



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

USAID Management Challenges and OIG Initiatives

Statement of the Honorable Ann Calvaresi Barr
Before the House Committee on Appropriations,
Subcommittee on State, Foreign Operations, and Related
Programs

Chairman Rogers, Ranking Member Lowey, and Members of the Subcommittee:

Thank you for the invitation to discuss the challenges U.S. agencies face in administering and overseeing U.S. foreign assistance programs around the world. Programs supported through the U.S. Agency for International Development (USAID)—the principal agency for providing foreign assistance—promote economic growth; democratic reform; and improved education, health, and security. USAID also provides emergency assistance to countries affected by a natural disaster, epidemic, or conflict.

Today, I will focus on (1) the major management challenges USAID faces in carrying out its mission, (2) recent accomplishments—external and internal—and OIG reforms and initiatives to best position OIG staff to carry out our oversight mission, and (3) our ongoing and planned work, including a revised plan for oversight of the Millennium Challenge Corporation (MCC).¹

SUMMARY

We identified five top management challenges for USAID that need particular attention in fiscal year 2017. These challenges stem largely from weak project design, monitoring, and internal controls; a lack of local capacity and qualified personnel to execute USAID-funded projects; and the complexities in coordinating and implementing foreign assistance efforts jointly with multiple and diverse stakeholders. Weaknesses in these areas can limit the impact of USAID projects or derail them before they begin; leave programs vulnerable to fraud, waste, and abuse; or both. The magnitude of our investigations related to humanitarian assistance programs in Syria demonstrates the extent to which USAID programs can be vulnerable to exploitation.² Our investigations exposed fraud schemes involving collusion between vendors' and implementers' logistics and procurement staff. We also identified schemes involving product substitution, inflated billing, and false claims. The complex and inhospitable environments USAID frequently works in exacerbate the challenges the Agency faces in carrying out its mission.

OIG's portfolio of work helps ensure USAID and the other entities we oversee overcome these challenges and meet their mission objectives. It also helps to ensure taxpayers get the highest return on their investment. In fiscal year 2016, our work yielded \$139 million in questioned costs and funds to be put to better use, and \$80 million in investigative recoveries and savings. Beyond the numbers, our work has had worldwide reach and impact. For example, our work identified weaknesses in implementers' internal controls, contracting processes, and oversight, resulting in a number of changes in related programs and procurement actions.

¹ Created in 2004, MCC competitively selects countries that demonstrate commitment to good governance, economic freedom, and investment in citizens, and provides them with large grants to fund projects that promote sustainable economic growth, open markets, and improved living standards.

² Humanitarian operations are defined as emergency operations carried out by the Office of Food for Peace, the Office of Foreign Disaster Assistance, the Office of Transition Initiatives, or any USAID mission response to a disaster declared by the chief of mission, including those involving persons displaced by war or political conflict.

To provide the level of oversight needed to help USAID and the other components we oversee address the complex challenges they face, OIG has capitalized on opportunities to improve our operations—with independence as our grounding principle. Since I was sworn in in November 2015, OIG has significantly advanced my vision for a high-performing organization. That vision begins with how we scope and execute our work. In addition to auditing and investigating individual USAID programs and projects, we are now targeting weaknesses that cut across USAID and the other entities we oversee in areas such as vetting implementers of USAID programs; promoting coordination among implementers; and strengthening financial and information technology management. This crosscutting work will provide solutions that link headquarters-based strategies to field-level implementation. To better position OIG staff to carry out this work, I launched a number of initiatives, some of which have already been completed. First, I added more rigor to how we prioritize our work and coordinate with our oversight partners. Second, I called for multidisciplinary teams made up of audit, investigation, and technical staff from headquarters and the field. I also consolidated 11 overseas offices to 4 hub offices to provide for controlled engagement of these crosscutting teams. Last, I took steps to revitalize our workforce. Notably, I recruited new leaders to strengthen OIG's executive team, elevated performance standards, and commissioned a review to identify the training and resources staff need to succeed. Collectively, these initiatives allow us to better target our audit and investigative resources on work that will have the greatest impact on U.S. foreign assistance programs and projects.

Our portfolio balances mandates with discretionary work that links foreign assistance goals with tactical implementation. Through our oversight mandates, we help ensure accurate and transparent financial reporting, secure information technology assets, and ensure the proper use of travel and purchase card programs. Through our discretionary work, we isolate the underlying causes of fraud, waste, and abuse in foreign aid and development programs and make sound recommendations for eliminating these vulnerabilities. Our ongoing and planned audits and investigations cover a broad range of high-risk, high-dollar programs and projects, including those that respond to international public health emergencies; provide assistance to the Afghan government for reconstruction, development, and self-reliance; and aim to expand access to electricity in sub-Saharan Africa. We also continue to coordinate with other OIGs to root out corruption in the global supply chain and in programs that counter violent extremism. Finally, we are ramping up our work on MCC's core business processes and major programs. We previously identified weaknesses in MCC-supported infrastructure projects, such as insufficient planning, poor contractor performance and oversight, inaccurate reporting of results, and uncertain government funding for road maintenance. We plan to assess MCC's infrastructure development model, with a particular focus on the effectiveness of making large infrastructure grants part of 5-year compacts. Internally, we continue to develop and implement major reforms, including revisiting our policies and procedures, to provide reliable, meaningful, and timely oversight. Key among these actions are efforts to solidify our independence. Within weeks of my confirmation, I established a cooperation memorandum with the USAID Administrator to formalize OIG's authority, and we are working to take back responsibility for assessing actions taken to address our recommendations. However, some actions require congressional action to ensure our oversight aligns with the Inspector General Act.

BACKGROUND

With the passage of the Foreign Assistance Act and the establishment of USAID 55 years ago, the United States solidified its bipartisan commitment to address basic human needs and advance the rights of the world's most disenfranchised people, and thereby encourage adoption of our Nation's core values.³ The development and humanitarian assistance activities set out in the act are designed to reinforce our financial and security interests and build and strengthen U.S. ties around the world.

USAID programs aim to support economic growth, combat the spread of disease, promote democratic reform, and address food insecurity. The Agency also provides assistance to countries working to alleviate poverty, and recovering from disaster or periods of conflict. USAID undertakes development and humanitarian assistance activities to expand stable, free societies and create markets and trade partners for the United States. Headquartered in Washington, DC, with missions around the world, USAID works with private voluntary organizations, indigenous organizations, universities, the private sector, international agencies, foreign governments, and other U.S. Government agencies.

My office provides independent oversight of USAID operations and programs, as well those of MCC, the U.S. African Development Foundation (USADF),⁴ the Inter-American Foundation (IAF),⁵ and the Overseas Private Investment Corporation (OPIC).⁶ My office also provides joint oversight of overseas contingency operations (OCO) and formally partners with the Departments of State and Defense (DOD) OIGs on Operation Inherent Resolve (OIR)—the operation dedicated to countering the terrorist threat posed by the Islamic State of Iraq and Syria (ISIS) in Iraq, Syria, and the surrounding region. Just last month, the State and DOD Inspectors General and I travelled to Afghanistan, Iraq, and Jordan to hear from senior officials in the field about the progress of their efforts and the challenges they confront, to assess coordination, and to see firsthand how our investments are playing out on the ground. We work with other OIGs, such as the Special Inspector General for Afghanistan Reconstruction and the Department of Health and Human Services IG, to coordinate and report on oversight efforts in Afghanistan and those related to HIV/AIDS prevention and treatment.

We currently have 218 permanent U.S. direct-hire employees working in Washington, DC, and throughout the world.⁷ Our fiscal year 2016 base appropriation was \$66 million.⁸

³ Public Law 87-195, September 1961.

⁴ Created in 1980, USADF provides small development grants to underserved and marginalized populations in conflict and postconflict areas in Africa.

⁵ Created in 1969, IAF provides small development grants directly to grassroots and nongovernment organizations in Latin America and the Caribbean.

⁶ Created in 1971 as the U.S. Government's development finance institution, OPIC mobilizes private capital to help solve critical development challenges abroad.

⁷ Our current workforce is supplemented by 54 Foreign Service Nationals, and more than 20 contractors.

⁸ In addition to base appropriations, OIG draws on supplemental appropriations, prior year balances, and reimbursements from the agencies we oversee to fully support our work.

TOP MANAGEMENT CHALLENGES IN IMPLEMENTING USAID PROGRAMS AND OPERATIONS

As required by law, we report each November on the top management challenges facing the agencies we oversee.⁹ For fiscal year 2017, we identified five top management challenges for USAID that stem largely from weak project design, monitoring, and internal controls; a lack of local capacity and qualified personnel to execute USAID-funded projects; and the complexities in coordinating and implementing foreign assistance efforts jointly with multiple and diverse stakeholders. The nonpermissive environments USAID frequently works in—those characterized by conflict, government instability, or cataclysmic natural events—exacerbate these challenges because access and security are severely limited in these locales.

- **Improving Program Design and Contractor and Grantee Monitoring.** Poor design can limit the impact of USAID projects or derail them before they begin. For example, contract flaws, such as a lack of clear deliverables, complicated the implementation of an \$88 million agricultural program in Haiti. Poor procurement design, including a lengthy award approval process, similarly led to delays in USAID's Ebola response in Guinea, Liberia, and Sierra Leone—the countries most affected by the outbreak in West Africa. In both cases, insufficient or inexperienced staff contributed to the programs' poor designs.

Performance monitoring of contractors and grantees has been undermined by persistent weaknesses in collected and reported data. For example, in September 2016, we reported that our prior audits of USAID missions in Egypt, Jordan, and West Bank and Gaza between fiscal years 2011 and 2013 consistently found instances of unreliable data. We also reported that these missions did not adequately develop or use internal controls—policies, procedures, systems, or other tools—to ensure quality data, monitoring, and evaluation. The weaknesses stemmed from staffing shortages, lack of employee training, and managers' lack of enforcement, as well as from frequently shifting budgets and priorities.

Our work also points to a need for USAID to provide more rigorous monitoring to identify contractors and grantees who take advantage of weak internal controls to commit fraud, waste, or abuse. For example, our investigations related to cross-border programs in Syria revealed widespread fraud, including procurement fraud and product substitution, which points to poor internal controls on the part of implementers and a lack of adequate monitoring by USAID.

A particular concern relates to USAID-funded programs run by a public international organization (PIO), which USAID typically has limited oversight authority over. We recently learned of shortcomings in internal controls around USAID-funded food distribution programs in Syria carried out by the United Nations' World Food Programme, a PIO.

Ultimately, shortcomings in USAID's program design and monitoring have weakened its ability to ensure programs have the resources needed to achieve objectives and identify and address fraud and other program risks.

⁹ Reports Consolidation Act of 2000, Public Law 106–531.

- **Strengthening Local Capacity and Sustainability While Ensuring Adequate Oversight of USAID Funds.** To better ensure local partners can sustain USAID-supported development projects, the Agency calls for investing in communities that have a stake in continuing activities and services after USAID involvement ends, building the skills of local stakeholders, and ensuring public- and private-sector participation and financial backing. However, some host countries' ability to sustain USAID programs is uncertain.

For example, as we reported last year, 5 of 19 USAID-funded road construction projects in the West Bank show signs of deterioration.¹⁰ A mission-commissioned study found that because of competing budget priorities, the Palestinian Authority did not allocate funds from fuel-tax revenue to sustain USAID-funded road projects. We also raised concerns related to sustaining a USAID-funded health services project in Haiti. Under the terms of its contract with USAID, Haiti's health ministry was expected to assume some costs for the project. However, the project lacked a plan to transfer responsibility for paying health worker salaries at 80 healthcare facilities from USAID to other sources after the project ends. Contractor officials assumed that because the Haitian Government could not pay the salaries, USAID or other donors would continue to pay them.

USAID's Local Solutions initiative—which aims to promote country ownership and sustainability by providing program funding directly to partner governments and local organizations—has not always met expectations. Missions face three major challenges: (1) securing host-country commitment to sustain USAID's investment, (2) vetting local capacity to manage funds in accordance with U.S. regulations, and (3) planning and monitoring. For example, USAID/Paraguay implemented a program through a local organization to strengthen the internal management and government systems of select public institutions. However, the mission failed to ascertain in its preaward survey that the organization lacked sufficient financial and managerial capacity to manage USAID funds, assess results, or track program progress—ultimately putting \$24.4 million at risk. Our investigations of local implementers revealed risks consistent with our audit findings. Most of the cases we surveyed involved allegations of inappropriate or fraudulent actions taken by senior or key staff, pointing to a propensity for weak corporate governance. We also found that local implementers typically failed to self-disclose fraud to the Agency or OIG.

The U.S. Government Accountability Office (GAO) pointed out that USAID relied primarily on a single indicator—funds obligated—to measure Local Solutions' progress, not what these investments yielded.¹¹ Without more robust indicators, such as risk assessments and program monitoring, GAO found that USAID cannot determine the status of activities prior to and following the obligation of funds. Further, while USAID has laid some groundwork for evaluating the Local Solutions initiative, the Agency has not demonstrated it has the means to determine the extent to which missions are conducting performance evaluations to assess the effectiveness of programs implemented through local organizations.

¹⁰ "Audit of USAID/West Bank and Gaza Construction Programs," February 22, 2016.

¹¹ U.S. Government Accountability Office, "FOREIGN AID: USAID Has Increased Funding to Partner-Country Organizations but Could Better Track Progress" (GAO-14-355), April 16, 2014.

- **Reconciling Interagency Priorities To Advance International Development.** In carrying out contingency and other operations that require coordination with multiple U.S. Government agencies, USAID employees are sometimes unclear as to how to balance USAID's development priorities with other agencies' priorities and manage additional layers of review.

This was the case with the implementation of the Enhanced Partnership with Pakistan Act (EPPA) of 2009, which authorized \$7.5 billion over 5 years for civilian assistance. The State Department has the lead role in assistance activities in Pakistan, giving it responsibility for budget and project decisions.¹² As we reported in September 2016, USAID/Pakistan has struggled to reconcile its long-term development objectives with State's diplomatic aims.¹³ At the outset, USAID/Pakistan followed State's strategy, which lacked long-term development goals. In 2013, the mission implemented a formal strategy that linked activities to a long-term development goal but lacked indicators to measure progress. The strategy also focused on repairing and upgrading Pakistan's energy infrastructure—mirroring State's focus on energy as key to long-term growth—but not on other priority areas, such as health, education, and economic growth.

The difficulties USAID and State confronted in implementing EPPA are not unique to Pakistan. For a previous report of USAID and State's response to the protest movements across the Middle East, known as the Arab Spring, we surveyed 70 USAID employees working on programs in Egypt, Tunisia, Libya, and Yemen to identify the challenges they faced. According to surveyed staff, the State Department's increased influence over USAID programs after the Arab Spring added a layer of review that slowed operations and strained USAID resources, as employees had to dedicate additional time to building consensus and gaining external parties' approval.

USAID's Administrator took immediate action to respond to a recommendation we made in our EPPA report—that USAID institute an interagency forum to better ensure its development goals are taken into account in countries where State takes the lead. Specifically, the Administrator engaged State Department leadership to discuss solutions, including better reconciling any conflicting interests at the beginning of planning and programming, to help USAID and State pursue their respective objectives simultaneously.

- **Meeting Governmentwide Financial and Information Management Requirements.** Longstanding internal control weaknesses have limited USAID's ability to meet some of the Federal Government's financial management requirements—established to make agencies better stewards of Government resources. Some reported weaknesses relate to reconciling transactions between USAID and other Federal agencies—which are typically recorded in different accounting periods or use different methodologies. Treasury reported that as of September 30, 2016, USAID had more than \$3 billion in unreconciled transactions with other agencies. Although USAID has increased its efforts and continually

¹² Department of State, "2010 Quadrennial Diplomacy and Development Review: Leading Through Civilian Power."

¹³ "Competing Priorities Have Complicated USAID/Pakistan's Efforts To Achieve Long-Term Development Under EPPA," September 8, 2016.

researches intragovernmental activity to resolve unreconciled amounts, differences persist. Reconciling differences between USAID's Fund Balance With Treasury account and the Department of Treasury's records has also been problematic. As of September 30, 2016, the net difference between USAID's general ledger and the amount in Treasury's records was approximately \$195 million—\$141 million of which cannot be explained.

Improving information technology management, acquisitions, and operations; ensuring the security of Federal information systems; and protecting technologies critical to U.S. national security interests remain on GAO's High-Risk list.¹⁴ While USAID has taken great strides in implementing the complex requirements of the Federal Information Security Modernization Act of 2014 (FISMA) and removing significant deficiencies,¹⁵ concerns remain. Notably, the USAID chief information officer (CIO) reported to the assistant administrator for the Bureau of Management—not directly to the Agency Administrator or Deputy Administrator, as required. As a result, the CIO may have limited authority in ensuring information technology projects and actions are funded, tracked, and prioritized at a level commensurate with the direction and goals of the Agency as a whole. In addition, USAID did not maintain the appropriate segregation of duties. Specifically, one staff member carries out the roles of both the deputy CIO and the chief information security officer. As a result, the individual not only performs security control activities but reviews those activities for compliance with FISMA, calling into question the independence of USAID's FISMA compliance reviews.

Finally, USAID's classification policy does not meet Federal requirements for establishing a uniform system for classifying, safeguarding, and declassifying national security information.¹⁶ We found systemic noncompliance related to security education and training, classification markings and guidance, and the reporting of program activities and results.

- **Developing Strategies To Work Effectively in Nonpermissive and Contingency Environments.** This fifth challenge exacerbates the other challenges we identified. Local laws and restrictions, political repression, corruption, and travel constraints can frustrate efforts to coordinate and communicate with implementing partners and other stakeholders to formulate and execute projects. Finding qualified contractors and grantees willing to work in dangerous environments, and gaining access to project locales for appropriate monitoring can also prove difficult.

According to USAID's Office of Transition Initiatives, these environments require "flexible responses and iterative processes adapted to specific country contexts." For example, to compensate for the drawdown of U.S. Armed Forces and reductions in USAID staff in Afghanistan, USAID planned to use multitiered monitoring to leverage data and observations from United States and Afghan Government sources, other donors, USAID

¹⁴ February 15, 2017; <http://www.gao.gov/highrisk/overview>.

¹⁵ The Federal Information Security Modernization Act of 2014 (Public Law No. 113-283) updated and largely supersedes the Federal Information Security Management Act of 2002 (Public Law No. 107-347, Title III) but retains many of the requirements for Federal agencies' information security programs previously set by the 2002 law.

¹⁶ Executive Order 13526 (2009).

partners, beneficiaries, and contractors hired to monitor activities. However, as we reported in December 2015, USAID/Afghanistan could only demonstrate that 1 of the 127 awards made between January 2013 and September 2014 used multitiered monitoring.¹⁷ The mission's limited use of multitiered monitoring was largely due to insufficient guidance and monitoring plans, as well as to a lack of systems for collecting and using data.

Moreover, relying on ad hoc approaches to design, implement, and monitor programs in nonpermissive environments makes programs vulnerable to fraud, waste, and abuse. For example, in Afghanistan, we found cases of contract steering, contractor overbilling and overcharging, bribe solicitation, fraudulent hiring practices by contractors, and embezzlement by a contractor employee. An investigation and subsequent OIG audit in Nigeria determined that more than a third of a \$17 million award for an AIDS-related healthcare program was diverted for personal use, misdirected from the project, or unsupported. Our investigations related to humanitarian assistance programs in Syria show the extent to which USAID programs can be vulnerable to exploitation. As we testified in July, our investigations exposed fraud schemes involving collusion between vendors and implementers' procurement and logistics staff. We also identified product substitution schemes (food and nonfood items), inflated billing, and false claims. While USAID has suspended several implementing partner programs, vendors, and individuals, these abuses raise serious concerns about implementers' contracting processes, including using less than full and open competition; the rigor and timeliness of their responses to allegations of fraud; and their logistics, quality control, and monitoring procedures. They also raise questions about USAID's oversight of implementers and their progress.

OIG IMPACT AND REFORM INITIATIVES

OIG's portfolio of work helps ensure USAID and the other entities we oversee not only meet their mission objectives but provide the greatest return on taxpayer investment. Similarly, we have taken steps to strengthen our operations, introducing reforms where necessary and improving our ability to deliver and support oversight of U.S. foreign assistance.

OIG Accomplishments and Their Impact on Foreign Assistance Programs

In fiscal year 2016, we issued 656 audit reports and closed 184 investigations. This body of work yielded \$139 million in questioned costs and funds to be put to better use, and \$80 million investigative recoveries and savings—a return on investment of more than \$3 for every \$1 we spent. Our work also resulted in 57 resignations or removals, 37 suspensions or debarments,¹⁸ and the arrest of 16 individuals. As of the end of February, our investigations office had documented savings and recoveries of \$50.7 million in fiscal year 2017, putting us on

¹⁷ Audit of USAID/Afghanistan's Strategy for Monitoring and Evaluating Programs Throughout Afghanistan, December 10, 2015.

¹⁸ USAID suspensions and debarments temporarily or permanently exclude individuals, firms, or both from receiving USAID or governmentwide contracts.

track to have a strong return on investment for fiscal year 2017.

Beyond these numbers, our audits and investigations, as well as proactive efforts to close oversight gaps, have had worldwide reach and impact. For example:

- In conjunction with our fraud investigations in Turkey, Jordan, and Syria, we helped spearhead preventive measures that led to 160 complaints being reported—two-thirds of which relate to theft and fraud—resulting in 30 investigations. Our work led to over \$19 million in cost savings, 17 suspensions or debarments, and 18 personnel actions, including employee terminations and resignations. This work has also helped identify weaknesses in implementers' internal controls, contracting processes, and oversight, to changes in related programs and procurement actions. For example, USAID added an award condition that required an implementer to have sound internal controls before any money flowed. USAID has also called for using an independent contractor to visit partner program sites and provide information to the Agency on the findings of those visits.
- The hotline programs that we set up over the past 2 years to help curb fraud affecting antimalaria programs in Nigeria, Malawi, and Benin have produced an influx of allegations of theft, diversion, and the resale of U.S. Government-funded antimalarial commodities.¹⁹ The dedicated hotline programs were launched following a major investigation into the diversion of such commodities—an investigation that resulted in charges against a West African for defrauding a USAID-supported antimalarial program of more than \$12 million in funds intended for insecticide-treated nets. Intelligence gained during this and other investigations highlighted the need for increased and proactive oversight to protect antimalarial commodities. Over the last year, we have coordinated with local police in Guinea and Malawi to execute search and arrest warrants on those trafficking in these commodities. In January 2017 alone, eight individuals were arrested for illegally selling drugs that fight malaria. Our investigations also resulted in USAID stopping the award of a \$55 million cooperative agreement after we determined that a USAID employee shared sensitive procurement information with the selected candidate during the preaward review.
- The Pakistan Anti-Fraud Hotline that we established has similarly produced significant investigative results. As of February 2017, the hotline had received more than 7,000 complaints of bribery, collusion, theft, and other fraud that have led to cases being opened, implementer debarments, and numerous employees—as well as to millions of dollars in savings and recoveries.
- In response to a recommendation we made, USAID is working on, and expects to complete by the end of this month, a corrective action plan to bring its classified national security information program into full compliance with Federal regulations and directives.

¹⁹ Each year in Africa, malaria causes hundreds of thousands of deaths, primarily of children under 5.

As these outcomes demonstrate, OIG serves a critical role in providing oversight of U.S. foreign assistance programs and helping protect taxpayer investments. OIG personnel are frequently on the front lines of our engagement with other nations and are sometimes the only U.S. personnel that local partners and beneficiaries have met. To help USAID and its implementing partners combat fraud—particularly in nonpermissive environments—our agents provide fraud awareness training to thousands of stakeholders each year. In fiscal year 2016 alone, we conducted 344 fraud awareness briefings with a total of more than 10,000 attendees. Our Office of Investigations also developed a quick reference guide for detecting internal control weaknesses and common fraud schemes to help the Agency as it monitors implementing partners in the response to the humanitarian crisis in Syria and Iraq—a useful tool in stopping fraud, waste, and abuse in USAID programs.

OIG Reforms and Initiatives for Achieving Greater Impact

After I was sworn in as Inspector General, I took a critical look at our operations and identified opportunities to improve how we work—with independence as our grounding principle. Over the past year, OIG has significantly advanced my vision for a high-performing organization—one that provides comprehensive, timely, and risk-based assessments of USAID programs and operations, and keeps Congress informed of our work on USAID and the other foreign assistance entities we oversee.

That vision begins with how we scope and execute our work. While auditing and investigating individual USAID programs and projects around the world can yield findings that demand action and help individual missions improve their operations, this approach does not always get at the systemic causes of the problems we uncover. Therefore, in prioritizing our audits and investigations, we are identifying and targeting weaknesses that cut across USAID, MCC, USADF, IAF, and OPIC in areas such as human capital management and training and vetting implementers of USAID programs; promoting coordination among implementers; and strengthening financial and information technology management. By looking across programs and projects and all the agencies we oversee, our work will have greater impact at the agency level and provide solutions that link headquarters-based strategies to field-level implementation.

A number of completed and ongoing initiatives that I have launched will better position OIG staff to carry out this oversight. First, we have added more rigor to how we prioritize our work. Specifically, our new audit and investigation plans assess risk, respond to stakeholders' needs for information and decision making, and follow high-dollar and crosscutting initiatives. For example, our ongoing audit of a development program to provide electrical power to sub-Saharan Africa cuts across USAID, MCC, OPIC, USADF, and other Federal components that have a stake in the program. At the same time, our plans provide the flexibility to pivot to emerging oversight needs, which typically relate to emergency responses to countries affected by a natural disaster, epidemic, or conflict.

Joint oversight of initiatives like OIR also demands upfront planning and ongoing coordination. Therefore, in stepping up our scrutiny of OIR and other initiatives that involve multiple agencies, we continue to expand collaborative efforts with our oversight partners. More than a third of one USAID office's implementers responding to the Syria crisis also receive State

Department funding,²⁰ so we are working with State OIG to provide fraud awareness briefings to implementers²¹ and are currently conducting three joint investigations. We are also collaborating with our oversight counterparts at other bilateral donors and PIOs through the Syria Investigations Working Group (SIWG), which OIG created in October 2015. PIOs alone receive about 40 percent of USAID's budget for the humanitarian response in Syria. Such programmatic and budgetary overlaps create potential vulnerabilities. To date, we have sent 26 referrals of potential wrongdoing to PIOs and bilateral donors.

Second, OIG teams now include staff from throughout our organization to encourage coordination between audit and investigations as well as headquarters and the field. To support these crosscutting teams, I reorganized our office, consolidating 11 largely independent overseas offices into 4 strategically located hub offices.²² Streamlining our operations allows heads of audit, investigations, and management to be involved in every aspect; encourages collaboration across OIG units; helps ensure our staff are tactically assigned to foreign posts; and builds in inclusivity, employee engagement in decision making, and buy in. I also realigned our management structure to enable us to better target our oversight on foreign assistance activities susceptible to fraud, waste, and abuse, and on programs and functions that are the most challenging to plan and implement. Ultimately, these realignments will increase efficiency and cost savings.

Third, I have instituted a number of actions to revitalize our greatest asset—human capital. Within the first few months of my tenure as Inspector General, I recruited new leaders to strengthen OIG's executive team and established high standards for myself and our leaders, providing them the training and tools they need to succeed, including 360 feedback and coaching. To make the most of our investment in employee development, we started a review of staff skill levels and capabilities. OIG is also elevating performance standards across the board and holding OIG executives, managers, and supervisors accountable for workplace inclusivity, civility, and improved performance. These measures have paid quick dividends, as our leaders and frontline staff have already proven that they have the capacity and drive to meet the standards.

To further build quality into our work, I brought on board a quality assurance review director, who is working to establish a quality assurance program that draws on our staff's extensive knowledge and expertise to continuously monitor the execution of our work and ensure it and our corresponding policies and procedures meet the highest standards set by law and regulations, the accountability community, and our office. I also hired a communications officer to establish a writing team that brings unique critical thinking skills in developing high-impact audit reports; a business process engineer to analyze and revise as needed our policies, processes, and procedures; and a training director to improve employee development processes. In addition, we have partnered with the GAO Center for Audit Excellence to provide training to audit staff at all levels on planning, executing, and messaging audits.

²⁰ USAID Office of Foreign Disaster Assistance.

²¹ USAID OIG and State OIG have provided 5 joint fraud awareness presentations to 83 implementer staff in Jordan to help combat fraud in Syria.

²² Central/South America, Eastern Europe/Middle East, Asia, and Africa.

Our internal employee surveys—which complement the Federal Employee Viewpoint surveys—indicate our efforts have already yielded positive results. In just 6 months, we saw marked increases in indexes of employee engagement, particularly in perceptions of senior leaders and management. For example, from April to October 2016, the percentage of employees who agreed with statements related to leadership communication and high standards of integrity increased by 17 and 16 percent, respectively. We expect employee perceptions to continue to improve in these and other areas as ongoing and new initiatives take hold.

ONGOING AND PLANNED WORK

Our strategic, crosscutting approach has allowed us to maximize and better target our resources to work that will have the greatest impact on the programs and projects of the components we oversee—and, ultimately, on the beneficiaries of these efforts. Through our oversight mandates, we assess USAID's, MCC's, and other components' financial reporting to ensure that it is accurate and transparent, information technology assets to ensure that they are safeguarded from cybersecurity attacks, and travel and purchase card programs to mitigate the risk of improper payments and abuse.

In addition to these mandates, we have a compelling and dynamic portfolio of discretionary audits and investigations that are ongoing or planned. This work will continue to help address the foreign assistance challenges we identified and link strategic goals with tactical implementation. Key ongoing audits include the following:

- **Public International Organizations.** To implement billions of U.S. dollars invested in humanitarian assistance programs,²³ USAID partners with PIOs—organizations over which USAID typically has limited oversight authority, making it critical for USAID to develop risk mitigation strategies. In fiscal year 2016, our investigators found rampant fraud with vendors in Turkey that were supplying both traditional USAID-supported nongovernmental organizations and PIOs. While OIG has worked to eliminate program vulnerabilities, the extent to which USAID identifies and mitigates risks before making decisions to fund PIOs is unclear. Therefore, we are assessing USAID's oversight procedures for PIOs.
- **USAID's Preparedness for Responding to International Public Health Emergencies.** To help USAID better prepare for future public health emergencies, we are looking at the Agency's response to the Ebola outbreak, and assessing its processes for managing and coordinating responses to international public health emergencies.
- **Health Systems Strengthening.** USAID funds projects that aim to help prepare vulnerable countries to effectively manage health crises and provide quality health services to their citizens. We are assessing USAID's program design and whether its Office of Health Systems is providing USAID missions with the necessary resources to be successful.

²³ In addition to the World Food Programme, USAID provides funding to PIOs including the Pan American Health Organization and the International Committee of the Red Cross,

- **Afghan Government Assistance.** The U.S. Government has pledged to provide 50 percent of its development assistance to Afghanistan either directly to the Afghan Government or through contributions to multidonor trust funds that international organizations disburse to the Afghan Government. The Afghanistan Reconstruction Trust Fund (ARTF) is the largest World Bank administered trust fund and the greatest single source of on-budget support for Afghanistan's reconstruction and development.²⁴ The U.S. Government, through USAID, has been the largest contributor to ARTF, disbursing \$2.8 billion as of May 2016. We are assessing USAID's practices to provide reasonable assurance that activities implemented through ARTF contributed to achieving USAID's objectives in Afghanistan.

OIG is conducting a separate audit of USAID/Afghanistan's New Development Partnership (NDP), an \$800 million government-to-government program designed to help the Afghan Government realize self-reliance. Funding is based on Afghanistan achieving 40 mutually agreed-upon indicators that span fiscal sustainability, governance, and poverty reduction. USAID will transfer \$20 million per indicator once results have been achieved. We are assessing USAID's process for verifying the achievement of agreed-upon results prior to releasing NDP payments to the Afghan Government.

- **Power Africa.** According to USAID, two out of three people in sub-Saharan Africa lack access to electricity. In 2013, the Power Africa initiative was launched to form a global partnership of technical and legal experts, the private sector, and governments to expand access to cleaner and more efficient ongrid, minigrid, and offgrid power to at least 60 million new households and businesses. We are assessing the initiative's progress, looking at any program challenges, constraints, and risks.

Our planned discretionary work targets priority areas for oversight, including the management of global health commodities, humanitarian assistance, and OCO-related efforts. It also reflects an increased focus on MCC. For example:

- **President's Emergency Plan for AIDS Relief (PEPFAR)²⁵ Commodities and Supply Chain Management.** Many missions' supply chain management includes activities carried out by the host government, and commodities are inherently prone to losses through fraud and spoilage. We are developing a robust PEPFAR oversight portfolio to get at the root of fraud and waste in USAID's global supply chain. Specifically, we plan to evaluate the risk mitigation activities that missions are required to perform on their government-to-government programs, and assess implementing partners' management of commodities and supply chains, focusing on warehouse operations, spoilage, stockouts, overstocks, turnover, theft, and shrinkage.
- **Operation Inherent Resolve.** We will continue to audit programs related to this OCO, which aims to counter ISIS terrorist threats. Notably, we plan to audit USAID's Bureau for Democracy, Conflict, and Humanitarian Assistance's (DCHA) oversight of the response to

²⁴ Development assistance channeled through the host country's core budget.

²⁵ Section 101(f)(1) of the U.S. Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003 (22 U.S.C.) as amended by the PEPFAR Stewardship and Oversight Act, Public Law 113-56 (December 2, 2013) requires the OIGs of USAID and the Departments of State and Health and Human Services to maintain an annual Coordinated Plan for Oversight of Foreign Assistance to Combat HIV/AIDS, Tuberculosis, and Malaria—referred to as the PEPFAR plan.

the Syria humanitarian crisis. In addition to identifying fraud indicators in key programs, we have concerns related to the roles and procedures of DCHA and other USAID offices that conduct oversight and the extent to which USAID offices identify, monitor, and address program vulnerabilities, including reviewing findings and implementing recommendations from deployed disaster assistance response teams and subject matter experts.

- **Countering Violent Extremism.** The 2015 Quadrennial Diplomacy and Development Review called for State and USAID to enhance actions to counter and disrupt extremists' tactics to recruit, radicalize, and mobilize followers to carry out violent acts. In May 2016, USAID and State issued a joint strategy that describes USAID's role in countering violent extremism—to design and implement programs aimed at increasing access to opportunity, improving local and national governance, promoting cooperation and dialogue, and mitigating conflict so as to improve the conditions and reduce the vulnerability of local communities to violent extremists. We plan to assess USAID's execution of its role through its missions, looking specifically at the guidance, resources, and other support USAID is providing and the extent to which select missions are implementing projects that target the main drivers of violent extremism.
- **MCC's Core Business Processes and Major Programs.** Effectively managing resources and developing and implementing programs was the one fiscal year 2017 management challenge we identified for MCC. Accordingly, we are focusing on the corporation's core business processes and major programs to better assist the board of directors and senior leadership in identifying opportunities for improvement.

Accurately assessing country capacity and developing sound compacts are key concerns. MCC works with partner countries to implement large infrastructure projects during 5-year compacts. According to MCC, 20 of the 33 compacts it had signed as of January 2017 included infrastructure projects—projects that generally aim to connect people and communities to jobs, markets, and other economic opportunities. MCC made this investment despite prior audits and investigations that identified weaknesses in its infrastructure projects, such as insufficient planning, poor contractor performance and oversight, inaccurate reporting of results, and uncertain government funding for road maintenance. Over the past year, we have opened 36 cases—22 of which came from hotline complaints—and made 2 prosecutorial referrals and 17 administrative referrals to MCC.

We plan to assess MCC's infrastructure development model, with a particular focus on the effectiveness of implementing large infrastructure grants under 5-year compacts—a question underlying the model's assumptions. Our agents will also continue proactive investigations of MCC's infrastructure projects, as well as provide fraud awareness briefings to employees overseas and in Washington.

As we remain focused on high-value work across all the components we oversee, we continue to pursue initiatives that ensure accountability and solidify our independence—the foundation of any OIG. For example, our investigations office is working closely with USAID's Compliance Division to ensure appropriate action is considered against individuals and companies defrauding USAID. We are also seeking to take back responsibility for closing our audit recommendations—a task currently under the purview of the audited agency. Reversing this longstanding practice will better ensure corrective actions are timely and meet our intent.

Despite these actions, our ability to exercise full independence remains constrained. Within weeks of my confirmation, I established a cooperation memorandum with the USAID Administrator to formalize and reaffirm OIG's authority. This memorandum has helped ensure our auditors and investigators have full access to the information they need to carry out our mission. However, we continue to seek a more permanent solution for OPIC oversight that aligns with the Inspector General Act. Currently, our audits and other oversight activities related to OPIC programs and operations are carried out under annual agreements that are subject to negotiation, limitations, and delays. This middle ground is untenable.

We appreciate this committee's past support and look forward to its continued assistance as we address areas of congressional interest and oversight priority. I hope I have demonstrated the solid results and sustained impact my office has achieved and aggressively continues to pursue. We remain committed to ensuring that USAID and the other foreign assistance entities we oversee prudently use every dollar they get, and I am confident that the reforms we have put in place and the initiatives we continue to implement will establish our organization as a global leader in providing reliable and meaningful oversight and, more importantly, as good stewards of taxpayer dollars.

This concludes my prepared statement. I will be happy to answer any questions you may have for me at this time.