TESTIMONY OF

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INSPECTOR GENERAL,

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY, HOMELAND DEFENSE, AND FOREIGN OPERATIONS OF THE HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

"USAID: FOLLOWING THE MONEY"

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Chairman Chaffetz and Ranking Member Tierney, I am pleased to appear before you to testify on behalf of the Office of Inspector General (OIG) for the U.S. Agency for International Development (USAID). Today, I would like to share information about our efforts to promote accountability in foreign assistance programs.

OIG was established in 1980 with a mandate to combat waste, fraud, and abuse and promote economy, efficiency, and effectiveness in USAID programs and activities. Our oversight mandate spans the full portfolio of USAID programs and activities, and extends across more than one hundred countries. To execute this mission, we have hired and retained 240 highly-skilled professionals who operate out of our 11 offices in Washington and around the globe. We draw on the skills and expertise of both Foreign Service and Civil Service direct-hire personnel as well as Foreign Service Nationals. This worldwide presence enables us to focus on oversight of Agency programs where they operate.

Our core oversight activities include the conduct and supervision of financial audits, and the execution of performance audits and reviews. We complement these efforts with investigations into allegations of criminal, civil, and administrative violations; and fraud awareness training.

We work in conjunction with USAID and its implementing partners to provide financial audit coverage of Agency programs. We examine USAID's financial statements and report on associated internal controls and legal and regulatory compliance every fiscal year. We supplement these Agency-specific financial audits with audits of recipients of USAID funds. USAID provides for financial audits to ensure that funds that the Agency

provides to external entities are allowable, reasonable, and allocable. USAID determines when to schedule financial audits of its contractors based on assessments of risk and sets requirements for financial audits of grantees. In particular, U.S.-based grantees that expend $500,000 or more annually in federal funds must submit to organization-wide financial audits every year. Annual financial audits are also required of all foreign non-profit organizations and host government entities that expend $300,000 or more in Agency funds in a given year. OIG provides oversight of these audit activities by defining financial audit standards, determining the eligibility of local public accounting firms to perform financial audits of USAID funds, ensuring that audits are conducted in accordance with appropriate quality standards, and reviewing and approving resulting reports prior to issuance. When we receive information that indicates more intensive financial oversight of a project or entity may be warranted, we work with Agency officials to contract for additional financial audit assistance. Last fiscal year, OIG presided over 410 USAID-related financial audits. These audits covered $8.9 billion in funds and questioned more than $36 million in costs. USAID, in turn, reported that it sustained $213 million in previously identified questioned costs during FY 2010.

We also conduct audits and reviews with a focus on USAID performance. Our resulting reports address questions relating to program compliance and implementation, but emphasize whether USAID activities are achieving results. When our findings warrant corrective action on the Agency's part, we make recommendations for program improvement. In fiscal year (FY) 2010, we issued 66 performance audits and reviews with a total of 423 recommendations for USAID action.

In addition to our audit-related activities, we have a significant investigative portfolio. Our criminal investigators have full law enforcement authority and investigate allegations of waste, fraud, and abuse of U.S. foreign assistance funds and employee misconduct. We currently have approximately 200 open investigations. Last fiscal year, our investigative work yielded 12 convictions, 90 administrative actions (such as contract or employee terminations), and $104 million in savings and recoveries (from sources like criminal case restitution payments, civil judgments, and bills of collection).

While our core activities generally follow Agency spending and activity, we also try to be as forward leaning as possible in cultivating accountability in USAID programs. To increase fraud awareness, mitigation, and reporting, OIG delivers fraud awareness briefings to USAID

personnel, contractors, grantees, and host country representatives. Last year, we provided such briefings to more than 3,400 attendees worldwide. In addition, we conduct training for overseas USAID staff, contractors, and grantees to increase awareness of and compliance with U.S. Government cost principles and financial audit and accountability requirements. Last year, we provided this training to 460 attendees.

These oversight and outreach activities provide us with useful information about Agency management systems, controls, and performance. We share concerns we have about USAID's overall standing in these areas in briefings with the Administrator and senior managers and in our annual memorandum to the Administrator on management and performance challenges. I would like to briefly highlight for you some of our related observations about USAID's accountability posture.

To begin with, it is worth noting that Agency managers have a positive track record in responding to OIG recommendations. USAID developed appropriate plans to address every one of the recommendations we made last year.

With respect to USAID's financial management, we have identified room for improvement but generally find its efforts in this area to be consistent with accepted U.S. Government practice. USAID has received an

unqualified financial opinion on its financial statements for 8 consecutive years and continues to make progress in addressing its one associated material weakness. Also to its credit in this area, USAID has responded to the increased risk of funding foreign entities by applying more stringent financial audit requirements to foreign recipients than the Office of Management and Budget requires for U.S.-based recipients.

Much of USAID's funding is channeled through contracts, grants, and cooperative agreements to external entities, so it is vital that the Agency maintain effective assistance and acquisition systems. To help plan, execute, and manage its procurement actions, USAID developed a new acquisition and assistance system and is now in the process of implementing it worldwide. We have been consulting with the Agency to help identify potential system weaknesses.

USAID is currently in the process of outlining and instituting a series of procurement reforms that are intended to increase competition, strengthen the capacity of local organizations, and expand partnerships with a larger number of nongovernmental organizations. These reforms are likely to have a significant effect on the Agency's ability to account for and manage its future awards. In the meantime, USAID continues to try to make progress in ensuring that it employs appropriate procurement instruments by improving

its use of performance-based contracts and limiting reliance on poorly structured cost-reimbursement contracts.

Human capital is an important component of any effective acquisition and assistance system. Regrettably, USAID workforce planning analyses have identified a shortfall in mission-critical contract specialists. USAID missions in critical priority countries have reported an especially acute need for acquisition and assistance professionals. USAID is working to address these shortfalls through hiring targets.

In order to be accountable to taxpayers, Federal agencies need to be able to establish that they are delivering results. USAID's large and diverse portfolio of foreign assistance programs poses a challenge for the Agency in properly managing for results. Our work has frequently identified planning weaknesses and potential improvements in documenting, monitoring, evaluating, and reporting on program performance. For example, OIG audits have often identified inaccurate or unsupported results. In fact, more than a third of the performance audits and reviews we issued in FY 2010 noted that data reported by USAID operating units or their partners were misstated, unsupported, or not validated. As a result, policymakers too often lack access to the quality of data they need to make fully informed decisions about related programs.

USAID has recently taken steps to try to improve its performance management by strengthening its monitoring and evaluation program and working to build more of a results-orientation into its planning processes. Last year, the Agency established organizational units to advance these initiatives. Since then, it has developed more rigorous policies and guidance relating to data collection, data quality, performance indicators, and evaluations. Meanwhile, it has also started to pursue a more structured approach to country-level development planning that requires more upfront attention to prioritizing activities to maximize impact; clear articulation of objectives that programs are intended to address; and more detailed information on the approach the Agency plans to take to meet these objectives.

USAID must also strive to ensure that program benefits are sustained once funding ends. After all, USAID aims to create conditions that will eliminate the need for development assistance in the future. Although our performance audits and reviews typically focus on ongoing assistance efforts, about one in seven of our reports last year identified issues with future project sustainability.

To help ensure that hard-won development gains are sustained, USAID is currently working to increase its use of host-country systems and

partners. By utilizing, rather than bypassing, local systems and partners, the Agency believes that it can invest in other countries' long-term capacity to manage and address their own development needs. To this end, USAID is planning to increase the share of program funds it uses to provide direct support of host governments, local nonprofit organizations, and private businesses abroad. However, the increased use of host country systems will also increase risks to program integrity and accountability.

Many of the accountability challenges USAID faces are intensified in critical priority countries and disaster areas. Monitoring the progress of USAID programs in Afghanistan, Haiti, Iraq, and Pakistan is often hampered by security- and infrastructure-related travel restrictions and frequent staff rotations. In addition, widespread corruption, weak government institutions, and diminished rule of law frequently undercut accountability for program funds.

OIG is taking a number of steps in response to USAID challenges and initiatives to enhance accountability for foreign assistance funds. To begin with, we employ a more intensive oversight program in critical priority countries and disaster areas where risks to Federal funds are greatest. Rather than providing oversight on a regional basis as we do elsewhere in the world, we concentrate staff in these countries and focus our staff efforts

exclusively on oversight of USAID activities there. Our personnel commitment to oversight in these countries is demonstrated by the fact that our largest overseas offices are located in Afghanistan and Pakistan. We use this expanded on-the-ground presence to provide greater audit and investigative coverage, engage in increased outreach on fraud awareness, and do more to advertise hotline reporting. When we receive information that a program requires enhanced financial scrutiny, we conduct concurrent financial audits of project costs so that we can identify questionable expenditures and control weaknesses as soon as possible. In these settings, we also redouble our monitoring of higher-risk practices such as cash transactions and disbursements. On the investigative front, we leverage external resources by reinforcing internal compliance systems of implementing partners, coordinating with other U.S. law enforcement authorities in task force settings, and working with local officials to investigate and prosecute crimes.

In response to the Agency's efforts to increase its use of host-government systems, we are doing more to work with host-country accounting firms and Supreme Audit Institutions to build their capacity to conduct financial audits that meet U.S. Government auditing standards and guidelines. We continue to monitor USAID procurement reforms that are

intended to increase the use of host-country systems and have consulted with Agency officials on attendant risks and mitigating strategies. To provide greater assurance that foreign government ministries that ultimately receive direct U.S. assistance have needed systems and controls, OIG has also reviewed USAID ministry assessments and recommended improvements in the assessment process. In Pakistan, where USAID is expanding direct government assistance programs, we are working to ensure that the general population has access to information in local languages on how to report fraud, waste, and abuse. To further enhance oversight in Pakistan, we have also trained our investigative personnel on local procurement laws so that they can work more effectively with local law enforcement and prosecutors to respond to related allegations.

We are also planning future efforts to study aspects of the Agency's overall accountability posture. Our office plans, for example, a post-implementation review of USAID's new acquisition and assistance system to ensure that it is meeting system requirements and user needs. We also plan to examine the extent to which USAID's operating units have made progress in meeting the requirements outlined in the Agency's new evaluation policy and guidance.

Finally, because most of the Agency's work is done by external recipients, we have stepped up efforts to ensure that individuals and firms that have been found to be unfit to receive U.S. funds do not continue to receive grants and contracts. To that end, we have been working more closely with Agency suspension and debarment officials to apply these tools in all cases in which they are called for. USAID has demonstrated increased commitment to suspension and debarment by establishing a Suspension and Debarment Task Force chaired by the Deputy Administrator and staffing up a Compliance and Oversight of Partner Performance Division that supports suspension and debarment actions. These efforts have yielded tangible results, as USAID has taken 48 suspension and debarment actions over the last year and recently suspended one of its largest implementing partners in response to OIG evidence of serious corporate misconduct, mismanagement, and a lack of internal controls that raised grave concerns about the firm's integrity.

Proper stewardship of U.S. tax dollars requires a solid accountability framework. We are committed to working with USAID and its counterparts to ensure that such a framework is in place so that we can provide taxpayers greater assurance that foreign assistance funds are administered with integrity.

Thank you for this opportunity to address the Subcommittee. We appreciate your interest in our work and look forward to learning more about your interests and priorities. I would be happy to answer any questions you may have at this time.

Office of Inspector General

Inspector General
Donald A. Gambatesa

Donald Gambatesa began his tenure as the Inspector General at the U.S. Agency for International Development (USAID) on January 17, 2006, after more than 30 years of service in Federal law enforcement. Mr. Gambatesa serves concurrently as the Inspector General for the Millennium Challenge Corporation, the United States African Development Foundation, and the Inter-American Foundation.

In these capacities, Mr. Gambatesa oversees audit and investigative activities covering a wide range of foreign assistance programs and operations, including those devoted to economic development, disaster relief, global health, and reconstruction in areas of conflict. The Office of Inspector General helps improve foreign assistance programs through its recommendations and works to protect taxpayers' money by uncovering and investigating instances of fraud, waste, and abuse.

From 2001 through 2005, Mr. Gambatesa served as the Deputy Director of the United States Marshals Service, where he was responsible for judicial security and all administrative and investigative operations of that agency.

Previously, he served as the Special Agent in Charge of the Special Investigations Division in the Office of Inspector General at the USAID, and over 24 years as a special agent of the United States Secret Service (USSS). Mr. Gambatesa's career in the USSS included several leadership positions managing both protective security and investigative operations domestically and overseas. He has served as a special agent in charge in both field and headquarters offices.

Mr. Gambatesa has received numerous awards for outstanding performance and achievements during his law enforcement career. He is a graduate of John Carroll University and the Federal Bureau of Investigation's National Executive Institute. He is also a member of the International Association of Chiefs of Police and the National Executive Institute Associates.