TOP MANAGEMENT CHALLENGES

Facing U.S. Foreign Assistance in Fiscal Year 2027



Office of Inspector General
U.S. Agency for International Development

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Message From the Acting Deputy Inspector General



Required by the Reports Consolidation Act of 2000, this annual report presents the USAID Office of Inspector General's (USAID OIG) independent assessment of the top management and performance challenges facing U.S. foreign assistance programs in fiscal year (FY) 2027.

For 46 years, USAID OIG has been the primary entity conducting oversight of the U.S. government's overseas humanitarian and development responses. This year, we have continued to provide timely and impactful oversight during a period of significant change, culminating in an invitation from the House Foreign Affairs Committee to testify alongside the Government Accountability Office at a hearing entitled "Waste, Fraud, and Abuse in Foreign Assistance: Lessons Learned and Charting the Path Forward."

As the Department of State (State) moves from administering transferred USAID awards to making new ones, questions remain regarding whether appropriate guardrails have been set up by State to mitigate the risk of fraud, corruption, sexual exploitation and abuse, and diversion (including by terrorist organizations) in the new, and existing, programs. This includes the large amount of foreign assistance funds now being channeled into United Nations (UN) agencies and a pivot toward bilateral government-to-government agreements to support global health programming. Both mechanisms present unique and highly technical challenges to the U.S. government's ability to conduct oversight of those funds and hold those who defraud, corrupt, or abuse such funds accountable. And, as USAID continues efforts to close out over 5,000 terminated awards, questions likewise remain regarding whether appropriate procedures are being followed to safeguard taxpayer-funded assets and ensure a responsible closeout process.

We previously reported that some of the largest challenges facing the implementation of overseas spending are not specific to one agency. Rather, they reflect inherent issues with providing assistance in difficult environments, often with limited resources and demanding timelines. This remains true, and it is part of the reason strong transparency and accountability mechanisms are so important. Independent, on-the-ground oversight from experienced auditors and investigators results in programmatic changes to prevent diversion, improvements to programs to ensure they meet their goals, and steps taken to ensure that aid is reaching those in need instead of being corrupted or resold for profit.

However, independent oversight is only as effective as the access supporting it. Without access to records, systems, and meaningful dialogue with responsible officials, transparency and accountability mechanisms lack the visibility necessary to proactively identify and respond to weaknesses. As a result, the integrity, sustainability, and efficacy of the programs suffer, and those who defraud U.S. programming evade culpability.

As such, OIG has identified two broad challenges impacting U.S. foreign assistance in FY 2027:

1. **IG access issues hinder rigorous oversight and accountability of U.S. foreign assistance.**
2. **Risks in the closeout, transfer, and disposition of foreign assistance awards jeopardize responsible stewardship of funds.**

The challenges we highlight in this report are not the only significant issues confronting U.S. foreign assistance. They are, however, central to promoting the economy, efficiency, and effectiveness of foreign assistance and to preventing and detecting fraud, waste, corruption, and abuse. We hope you find this report informative.



Van Nguyen
Acting Deputy Inspector General
Performing the duties of the Inspector General



IG Access Issues Hinder Rigorous Oversight and Accountability of U.S. Foreign Assistance

Receiving and Responding to Allegations of Fraud, Corruption, and Other Misconduct

Enacted FY 2026 appropriations language and existing statutory IG Act provisions grant USAID OIG continued jurisdiction of foreign assistance programs administered across multiple agencies. However, State guidance issued in July 2025 determined that USAID OIG's jurisdiction is limited to activities prior to the transfer of the Agency's programs to State on July 1, 2025. This policy has limited USAID OIG's ability to utilize our expertise to recover funds; identify major risks to new awards; investigate diversion of U.S.-funded commodities; and work to arrest, indict, convict, and otherwise hold accountable those who misappropriate funds abroad.

Further exacerbating the challenge of safeguarding U.S.-funded assets is the uncertainty now faced by U.S.-funded awardees on how, when, and to whom to report allegations of misconduct. For decades, USAID OIG's Hotline has served as a global confidential reporting channel allowing both entities and individuals to confidentially report allegations of fraud, corruption, diversion, and sexual exploitation and abuse. During the transfer of USAID-administered programs to State, awardees have expressed a lack of clear and consistent direction from program officials on how to report suspected fraud and misconduct impacting both ongoing and new awards. Conflicting instructions have been circulated to awardees, subawardees, beneficiaries, and State personnel about where allegations should be reported, even though the governing laws and award requirements point to established oversight channels, including USAID OIG. This misalignment risks leaving critical gaps in oversight through which criminal activity implicating U.S.-funded activities goes undetected.

To illustrate, in FY 2026, USAID OIG's Hotline received only 1,505 allegations, representing a nearly 65 percent decrease from 4,273 allegations received in FY 2024. The substantial decline raises serious concerns about potential fraud, corruption, and other misconduct



impacting billions of dollars of ongoing awards going unreported, undetected, and unaddressed. USAID OIG criminal investigators are well versed in probing allegations of misconduct involving foreign assistance; they understand that a seemingly modest, "self-reported" loss of funds by an aid organization operating in a remote, nonpermissive environment can quickly escalate into significant financial harm if left unaddressed. While USAID OIG's prior investigative activity continues to yield unprecedented results, State's current limitation on USAID OIG's oversight of new foreign assistance awards largely precludes the opening of subsequent cases involving fraud and corruption impacting overseas aid programs.

Obtaining Information and Records from Federal Agencies Relevant to Ongoing U.S. Foreign Assistance

Over the past year, frequent unanswered data requests have limited USAID OIG's ability to verify programmatic, financial, and other key information that could promote a more efficient transfer of foreign assistance awards to State. For example, since July 1, 2025, over 1,000 active awards for more than $40 billion were transferred from USAID to State. The transfer was to include critical award information and data that State needed to carry out its new award management responsibilities. While we found that USAID shared award records with State, we could not assess the quality and completeness of these records due to the lack of response from USAID.

In another example, USAID OIG's Overseas Contingency Operations team has not received any substantive response from USAID to inquiries in furtherance of our statutorily mandated oversight of Operation Enduring Sentinel (Afghanistan), Operation Atlantic Resolve (Ukraine), and Operation Inherent Resolve (Iraq/Syria) since July 2025. We have sent similar inquiries to State across these operations, as well as Operation Southern Spear (Latin America/Caribbean) and Operation Epic Fury (Iran). State's responses have been inconsistent, with numerous responses delayed, incomplete, or not provided at all.



Accordingly, USAID OIG cannot fully leverage its expertise to provide timely, independent oversight of billions of dollars in ongoing U.S. foreign assistance in some of the world's most challenging regions.

Obtaining Information and Records From UN Agencies and Foreign Governments Implementing U.S.-Funded Foreign Assistance

Just as insufficient responses from Federal agencies to OIG information requests hamper independent oversight of foreign assistance, nonresponsiveness by U.S.-funded award recipients prevents meaningful oversight and investigations into fraud, corruption, and diversion of U.S. funds.

Despite clear obligations in prior USAID standard award provisions to report credible allegations of misconduct impacting U.S. funds directly to USAID OIG, UN agencies routinely failed to do so. Delayed, and in some cases altogether absent, reporting by UN agencies has undermined IG oversight efforts, resulting in an inability to pursue certain cases due to the expiration of applicable statutes of limitations, challenges in preserving material evidence, and the unavailability of former staff members for testimony.

As one example, OIG initiated an investigation into an allegation that a Venezuelan organization implementing two UN Office for the Coordination of Humanitarian Affairs (OCHA) projects engaged in fraud, resulting in approximately $393,000 in loss of funds for programming in Venezuela. Despite repeated formal and informal requests, USAID OIG did not receive information and records necessary to identify subjects and develop additional investigative leads. OCHA and the UN Office of Internal Oversight Services both maintained that, under their established frameworks, they were not authorized to provide USAID OIG with the requested information, and that withholding information on the implicated individuals was necessary to protect their due process rights. This position prevented USAID OIG from furthering its investigation and determining whether criminal, civil, or administrative action was warranted.

This challenge would be remedied in part by including, as material provisions of an agreement, enforcement remedies against UN entities for failure to provide IGs with prompt



access to information necessary to investigate misconduct impacting U.S. programs. This includes pertinent information on UN staff and interference in programming by designated terrorist organizations. We have drafted proposed language to this effect for consideration and inclusion in the written agreements required to be entered into between State and international organizations receiving U.S. funding, as established by § 7048(h) of the 2024 Consolidated Appropriations Act.

Further, we have previously offered lessons from our prior oversight work and challenges with monitoring funding to public international organizations to help decision makers better position U.S. foreign assistance in the future and avoid past mistakes. We also offered a priority list of reform areas critical to strengthening the UN's transparency and accountability and look forward to continued engagement with Congress and the executive branch, as well as bilateral oversight partners who have raised identical concerns with respect to their national funding.

Notably, the same access principles must apply to U.S. global health funding that flows directly to foreign governments, known as government-to-government (G2G) awards. USAID OIG has cautioned that American capacity to oversee G2G funds and pursue civil, criminal, or administrative remedies is severely limited. For instance, despite programmatic reviews and assessments designed to identify the very vulnerabilities, diversion, and theft affecting USAID's global health awards in Kenya outlined previously, much would have gone undetected without the confidential allegations our office received from sources outside the Kenyan government. Further, the U.S. government's ability to pursue civil or criminal action against the Kenya Medical Supplies Authority was greatly complicated by the involvement and interests of Kenyan government officials.

Accordingly, it is imperative that all recipients of U.S. foreign assistance funding actively engage with USAID OIG to ensure professional, independent oversight, in line with our statutory, and that such cooperation is reflected in award terms. Failing to meet obligations to cooperate with and report misconduct to USAID OIG hinders our ability to inform the administration, Congress, and the American public about significant risks to U.S. taxpayer dollars.



Vetting Implementers and Holding Accountable Individuals Who Defraud U.S. Foreign Assistance Programs

Foreign assistance programs, no matter which agency administers them, are unfortunate targets for fraud, corruption, and diversion. Central to ensuring integrity and accountability over these programs and disrupting financial and other schemes is having an aggressive inspector general's office familiar with the nuances and challenges of overseas investigations, and with a track record of overcoming them. In the past year, our OIG-led investigations, performed by seasoned law enforcement professionals posted across five continents, have revealed and highlighted heightened risks of fraudulent billing, money laundering, sexual exploitation and abuse, embezzlement, and diversion of aid, including to terrorist organizations—all of which have undermined the United States' ability to achieve its foreign assistance objectives.

For agencies such as State, now responsible for managing large-scale foreign assistance portfolios, these outcomes illustrate how oversight must continually adapt. Procurement integrity can be tested by insider collusion, limited visibility into subawardees, and fragile environments susceptible to diversion. USAID had over 600 regulatory chapters in place, many of which focused on transparency and accountability over programming in complex emergency environments vulnerable to the risks above. Accordingly, it will be incumbent on new agencies administering foreign assistance programs to have equally tried and tested mechanisms to ensure prompt detection, reporting, and responses to allegations of misconduct involving U.S. funds.

Relatedly, we have previously reported on weaknesses in USAID's partner vetting policies that were intended to help the Agency manage tradeoffs associated with delivering lifesaving aid in a timely manner, while providing assurance that such aid did not support terrorist activity. We found that limiting this assurance were self-imposed exemptions in the Agency's vetting policy—including broad exemptions for UN agencies—and internal control weaknesses that created information shortfalls. Without clear policy or statutory requirements to expand U.S.



vetting processes to UN personnel, the U.S. government will continue to lack the information necessary to determine UN staff affiliation with U.S.-designated terrorist organizations.

These oversight challenges are further compounded by the operational dissolution of USAID's Suspension and Debarment Office (SDO). Over the years, USAID OIG worked closely with USAID's SDO to protect taxpayer dollars and ensure that U.S. foreign assistance funds are only entrusted to individuals and organizations that are presently responsible. Between FY 2024–2026, USAID's SDO suspended or debarred 39 individuals or entities OIG referred for suspension and debarment consideration. Referrals for 10 individuals or entities remain pending and have been accepted by State's SDO for consideration. However, the dissolution of USAID's SDO has raised concerns regarding the process for handling future referrals, including whether State's smaller SDO will have sufficient capacity to manage the volume of matter USAID OIG typically refers. This is critically important as suspension and debarment are tools USAID OIG often uses to ensure that bad actors cannot recirculate through the aid sector. For example, one ongoing USAID OIG investigation resulted in the debarments of former staff from the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) for participation in the October 7, 2023, terrorist attacks in Israel. These were the first known debarments by the United States of a terrorist affiliated with a UN agency responsible for humanitarian assistance programming.



Risks in the Closeout, Transfer, and Disposition of Foreign Assistance Awards Jeopardize Responsible Stewardship of Funds

Maintaining Operations Through Staffing Reductions

After the March 2025 announcement that USAID would cease operations and some functions would transition to State, USAID began an Agency-wide reduction in force affecting both U.S. direct hire personnel and locally employed staff (LES) hired by the U.S. government overseas.

In FY 2024, USAID had over 5,000 LES composing approximately 75 percent of USAID's overseas staff and more than one-third of its total workforce, filling roles ranging from budget management and procurement to senior technical experts. By the end of August 2025, USAID had terminated all 5,078 LES—an action that required USAID to pay more than $385 million in severance pay, retirement, and other benefits for the terminated staff. While State added 414 new LES positions for foreign assistance in calendar year (CY) 2025, these new foreign assistance positions represented about 8.2 percent of the total eliminated by USAID. It remains unclear if State's LES can sufficiently implement roles previously filled by USAID's local staff.

Relatedly, as part of our ongoing evaluation of terminated LES, we found that financial records for approximately $10 million in severance payments the Agency made directly to LES staff in Mozambique and the Philippines were incomplete, and supporting documentation for certain payments made to those individuals was missing. Without such records and statements, the U.S. government cannot verify that severance payments made to locally employed staff were authorized and disbursed appropriately.

We have also identified staffing shortages as a challenge to ensuring that USAID's assets were disposed of in accordance with applicable law. This proved a challenge as USAID staff in multiple locations who managed terminated awards were placed on administrative leave and unable to perform asset disposition tasks. For example, in Southern Africa, we found that the



remaining mission staff had limited knowledge of the awards and performed little verification of the inventory lists of assets that needed to be disposed. Further, some implementers were unavailable or had limited staff to confirm that asset disposition took place as planned. As a result of understaffing, high-value assets procured under terminated awards were at risk of misappropriation or loss, including in Yemen, where USAID OIG found evidence that approximately $122,000 worth of U.S. government-funded assets under a terminated USAID award were confiscated by Ansar Allah (a.k.a. the Houthis).

Disposing of Assets and Paying Program Implementers Promptly

Termination notices and delayed payments have presented significant operational constraints for many USAID implementers, with some organizations effectively shuttering and abandoning Agency-funded assets. On March 13, 2025, USAID directed contracting 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 series of audits looking at asset disposition around the world assessed USAID's ability to close out awards, appropriately account for property funded by those awards, and mitigate the risk of fraud and misuse.

In our audits of USAID's terminated awards, we identified $35.9 million in assets for 65 foreign assistance awards at missions in Egypt, Haiti, and Southern Africa alone. An audit of the disposition of assets in Ukraine is ongoing. While we determined that USAID and its implementers generally disposed of assets as intended, we observed several issues that impacted USAID's efforts to manage the disposition of assets by implementers:

- **Certain assets may require unique consideration for disposition.** For example, USAID approved plans for disposing armored vehicles in Haiti without confirming the vehicles' security level as required. In Egypt, $2 million in specialized equipment was at risk of waste since it was donated to two organizations that did not receive the needed training to use it.
- **Incomplete or missing asset inventories limit accountability.** On multiple occasions—in Southern Africa and Thailand, for instance—we found that asset



inventories submitted to USAID by implementers were incomplete or contained discrepancies with USAID's records.

- **Closeout audits of awards can enhance accountability during asset disposition.** USAID and Federal regulations may require an independent third party to conduct a closeout audit—a non-Federal audit which typically examines whether the award recipient complied with award terms and applicable laws and regulations. Inventory and asset expenditures and disposition are included as part of these audits, serving as a control that could be used to mitigate the risks summarized above. It is unclear whether foreign assistance awards transferred from USAID to State will be subject to closeout audits.

Challenges to closing out USAID's awards extend to the millions of dollars in food and other emergency commodities stored in warehouses around the world for the rapid delivery of humanitarian aid to vulnerable populations, particularly after crises. We examined the warehouse food aid and storage conditions in Djibouti City, Djibouti; Durban, South Africa; and Houston, Texas. While USAID managed to distribute much of the food before best-used-by dates, this was not always the case: Of the $21 million of food aid stored in Djibouti's warehouses, more than $17 million had not been allocated to an emergency food provider at the time of our inspection. This included $10 million of food at risk of reaching its best-used-by date prior to arriving at its intended destination. Further, at the time of our inspection, $2.9 million of food had already spoiled due to significant packaging defects by the vendor. In addition, inventory information and records were not always consistent and accurate, as we found in our audit of another warehouse in the United Arab Emirates, and USAID did not enforce certain warehouse contract requirements regarding storage and commodity conditions.

Another challenge is that 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 and financial risks. And, according to our analysis of USAID's financial data, USAID's interest payments to vendors accelerated sharply in CY 2025, exceeding $8.9 million. USAID finance officials



attributed the sharp increase to several factors. These included changes to payment processes and uncertainties due to Agency-wide staff shortages, which reduced USAID's ability to make payments on time, even for approved expenses. We urged USAID to take steps to minimize these Prompt Payment Act (PPA) violations as the Agency continues to close out awards and wind down its operations. Further delays will result in the Agency continuing to accrue interest on outstanding payments.

These and other challenges now face State, which has taken over management of the former USAID warehouses and foreign assistance awards. Sensitive items like armored vehicles and IT equipment are particularly susceptible to diversion or loss, and thus require unique consideration to ensure they are disposed of as intended. Additionally, since many of the transferred awards are scheduled to end in CY 2026, State will be managing asset disposition for many awards simultaneously. As State closes these awards, safeguards to account for U.S.-funded assets could help mitigate heightened risks of fraud, waste, and abuse.

Monitoring Programs Continuously to Ensure Assistance Is Delivered as Intended

As of May 2026, 98 percent of the active, remaining 1,359 foreign assistance awards previously managed by USAID totaling about $40.7 billion transferred to State, primarily supporting health, disaster, and humanitarian programs. For these active awards, continuous monitoring is needed to help ensure that assistance is delivered as intended. As one example in Sudan shows, mass staff departures, stop-work orders, and USAID's limited operating status significantly disrupted monitoring, leaving planned site visits canceled or incomplete. USAID also did not share serious unresolved fraud and other program irregularities, along with key monitoring documents, with State, limiting the latter's ability to assess risks and make informed decisions about Sudan's humanitarian assistance portfolio. Addressing these deficiencies will strengthen monitoring, enable timely detection and resolution of program irregularities, and better safeguard taxpayer funds in high-risk, nonpermissive environments.



Managing Awards Despite Conflicting, Changing, or Absent Internal Guidance

When the agencies we oversee must close out awards and programs on short timelines and with fewer staff, consistent and comprehensive internal guidance becomes especially critical. For example, in late July 2025, the Millenium Challenge Corporation (MCC) announced that the review of its U.S. foreign assistance programs directed the Agency to terminate several programs in the implementation stage totaling more than $1 billion, of which MCC had spent over $60 million as of May 2025. However, at that time, MCC did not have specific requirements in existing policy for closing out these programs. Specifically, in the case of programs selected for suspension or termination, management had not defined what was to be achieved, who was responsible, and the timeframe for completion. Instead, MCC's policy gave it flexibility to select appropriate closeout actions for suspended or terminated programs based on the country's specific circumstances (e.g., if a program was terminated due to a military coup versus election irregularities in a country). With this larger scale closeout of multiple programs in their implementation stages, and without more specific processes to ensure program activities are closed in an orderly and efficient manner, MCC faced heightened risks that the $60 million in foreign assistance was susceptible to fraud, waste, and abuse.[1]

Meanwhile, USAID updated its audit requirements for terminated awards in February 2026, raising the mandatory audit threshold for certain terminated contracts' settlement proposals from $1 million to $50 million. While this revised approach is intended to facilitate the efficient finalization of settlements that fall below the threshold given USAID's current circumstances, closeout audits serve to ensure accountability, particularly during asset disposition. USAID OIG has repeatedly requested additional information concerning the award closeout process from USAID but has not yet received a response. The lack of clarity

[1] In response to our December 2025 management advisory, MCC agreed to update its closure policy to require that it document how the policy is applied to suspended and terminated programs. On October 1, 2026, MCC provided documentation of its final action, which we are currently reviewing.



regarding all the current deviations that USAID is applying to terminated awards creates gaps in oversight that organizations and individuals may seek to exploit during the closeout process.

In addition, insufficient and unclear guidance increases the risk that assets are not disposed of as intended, resulting in increased costs borne by American taxpayers. For example, we alerted USAID in June 2026 about the need to provide final disposition instructions to its contractor, Chemonics International, for $9.7 million in family planning commodities stored in Belgium. At the time, we estimated that USAID had paid over $360,000 in storage and transportation costs for these commodities since January 2025 and would continue to incur monthly storage costs of over $24,000 until final disposition was complete. Absent disposition instructions, commodities valued at $1.7 million were at risk of expiring, and USAID risked paying additional costs due to a prolonged award closeout process. Relatedly, in El Salvador, we found that USAID headquarters issued evolving guidance during the asset disposition process that created confusion, and that clearer guidance could have helped to mitigate risks to priority assets. In the Philippines, three implementers informed us that they needed additional instructions from the mission to dispose of 32 high-value or critical security assets, because initial guidance made it unclear if these assets could be transferred to another program or donated. These examples demonstrate the value of clear, timely, and consistent guidance to reducing unnecessary costs and ensuring the responsible closeout of awards.

Obtaining Information Related to IT Security, Financial Statements, and Assets From USAID and the U.S. African Development Foundation

As USAID operates in a closeout posture, it continues to be responsible for certain IT functions and its information security program until the reported wind-down is complete. Information security programs are required by law to be audited by USAID OIG on an annual basis. Delayed responses and outdated documents from USAID prevented USAID OIG from assessing the overall effectiveness of USAID's program in FY 2026, as required by the Federal Information Security Modernization Act of 2014 (FISMA). Accordingly, vulnerabilities may go



undetected due to a lack of insight into USAID's information security program. Such vulnerabilities create opportunities for bad actors to exploit weaknesses or gain access to sensitive Agency data.

The U.S. African Development Foundation (USADF) has similarly been nonresponsive to our repeated requests to assess its information security program and to verify the Agency's physical assets and over $9 million in accounts overseas. In addition, USADF has not addressed 11 of our 12 open recommendations, some dating back as far as August 2024, related to addressing fraud risks in the Agency's grants management activities. As a result, both the executive branch and Congress lack reliable information on USADF's operations and programming needed to allocate resources responsibly and address risks to information security, strategic partnerships, and grants management.

Conclusion

Our mission to inform Congress and executive branch decision makers on ways to make foreign assistance more transparent, accountable, and effective continues unabated. Considering the challenges we have identified, we will continue to leverage our global footprint and institutional knowledge to support efficient and effective use of U.S. taxpayer funds overseas. However, the access challenges flagged throughout this report will prevent the rigorous oversight of both ongoing foreign assistance programs and the USAID closeout process, which American taxpayers rely on and deserve. With the hopeful resolution of such access challenges, our audits, evaluations, and inspections will continue to inform policymakers responsible for implementing U.S. foreign assistance. Resolution of these challenges will also permit USAID OIG to continue investigating entities and individuals around the world that seek to defraud, corrupt, or abuse American foreign assistance programming, betraying both U.S. taxpayers and the intended recipients whom U.S.-funded assistance is designed to help.

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