USAID's Top Management Challenges and OIG's Continuing Oversight
Statement
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U.S. Agency for International Development
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Subcommittee on State, Foreign Operations, and Related Programs
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Madam Chairwoman, Ranking Member, and Members of the Subcommittee:

Thank you for inviting me here to discuss the major challenges USAID faces in managing its nearly $30 billion budget to provide foreign and humanitarian assistance. These investments not only aim to provide critical aid, expand economic growth abroad, and create U.S. trade partners, but they also promote stable and free societies and advance U.S. national security interests.

The environments USAID works in—which are frequently characterized by conflict, government instability, or natural disaster—create major challenges for the Agency in carrying out its mission. How well USAID identifies, assesses, and mitigates risk in delivering foreign assistance is key to program effectiveness. While the myriad of country contexts requires flexibility, this cannot eclipse the rigor and safeguards that are needed to protect USAID programs and funds and provide beneficiaries the assistance they desperately need.

Our independent oversight helps ensure USAID gets the highest return on the U.S. Government's foreign assistance investment. To maximize our impact, we shifted our oversight model from one that focused on country-specific programs to one that is more strategic and cross-cutting. This shift has put us in a strong position to make recommendations that get at the root of persistent and pervasive problems across USAID's complex programs and operations.

Our "Fiscal Year 2019 Top Management Challenges" report in particular demonstrates the increased impact of our work. My statement today will highlight the four top management challenges that need USAID's attention now and into the foreseeable future.

SUMMARY

The first management challenge concerns assessing and responding to the risks in providing humanitarian and stabilization assistance—particularly in areas affected by conflict or natural disaster. Insufficient risk assessments not only leave USAID programs and services vulnerable to exploitation, but they also put USAID in the position of attempting to mitigate threats it does not understand. The adverse effects of poor planning, monitoring, and evaluation were demonstrated in the fraud schemes that our agents uncovered in Iraq and Syria and across Africa, some of which involved diversions of USAID-funded commodities to terrorists. USAID has begun to take some action to improve its risk assessments to better understand the environment, the threats, and the safeguards that can realistically be put in place.

The second challenge concerns the need for more robust analyses of country capacity and financial backing to build on U.S. investments in international development. Ending the need for foreign assistance is central to its mission, and a clear understanding of countries' capacity to continue development activities and services after U.S. involvement ends is critical for USAID to make progress toward this goal. Our work continues to show that USAID's upfront analyses of multimillion dollar projects fall short of fully assessing beneficiary countries' internal controls, environmental threats, and ability to strengthen local skills and secure public- or private-sector commitment to sustain U.S. efforts. In addition, we identified gaps in USAID's ongoing monitoring and evaluation that limit its ability to apply

past lessons to better ensure sustainability of future development efforts. This was the case with USAID's West Bank and Gaza Conflict Mitigation and Management Program—ongoing since 2004 with more than 100 grants awarded to local and international organizations—which USAID has yet to evaluate to determine the program's long-term impact and improve the effectiveness of future grants. Again, planning, monitoring, and evaluation are at the root of these vulnerabilities. USAID has begun to address its multiple sustainability challenges through both crosscutting and program-specific actions. Notably, USAID has begun to focus on using high-level metrics to identify strengths and weaknesses, help inform strategic decisions, and ultimately determine a country's level of commitment and capacity to be self-reliant.

Reconciling distinct interagency priorities and functions to advance U.S. foreign assistance is the third major challenge facing USAID. A lack of consensus and joint planning among agencies pits them against one another as they work to achieve their independent aims. We have seen this play out in USAID activities related to the Ebola response in West Africa, sustainable energy in Haiti, and other foreign assistance efforts. Competing priorities, different policies and procedures, and additional layers of review—particularly with the Department of State—complicate and impede multiagency response and development activities. Our work validated gaps in the delivery of foreign and humanitarian assistance in West Africa, Latin America and the Caribbean, and fragile states worldwide. Based on our recommendations, USAID provided the National Security Council critical input for a response playbook, which includes strategies for engaging with the international community. At the Council's direction, USAID and the Departments of State and Defense are working together to implement recommendations from the Stabilization Assistance Review that USAID and State established in May 2018. These and other actions USAID has taken in response to our and others' recommendations have the potential to improve interagency coordination. However, fully implementing these actions will be an ongoing challenge, particularly in areas where the authority to act is outside USAID's purview.

The fourth challenge concerns vulnerabilities in USAID's financial and information management systems. USAID's ability to carry out its mission and ensure effective stewardship of Federal funds depends on the integrity and reliability of these core systems. Without them, other safeguards—no matter how well they are designed and implemented—will not work effectively. Despite noteworthy actions to improve its systems and bring them into compliance with stringent Federal financial and information requirements, USAID continues to work to meet requirements for promoting transparency and accountability. Specifically, USAID has been unable to reconcile its intragovernmental transactions and differences between its general ledger and Treasury's; has experienced challenges managing some of its awards to implementers, which total approximately $17.6 billion annually; and has not fully complied with Federal Information Technology Acquisition Reform Act requirements.

MANAGING RISKS INHERENT TO PROVIDING HUMANITARIAN AND STABILIZATION ASSISTANCE

In December 2018, the United Nations estimated that $21.9 billion would be needed to assist 131.7 million people in 42 countries affected by natural disasters and conflict. USAID reports expending an average of approximately $2.6 billion on humanitarian and stabilization assistance annually.[1] Public health crises and extremist group activities further exacerbate the need for humanitarian and stabilization assistance worldwide.

Delivering assistance in these volatile environments frequently entails working with nongovernmental organizations (NGOs), contractors, and public international organizations (PIOs),[2] while coordinating with multiple U.S. Government agencies and international donors. In providing this assistance, USAID must balance efforts to distribute relief supplies with safeguards to help prevent assistance from adversely affecting local markets or falling prey to corruption.

Fraud, waste, and abuse in these settings are acute, and managing these risks has been a longstanding challenge for USAID—especially when short-term humanitarian responses evolve into a protracted presence, as in Syria, Iraq, and Somalia. While USAID evaluates operational context and implementer capacity to determine whether the risk of inaction outweighs the risk of providing assistance, our investigations and audits continue to expose weaknesses in USAID planning and monitoring that create opportunities for bad actors to exploit vulnerabilities. For example:

- ***Overseeing PIOs.*** In September 2018, we reported that USAID did not align its PIO policies and processes with Federal internal control standards or develop clear documented standards for properly vetting, managing, and overseeing PIOs—which frequently help implement U.S. humanitarian responses in nonpermissive environments. In addition, USAID lacked sufficient policies and processes for identifying, assessing, and managing PIO risks. Instead, USAID relied on PIOs to assess and manage their risks. USAID's awards to PIOs working in Syria and Iraq—which now span more than 6 years and total $2.6 billion—are particularly vulnerable to fraud, waste, and abuse because the awards had not been designed with internal control standards appropriate for the context. For example, USAID did not regularly review previous audits or investigations conducted by PIO oversight bodies as part of its awards process, a best practice for mitigating identified internal control vulnerabilities.

- ***Responding to Public Health Crises of International Concern.*** The United States appropriated about $5.4 billion to respond to the 2014 Ebola epidemic in West Africa, making it the largest donor in the international effort to combat the outbreak—one of the deadliest in modern history. In leading the U.S. response, USAID deployed a strategy that provided needed flexibility to adapt to changing circumstances, including the infectious disease's evolution. However, a lack of policies for a whole-of-Government approach, delays in obtaining emergency funding, and other factors complicated the U.S. response. Insufficient needs assessments, frequent staff turnover, and weak handover procedures for rotating response teams further undermined USAID's efforts. One official said USAID operated with too few people to follow the money and determine whether support was reaching targeted beneficiaries. Ultimately, USAID procured $4.6 million in excess medical supplies, and most USAID-funded treatment centers and care units opened after the majority of Ebola cases

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[1] For fiscal years 2013 through 2017 as reported in USAID's agency financial reports.
[2] PIOs include U.N. organizations or international finance organizations and are subject to fewer Federal restrictions than other types of implementers.

had already occurred and progression of the outbreak was on the decline; as a result, some centers never opened or never saw patients.

The re-emergence of Ebola in Africa underscores the urgency for USAID to establish an Agency-wide framework for responding to public health crises, as we recommended in January 2018.[3] Without such a framework, USAID risks starting over with each new outbreak and falling behind in assisting with response efforts. While USAID has resolved some of our January 2018 recommendations, effective implementation will be key to launching a more robust, coordinated, and useful response—especially in the event the World Health Organization classifies the recent outbreak a public health emergency of international concern.

- ***Identifying and Curbing Fraud and Corruption in Nonpermissive Environments.*** Insecure environments are especially vulnerable to individuals intent on stealing U.S. funds and goods, depriving beneficiaries of assistance in countries like Iraq and Syria. A $150 million pledge that the United States made in July 2017 to help Iraqis return to communities freed from Islamic State of Iraq and Syria (ISIS) occupation was placed on hold because of fraud allegations. Following a joint investigation, USAID and the United Nations Development Programme agreed to additional funding requirements that call for stronger internal controls, expanded monitoring of project activities, controlled sharing of contract details, enhanced fraud prevention training, and a full-time, Iraq-focused investigator. These actions, if effectively implemented, should help mitigate vulnerabilities in this high-risk project.

  USAID's cross-border relief programs for internally displaced Syrians have been similarly exploited, reducing the quality of humanitarian assistance provided to those displaced. One individual with close ties to host-country officials manipulated tenders to companies he was affiliated with for personal profit. In another case, a USAID implementer manipulated procurements in favor of vendors that offered bribes and kickbacks, shortchanged deliveries, and substituted products in USAID-funded supply kits with items of lesser quality—including supplying windbreakers and rubber galoshes, not the thick winter jackets and snow boots contracted for and needed to adapt to the harsh camp conditions during a Syrian winter. A separate investigation exposed a bid rigging, bribery, and kickback scheme involving a ring of Turkish vendors that colluded with staff from four USAID implementers. To date, the investigation has resulted in the suspension of $239 million in program funds, the debarment of 18 individuals and companies, multiple employee terminations and resignations, and one indictment of a ringleader in the scheme. Investigations related to other criminal activity as well as civil false claims are ongoing. USAID has taken action to improve award management, program oversight, internal processes, and fraud prevention. However, our ongoing investigations continue to substantiate allegations of fraud and mismanagement.

- ***Preventing Support to Terrorist Groups.*** States with weak democratic systems and accountability often exacerbate the risks in providing foreign assistance. This is especially problematic in areas where designated foreign terrorist groups[4] operate, often having great influence over the communities that USAID assists. Insufficient monitoring and oversight have allowed these groups to divert assistance from intended beneficiaries. For example, under the threat of Hay'at Tahrir al-Sham (HTS)—a designated terrorist group operating in Syria—an NGO's employees knowingly diverted thousands of USAID-funded food kits worth millions of dollars to ineligible beneficiaries (including

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[3] USAID OIG, "Lessons From USAID's Ebola Response Highlight the Need for a Public Health Emergency Policy Framework" (9-000-118-001-P), January 24, 2018.
[4] Designated as such by Executive Order 13224, the Specially Designated Nationals and Blocked Persons List published by the Office of Foreign Assets Control, or the Department of State's State Sponsors of Terrorism List.

HTS fighters) and submitted falsified beneficiary lists. A USAID third-party monitor reported the diversion, and our investigation resulted in USAID suspending $87.9 million in programming and the NGO terminating dozens of employees. USAID resumed humanitarian assistance activities in northwest Syria after the Agency implemented several major changes in its assistance programs in the region based on our referral on the matter. For example, the Agency implemented an expanded process for addressing risk, beginning with requiring risk mitigation plans from implementers prior to award and post-award vetting of prime and sub-implementers operating in northwest Syria. Another OIG investigation found that implementer staff were affiliated with or sympathetic to known terrorist groups in northwest Syria. Based on our investigative work and findings, the NGO ultimately suspended portions of its program to reverify the identities of all of its beneficiaries, adapted its program to the changing risk environment, and terminated or asked for the resignation of a number of employees.

While USAID requires its award applicants to disclose any prior material support provided to terrorist entities and verifies that contractors are not blocked from receiving USAID funds, implementers have falsely certified that they have not materially supported blocked entities. Further, USAID's requirement to disclose past material support to terrorist organizations concerns only implementers applying for assistance awards, not contracts. We notified USAID of these vulnerabilities, which particularly affect high-risk programs in Afghanistan, Iraq, Syria, and similar nonpermissive environments—and the Agency has committed to addressing this discrepancy through the Federal Acquisition Regulation Principals and the Civilian Agency Acquisition Council, which would potentially extend these required disclosures to all contractors Governmentwide. In addition, our work on HTS prompted discussions at the National Security Council on the U.S. Government's tolerance for the risk of diversions to HTS in northwestern Syria and steps that can be taken to mitigate these risks in light of our observations that HTS had infiltrated USAID assistance programs.

- ***Detecting and Reporting Sexual Exploitation and Abuse (SEA).*** Upon learning in February 2018 that an NGO had covered up claims of SEA violations in Haiti following the country's catastrophic 2010 earthquake, we sent a memorandum to the USAID Administrator highlighting vulnerabilities in USAID's SEA-related reporting requirements for implementers. Our March 2018 memorandum noted that, under Agency policy for awardees and subawardees, the standard for reporting sexual misconduct allegations to USAID and OIG was limited to complaints of human trafficking or procurement of commercial sex, and did not include the full scope of SEA, such as allegations or instances of rape and molestation. In addition, reporting of sexual misconduct was limited to allegations that implementers deemed credible—a threshold that delayed independent assessments and responses by USAID and OIG.

USAID has taken action to address some risks we identified, such as including special conditions in some awards and revising its policy for agreements with PIOs to improve oversight of these organizations. Further, after the Haiti SEA incident was exposed, the USAID Administrator reaffirmed the Agency's zero tolerance for sexual misconduct, exploitation, or abuse of any kind—a message emphasized at his March 2018 "Forum on Preventing Sexual Misconduct," which included representatives from key implementers and U.N. agencies, and where I, as Inspector General, spoke on the gravity of the issue. The Administrator also established the Action Alliance for Preventing Sexual Misconduct, joined by an OIG liaison, who serves as an observer in watch over USAID policy decisions with respect to SEA reporting requirements and communicates OIG's independent response on this issue to the Alliance and other key stakeholders. The Agency updated standard award provisions, and established additional guidance clarifying that all forms of sexual misconduct that affect beneficiaries should be reported to USAID and OIG, not just those involving trafficking or commercial sex.

We continue to assess USAID's humanitarian assistance activities, including reviewing such activities in Iraq and assessing USAID's oversight of selected implementers delivering aid in response to the Syrian crisis. We are also currently auditing USAID's response to the crisis in West Africa—where years of conflict and escalating violence perpetuated by Boko Haram and ISIS have displaced an estimated 2.5 million people in the countries surrounding the Lake Chad Basin—in part to assess its actions to prevent terrorist organizations from obtaining USAID humanitarian funds.

STRENGTHENING LOCAL CAPACITY AND IMPROVING PLANNING AND MONITORING TO PROMOTE SUSTAINABILITY OF U.S.-FUNDED DEVELOPMENT

To support partner countries' journey to self-reliance and better ensure that development is sustainable after U.S. involvement ends, USAID calls for investing in communities that have a stake in continuing activities and services; building the skills of local stakeholders; and promoting planning for sustainability, which could include public- or private-sector participation and financial backing.

Best practices for achieving sustainable development encourage increased use of local systems to implement donor-funded programs.[5] USAID initiatives reflect these principles, and in 2016 the Agency updated its policy on development programming with an emphasis on promoting local ownership. However, working with local partners and host-country governments with limited capacity, weak financial systems, and insufficient internal controls presents significant challenges for USAID.

USAID also continues to work to implement its planning, learning, monitoring, and evaluation cycle to (1) design programs that are supportable and complement larger strategies, (2) promote accountability, (3) adapt programs before they get off track, and (4) inform decisions about current and future programming. Our audits and investigations have repeatedly shown the consequences of operating without a fully implemented program cycle, especially on development programs that encourage self-reliance in multiple areas, including the global health supply chain, local infrastructure, and local capacity.

- *Global Health Supply Chain.* Lax warehousing, security, and commodity distribution systems have made USAID's $9.5 billion Global Health Supply Chain-Procurement and Supply Management Project[6] vulnerable to supply chain leakage. Since 2016 our investigations and joint operations with local authorities have revealed that host governments' inability or unwillingness to put in place appropriate controls has created the potential for large-scale, illicit resale of USAID-funded commodities to private businesses and public markets. These joint efforts have, as of March 2019, resulted in 41 arrests and 35 indictments of subjects suspected of selling stolen commodities on the black market.

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[5] Best practices incorporate principles from the 2005 Paris Declaration on Aid Effectiveness, the 2008 Accra Agenda for Action, and the 2011 Busan Partnership for Effective Development Cooperation.
[6] The project's indefinite delivery, indefinite quantity contract to provide cost-effective health commodities in more than 50 countries and technical assistance in supply chain management was awarded to Chemonics International in 2015.

- *Local Infrastructure.* The Haitian Government delayed planned reforms considered key to the success and sustainability of a USAID-funded project to expand electricity generation in the country. Similarly, on the Gomal Zam Multipurpose Dam Project, USAID and the Government of Pakistan did not implement a plan to maintain electricity generation or restore power in the event that it failed. After the dam was completed in June 2013 and handed over to the Pakistani Government, Pakistani officials reported sporadic electricity generation, and by October 2016, system failures and damages had altogether shut down electricity generation, which has yet to be fully restored. In response to our recommendations, USAID/Pakistan recovered $11.5 million that it had paid in excess of the fixed reimbursement agreement amount, and followed through on the environmental remediation. Corrective actions to resolve the critical issues limiting power generation are ongoing.

  We recently reported that USAID lacks comprehensive, reliable, and easily accessible data on construction activities under its cooperative agreements and grants, which USAID estimates amounted to $1.4 billion between 2011 and 2013.[7] Data on the construction type, location, cost, source of engineering design, or performance is critical to inform decisions and mission efforts to advance country-specific goals. Without this data, the Agency misses opportunities to mitigate risks and identify and leverage best practices to effectively deploy technical expertise, including staff engineers. The Agency agreed to draw on current systems to make comprehensive construction data readily available to missions and bureaus, and to implement broader actions to further improve construction data and oversight.

- *Local Capacity.* A July 2018 joint investigative referral from OIG and the Special Inspector General for Afghanistan Reconstruction raised serious doubts that the American University of Afghanistan (AUAF) had the control and accountability systems needed to safeguard U.S. Government investments in the university, which have exceeded $100 million over more than a decade. The referral documented AUAF's failure to comply with accounting, timekeeping, and recordkeeping standards—as well as issues surrounding key personnel, conflicts of interest, and the governance of its board—and requested that USAID assess AUAF's responsibility and whether the university should be entrusted with additional U.S. taxpayer funds. In response, USAID's Suspending and Debarring Official executed a comprehensive administrative agreement with AUAF, which requires an independent consultant to monitor and report all of AUAF's accountability efforts; imposes significant new obligations on AUAF's Audit, Compliance, and Risk Management Committee to ensure compliance with the terms and conditions of AUAF's assistance agreements; and mandates frequent reporting to USAID on the status of corrective actions taken. A material breach of the terms of the agreement would constitute a cause for AUAF's immediate suspension or debarment. USAID also added supplemental award conditions, including requiring a USAID official to serve as a voting member of AUAF's board for the duration of USAID funding, mandating full cooperation with a USAID-designated financial overseer, and ensuring that AUAF demonstrates progress toward obtaining U.S. academic accreditation and incorporating in the United States.

  USAID has also taken action to address concerns we identified with its 2004 West Bank and Gaza Conflict Mitigation and Management Program—which, as of March 2016, has awarded more than 100 grants to local and international organizations and disbursed $60 million. Specifically, the Agency did not evaluate the program to determine its long-term impact and improve the effectiveness of

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[7] "USAID Lacks Data To Inform Decisions About Construction Under Cooperative Agreements and Grants" (9-000-19-003-P), February 11, 2019.

future grants. The mission recently initiated an evaluation that it expects to complete by the end of July 2019.

In addition to program-specific actions, USAID has begun to take crosscutting actions to address its multiple sustainability challenges. Notably, USAID began a strategic transition in 2018 that focuses on building country self-reliance using high-level metrics to identify strengths and weaknesses, help inform strategic decisions, and ultimately determine a country's level of commitment and capacity to be self-reliant. Examples of other steps taken by USAID include:

- To build local capacity, USAID established external partnerships with the International Organization for Supreme Audit Institutions and signed a memorandum of understanding with the Government Accountability Office (GAO) in April 2016 to enhance the oversight capabilities of audit organizations in developing countries. The success of these partnerships will depend on how USAID cultivates them.

- To improve planning and monitoring—concerns cited in our past Top Management Challenges reports—USAID updated and added rigor to its policy for program design and management in September 2016. Recognizing the need to build internal capacity to fully implement the policy, USAID's Bureau for Policy, Planning, and Learning developed new training, tools, and technical assistance to support missions' program planning and monitoring. As of August 2018, the Agency reported it had trained more than 3,000 staff in performance monitoring and evaluation, and approximately 900 staff had completed courses in project design.[8] These actions should help address the Agency's planning and monitoring challenges, but sustained efforts will be required to ensure programs and projects are effectively designed and meet performance expectations.

USAID included sustainability in its first Agency Risk Profile[9]—approved by the Administrator in July 2017—and developed a sustainability risk mitigation plan. Even with the mitigation plan in place, Agency leadership recognizes that regular monitoring of the plan through the enterprise risk management (ERM) process may be needed. The Agency also included risks related to planning and monitoring in the risk profile and will continue to monitor and manage these risks through its ERM process.

In addition to these actions, USAID developed a new policy to engage the private sector—part of its transformation initiative to support countries on their journey to self-reliance—to increase its collaboration with the private sector to promote sustainable, enterprise-driven development. At the request of this subcommittee, we recently reported on U.S. agencies' approaches to engage the private sector and leverage private capital to advance international development.[10] For USAID, this engagement includes financing, technical assistance, knowledge sharing, policy dialogue, and capacity development through various procurement instruments. For example, USAID has procured services to develop host governments' capacity for engaging the private sector and to promote their investment in key sectors.

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[8] USAID provides OIG with updates in its corrective action plan prior to OIG's annual Top Management Challenges report.
[9] The risk profile was developed in response to OMB Circular A-123, which mandates that Federal agencies institute a comprehensive enterprise risk management system.
[10] "Select U.S. Agencies' Use of Private Capital in Advancing International Development" (9-000-19-004-P), May 3, 2019. This report also describes private capital engagement by the other four agencies OIG oversees: the Millennium Challenge Corporation, U.S. African Development Foundation, Inter-American Foundation, and Overseas Private Investment Corporation.

We continue to monitor USAID's efforts to strengthen capacity and promote sustainability. For example, we recently issued a report on USAID's efforts to strengthen local capacity, enhance and promote country ownership, increase sustainability, and implement risk mitigation procedures.[11] While USAID officials in operating units worldwide were optimistic about the positive impact of these efforts, the Agency lacked a means to determine whether it had achieved progress toward its goals. Our ongoing audits will examine issues related to sustainability in USAID's programs. For example, we have recently started an audit of USAID's Journey to Self-Reliance initiative, which seeks to prioritize partner country ownership over more immediate outcomes, a balance USAID has been challenged to strike in its foreign assistance activities. Our audit will assess USAID's incorporation of a new set of self-reliance metrics—central to this initiative—into its development programming strategy.

RECONCILING INTERAGENCY PRIORITIES AND FUNCTIONS TO MORE EFFICIENTLY AND EFFECTIVELY ADVANCE U.S. FOREIGN ASSISTANCE

Implementing foreign assistance programs, projects, and operations that involve multiple U.S. Government agencies has presented significant challenges for USAID in achieving its core mission. In particular, coordination with the Department of State—which makes policy and funding decisions for operations related to political and security crises—has complicated USAID's project planning and execution. Despite broad interagency guidance on the Department of State's role in politically sensitive environments, USAID employees are sometimes unclear on how best to manage additional layers of review, nimbly respond to changing priorities, address both U.S. diplomatic and development goals, and balance short- and long-term priorities.

The joint USAID-Department of State reform effort conducted in 2017 demonstrated the complexity in aligning complementary yet distinct missions and underscored USAID's persistent challenge in achieving U.S. foreign assistance objectives that involve other U.S. Government agencies.[12] Our point-in-time review of the effort highlighted uncertainty about the joint reform's direction and end goals, and noted that disagreement and limited transparency on decisions related to the consolidation of functions and services led to questions about what the reform effort had achieved. USAID staff also voiced concerns related to the Agency's separate reform plan, including a lack of transparency and inclusivity in its development. Since then—amid leadership turnover at the State Department and ambiguity on the future of joint redesign efforts—USAID forged ahead with its independent transformation initiative. In August 2018, USAID outlined its proposed plans to Congress through nine congressional notifications— five of which have since been cleared. [13] Each of these changes represents significant reorganization, including those designed to refocus headquarters technical expertise to support decision-making in the field, and consolidate management of food and non-food disaster assistance.

The U.S. Government's Haiti reconstruction efforts and the international Ebola response foreshadowed USAID's joint reform challenges. USAID was largely responsible for implementing State Department commitments to the Haitian Government for post-earthquake reconstruction, including a project to

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[11] "Despite Optimism About Engaging Local Organizations, USAID Had Challenges Determining Impact and Mitigating Risks" (5-000-19-001-P), March 21, 2019.
[12] OMB Memorandum M-17-22 required executive branch agencies, including USAID and the Department of State, to submit reform plans and workforce plans to OMB by September 2017.
[13] The five notifications that have been cleared established new bureaus for Humanitarian Assistance; Resilience and Food Security; Conflict, Prevention, and Stabilization; Asia; and Development, Democracy, and Innovation. The remaining four notifications request structural changes to the Office of the Administrator; establishment of a Bureau for Policy, Resources, and Performance and a Bureau for Management; and integration of the Agency's statutory and non-statutory coordinators into the proposed new bureaus.

provide sustainable electricity services. However, USAID/Haiti lacked the staff needed to plan for and monitor efforts to meet both the State Department's priority for generating reliable electricity for an industrial park and USAID's broader development goal to expand modern electricity service to Haitians. When State Department assumptions about the Haitian Government's appetite for energy sector reform and commercial demand for electricity did not materialize, USAID/Haiti had to shift its long-term strategy for the power plant from government to private management and reduce its expansion goals. Ultimately, USAID's project did not meet its modernization and expansion goals, and the power plant will continue to rely on U.S. Government support until it can be transferred to another operator.

The international response to the 2014 Ebola virus outbreak in West Africa, which called for an unprecedented level of coordination for USAID, also demonstrated interagency challenges that affected operational effectiveness. While USAID had previously responded to public health crises of international concern, it continued to operate without a policy framework to launch a rapid and coordinated response to the Ebola outbreak, and responders were left to re-create processes for controlling the virus. Based on our recommendation to have a communication and coordination strategy, USAID provided the National Security Council with a "Playbook for Early Response to High-Consequence Emerging Infectious Disease Threats and Biological Incidents," which includes strategies for engagement with the international community and coordination systems.

USAID has been responsive to our recommendations to improve interagency coordination. For example, USAID agreed to formalize its plan to conclude the Haiti power plant project and to address staffing concerns that undercut project monitoring and implementation. With regard to responding to public health emergencies of international concern, USAID reports that it is working with other U.S. agencies to identify and regularly test roles, capabilities, and responsibilities; agreed to direct the implementation of a strategy for communicating and coordinating with other responders; and committed to incorporating handover procedures for members of rotating response teams. In addition, USAID and the Centers for Disease Control and Prevention issued a joint statement to their staff encouraging work relationships that deepen teamwork and collaboration.

To help reconcile their respective priorities, in May 2018 USAID and the State Department established the Stabilization Assistance Review (SAR), which provides guidelines and best practices to optimize U.S. foreign assistance and advance stabilization efforts in conflict-affected areas. At the direction of the National Security Council, USAID and the Departments of State and Defense are working together to implement SAR recommendations and apply SAR in priority countries. While the agencies emphasized their commitment to institutionalize learning, evaluation, and accountability, closer coordination will require shifts in policies, process, and culture. As GAO reported in September 2018, U.S. agencies still needed to formally document their agreement, roles, and responsibilities to enhance coordination and reduce the potential for duplication, overlap, and fragmentation.[14]

According to USAID officials, the Agency and the State Department are also leading an interagency policy research initiative to inform U.S. assistance to fragile countries. Recommendations coming out of the initiative are expected to help coordinate assistance to advance goals related to preventing violent conflict, including mass atrocity and violent extremism. Further, USAID encouraged staff to attend Department of State national security courses to build collaboration and knowledge across the interagency foreign affairs community. In August 2018, USAID announced an in-house course to train staff in techniques and best practices for interagency communication, policy development, and decision making.

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[14] "U.S. Agencies Have Coordinated Stabilization Efforts but Need to Document Their Agreement" (GAO-18-654), September 27, 2018.

USAID is also moving ahead on proposed structural changes announced in its August 2018 transformation initiative. Among these, USAID proposed a Bureau for Policy, Resources, and Performance that is designed to provide a unified Agency voice with the Department of State, the Office of Management and Budget (OMB), Congress, and other stakeholders on all matters related to USAID policy, budget, and program performance while ensuring coherence among these important dimensions of Agency activity.

USAID's many actions have the potential to improve interagency coordination. However, fully implementing these actions will be an ongoing challenge for USAID, particularly in areas where the authority to act is outside its purview. We continue to monitor and assess USAID's efforts to improve interagency coordination. For example, in March 2019, we reported that while USAID's Power Africa initiative leveraged U.S. agencies' expertise on existing and new efforts in the energy sector, a rapid expansion—extending to all of sub-Saharan Africa and tripling its goals—exposed Power Africa to increased risks, and the USAID Coordinator's Office had not fully implemented a portfolio-wide program to manage the risks.[15]

ADDRESSING VULNERABILITIES IN FINANCIAL AND INFORMATION MANAGEMENT

Meeting the Federal Government's strict financial and information management requirements has been a Governmentwide challenge. While USAID has made notable progress in addressing these requirements, it continues to work to reconcile its financial statements and strengthen its awards management.

Reconciling Intragovernmental Transactions. To provide accountability and transparency in their transactions with one another, Federal agencies (referred to as "trading partners") must reconcile any accounting differences. These differences can occur if trading partners use different accounting periods or methodologies for classifying and reporting transactions. The Department of Treasury reported that as of September 30, 2017, USAID had $488 million in unreconciled transactions with its trading partners. According to Treasury's scorecard—used to track and rank each agency by its contribution to the Government's unreconciled differences—USAID was the 19th largest contributor (out of 140 agencies) at the end of June 2018, with differences of $377 million. USAID's ongoing efforts to improve its reconciliation process and eliminate differences are likely to resolve timing differences. However, other differences, such as those caused by accounting errors, require additional attention.

Reconciling the Fund Balance With Treasury Account. USAID's financial statements for fiscal years 2017 and 2016 had a material weakness related to the Agency's Fund Balance With Treasury (FBWT) reconciliations. A material weakness indicates that a material misstatement of the Agency's financial statements may not be prevented, or detected and corrected, on a timely basis. In the past, USAID did not reconcile its FBWT account with Treasury's fund balance each month, or promptly research and resolve any identified differences. Instead, USAID adjusted its FBWT account to agree with Treasury's fund balance. While USAID has made progress in reducing the unreconciled amount, large unreconciled differences with Treasury remain. As of September 30, 2017, the net difference between USAID's general ledger and the amount in Treasury's records was approximately $214 million, of which $83 million was due to outstanding unreconciled items and $131 million was unexplained. This difference accumulated because of ongoing problems with a legacy system and data migration, and the continued lack of an integrated system to control reconciliations performed by USAID missions. USAID management continues to work to resolve these issues. For example, USAID enhanced its cash

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[15] "Power Africa Coalesced Energy Efforts but Lacked Portfolio-Wide Risk Management and Consistent Measures of Progress" (4-698-19-001-P), March 7, 2019.

reconciliation system (eCART) and implemented standard operating procedures for ongoing reconciliations. For the legacy difference, OMB agreed with USAID's action plan and will process USAID's request for the allocation of the $131 million difference to available unobligated funds on a pro-rata basis. USAID's Office of the Chief Financial Officer will adjust its general ledger accounts in the Agency's internal financial management system and submit a backdated adjustment to Treasury through the OMB MAX system[16] to correct and address the discrepancy.

Improving Award Management. Full and open competition is required when awarding U.S. Government contracts, except in unusual and compellingly urgent circumstances or when other qualified sources are lacking. For grants and cooperative agreements, USAID encourages competition to identify and fund programs that best achieve Agency objectives. Under certain circumstances, eligibility to bid may be restricted to a particular type of organization or other limitation, typically for sole-source awards, as long as a justification for using sole-source awards is fully documented and approved by appropriate authorities. However, a USAID contractor operating in Syria had not adequately documented justification for 36 of 41 sole-source subawards it made—leading us to question $5.6 million in costs. The Agency cited factors that prevented exploring other options for competition—primarily violence in the region—but agreed that documentation was lacking and that it should have held the contractor accountable for complying with Agency policy. However, because the contractor had the proper authority to use sole-source awards and USAID approved them, the Agency could not collect the questioned costs from the contractor.

In addition, we have made a total of 3,365 recommendations in more than 400 performance and financial audit reports issued over the past decade that concern implementer underperformance and inadequate awards management. USAID's reliance on awards to implement its programs around the world—approximately $17.6 billion annually—demands effective awards management to hold implementers accountable for achieving program objectives.

USAID's primary information technology challenge relates to complying with the Federal Information Technology Acquisition Reform Act (FITARA), which was enacted in December 2014 to reform and streamline the U.S. Government's information technology acquisitions, including strengthening chief information officers' (CIO) accountability for their agencies' IT costs, schedules, performance, and security. Until recently, USAID did not comply with several FITARA requirements, including those related to the CIO's reporting position and authority over budget execution activities related to the use of IT resources.

On May 23, 2019, the USAID Administrator approved new policies and directives related to the management and oversight of the Agency's IT resources, including elevating the CIO position to comply with FITARA's mandate—a recommendation we made in November 2018. According to the Administrator, "all USAID Missions and USAID/Washington Operating Units are now required to coordinate their IT investments with the Office of the CIO." The Administrator also noted that the Office of the CIO will brief and train Agency leaders, contracting officers, budget and personnel offices, and other internal staff who will be responsible for complying with the new policies and directives.

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[16] MAX.gov is a Governmentwide suite of advanced collaboration, information sharing, data collection, publishing, business intelligence, and authentication tools and services used to facilitate cross-Government collaboration and knowledge management. MAX.gov tools include MAX Community, MAX Collect, MAX Survey, MAX A-11, MAX Analytics, MAX Authentication, among many others.

We are following USAID's efforts to reconcile intragovernmental transactions through our annual audits of USAID's financial statements,[17] as well as its progress in implementing its new policies and directives for complying with FITARA requirements. We are also conducting an audit to assess the Agency's acquisition and assistance processes. Specifically, we are assessing how the Agency manages its awards to implementers and its use of common management tools. In addition, we will be assessing USAID's stewardship of expired and canceled awards.

CONTINUED OIG OVERSIGHT

We appreciate Congress' recognition—through its directed oversight support and resources rendered through the appropriations process—of the value we bring to the effectiveness of foreign assistance and humanitarian assistance programs and to American taxpayers.

Our fiscal year 2018 audit and investigative returns amounted to approximately eight times the cost of our operating budget. In addition to these financial returns, our recommendations have triggered foundational changes in policy and programming around global health and humanitarian assistance, Agency procurements, and engagement with public international organizations. Your funding, coupled with our internal transformation and realignment efforts, has advanced the standing and impact of our work.

My office remains committed to ensuring that USAID and the other foreign assistance entities we oversee prudently use every dollar they receive. Your support, oversight, and engagement—along with our revised strategic approach to our work—are critical to carrying out our mission, especially in light of the high-risk and challenging environments that foreign assistance programs operate in. Thank you again for your support. We remain committed to meeting or exceeding your high expectations.

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[17] The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994 (Title IV of the Government Management Reform Act of 1994, Public Law 103-356), requires an audit of USAID's annual financial statements.