Before the Committee on Foreign Affairs
Subcommittee on the Middle East and North Africa
United States House of Representatives

Fraud Investigations Expose Weaknesses in Syria Humanitarian Aid Programs

Statement of
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Chairman Ros-Lehtinen, Ranking Member Deutch, and Members of the Subcommittee:

Thank you for inviting me to this important hearing to discuss our ongoing efforts to ensure resources intended for the Syrian people are not wasted and reach those in need. As you know, our Government's financial commitment to provide humanitarian support in response to the Syria crisis exceeds $5 billion. Despite this major investment, instabilities in the region create challenges for the U.S. Agency for International Development (USAID), and the agency relies on implementing partners to get goods and services to where they are needed most. While implementers can be critical to carrying out USAID's mission, such arrangements require rigorous oversight to address risks.

My statement today focuses on our investigative actions—some of which are ongoing—to uncover and address fraud and waste, and the actions taken to date to stop identified abuse.[1] I will also highlight several program management concerns exposed by our investigations.

SUMMARY

Since February 2015, we have received 116 complaints of alleged abuse of USAID funds related to the Syria response, and have opened 25 cases to investigate these allegations. The most common fraud schemes identified to date involve collusion between vendors and implementers' procurement and logistics staff who accepted bribes or kickbacks in exchange for contract steering. We also identified a number of schemes involving product substitution of food and non-food items, inflated billing, and false claims. The Office of Inspector General's (OIG) investigations prompted USAID action that has resulted in more than $11.5 million in savings, 6 program suspensions, the removal of 10 employees of USAID implementers, and suspension or debarment actions against 15 individuals or companies involved in collusive bidding schemes.

Our investigative work has raised serious concerns about implementers' systems and USAID's oversight of assistance efforts that increased the program's vulnerability to exploitation. Given the urgency to deliver aid to in-need populations in Syria, for example, some of USAID's implementers used less than full and open competition to carry out large-scale procurements of food and non-food items. Concerns about implementers' responses to fraud allegations and their logistics, quality control, and monitoring procedures, as well as USAID's approach to oversight of these implementers have also emerged from our investigative work.

BACKGROUND

The March 2011 opposition against the Syrian Government escalated to an unrelenting civil war in the months and years that followed. This conflict has had significant humanitarian consequences that now extend beyond Syria's borders. Now 5 years into the conflict, millions have been displaced within Syria, and millions more have fled the country. The scale and duration of the crisis in Syria has put an unprecedented demand for humanitarian assistance in the region. According to the United Nations, people in Syria in need of food, water, shelter, health care, and

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[1] To protect the integrity of its investigations and the welfare of the entities involved, OIG cannot discuss certain information regarding its investigative efforts.

other services increased from 2.5 million to 13.5 million between 2012 and April 2016. Approximately half of those in need have been internally displaced, and over half a million Syrians reside in areas under siege. Millions lack access to adequate drinking water and sanitation, and affordable foodstuffs are in short supply. The costs of certain commodities in Syria have soared, and the price of basic foodstuffs like bread has increased significantly. The conflict has driven up prices for other key goods and medical supplies and resulted in severely damaged infrastructure.

Since fiscal year 2012, USAID's offices of U.S. Foreign Disaster Assistance (OFDA) and Food for Peace (FFP) have coordinated and implemented humanitarian response activities.[2] OFDA and FFP work through implementing partners to procure and distribute non-food items, pharmaceuticals, medical consumables, bulk flour, food packages, and other relief to those in need in Syria. FFP works through implementers to provide food assistance to displaced persons in Syria and to refugees in Turkey, Jordan, Lebanon, Egypt, and Iraq.[3]

In fiscal years 2015 and 2016, USAID obligated more than $1.1 billion to fund humanitarian assistance for those affected by the Syria crisis, and OFDA and FFP report that they disbursed more than $835 million over this period (see Table 1).

Table 1. Cumulative Fiscal Year 2015 and 2016 U.S. Government Humanitarian Assistance Funding for the Syria Complex Crisis, as of March 31, 2016 (Dollars in Millions)

Office	Obligated	Disbursed
FFP	$814.9	$814.0
OFDA	310.1	21.8
Total	**$1,125.0**	**$835.8**

Note: Disbursement figures include disbursements of funds obligated prior to fiscal year 2015.

Source: USAID, response to Lead Inspector General request for information, April 19, 2016.

At the end of March 2016, OFDA and FFP had active awards with a combined total of 29 implementers. Implementers are responsible for ensuring that procured items are acceptable in

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[2] The Department of State's Bureau of Population, Refugees, and Migration (PRM) also supports U.S. Government-funded humanitarian assistance activities. PRM works with partners to assist refugees, internally displaced persons, and conflict victims associated with the complex crisis in Syria.

[3] The scope of USAID activities in Syria extends beyond humanitarian assistance. In addition to humanitarian assistance, USAID's Office of Transition Initiatives supports efforts to provide basic public services such as waste and rubble removal (including unexploded ordnance), infrastructure rehabilitation, ambulances, and water tankers. USAID's Middle East Bureau provides support to restore essential services, including water, electricity, sewage systems, public use buildings, agricultural infrastructure, and market access.

terms of quality and quantity and are delivered in a timely manner, and that costs passed on to USAID are fair and reasonable. USAID headquarters staff and Disaster Assistance Response Team (DART) members deployed to Jordan and Turkey are, in turn, responsible for ensuring implementers carry out their responsibilities and that the programs and activities it funds address the most pressing needs in Syria and surrounding countries.

Continually changing security conditions create unique challenges for USAID and implementers to monitor and assess humanitarian efforts. USAID reported that U.S. Government personnel, including OFDA and FFP representatives, are not allowed in Syria. Although USAID staff can freely move within Turkey and Jordan to monitor activities, additional security approvals are needed when traveling to border areas near Syria. Ongoing conflict among combatants and shifting frontlines of engagement further complicate aid efforts. By the end of March 2016, 4.6 million people were living in besieged and other hard-to-reach areas.

USAID OIG provides independent oversight of humanitarian assistance operations in the region. Oversight of humanitarian and other U.S. Government activities and programs related to the Syria complex crisis are coordinated through the Lead Inspector General framework established under the Inspector General Act for oversight of overseas contingency operations.[4] This oversight framework was triggered in 2014 by the designation of Operation Inherent Resolve (OIR) as the U.S. Government's overseas contingency operation to counter the Islamic State of Iraq and the Levant (ISIL). Under this arrangement, the OIGs for the U.S. Departments of Defense and State, and USAID provide coordinated oversight and reporting. The OIGs work together to develop and execute a joint strategic plan for oversight of the contingency operation and to submit to Congress regular reports on the progress of OIR and corresponding oversight activities.

OIG INVESTIGATIONS UNCOVERED FRAUD SCHEMES, PROMPTING USAID ACTION

After the U.S. Government designated the response to the crisis in Syria a contingency operation, we ramped up our outreach to help ensure implementers identified and responded to fraud. Since January 2015, OIG special agents and investigators[5] have provided fraud awareness briefings to over 450 USAID and implementer staff responding to the complex crisis in the region. Based on our work in the field, we developed and issued *Fraud Prevention and Compliance*, a handbook that addresses internal control deficiencies, fraud indicators, fraud reporting requirements, and other protocols for avoiding or addressing abuse of program funds.[6] In addition, we informed our OIG counterparts at the Department of State of fraud schemes that could impact their department's

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[4] This oversight framework is reflected in Section 8L of the Inspector General Act of 1978, as amended. An overseas contingency operation is a Secretary of Defense-designated operation in which members of the armed forces may become involved in military actions, operations, or hostilities against an enemy of the United States or against an opposing military force; or an operation resulting in the activation of members of the uniformed services during a war or national emergency declared by the President or Congress.

[5] In addition to U.S. direct hire criminal investigator special agents, USAID OIG employs Foreign Service National investigators who are locally employed at our offices around the world to support ongoing investigations and provide fraud awareness briefings.

[6] USAID Office of Inspector General, *Fraud Prevention and Compliance*, second edition, June 1, 2016.

operations and have been working closely with other donors and public international organizations[7] that could be affected by the same corrupt practices. To help protect international donor funds, our Office of Investigations proactively established the Syria Investigations Work Group in late 2015. The group consists of oversight organizations of other bilateral donors, such as the United Kingdom and Australia, as well as public international organizations. The group meets regularly to share information about ongoing investigations and investigative issues.

Since February 2015, we have received 116 allegations of procurement fraud, theft, and bribery, among others (see Table 2)—a significant increase in the total number of complaints made the year prior to that time.[8] Roughly two-thirds of the complaints OIG received relate to fraud and theft, but almost one-fifth involve diversions to terrorist groups. Most of the cases we opened relate to fraud. In total, we have opened 25 investigations related to nine implementers. To date, these investigations have prompted USAID to suspend vendors and other individuals or take other corrective actions against implementers that have committed procurement infractions.

Table 2. OIG Syria Complex Crisis-Related Allegation Types, February 2015 to June 2016

Allegation	Complaints	Cases
Fraud	35	21
Theft	40	0
Diversions to designated terrorist organizations[a]	21	1
Bribery or kickbacks	4	3
Other	16	0
Total	**116**	**25**

[a] The Department of Treasury's Office of Foreign Assets Control (OFAC) has designated ISIL and Jabhat al-Nusrah, a regional al-Qaeda affiliate, as terrorist organizations in Syria.

Since we began tracking USAID-reported losses in February 2015, we have recorded more than $1.3 million in quantified losses in flour, other food items, and non-food items, such as cash, medical equipment, pharmaceuticals, and winter kits. While some of these losses are documented as a result of fires, bombings, shelling, and airstrikes, many are reported as the result of petty theft and diversions. Some of the losses relate to diversions to OFAC-designated terrorist organizations.

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[7] Public international organizations are organizations that perform international functions, are accorded the status of an international organization within the United Nations or by the country in which it is headquartered, and are not dependent on or controlled by any particular country. The World Food Program and International Organization for Migration are examples of public international organizations.

[8] OIG maintains a dashboard of its investigative developments related to humanitarian assistance in Syria. The dashboard is on OIG's web site, https://oig.usaid.gov/.

For example, when ISIL took control of Palmyra, Syria, a USAID implementer reported having to abandon 4,000 parcels of rations in its warehouse. Reports of ISIL diversions have declined; we received no reports of ISIL diversions in 2016, compared to 13 in 2015. Conversely, reports of Jabhat al-Nusrah diversions have increased from three in 2015 to five so far this year.

Fraud also poses a significant threat to assistance programs. Our special agents and investigators identified several types of schemes to defraud USAID out of program funds:

- **Collusion:** Our investigations in Turkey identified a network of implementer staff colluding with vendors who provide food and non-food items for Syria cross-border programming. Procurement staff accepted vendor bribes or kickbacks to provide competitive bidding data or manipulate the bid evaluation process, giving vendors an unfair advantage.

- **Product Substitution:** Our investigations in Turkey, Jordan, and Syria identified vendors that provided items of a lower quality or quantity than represented in the award. For example, one Turkish vendor delivered food ration kits with salt substituted for lentils. Had the fraud not been identified, the financial loss could have exceeded the $106,000 already incurred by the implementer. We also determined that non-food item kits in a warehouse in Syria that were awaiting delivery were missing items or included substandard products, such as tarps too small to fully shelter one adult and poor quality frying pans.

- **False Claims:** Our investigations of programs inside Syria revealed that implementers or their sub-awardees had billed USAID for services and goods that were not delivered or were delivered to ineligible or phantom beneficiaries. In one case, a Jordanian implementer operating under a sub-award fabricated documentation that it distributed non-food item kits to numerous communities in southern Syria when, in fact, the goods were distributed by another organization at its expense. Our investigation into this matter resulted in the termination of the sub-award and a total savings of $10.5 million.

Since June 2015, OIG has made seven referrals to Agency officials outlining internal control deficiencies and potentially illegal acts committed by implementer staff and commercial vendors. To date, the Agency has taken multiple actions in response (see Table 3). These measures have had a large-scale effect on the Syria assistance program. For example, in December 2015, USAID imposed programmatic suspensions on activities under six Syrian humanitarian response awards valued at $305.8 million. Eight months later, these program suspensions remain in place for awards valued at $239 million. With investigations ongoing, there is the potential for further referrals, show cause letters, employee terminations, and vendor suspensions and debarments.

Table 3. Agency Action in Response to USAID OIG Investigations

Agency Action	Purpose of Action	Number
Program suspension	To immediately halt activities of existing programs.	6
Show cause letter[a]	To formally request and obtain additional information to determine whether an organization is presently responsible or should be excluded from future contracting or assistance agreements awarded by the U.S. Government.	2
Suspension[a]	To temporarily exclude vendors and individuals from conducting business with the U.S. Government while they are under investigation or pending a legal proceeding.	14
Debarment[a]	To exclude vendors and individuals who have committed illegal acts such as embezzlement, theft, bribery, or making false statements from conducting business with the U.S. Government for a specified period of time.	1
Special award condition	To add special oversight conditions to the award that require the implementer to introduce improved internal controls before it can resume operations.	1
Employee termination	To remove employees of implementing partners for cause.	10
Partial program termination	To halt certain program activities because of deficiencies.	1

[a] Action taken by the Agency's Suspension and Debarment Official

INVESTIGATIONS RAISE CONCERNS ABOUT SYRIA ASSISTANCE PROGRAM CONTROLS AND OVERSIGHT

Our investigations raise a number of concerns about implementer practices for managing large-scale projects, as well as USAID's oversight of the humanitarian assistance program. These concerns have begun to inform our audit planning, which will include a strategy for drilling down on these issues to determine whether systemic management vulnerabilities exist and what additional actions USAID can take to ensure appropriate use of assistance funds.

Our investigations raise questions about the appropriateness of implementers' procurement policies and practices given the high-risk environment. For example, we identified:

- The extended use of emergency waivers to bypass established procurement policies and procedures—including full and open competition—in an effort to expedite procurements.

- A failure on the part of one implementer to conduct historical market analyses to detect inflated billing.

Our investigations also raise questions about implementers' logistics, quality control, and monitoring procedures. Our investigation of one implementer revealed a range of issues, including allowing vendors to ship items directly across the border without inspecting them in advance. In other cases, implementer staff accepted inappropriate clothing, substandard products, and other humanitarian items that did not meet invoiced technical specifications, including mattresses, blankets, and shelters. One implementer accepted kits based solely on their weight, not on their contents, thereby enabling a vendor's substitution of a less expensive food for a more expensive one to go undetected.

In addition, our investigations raise questions about implementer tracking of information and response to allegations of fraud. Some implementers did not pursue allegations or did not notify USAID or OIG of internal investigations into allegations of bid rigging, inflated billing, conflicts of interest, and other fraud. They also had evidence that corroborated the fraud allegations—including subject matter expert statements, emails, and company profile information—but concluded there was no evidence of fraud. For allegations we were informed of, we could not always obtain the information needed to assess allegations due to missing records, conflicting data protection laws, and other barriers to access.

Our investigations have also raised concerns about OFDA's oversight of implementers. DART teams did not include permanent subject matter experts to ensure procured items met the appropriate standards. OFDA generally did not require implementers to obtain prior agency approval of large subcontracts or establish requirements to inspect items before distribution to beneficiaries. However, in one case, OFDA is taking these steps in response to our investigative findings.

In addition to taking specific actions against firms and individuals that have committed fraud, USAID retained a third-party monitoring contractor to visit partner program sites and provide information to the Agency on the findings of those visits. According to OFDA, USAID plans to hire a compliance officer for its programs in Syria to promote financial and procurement integrity. OFDA and FFP are also working with our office to fund cost-incurred audits of five of the top six implementers in the region to determine whether costs billed to the U.S. Government were allowable and properly supported.

CONCLUSION

Providing aid in war-ravaged regions frequently calls for flexible contracting, award, and hiring practices to expedite the delivery of goods and services to the most vulnerable populations. However, as our investigations demonstrate, flexibility cannot eclipse rigor. Lax internal controls, monitoring, and oversight put taxpayer dollars at risk and, in the case of Syria, have delayed the delivery of millions of dollars of assistance to those in need. To address the concerns that our investigations have highlighted, we plan to advance audit work aimed at identifying and eliminating programmatic vulnerabilities before they can be further exploited. In the meantime, we remain committed to continuing our aggressive investigative work to address and mitigate related fraud, waste, and abuse.

Madam Chairman, Ranking Member Deutch, this concludes my prepared statement. I am happy to answer any questions you may have at this time.