

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

Non-Federal Audits: Actions Needed to Standardize Processes for Reviewing Reports and Assessing Questioned Costs

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Audit



Office of Audits, Inspections, and Evaluations



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

DATE: September 11, 2025

TO: Kenneth Jackson
Deputy Administrator for Management and Resources
USAID

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

SUBJECT: Non-Federal Audits: Actions Needed to Standardize Processes for Reviewing Reports and Assessing Questioned Costs

This memorandum transmits our final audit report. Our audit objectives were to assess the extent to which USAID missions (1) reviewed foreign audit firms' non-Federal audit (NFA) reports for quality standards and (2) determined that NFA questioned costs were allowable.

The report contains our audit findings, considerations for future foreign assistance, and no recommendations. USAID did not have any comments on the draft report.

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

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Report in Brief

Why We Did This Audit

USAID frequently relied on non-U.S.-based entities to deliver foreign assistance, such as lifesaving humanitarian aid in conflict zones and development programs across a range of sectors. The Agency's non-Federal audit (NFA) program helped ensure financial stewardship over U.S. foreign assistance to safeguard taxpayer dollars. In accordance with Federal regulations, USAID required foreign audit firms to conduct NFAs of foreign organizations, governments, and subrecipients that spent more than \$750,000 in USAID awards during the fiscal year (FY). When the foreign audit firm completed an NFA report, Agency staff reviewed the report and determined whether any questioned costs identified were justified. From FY 2021 through 2023, NFA reports identified nearly \$75 million in questioned costs across 28 countries and 3 regions, and USAID determined that 96 percent (approximately \$72 million) of these costs were allowable and recovered the remaining 4 percent (about \$3 million) in disallowable costs.

We conducted this audit to assess the extent to which USAID missions (1) reviewed foreign audit firms' NFA reports for quality standards and (2) determined that NFA questioned costs were allowable.

What We Recommend

We suggest that decision makers consider developing policy, guidance, and training for staff reviewing NFA reports for quality standards. We also suggest that decision makers consider developing guidance or training for determining allowability of questioned costs identified in NFA reports and documenting those determinations.

What We Found

Surveyed missions generally reviewed NFA reports for quality standards, but USAID did not have clear policies, guidance, and training. While most missions that responded to our survey stated that they reviewed all NFA reports they received from FY 2021 through 2023, their processes for reviewing NFAs varied due to a lack of clear policies and guidance. Ninety-one percent of respondents (30 out of 33) said that their Office of Financial Management reviewed all NFA reports issued from FY 2021 through 2023 for quality standards, while the remaining 9 percent (3 out of 33) did not review NFA reports issued during this timeframe. In addition, while mission staff generally reviewed NFA reports for quality standards, missions reported that they did not have sufficient knowledge of the quality standards or training to carry out the reviews. Without clear policies, guidance, and training for reviewing NFA reports, USAID did not have reasonable assurance that the reports met quality standards.

Selected missions allowed nearly all questioned costs, but each mission's support varied. Selected missions used varying levels of support to justify allowed questioned costs. As a result, it was not always clear why mission officials allowed the costs. According to our analysis, mission officials allowed more than 98 percent (about \$63 million) of questioned costs identified in sampled NFA reports. USAID's NFA policy stated that missions are responsible for developing their own management decisions. However, the policy did not provide guidance on how mission officials should determine the allowability of questioned costs or document the determinations. In addition, USAID did not provide training for staff about this process. Without guidance or training, USAID did not have reasonable assurance that officials were making decisions about questioned costs that aligned with laws, regulations, and the award terms.

Introduction

USAID frequently relied on non-U.S.-based entities to deliver foreign assistance, such as lifesaving humanitarian aid in conflict zones and development programs across a range of sectors. The Agency's NFA program helped ensure financial stewardship over U.S. foreign assistance to safeguard taxpayer dollars. The program required a financial audit, or NFA, of foreign entities that spent above \$750,000 in USAID funding.¹ In fiscal year (FY) 2024, foreign audit firms audited about \$1.5 billion of USAID awards to foreign entities under the NFA program. As part of this program, the Agency assessed and determined foreign audit firms as acceptable, selected which foreign entities would conduct the NFAs,² reviewed the firms' reports, and determined whether any questioned costs identified in the reports were allowable or disallowable.³ From FY 2021 through 2023, NFAs identified nearly \$75 million in questioned costs across 28 countries and 3 regions. USAID determined that 96 percent (approximately \$72 million) of these costs were allowable and recovered the remaining 4 percent (about \$3 million) in disallowable costs.

We conducted this audit to assess the extent to which USAID missions (1) reviewed foreign audit firms' NFA reports for quality standards and (2) determined that NFA questioned costs were allowable.

To address the first objective, we identified 56 USAID missions that contracted with foreign audit firms to conduct NFAs from FY 2021 through 2023. We developed and sent a web-based survey to all 56 missions to gather information and perspectives about how mission staff reviewed NFA reports against quality standards, which outline the requirements that audit firms use to conduct their work. We received responses from 33 out of the 56 missions for a response rate of 59 percent.^{4,5} We reviewed and analyzed the responses and followed up with missions for clarification or additional information as needed. We reviewed mission-developed documentation such as NFA-related checklists, training modules, and guidance. In addition, we interviewed officials from USAID's Office of the Chief Financial Officer (CFO) about current and future training on NFAs.

For the second objective, we identified 26 USAID missions that allowed questioned costs from FY 2021 through 2023. We selected a judgmental sample of 8 out of 26 missions based on the highest amounts of questioned costs identified in NFA reports and questioned costs allowed.

¹ Title 2 Code of Federal Regulations, Part 200, Subpart F, "Audit Requirements," September 2024.

² NFAs are conducted by independent public accountants from a foreign audit firm or an auditor from the host government's audit agency. Beginning in 2021, USAID replaced the term "non-Federal audits" with "recipient contracted audits," "Agency contracted audits," and "mission contracted audits." For this audit, we use NFAs to include all three types of contracted audits.

³ Questioned costs in an NFA report may be disallowable because the costs are ineligible as a result of a violation of a law, regulation, contract, or other agreement; or an unnecessary or unreasonable expenditure of funds. In addition, the questioned costs may be unsupported due to the lack of adequate documentation at the time of an audit. USAID determined whether these costs were allowable based on applicable Federal cost principles. Disallowed costs are the amount of debt to be recovered from foreign entities.

⁴ We received survey responses from 35 total missions but removed responses from 2 missions because those missions did not have NFA reports during the scope of our audit.

⁵ The survey results are not generalizable to the population of missions.

We then reviewed 45 management decision memorandums, which are written decisions on the audit findings, from the selected missions. These management decision memorandums included 139 determinations to justify allowed questioned costs. We interviewed Agency staff to understand how they prepared and used management decisions.

We conducted our work in accordance with generally accepted government auditing standards (GAGAS). Appendix A provides more detail about our scope and methodology. Appendix B provides information on our web-based survey.

Background

The NFA Program

USAID's NFA program helped ensure that contracts, cooperative agreements, and other foreign assistance awards complied with Federal regulations. Federal regulations require an audit for any non-Federal entity that expends more than \$750,000 in Federal awards.⁶ In accordance with this regulation, USAID required foreign organizations, governments, and subrecipients that spent more than \$750,000 in USAID awards during the fiscal year to have an NFA conducted by independent public accountants from a foreign audit firm.⁷ NFAs involved a review of the award recipient's expenditures of Federal funds, award recipient's internal controls, and compliance with applicable laws.

Responsibilities for the NFA Program

USAID's missions shared responsibility for achieving NFA program goals with USAID's Bureau of Management. Missions were responsible for audit management after they issued an award to a foreign organization that expended more than \$750,000 in a fiscal year. Specifically, missions were responsible for submitting final audit reports, preparing management decision memorandums, and taking action on any findings or recommendations. USAID's CFO, an office within the Bureau of Management, was responsible for developing Agency policy and training for missions on managing NFAs. Moreover, USAID's Office of Acquisition and Assistance at the missions had an agreement or contracting officer that was responsible for determining the allowability of questioned costs identified in the NFA report.

NFA Program Process

USAID's policy generally described the NFA program, including the process for selecting foreign audit firms to conduct NFAs and the missions reviewing the reports, as well as making determinations about the allowability of any questioned costs identified. As the first step, missions determined whether a foreign audit firm was qualified to conduct NFAs in accordance with GAGAS.⁸ GAGAS contains standards for financial audits as well as requirements for individual auditors and audit organizations. These standards are intended to help ensure that an

⁶ 2 CFR § 200, Subpart F (2024). The \$750,000 threshold increased to \$1 million starting on October 1, 2024.

⁷ USAID assumed sole responsibility for the NFA program management in 2017.

⁸ USAID, *Automotive Directives System*, Chapter 591 Mandatory Reference "maa," August 2021. USAID's guidance, *Audit Management Organizational Responsibilities*, stated that operating units, typically missions, were USAID missions that have issued awards to foreign organizations that require an audit.

audit organization produces high-quality, reliable, and objective engagements. Missions ensured that foreign audit firms were qualified to conduct NFAs by assessing them against several elements in USAID policy.⁹ USAID's CFO and the missions maintained a list of acceptable foreign audit firms that the foreign entity could select to conduct an NFA.

After an acceptable foreign audit firm developed an NFA report, the mission then reviewed the report for quality standards. USAID policy required missions to review final NFA reports for quality standards prior to submitting them to OIG.¹⁰ According to responses to an OIG survey, under the supervision of the mission controller, financial analysts from the mission's Office of Financial Management were responsible for reviewing NFA reports for quality standards.

After the mission's review, OIG reviewed the NFA report for compliance with reporting standards, including GAGAS.¹¹ When the report was compliant, OIG issued a memorandum to the mission with recommendations for USAID to proceed with its determination for allowing or disallowing the questioned costs identified in the report, including steps to recover unallowable costs.¹² OIG could reject an NFA report as noncompliant and identify issues that should be corrected before the final report is accepted.

Each USAID mission was responsible for preparing its own management decision to allow or disallow questioned costs that were identified in an NFA report. Management decisions are written decisions that show whether an audit finding is allowed or disallowed and the corrective action on audit recommendations to make financial adjustments, such as recovering disallowed costs.¹³ Management decisions should be documented in a memorandum and include supporting information of the reasons for allowing or disallowing the questioned costs based on the performance of the award and alignment with the Agency's policies and procedures. According to cognizant officials at mission, financial analysts from the Agency's Office of Financial Management prepared the management decision memorandums.¹⁴

An agreement or contracting officer within the Office of Acquisition and Assistance at the missions made the final determination on questioned costs in the memorandum. The mission sent OIG an action plan that identified the disallowed costs that needed to be recovered with target action dates before requesting final action closure. Figure 1 shows USAID's process for managing NFAs.

⁹ USAID, Automative Directives System, Chapter 591, Mandatory Reference "mab," September 2019. The policy identified seven elements used to assess foreign audit firms: 1) English language, 2) leadership responsibilities for quality, 3) ethical requirements, 4) acceptance and continuance of client, 5), human resources, 6) engagement performance, and 7) monitoring.

¹⁰ USAID, Automative Directives System, Chapter 591, Mandatory Reference "maa," August 2021.

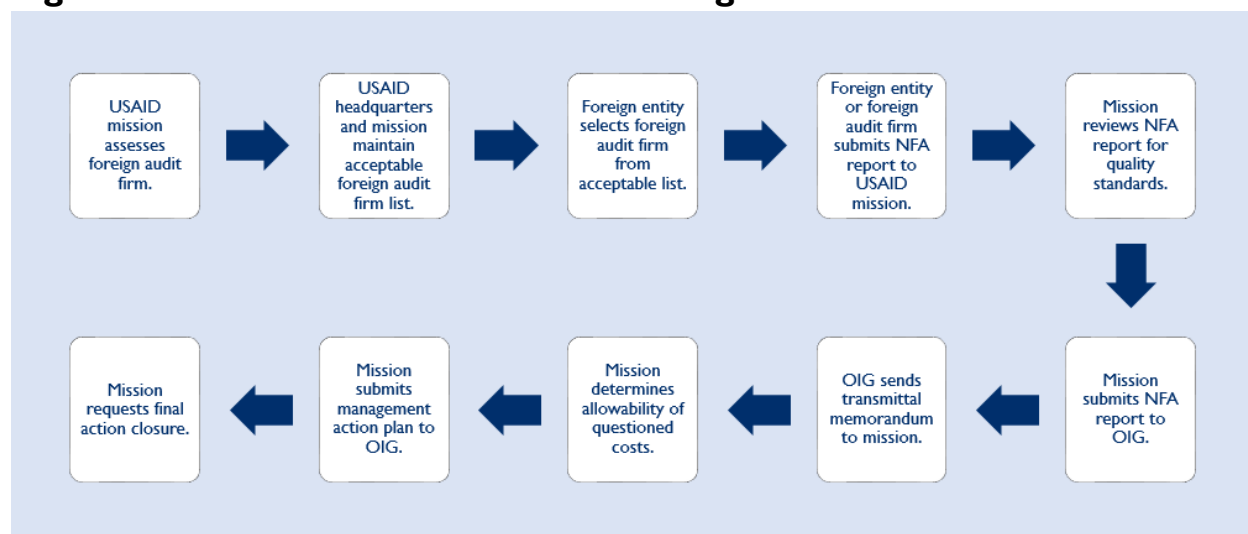
¹¹ GAGAS states that auditors may elect to use international standards on auditing in conjunction with GAGAS.

¹² OIG's recommendations can also address matters that do not result in questioned costs, such as the award recipient's internal control deficiencies or instances of noncompliance with applicable laws.

¹³ Title 2 of the Code of Federal Regulations, Part 200, Section 521, September 2024. Management decisions can also respond to nonmonetary audit findings and recommendations, such as internal control deficiencies or compliance issues.

¹⁴ Cognizant officials were agreement or contracting officers designated to make final determinations on the allowability of questioned costs in management decisions. In cases of government-to-government awards, the cognizant official was the mission director.

Figure I. Overview of USAID's NFA Program Process



Source: OIG-generated based on analysis of USAID policy and program responsibilities.

Surveyed Missions Generally Reviewed NFA Reports for Quality Standards, but USAID Did Not Have Clear Policies, Guidance, and Training

Most USAID missions responding to our survey reported reviewing all NFA reports they received from FY 2021 through 2023. However, we found that mission staff used varying processes to review NFA reports for quality standards due to a lack of Agency policies and guidance. In addition, mission staff reported a need for audit training to fill knowledge gaps when reviewing reports for quality standards. Without clear policies, guidance, and training for reviewing NFA reports, USAID did not have reasonable assurance that foreign audit firms' reports met quality standards, potentially undermining the Agency's ability to ensure that awardees spent funds in accordance with laws, regulations, and the terms of the awards.

Missions' Processes for Reviewing NFAs Varied Due to the Lack of Clear Policies and Guidance

According to our survey, 30 of the 33 missions' respondents (91 percent) said that their Office of Financial Management reviewed all NFA reports issued from FY 2021 through 2023 for quality standards. The remaining three respondents (9 percent) said that they had not reviewed all reports issued in this timeframe. These three respondents reported a lack of formal guidance on what quality standards to use. Further, 31 missions' respondents (94 percent) reported that they were aware of their responsibility to review NFA reports for quality standards and understood that those standards were equivalent to auditing standards, which included GAGAS and international auditing standards. Respondents from one mission (3 percent) were not aware of their responsibility to review reports.

However, we found that the processes for reviewing NFA reports for quality standards varied across mission staff, due to the absence of a standardized process. Federal internal control standards state that management should design control activities to achieve objectives.¹⁵ Specifically, management should clearly document processes to ensure that objectives are met. In response to our survey, missions reported using different processes to review NFA reports, including the following:

- **Varying checklists with outdated quality standards.** Thirteen of 33 missions (39 percent) that responded to our survey described using a checklist to review NFA reports for quality standards.¹⁶ These checklists were similar but slightly varied. For example, one mission used a checklist for NFA reports on awardees expending more than the \$750,000 threshold and another checklist for reports on awardees expending less than the threshold. However, other missions used a single checklist for all NFA reports. We also found that the quality standards missions used in these checklists were outdated. For example, these checklists did not reflect the 2021 Statement on Auditing Standards 134 updates on audit report format and disclosures.¹⁷
- **No tools used when reviewing reports.** Seventeen of the 33 missions' respondents (52 percent) said that they did not have tools, such as checklists, from USAID's CFO or their own missions for reviewing NFA reports for quality standards.
- **Varying mission-developed guidance.** Thirteen of the 33 missions' respondents (39 percent) described using their own mission-developed guidance to review NFA reports for quality standards.¹⁸ For example, several missions had a step-by-step process to check for completeness, compliance, and timeliness of NFA reports. In contrast, another mission developed a flow chart of its entire NFA program that had a step to review the NFA report. The flow chart included steps for foreign audit firm revisions and supervisory reviews but did not have additional guidance for how to perform the review.
- **Varying levels of supervisory review.** Nine of the 33 missions' respondents (27 percent) said that the NFA report went to a supervisory financial analyst or mission controller for review after an initial assessment by a financial analyst.¹⁹ In some instances, supervisors read through the financial analyst's comments on a given report or conducted more formal reviews that involved using checklists and components of Agency policy.

¹⁵ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G), "Control Activities," Principle 10, "Design Control Activities," September 2014.

¹⁶ The remaining 20 missions that responded to our survey did not indicate using checklists to review NFA.

¹⁷ The American Institute of Certified Public Accountants published the *Statements on Auditing Standards* for the preparation and issuance of audit reports. The *Statements on Auditing Standards* was designed to enhance clarity and incorporate the International Standards on Auditing.

¹⁸ The remaining 20 missions that responded to our survey did not indicate using mission-developed guidance when reviewing NFA reports.

¹⁹ The remaining 24 missions that responded to our survey did not indicate using supervisory reviews when reviewing NFA reports.

Table I shows the different processes missions that responded to our survey identified for reviewing NFA reports.

Table I. Various Processes USAID Missions Reported Using to Review NFA Reports

NFA Report Review Processes
<i>Audit Firm Revisions:</i> missions discussed with foreign audit firms to revise NFA reports.
<i>Audit Guide:</i> missions used an NFA audit guide as part of their review process.
<i>Checklists:</i> missions reviewed NFA reports against a quality standard checklist.
<i>Detailed Process Guidance:</i> missions used existing guidance or mission-generated guidance.
<i>Scope of Work:</i> missions used the scope of work for foreign audit firms conducting NFAs to review reports.
<i>Supervisory Review:</i> supervisors from the missions reviewed the final audit report.
<i>USAID Policy:</i> missions used USAID guidance on financial audits for foreign organizations.

Source: OIG analyses based on missions' survey responses.

In addition, we found that most missions did not fully document their reviews of NFA reports, and other missions did not document their reviews at all. Specifically, in response to our survey, 24 of the 33 missions' respondents (73 percent) reported that they partially documented their reviews of NFA reports for quality standards by using track changes or leaving comments in the report. Three missions' respondents (9 percent) acknowledged not documenting any steps of its review of NFA reports. The remaining six missions' respondents (18 percent) reported fully documenting their review of NFA reports.

Missions had varying processes to review NFA reports because USAID did not have a policy or guidance standardizing this process or describing what quality standards mission staff should use. USAID's NFA policy stated that missions should conduct NFA reviews "for quality standards," but the policy did not discuss how missions should conduct these reviews. Furthermore, though the policy referenced both "quality standards" and "auditing standards," the policy did not describe which specific principles, requirements, or standards missions should apply to reviews of NFA reports. In addition, CFO did not have standardized guidance on how missions were to review NFA reports or document these reviews.

Mission staff attributed the varying reviews of NFA reports across missions to a lack of clear policies and confusion on the standards to apply in their review of NFA reports, including a lack of clarity on specific criteria to use in reviews. Specifically, 17 of 33 missions' respondents (52 percent) said that they did not receive guidance on how staff should review NFA reports for quality standards. One mission staff member said they believed that OIG was responsible for reviewing reports for quality standards.

In addition, some mission staff said that there was no guidance from USAID's CFO on how to conduct reviews and that the USAID policy was not up to date with certain auditing standards. Twenty-one of the 33 missions' respondents (64 percent) cited the lack of guidance or unclear

standards as a challenge to reviewing the NFA reports. All 33 missions' respondents said that receiving initial or additional guidance would be helpful. Officials from USAID's CFO said that it was not clear to them what the missions used to develop their own checklist but that the missions likely used a former checklist that OIG created and made good faith efforts to interpret and update the checklist. In December 2024, officials from USAID's CFO told us that they were in the process of collecting the various versions of the checklist from missions to create a standardized version.²⁰

As a result of inconsistencies in processes for reviewing NFA reports for quality standards, missions may not have ensured that foreign audit firms completed NFA reports in accordance with quality standards. This could call into question the merit of the audit findings, such as questioned costs, particularly for missions using outdated standards. Having a standardized process for reviewing NFA reports would have helped USAID ensure that the reports were reliable, objective, high quality, and in accordance with the latest quality standards. With reliable reports, the Agency would have been better positioned to hold awardees accountable for spending funds in accordance with laws, regulations, and terms of the awards. Moreover, standardizing the review process could have increased efficiency as missions would no longer have had to create and update their own processes.

Missions Responding to Our Survey Reported Insufficient Knowledge of Quality Standards, but USAID Did Not Provide Regular Training

Mission staff generally reviewed NFA reports for quality standards, but USAID missions reported that they did not have sufficient knowledge of the quality standards nor training to carry out these reviews. Federal internal control standards state that management should demonstrate a commitment to develop or train competent individuals. Training enables individuals to develop the competence or qualification to perform assigned responsibilities for key roles and to achieve objectives.²¹ Competence requires relevant knowledge, skills, and abilities, which are gained from professional experience and training.

In response to our survey, 24 of 33 missions' respondents (73 percent) reported not receiving training on GAGAS, which may have limited their understanding of GAGAS and other auditing standards. Missions discussed a lack of experience with these standards as a contributing factor to knowledge gaps when it came to understanding and applying quality standards. Specifically, 12 of 33 missions' respondents (36 percent) cited the lack of auditing experience as a challenge. For example, one mission staff member said that, as a public accountant, they had the best understanding of GAGAS in the region and that knowledge amongst financial analysts is limited at best. Some mission respondents said that this lack of knowledge was compounded by the expectation that they advise the foreign auditors conducting NFAs about how to apply auditing

²⁰ We were unable to follow up with official from USAID's CFO on the status of their efforts to standardize the checklist because many USAID staff were put on administrative leave in February 2025. This followed the Secretary of State's order to pause on all U.S. foreign assistance funded by the Department of State and USAID for review on January 26, 2025. The Secretary of State issued the order consistent with the President's executive order, "Reevaluating and Realigning United States Foreign Aid," signed January 20, 2025.

²¹ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G), "Control Environment," Principle 4, "Demonstrate Commitment to Competence," September 2014.

standards. For example, one mission said that the financial analyst team was not fully familiar with applicable auditing standards and had limited exposure to GAGAS, resulting in OIG identifying issues during its review that the mission was unaware of. In addition, mission staff said that this knowledge gap limited the amount of guidance about GAGAS that they could relay to foreign auditors.

Despite this general lack of knowledge, some survey respondents stated that staff at certain missions received audit training from FY 2021 to 2023. Specifically, 9 of 33 missions' respondents (27 percent) reported receiving GAGAS-related training, and 3 (9 percent) stated that their mission received training on reviewing NFA reports for quality standards. Overall, 10 missions' respondents (30 percent) said that staff not having training on auditing standards was a challenge to reviewing NFA reports.

USAID did not provide regular training for mission staff from FY 2021 to 2023 to ensure that staff were able to review NFA reports for quality standards. USAID's CFO offered a 5-day virtual course that staff could take when needed. The course covered different types of audits and assessments, including NFAs, but the training did not address the quality standards that staff should use in their reviews. Officials from USAID's CFO said that this training was not mandatory, though newer staff were encouraged to take it. In 2024, USAID's CFO worked with the U.S. Government Accountability Office's Center for Audit Excellence to develop training that focused on NFA report reviews and auditing standards and offered the first sessions in July 2024.²² CFO officials said the motivation for this training was changes in auditing standards as well as an anticipated change in OIG's role in the NFA process.²³ USAID's CFO had considered delivering the training again prior to changes in the Agency's operating status in January 2025.

All 33 missions surveyed said that it would be helpful to receive initial or additional training on conducting reviews of NFA reports for quality standards.²⁴ Twelve missions surveyed noted that many financial analysts have gaps in knowledge regarding how to review NFA reports for quality standards and that this impeded their ability to perform these reviews.

Lack of knowledge of quality standards and training to address those knowledge gaps limited the ability of mission staff to effectively and efficiently review NFA reports. Regular training would have helped USAID missions ensure that NFA reports met quality standards and provide more targeted feedback to the foreign auditors as they prepared the reports.

Selected Missions Allowed Nearly All Questioned Costs, but Each Mission's Support Varied

USAID used management decision memorandums to document questioned costs determinations, but we found weaknesses with how USAID documented the support. Federal internal control standards state that agencies should establish an organizational structure,

²² The Center for Audit Excellence offers training, technical assistance, and other products and services to audit organizations to build capacity and foster effective accountability.

²³ OIG planned to no longer conduct desk reviews of all NFA reports and instead review select reports using a risk-based approach beginning in 2025. OIG put these plans on hold given changes in USAID's operating status.

²⁴ Some missions stated the need for training from external parties like the U.S. Government Accountability Office.

including the extent of documentation needed to support operational effectiveness.²⁵ Our review of 45 sampled management decision memorandums with determinations to allow questioned costs from eight selected country missions—Afghanistan, Haiti, Liberia, Pakistan, Peru, the Philippines, West Bank and Gaza, and Zimbabwe—found that the missions used varying levels of support to justify allowed costs. As a result, it was not always clear why mission officials allowed the costs. Officials from the missions allowed more than \$63 million out of \$64 million (98 percent) in questioned costs identified in the sampled NFA reports and disallowed approximately \$1 million, according to our analysis.

Table 2 shows the results of our review of determinations from the sampled management decision memorandums and the varying levels of support to justify the allowed questioned costs.

Table 2. Levels of Support for Determinations to Allow Questioned Costs in Sampled Management Decision Memorandums

Basis of Determination	Number of Determinations to Allow Questioned Costs	Allowed Questioned Costs
Detailed Support Documented in Management Decision Memorandums	95	\$53,321,641
Detailed Support Not Documented in Management Decision Memorandums	37	\$5,147,491
Unclear Support and Not Documented	6	\$4,822,478
No Support	1	\$4,408
Total	139	\$63,296,018

Source: OIG analysis of sampled management decision memorandums.

We reviewed 45 management decision memorandums to assess what support the selected missions used for making the 139 determinations to allow questioned costs. Based on our review, we identified the following four categories of varying support:

- **Detailed support documented.** We found 95 determinations that had detailed support—such as contracting agreements, receipts, and correspondence—included in the management decision memorandums.
- **Detailed support not documented.** We found 37 determinations that had detailed support, but support was not documented in management decision memorandums. For example, one management decision memorandum had 15 different determinations to allow questioned costs totaling nearly \$2 million. Two of 15 determinations to allow questioned costs included descriptions that justified the questioned costs but did not include any supporting documentation to support the justifications. In contrast, 13 of the 15

²⁵ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G), “Control Environment,” Principle 3, “Establish Structure, Responsibility, and Authority,” September 2014.

determinations included descriptions that justified the questioned costs and had supporting documentation attached to the management decision memorandum.

- **Unclear and undocumented support.** We found six determinations that had unclear and undocumented support. These determinations indicated that the official “reviewed support” without further explanation of what information was considered, but the supporting information was not documented. In one mission, three management decision memorandums that contained determinations to allow questioned costs did not contain information on what the official reviewed when making the determination to allow questioned costs. We followed up with mission staff on the determinations and received their correspondence with the contracting officer, including their recommendations on the extent that questioned costs should be allowed. The contracting officer reviewed and signed off on the recommendations. In addition, the contracting officer provided supporting documentation for the recommendations.
- **No support.** We found one determination that had no support. For this determination, the cognizant official made the decision to allow the questioned costs while mission staff was still in discussion with the implementing partner about a lack of supporting documentation.

USAID’s NFA policy stated that each mission was responsible for developing its own management decisions.²⁶ However, the policy did not provide guidance on how officials should determine the allowability of questioned costs and document these decisions. In addition, the policy did not require missions to prepare their own guidance on developing management decisions.

Due to the lack of requirements and guidance in USAID’s NFA policy, most of the missions in our sample did not have guidance for their staff on developing management decisions. Specifically, five of the seven mission staff we interviewed did not have guidance for developing management decisions and making determinations to allow questioned costs. However, the two other mission staff reported that their respective missions developed standard operating procedures that outline the roles and responsibilities of staff in the NFA process. This included how missions were required to make and document management decisions. For instance, one mission’s standard operating procedure stated that a financial analyst collaborated with other mission staff, such as staff in the Office of Acquisition and Assistance, to assess the allowability of any questioned costs when developing the management decision. The contracting officer ultimately signed the management decision and stored it on a shared drive.

Further, cognizant officials from the selected missions generally did not know what types of documentation would best support the allowability of questioned costs. According to all cognizant officials that we spoke with, USAID did not have Agency-wide training that addressed how cognizant officials at each mission were to make decisions regarding the allowability of questioned costs. All Agency officials we interviewed stated that they did not receive any training on how to determine if questioned costs are allowable. These officials referred to Federal regulations and various laws when assessing the allowability of questioned costs. USAID officials and financial management staff from six of the eight missions we reviewed said they

²⁶ ADS 591 Mandatory Reference “maa,” August 2021.

believed additional training or guidance on making determinations in management decisions and the different types of questioned costs that may see in NFA reports could have been helpful.

Without guidance or training for developing management decisions and documenting support for allowable questioned costs, USAID did not have reasonable assurance that officials were making decisions about questioned costs that aligned with laws, regulations, and the terms of the awards.

Conclusion

Foreign organizations, governments, and other entities were essential to achieving USAID's mission to deliver lifesaving aid, particularly in conflict zones. NFAs were an important tool for the Agency to ensure that these entities were fiscally accountable and that U.S. funds were not wasted or abused. However, USAID lacked policies, guidance, and training for reviewing NFA reports and determining and documenting that identified questioned costs were allowable. Thus, the Agency did not have reasonable assurance that funds awarded to foreign organizations were spent in accordance with laws, regulations, and award terms. USAID determined that over 96 percent (approximately \$72 million) of those costs was allowed during the scope of the audit. NFAs will continue to be a vital tool to provide oversight of non-U.S. entities implementing foreign assistance programs to achieve U.S. objectives and priorities. Therefore, it is important that Federal agencies continue to strengthen controls to ensure that foreign audit firms complete NFAs that adhere to quality standards and that Agency officials have sufficient justifications and support for allowable questioned costs. Given USAID's current operating status, we are not making recommendations at this time.

Considerations for Future Foreign Assistance

As the administration determines the future of foreign assistance, including the role of non-Federal audits in ensuring that foreign assistance funds are used appropriately, we suggest decision makers consider the following actions:

1. Develop policy and guidance for reviewing non-Federal audit reports for quality standards and requirements for documenting these reviews.
2. Review and reassess non-Federal audit training needs for staff and provide periodic formal training for staff involved in reviewing non-Federal audit reports for quality standards.
3. Develop and provide guidance or training for officials on how to determine whether questioned costs identified in non-Federal audit reports are allowable, including the supporting documentation needed to support these determinations.

OIG Response to Agency Comments

We provided our draft report to USAID on August 5, 2025. On August 29, 2025, we received the Agency's response. The Agency did not have any comments on the draft report.

The report did not include any recommendations; therefore, no management decisions are needed.

Appendix A. Scope and Methodology

We conducted our work from April 2024 through August 2025 in accordance with GAGAS. 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 assess the extent to which USAID missions (1) reviewed foreign audit firms' NFA reports for quality standards and (2) determined that NFA questioned costs were allowable.

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 two of the five components of internal control as defined by the U.S. Government Accountability Office.²⁷ These were Control Environment and Control Activities. Our steps to assess these controls are discussed below.

The audit scope focused on USAID's management of its NFA program from FY 2021 through 2023. We selected this timeframe because USAID updated its NFA program policy in 2021. The scope covered sampled USAID missions' processes for reviewing NFA reports and selected USAID missions' processes to determine the allowability of questioned costs. We conducted our work in Washington, DC, and Nairobi, Kenya.

To understand how missions managed their NFA program, we selected two USAID missions—USAID/Honduras and USAID/Kenya and East Africa—to obtain testimonial and documentary information. We selected these missions based on a few factors. First, we analyzed the total questioned costs and percentages of each mission's questioned cost sustention rates from FY 2021 through 2023. Next, we determined that USAID/Honduras and USAID/Kenya and East Africa had both the highest total amounts of questioned costs and percentage of those costs disallowed. We interviewed program staff in each mission's Office of Financial Management and Office of Acquisition and Assistance that were responsible for assessing foreign audit firms' qualifications, reviewing NFA reports, preparing management decision memorandums, and making determinations about questioned costs. In addition, we reviewed eight foreign audit firm assessments for USAID/Honduras and five foreign audit firm assessments for USAID/Kenya and East Africa. We conducted a site visit to Nairobi, Kenya, in June 2024 to observe the mission's management of the NFA program and interview knowledgeable mission staff about their responsibilities in the NFA process.

To address the first objective, we reviewed OIG's Audit Information Management System and identified a universe of 56 country and regional missions that conducted mission-contracted audits of foreign organizations that expended more than \$750,000 from FY 2021 through 2023.²⁸ We sent a web-based survey to all 56 missions that had NFA reports from FY 2021

²⁷ U.S. Government Accountability Office, (GAO-14-704G), September 2014.

²⁸ The Audit Information Management System was USAID's database that contained the recommendations from all audit reports issued by OIG. USAID and OIG used this database to track audit recommendations, completion dates, final action dates, and cost savings analysis.

through 2023 and received survey responses from 35 missions. After removing responses from 2 missions that did not have reports during the scope of the audit, we analyzed responses from 33 missions and followed up for clarification or additional information as needed. Appendix B provides more detail about the web-based survey. Our findings cannot be used to make inferences about how NFA reports were reviewed for quality standards at other missions or as a whole.

To understand and assess the control activities for the NFA report review process, we reviewed documentation and interviewed knowledgeable officials. We reviewed relevant USAID policies and internal guidance that missions used to review NFAs for quality standards. We also interviewed staff from USAID's CFO to understand the extent to which they provided a standardized process or training to mission staff to support reviewing NFA reports for quality standards. In February 2025, many USAID staff were placed on administrative leave. As a result, we were unable to obtain updates from the Agency's CFO staff on their efforts to standardize checklists for the USAID missions.

To address the second objective, we reviewed OIG's Audit Information Management System and identified a population of 26 country missions that allowed questioned costs from FY 2021 through 2023. We then selected a nonstatistical sample of 8 out of the 26 countries: Afghanistan, Haiti, Liberia, Pakistan, Peru, the Philippines, West Bank and Gaza, and Zimbabwe. These eight missions represented countries in each of USAID's five regions with the highest total of questioned costs identified in NFA reports.²⁹ For the eight selected missions, we retrieved management decision memorandums from USAID's Agency Secure Image and Storage Tracking system or from OIG regional offices. We reviewed 45 management decision memorandums and assessed the 139 determinations to justify the allowed questioned costs. Our findings cannot be used to make inferences about the determinations of NFA questioned costs at other missions or as a whole.

To understand and assess the control environment for how NFA questioned costs were allowable, we reviewed documentation and interviewed knowledgeable officials. We reviewed management decision memorandums to determine what information the sampled missions used when documenting support in the memorandums. In addition, we reviewed all supporting documentation from these management decisions, such as contracting agreements, work orders, site visit reports, and other records that USAID officials relied on to make determinations on the allowability of questioned costs. We interviewed the cognizant official from seven of the eight selected missions—including the agreement officers, contracting officers, and mission directors—to understand their process for making determinations to allow questioned costs. We did not interview the cognizant officer at the USAID Mission in Afghanistan due to scheduling constraints. Further, we reviewed USAID policies, Federal cost principles, and other mission-developed guidance related to their process in making determinations to allow questioned costs.

We did not rely on computer-processed data to answer our objectives. Audit findings, conclusions, and recommendations were based on interviews, documentation review, and

²⁹ USAID/Honduras and USAID/Kenya and East Africa were not included because we selected these missions for limited testing to understand the NFA program.

analysis of survey responses and management decision memorandums, which we determined were sufficiently reliable for reporting purposes.

Appendix B. Survey of USAID Missions

OIG sent a web-based survey from October 18, 2024, through November 1, 2024, to USAID missions that had NFA reports from FY 2021 through 2023. Using OIG’s Audit Information Management System, we identified 66 countries that had NFA reports from FY 2021 through 2023. USAID officials informed us that they managed the NFA program for multiple countries on a regional basis. Therefore, we consolidated and updated our universe to 56 missions as summarized in Table 3.

Table 3. USAID Mission Survey Responses by Region

Region	Total Number of Missions	Number of Survey Responses	Response Rate
Africa	20	13	65%
Asia	12	9	75%
Eastern Europe	9	4	44%
Latin America and the Caribbean	11	7	64%
Middle East	4	2	50%
Total	56	35	63%

Source: OIG analysis of USAID missions that conducted NFA report reviews for quality standards.

We received survey responses from 35 missions within five regions for a response rate of 63 percent. We removed two survey responses, one from the Africa region and one from the Eastern Europe region, because those missions said they did not complete NFA reports within the scope of the audit. Therefore, our analysis is based on responses from 33 missions. These survey results are not generalizable to the population of missions.

The survey included questions about missions’ process for reviewing NFA reports for quality standards, how missions understood the quality standards, and any challenges that missions faced related to their reviews. Questions 1 and 2 asked which mission was completing the survey and names of survey respondents, respectively. The following are questions 3 through 21.

3. USAID’s Automative Directive Systems Chapter 591maa states “The USAID Operating Unit must review for quality standards and forward the audit report to the OIG.” Do you understand what is meant by “quality standards”?
 - ☐ Yes
 - ☐ No
4. [If ‘Yes’ was selected in Question 3] What do you understand “quality standards” in Automative Directive Systems Chapter 591maa to mean? (Select all that apply)
 - ☐ Government auditing standards (GAGAS)

- Statements on Auditing Standards (SAS)
- USAID agency-wide standards
- Mission-specific standards
- Other:

5. Does your mission maintain a set of quality standards to review the NFA reports against?

- Yes
- No
- Not sure

6. [If 'Yes' was selected in Question 5] Since you answered 'yes' to the previous question, please attach any documents identifying these standards.

7. Please fill in the matrix.

	FY 2021	FY 2022	FY 2023
1. Please enter the number of NFA reports issued by fiscal year (FY).			
2. Did the mission review all NFA reports completed in each FY for quality standards? Please enter one of the following "Yes," "No," or "Not applicable" if there were no reports to review in that fiscal year.			

8. Does the mission have a system to ensure that all NFA reports are reviewed against quality standards?

- Yes. If yes, explain in the text box below.
- No
- Not sure

9. Who is responsible for reviewing the NFA reports against quality standards at your mission? (Select all that apply)

- Controller
- Financial Analyst
- If other, please explain:

10. Please fill in the matrix of the employees at your mission who are responsible for conducting reviews of NFA reports against quality standards.

	Name	Position Title	Years of NFA or other audit experience	Received GAGAS training in FY 2021-2023 (Please enter Yes or No)
1.				
2.				
3.				

11. Please provide an overview of the mission's process for reviewing NFA reports against quality standards.

12. To what extent are quality reviews of NFA reports documented prior to submitting the audit report to the Office of Inspector General?

- ☐ Not documented
- ☐ Partially documented (e.g. tracked changes on report, comment boxes within documents)
- ☐ Fully documented (e.g. checklists or other tools identifying review process steps and supervisory approval, associated reviews)

13. [If 'Fully Documented' was selected in Question 12] Since you answered that quality reviews of NFA reports are "fully documented" in the previous question, please attach an example(s) of a quality review performed on a NFA report that occurred during FY 2021-2023.

14. Which of the following has provided guidance for reviewing NFA reports against quality standards before reports are sent to the Office of Inspector General? (Select all that apply)

- ☐ USAID's Office of the Chief Financial Officer (CFO) provided guidance
- ☐ The mission provided its own internal guidance
- ☐ None of the above

15. [If 'USAID's CFO provided guidance' or 'The mission provided its own internal guidance' was selected in Question 14] Since you indicated that CFO or the mission provided guidance in the previous question, please attach copies of all applicable guidance that the mission used in FY 2023-2023 when conducting quality reviews of NFA reports.

16. To what extent would guidance help the mission complete quality reviews of NFA reports?

- ☐ Not helpful
- ☐ Somewhat helpful
- ☐ Helpful

17. Has the mission been provided training on conducting quality reviews of NFA reports within the five-year period from FY 2018 – 2023?

- Yes
- No

18. To what extent would training on reviewing NFA report for quality standards help the mission complete quality reviews of NFA reports?

- Not helpful
- Somewhat helpful
- Helpful

19. When the mission conducts quality reviews of NFA reports and finds deficiencies, what steps are taken to address the deficiencies?

20. What challenges, if any, does the mission experience when reviewing NFA reports against quality standards?

21. Please use the text box to provide any additional information that you think would help the mission to conduct quality reviews of NFA reports.



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