps in vital oversight of programs executed in nonpermissive environments.

## **Conclusion**

As the United States undertakes a historic realignment and reorganization of its foreign assistance architecture and programs, USAID OIG's dedicated workforce remains devoted to ensuring oversight and accountability over U.S.-funded assistance. Through our ongoing investigations, audits, and other specialized work, we remain committed to conducting the independent oversight that the American people rely on and deserve.