

**STATE DEPARTMENT AND USAID MANAGEMENT
CHALLENGES AND OPPORTUNITIES FOR THE
NEXT ADMINISTRATION**

HEARING

BEFORE THE

**SUBCOMMITTEE ON STATE DEPARTMENT
AND USAID MANAGEMENT,
INTERNATIONAL OPERATIONS, AND
BILATERAL INTERNATIONAL DEVELOPMENT
OF THE**

**COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE**

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**STATE DEPARTMENT AND USAID MAN-
AGEMENT CHALLENGES AND OPPORTUNITIES
FOR THE NEXT ADMINISTRATION**

THURSDAY, DECEMBER 8, 2016

U.S. SENATE,
SUBCOMMITTEE ON STATE DEPARTMENT AND USAID
MANAGEMENT, INTERNATIONAL OPERATIONS, AND
BILATERAL INTERNATIONAL DEVELOPMENT,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:15 a.m., in Room SD-419, Dirksen Senate Office Building, Hon. David Perdue, chairman of the subcommittee, presiding.

Present: Senators Perdue [presiding] and Kaine.

**OPENING STATEMENT OF HON. DAVID PERDUE,
U.S. SENATOR FROM GEORGIA**

Senator PERDUE. The committee will come to order.

This hearing of the Subcommittee of the State Department and USAID Management, International Operations, and Bilateral International Development—only in Washington can we come up with names like that—is titled State Department and USAID Management Challenges and Opportunities for the Next Administration.

I would like to begin by welcoming our distinguished guests and witnesses: Inspector General of the State Department and Broadcasting Board of Governors, Steve Linick, and Inspector General of the U.S. Agency for International Development, USAID, Ann Calvaresi Barr. Welcome. Thank you both so much for taking your time today and to be back before us. And welcome back.

The Inspectors General before us here today are charged with evaluating and assessing State and USAID's programs and operations and making recommendations to strengthen their integrity, effectiveness, and accountability. As such, the Inspectors General are dedicated to detecting and preventing waste, fraud, abuse, and mismanagement. As we move forward into a new administration which will have new leadership and fresh ideas, I wanted to take the opportunity to bring you up—to really focus—to visit with us again, to focus again on the management piece of this mandate.

We understand that you have both put out recent reports on major management and performance challenges for each of your respective agencies, and these contained key recommendations for what the next administration should prioritize. We have a lot of

ground we can cover today, but there are some core things you have identified as challenges that I want to mention first: protecting our people and facilities overseas, No. 1; No. 2, managing posts and programs in conflict areas; No. 3, information security and management; No. 4, oversight of contracts and grants; and, lastly, meeting transparency and reporting requirements. We have got a lot to do today if we cover all of that.

These challenges impact our ability to operate in conflict zones, keep those serving our Nation safe, ensure that our aid is doing what is intended, and that congressionally mandated transparency requirements are being met, and to protect the integrity of the IT systems these agencies rely on. We look forward to and welcome your suggestions on how these challenges should be addressed by State and USAID, and how the incoming Trump administration should prioritize and tackle these issues.

Before we get started, I would also like to welcome back our ranking member today, Senator Kaine. Senator Kaine has been a stalwart on the Foreign Relations Committee in reaching bipartisan consensus here. I respect him greatly and appreciate his leadership, mentoring, and participation.

And, with that, I would like to thank and recognize our ranking member, Senator Tim Kaine.

**STATEMENT OF HON. TIM KAINE,
U.S. SENATOR FROM VIRGINIA**

Senator KAINE. Thank you, Mr. Chair. And I echo those comments. It has been a treat to be the ranking member on this subcommittee with you for 2 years, and to be at this last meeting of our subcommittee. And it is a very important topic.

And I welcome both of you and thank you for your service.

I understand, Mr. Linick, you are feeling a little under the weather today, and so we will—we will not stint on our tough questions—

[Laughter.]

Senator KAINE [continuing]. But we will understand if the answers are abbreviated.

IGs have a difficult mission, challenging mission, important mission, regardless what agencies they serve. But, given the overseas nature of the work that is done in USAID and State, the challenges that you each face in your roles, I think, are significantly advanced. And I thank you for the good work that you do.

This hearing is meant to dig into your recent reports and talk about performance and management challenges for State and USAID as we move into the next administration. Obviously, top priority is responsibly spending taxpayer dollars. And that is a key function of what the IGs are charged with. As we continue to expand our presence around the globe, and we have expanded it greatly in the last 15 years, many programs can be susceptible to fraud, waste, abuse, if not just poor implementation challenges. And we see that in testimony before the Armed Services Committee, and we deal with the same issue there with DOD all the time. And this is, I know, something that you focus significantly on.

Senator Perdue mentioned that an important piece of what we do is try to establish performance and management metrics. This

is one of the reasons that he and I get along so well. We—we are into the management by data, management by results. If you do not measure, you do not really know how you are doing. But, you have to measure the right things to give your organizations the right incentives to be effective. And we want to talk about that. Managing these overseas complexes, managing the safety of our folks overseas, having the right tools in place for that are critically important.

And, as we have concluded an election, where there has been a lot of discussion about cyber hacking of institutions, even electoral institutions, and State has been the subject of cyber hacks in the past, knowing what we ought to be doing to protect our infrastructure—cyber infrastructure is a key interest that I think we both share and I know that you will address.

So, I am eager for your recommendations. I appreciate your service. I am glad that we are doing this hearing this morning.

Thanks, Mr. Chair.

Senator PERDUE. Thank you, Senator Kaine.

We will introduce our witnesses now. I would ask you to keep your opening remarks to 5 minutes; of course your written testimony will be submitted in the record.

First, we have The Honorable Steve Linick, Inspector General of the U.S. Department of State, Broadcasting Board of Governors. Mr. Linick began his tenure as Inspector General for the State Department in September 2013. Prior to his appointment, he served for 3 years as, first, Inspector General of the Federal Housing Agency. Mr. Linick was an Assistant Attorney in California and Virginia. He also served as both Executive Director of the Department of Justice's National Procurement Fraud Task Force and Deputy Chief of its Fraud Section, Criminal Division.

During his tenure at the DOJ, he supervised and participated in white collar criminal fraud cases involving, among other things, corruption in contract fraud against the U.S. in Iraq and Afghanistan. In his current capacity, Inspector General Linick is the senior official responsible for audits, inspections, evaluations, investigations, and other law enforcement efforts to combat fraud, waste, and abuse within, or affecting the operations of, the Department of State, Broadcasting Board of Governors.

Mr. Linick, welcome.

**STATEMENT OF HON. STEVE A. LINICK, INSPECTOR GENERAL,
U.S. DEPARTMENT OF STATE, WASHINGTON, D.C.**

Mr. LINICK. Thank you. And I apologize for my voice. I am delighted to testify before you today and talk about the work of the Office of Inspector General for the Department of State. So, I would like to thank you for the opportunity.

I also want to thank this committee for its interest in, and support of, our work; in particular, for sponsoring the legislation intended to expand our hiring authority and to obtain information regarding misconduct by senior Department personnel. This legislation is critical to our work, and we really appreciate that.

By way of background, our office oversees the operations and programs of the State Department, and the Broadcasting Board of Governors, which include more than 70,000 employees and over

270 overseas missions and domestic entities. And, aside from the sheer breadth of the work we have to oversee, the Department of State's OIG is unique, because, unlike other Inspectors General, we are statutorily required to inspect all overseas posts and bureaus in the Department. So, let me turn to some of the more important aspects of our recent work.

First, as I testified previously, one of our top priorities is helping to protect the people who work for the Department around the world. And, although the Department has continued to make improvements in overseas safety and security over the last 18 months, challenges still remain. And, through our inspections and our audits, we continue to find deficiencies that put personnel at risk. Since I last testified, we have particularly focused on health and safety issues overseas, emergency action plans, and maintaining physical security at overseas posts.

Second, the security of information system remains a focus. The Department has spent a substantial amount of money over the past few years, but we are still concerned about the protection of the Department's IT infrastructure. For example, in recent months, we have reported significant weaknesses in the Department's Cybersecurity Incident Response Program. At the same time, I am pleased to report one important area of improvement, and that is our own IT systems. When I last testified here, I described our IT network as a major challenge. At the time, our network was connected to the Department's systems, and vulnerabilities in the Department's unclassified network directly affected our own system. In August, we migrated to our own independent IT system.

Finally, the Department does face continuing challenges managing contracts and grants. To date, we have issued numerous reports and management assistance reports related to these topics, and we have opened numerous investigations on contract and procurement fraud. And we are concentrating our efforts on the Department's weaknesses in managing high-value critical contracts, including those in the conflict zones.

I now turn to our initiatives. When I testified last time, I described several new initiatives. These programs are no longer new, but they are now an integral part of our day-to-day work processes. We have continued to use management assistance reports and management alerts to bring specific issues to the attention of senior management quickly, without waiting for the conclusion of longer-term audits and inspections.

Second, our Office of Evaluations and Special Projects, which was established in 2014, is now well established and continues to focus on systemic issues, special assignments, and whistleblower protections.

And finally, our work in connection with overseas contingency operations is well integrated into our overall mission, and our staff is working closely with DOD and USAID OIGs to oversee those operations.

Next, I would like to address our primary ongoing challenge, which is what I discussed the last time I testified before you. Unlike other IGs, our office is not consistently given the opportunity to investigate allegations of criminal or serious administrative misconduct by the Department's employees. Department components,

including the Bureau of Diplomatic Security, are not required to notify us of allegations that come to their attention. Accordingly, we cannot undertake effective independent assessments and investigations of these matters as envisioned by the Inspector General Act. We have been negotiating with the Department to address these limitations on our ability to conduct oversight for about 2 years, but the problem persists. Clearly, your legislation is needed to address this serious limitation, and I welcome your continued support as this Congress ends and the new one begins.

Finally, I would like to discuss the significant impact of our work. In my written testimony, I included some financial metrics that demonstrate the way we help return money to the American taxpayers. But, these measurements do not fully reflect our most critically important work, which is helping to safeguard the lives of people who work in or visit our posts abroad, and protecting the Department's information reputation and the integrity of programs.

Chairman Perdue, Ranking Member Kaine, I want to thank you for this opportunity, again. And I want to emphasize that our accomplishments are a credit to the talented and committed staff that I have had the privilege to lead. And I want to publicly thank them for their relentless pursuit of excellence.

I look forward to your questions.

[Mr. Linick's prepared statement is located at the end of this hearing on page 23.]

Senator PERDUE. Thank you, Mr. Linick.

Now we will turn to Ms. Calvaresi Barr.

Previously, Mrs. Calvaresi Barr served as Deputy Inspector General at the U.S. Department of Transportation. She also spent 25 years at the U.S. Government Accountability Office, where she served as Director of the Acquisition and Sourcing Management Team, and earlier worked overseas to evaluate defense, national security, and foreign disaster assistance programs. In her role as USAID Inspector General, Ms. Calvaresi Barr oversees more than \$20 billion in U.S. foreign assistance and development programs worldwide.

I think you were just confirmed before this committee just a little over a year ago, so we welcome your comments today and thank you for coming again.

STATEMENT OF HON. ANN CALVARESI BARR, INSPECTOR GENERAL, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, D.C.

Ms. CALVARESI BARR. Chairman Perdue, Ranking Member Kaine, and members of the subcommittee, thank you for inviting me to take part in this important hearing. As you know, I am charged with overseeing up to \$15 billion spent annually on foreign assistance provided by USAID, MCC, USADF, IAF, and OPIC. Today, I will focus on the major management challenges USAID faces in carrying out its missions—its mission, and the reforms my office has taken to create a model OIG.

We identified five USAID challenges that need particular attention in fiscal year 2017. These challenges stem from the inherent complexities in coordinating and implementing foreign assistance: poor project design, monitoring, and a lack of capacity to execute

and oversee USAID-funded projects, and weak internal controls. Managing the complexities of working in areas beset by conflict, instability, or natural disaster is a longstanding challenge for USAID. According to the agency, these environments require flexible responses. We agree that some flexibility is needed to adapt to country contexts, but it must be tempered with discipline.

Our investigations related to responses in Syria and other countries expose fraud schemes involving collusion, product substitution, inflated billing, and false claims. These schemes demonstrate the extent to which ad hoc approaches can leave USAID programs vulnerable to abuse and raise serious concerns about implementers' contracting processes and USAID's oversight.

Reconciling priorities in operations that involve multiple U.S. agencies also present significant challenges. Our work in Pakistan and the Middle East found that USAID employees often struggle to balance USAID's development priorities with other agencies' aims. In response, USAID's administrator recently engaged State Department leadership to discuss solutions.

Another challenge relates to program design and monitoring. Poor design has limited the impact of USAID projects, or disrupted them before they began. Monitoring has been constrained by unreliable data as well as insufficient guidance, staffing shortages, and a lack of employee training. Such weaknesses derailed USAID's plans to use a multi-tiered approach to monitor activities in Afghanistan. Ultimately, only one of 127 awards made between 2013 and 2014 used multi-tiered monitoring.

Program sustainability also remains a challenge, particularly as it relates to securing host-country commitment and assessing local capacity. For example, a project in Haiti lacked a plan to transfer responsibility for paying healthcare workers' salaries at 80 facilities after USAID's role ended and the Haitian Government could not pay them. In addition, five U.S.-funded roads in the West Bank are deteriorating because the Palestinian Authority did not allocate funds to support road maintenance.

Finally, longstanding internal control weaknesses have limited USAID's ability to meet Federal financial management requirements, including reconciling transactions between USAID and other agencies.

Complying with the government's complex information security requirements has also proved challenging. While USAID has made great strides in implementing FISMA and removing significant deficiencies, concerns remain about the CIO's ability to exercise appropriate authority and the independence of USAID's FISMA compliance reviews.

To provide the oversight needed to help USAID address these complex challenges, I have seized opportunities to improve our own operations. It begins with a vision for how we scope our work and how we execute that work, moving away from auditing and investigating individual programs and projects to targeting weaknesses that cut across all the entities that we oversee. This crosscutting work will provide solutions that link Washington-based strategies to field-level implementation.

To better position my staff to carry out this work, I have initiated a number of reforms. First, I added more rigor to how we

prioritize our work. Second, I called for matrix teams comprised of audit, investigations, and technical staff from headquarters and the field, and consolidated 11 overseas offices into four regional hubs. Third, I have taken steps to revitalize our workforce by recruiting new leaders, elevating performance standards, setting expectations for inclusivity and leadership, and identifying the training and resources all staff need to succeed. Finally, I have solidified our independence by establishing a cooperation memo with the USAID Administrator to formalize OIG's authority. We are also working to reclaim responsibility for closing out our recommendations.

OIG remains committed to providing reliable and meaningful oversight and ensuring that we, as well as entities we oversee, achieve the highest return on taxpayer dollars. Given the risks in providing foreign assistance, this is no easy task, but it makes our work, and this subcommittee's sustained interest, critical to ensure we get it right.

This concludes my prepared statement, I am happy to take any questions you might have.

Thank you.

[Ms. Calvaresi Barr's prepared statement is located at the end of this hearing on page 34.]

Senator PERDUE. Thank you, Ms. Calvaresi Barr.

And thank you both for your statements and for your submissions to the record.

We will start our questioning. And, just to manage the time, there is a Democratic Caucus meeting at 11:15, and Senator Kaine will probably have to excuse himself. If I have another question or two, we will continue with those questions in his absence; we are allowed to do that. But, I think we should be able to manage the questions in that time.

We will start with Ranking Member Kaine.

Senator Kaine. Thank you, Mr. Chair.

And thanks, to the witnesses.

I want to start, Mr. Linick, on the cyber issue. My understanding is that there are two bureaus at State that have responsibility for cyber and IT security, the Information Resource Management (IRM) and Diplomatic Security (DS), and both have responsibility. Talk to me a little bit about the stovepiping issue of having two different branches responsible for this, the degree of duplication or gaps, the degree of current coordination and recommendations that you might have with respect to making State more effective in this area. We were all aware of the stories about foreign intrusion into the State Department networks in March of 2015. Please talk a little bit about how you are trying to tackle that challenge.

Mr. LINICK. Thank you, Ranking Member Kaine.

The issue of dispersion of authority between DS and IRM is a serious issue. As I just testified, we have seen a number of significant recurring deficiencies in their IT system over the last 5 years. We think a number of them are created by a lack of coordination.

Let me give you a specific example:

One of the issues we have seen is employees who do not use their email accounts for a period of 90 days, those accounts are supposed to be disabled, because hackers can get in, or anybody can get in and use those emails for nefarious purposes. The Department has

not disabled many of those accounts. And that is a coordination issue.

We have seen other deficiencies occur as a result of this coordination issue. And it goes to a larger recommendation, which we have made to the Department, which is, the CIO, who works for IRM, currently reports to the Under Secretary for Management, and so does DS. We do not believe that the CIO is properly positioned to control IT security at the Department. It is not clear that the CIO gets information about security risks from other bureaus. We have asked the Department to take a look at that.

The other thing is, the CIO—one of our key recommendations to address the deficiencies we have found in their IT system has to do with the fact—while the Department's working on it, they do not—they have not implemented an IT risk-management structure which identifies risk, assesses risk, monitors risk, and so forth. And the CIO has got to do that. I know they have been working on it. But, we believe that is key in order for the Department to get its hands around this problem.

So, with that kind of risk-management system, the Department would be able to figure where it currently stands, from an IT perspective, where it needs to be, what the opportunities for improvement are, and how to communicate their risk to the Department.

Senator KAINE. You gave me two different examples, and, in the second one, you indicate that there is effort underway at the State Department to grapple with the recommendation you made. How about on the first one, the notion of a CIO being placed differently in the organization, to have a more comprehensive oversight of these cybersecurity matters? What is the response that you have gotten from State on that? Please explain that to us.

Mr. LINICK. Well, our recommendations with the Department consider the positioning of the CIO. And the Department has come back and said that they have considered the position, and he will remain where he is. That is my understanding of it. However, this risk-management plan that I have discussed can identify the roles and responsibilities of various players and give the CIO the power and authority and the clear guidance that he needs in order to have the kind of control in order to implement, you know, an IT system, a security system.

Senator KAINE. Let me ask about another aspect of cyber. I am on the Armed Services Committee, and we spend a lot of time in dealing with DOD about the same issues. Within DOD, there are some interesting projects and programs to deal with cyber issues. There is a program called Hack the Pentagon, which gives incentives to hackers to find and report vulnerabilities in DOD networks. And then the Air Force has something called an IT Swat Team, which is private-sector IT professionals that have agreed to come in and help the Air Force rapidly, if there are intrusions, deal with those. Are there similar projects or efforts underway at State to quickly deal with cyber intrusions or even encourage hackers to report vulnerabilities so that they can then be fixed?

Mr. LINICK. Yeah. I do think—I mean, they have spent several billion dollars over the last few years on trying to improve the system. I know they have been working hard to do it. I know they are partners with other agencies to help them—including DHS—to

help them detect hackers and so forth. I know they have provided more tools to staff, and they have been working hard at training, as well. So, I know they have taken a lot of steps. We really think a lot of this has to do with just having a better handle on all the risks and being able to see the entire organization and prioritize those risks.

Senator KAINE. I want to go to the State Department folks and say, “Hey, now you tell us what you are doing in response to these recommendations.” And so, I appreciate that testimony. Maybe we will have the opportunity to do that with State Department folks, especially on the two points that you mentioned.

I want to ask Ms. Calvaresi Barr this question. I understand that USAID is rolling out changes to its policy guidance. I see that it is called ADS201—I do not know that that is—but, basically, it is policy guidance about increasing the ability of implementing partners to be adaptive and creative in their execution of aid programs. So much of the great work of USAID is through implementing partners.

Talk to us a little bit about that effort. What guidance would you give to us so we can both support but then also assess the degree to which the relations between USAID and its implementing partners are as effective as they can be?

Ms. CALVARESI BARR. Senator Kaine, thank you for that question. I think it is probably one of the more important questions that could be asked.

USAID relies on implementing partners to deliver foreign assistance, right? So, right off the bat, you have to have assurance that those implementers have strong internal controls; you have to ensure that they are going to report, they are going to monitor, they are going to check, they are going to get back to us and know whether the goods (the services and the foreign assistance) are getting where they need to go.

One thing that we have pointed out, time and time again in our work across the board, is a culture within USAID which views its implementers more as partners. So, as a result, we are seeing sort of a lack of the kind of rigorous oversight we would like to see from USAID to its implementing partners. And I think the best way to point that out is that you look at our work that our special agents have done in investigations. That is the effect. That is the effect of those weak internal controls. That is the effect of the vulnerabilities, not really knowing what is being shipped, what is reaching the desired entities. And in the case of Syria, in our cross-border operations from Turkey and Jordan, we found rings of corruption on product substitution, false claims, a whole host of issues. And we have put tremendous, tremendous pressure on USAID, as well as its implementing partners, to stand up and to have a better grasp on that. We stood up a Syria Investigations Working Group, where we pull the bilaterals together in that area. We work with State, we work with other entities to talk about where we have cracked down on fraud. Who are these partners? Who are the vendors? Who are the implementors? Because much of this money is going to other entities, and they may be using the same bad apples. So, there needs to be that kind of rigorous oversight put in place.

My point here is, we are doing it, as the Office of the Inspector General, from our investigations standpoint. We would like to see AID do more of that. So, the design of the programs, the monitoring, the evaluation, it certainly does need to be addressed.

Particular concern—and I will just end on this point—is, almost half of USAID’s money goes through U.N. agencies. We do not have oversight over those public international organizations. That is a vulnerability. So, we have partnered very, very closely with them. In fact, I just got a call yesterday from the World Food Programme IG, and we are going to meet next week, actually, to talk about what needs to be put in place. We have suggested to USAID, “You just do not turn over the money. Put conditions on that money, even if it is going to the PIs. Half of that money is going to them. You should put strings attached, conditions on the transfer of that money.” That is beginning to happen. It has not happened before. Hence, what we see in Syria. Hence, what we see in Afghanistan. Hence, what we see in Africa, when it comes to global health. I could go on and on.

Senator KAINE. So, even though you do not have the ability to exercise your function with respect to monies going to these U.N. agencies, you can put pressure on USAID to put strings on the money and make sure that they are trying to get the U.N.-related agencies to up their own internal controls.

Ms. CALVARESI BARR. Absolutely. It goes to the heart of your question, What about monitoring and evaluation? What can they do? They need to look at these implementors, not so much as partners. They have to know what their internal control processes are. They need to know what they know about the vendors and the sub-contractors they are going to be working with. What are their internal controls? And they have to put risk-mitigation factors in place to account for that. That is risk management.

Senator KAINE. Let me ask both of you this question. Both State and USAID work in environments that are permissive and also in environments that are nonpermissive. I think I can intuit the answer to this question, but I think it is an important one to get on the record and for folks to understand. Talk about how the work of each of these agencies in nonpermissive environments—how does being in a nonpermissive environment change the work that an IG’s office needs to do?

Ms. CALVARESI BARR. Okay, I would be happy to start.

Certainly, it makes it more difficult because in a nonpermissive environment you cannot be out there. The reliance becomes even greater. You are looking to others to go in-country for you. That is why these U.N. agencies are so critical to USAID because they are the ears and the eyes, and that is the footprint on the ground. That is the importance of having implementors that have our best interests in mind, that are interested in getting the return on every taxpayer dollar possible.

So, these issues that we have found in our top management challenges, these cut across permissive and nonpermissive environments. What I would say to this is, when you are in a nonpermissive environment, you cannot be there on the front line.

One example where I think USAID could do better. I mentioned the Syria program. We cannot go into Syria. But, our U.N. partners

can go in. OFDA sent out a DART team to assess where the need was and make sure the supplies get there. It was our agents, not that DART team, that actually went to the warehouse and looked at what was supposed to go across border. Is this what it should be? Is it up to the quality it should be? So, we asked the question “We are there, why is USAID not there?” So, those are some of the things where we are pulling out, we are recommending, we are pushing in our reports. You need to have levels of review. Their multi-tiered monitoring approach, which they have been talking about for many, many years as the end-all/be-all for those situations, I think I mentioned here in my opening statement, one of 127 awards used that approach. And what that approach is—we know we cannot get in there, so we have got to work with the governments, we have got to work with our NGOs.—We have got to work with the other implementors. We have to have creative strategies for documenting the actual receipt of these goods. We need reports that come back.—In Afghanistan, one of 127 awards used it. Our recommendations are targeted at getting that much better than that kind of estimate.

Senator KAINE. Mr. Linick, on the same issue about permissive versus nonpermissive environments, and then I have one workforce question before I hand it back to the Chair.

Mr. LINICK. The State Department is clearly working in providing foreign aid in nonpermissive environments, lots of it, you know, in governance programs, nonlethal aid working in Syria and Iraq and so forth. And it is a serious limitation, these nonpermissive environments, to monitor whether or not the goods or the services are being delivered as they should be.

The State Department has sort of a mixed record on this. Some bureaus are using alternate means to compensate for that: use of third-party contractors, use of GPS, use of teleconferencing, talking to grantees in third countries. There are quite a few ways to get around this. And we are actually looking at those ways to see how effective they are.

In other bureaus, they are not using these methods. And part of it is because there is no directive that provides a minimum standard for monitoring and evaluation. That is something we are looking at.

Senator KAINE. I want to ask one workforce question and then just an observation about workforce. Within the DOD—again, from my Armed Services experience—the senior executive service personnel, senior officers often attend very extensive planning curriculum to focus on things like contract management, et cetera. And my observation is that State and USAID Foreign Service Officers usually have a shorter rotation, with fairly limited training in planning and contract management, even though they are expected to do similar work. So, as I compare the kind of training on planning and contract management on the DOD side, versus the State side and the USAID side, I think State and USAID do not get the same amount. What can we do to foster more of a planning and training culture within the organizations?

Ms. CALVARESI BARR. Okay, this is certainly an issue that we have highlighted. The lack of training for the folks that are actually in charge of determining the programs following from a coun-

try development strategy, what the program should be, what the vehicle should be. And I think what we have found, across the board, is that, No. 1, the training is not there that is needed. This is huge project management. We might start with a \$1 million grant. That can amp up very, very quickly because of changing situations. And then, when you are in a contingency operation where the need is tremendous, you have the staff actually overseeing 11 projects in that area. If they are not trained, if the right number of folks are not there, if there are not alternative strategies for how to monitor it—not a one-size-fits-all approach to this—then you are going to see the effect that we see, time and time again. It sounds like a broken record.—They are not achieving the goals that they established; the data is unreliable; we are not sure they are meeting where they need to be. So, training is absolutely at the heart of this.

You mentioned Foreign Service. I think, you know, a complicating factor with this, because of the nature of that personnel system, folks are in, they are in for, you know, 2 years—in contingency settings, 1 year—and they are out. So, you overlay that with the continual change that goes on, and I think it is certainly a recipe for tremendous, tremendous vulnerability in achieving the program.

Senator KAINE. Mr. Linick?

Mr. LINICK. Senator Kaine, you raise what I think is one of the most important issues for the new administration to look at. In the State Department,—there is little emphasis on project management. They are working on it. And they have been working on it for a while. But, really, people go to the State Department because they want to be diplomats, and they do not want to have to manage contracts and grants and do all these things. It is a collateral duty for many. As you mentioned, Foreign Service Officers are rotating in and out of these posts—1, 2, 3 years. You know, they will serve as grant officer representatives, and then they move on to another post. So, you know, many grants have one, two, three grant officer representatives. They do not have the training, they do not have the staffing. Grant officers and contract officers are really not held accountable for oversight. You have got RSOs, regional security officers, who are also designated as contracting officers at posts, who are supposed to be managing the local guard contracts, but also making sure that the posts are secure from attack. This is a real problem, and we have made a number of recommendations to the Department to enhance accountability. It needs a better system for inventory and contracts and grants. It needs more training; it needs more resources. and it needs to be given the kind of priority that other topics do. Because, ultimately, in our view, effective management means effective diplomacy. And at the end of the day, this should be an organization which is also focused on the taxpayers.

Senator KAINE. Let me offer—let me just offer one last— not a question, just an observation, and then—and I appreciate the Chair letting me just drone on with 15 minutes of questions. And I am anxious to hear his questions.

When I travel on CODELs, usually I combine travel for Armed Services and Foreign Relations purposes. And I have embarked on

a habit I really love, which is, wherever I am, I go to the Embassy and I ask to meet with first- and second-tour FSOs, often people from USAID, and other folks that are connected with the Embassy. I just want to hear what their life is like. And I am always so impressed with the qualifications of people, and their experiences. We are doing a better and better job of thanking the military for their service. I do not think we often thank nonmilitary American employees enough, especially those who are deployed into high-risk settings around the world. But, I always ask them this question, “You have a job that is very competitive to get. I mean, especially anybody who has passed the Foreign Service exam—extremely competitive to get, so you are to be congratulated for that. Tell me what will be the difference between you staying and making this a career and you leaving to do something else.” I ask that question, and then I just listen, usually for about an hour. One of the things I hear a lot is this,—and it is in your wheelhouse as you are making recommendations to State or USAID and kind of seeing how they implement those recommendations. Foreign Service Officers tell me that they had to go through such an intense security vetting to get this job, but, for them to get a few dollars to go to a conference they have to fill out things in triplicate, as if they could not be trusted. They wonder how they were allowed to get through the vetting process if they could not be trusted. They understand that there needs to be a check against fraud and abuse, but they are still frustrated at being treated as if they could not be trusted, often for minor expenditures.

Obviously, we have to have a balance, in terms of putting mechanisms in place to appropriately manage and protect the taxpayer dollar at the same time. When we put people through the—you know, one of the most intense vettings that anybody gets in our operation, then there ought to be a degree of respect and trust that comes with that.

So, I just wanted—you do not need to comment—but I just wanted to tell you that is something that I hear as I travel around the world and try to say thank you to the people doing these important jobs. And you might want to consider that.

And I will now hand it back to the Chair.

Thank you.

Senator PERDUE. You know, I can relate to that when I am going through security at the airport, myself. [Laughter.]

Senator PERDUE. Thank you for those insightful questions.

You know, let me follow up on that line of thought. You know, one of the great things about this job is, we do get to travel, and we do get to see our men and women in uniform and our State Department personnel around the world. And it really is an unbelievable thing to realize that the best of America is in uniform in our military, and the best of America is in our Embassy and diplomatic efforts around the world. I mean, it really is a very encouraging realization to come to as a new member. And I am worried about the continued safety and their careers. You know, I think Senator Kaine just talked about that. I mean, we talk about that in here a lot. The retention of really good people in any enterprise is a key success factor.

I am worried about their safety, Mr. Linick, and I know you have talked about that before. And when I look at both your reports, they are so insightful. And if we could just implement everything in your reports, we would all be much better off. But, I am a little concerned when I see repeat recommendations, and there are a number in here. And the one that I want to call out and get you to speak to it very quickly. This is about Embassy security. Past events have proven that these embassies are, indeed, in danger at times. And so, we have to take this very seriously for the security of our people. But, in your testimony, you stated that Until the Department fully implements the IG's recommendations intended to improve the process to request and prioritize physical security needs, it will be unable to identify and address all physical security-related deficiencies. And then you said that without taking such steps, the Department will be unable to make informed funding decisions.

We had a meeting here earlier this year talking about how expensive it is to build the embassies, and the overruns and so forth. That is not what I am looking for here. What I am really looking for are the hindrances going on in State, and why is this a repeat recommendation? And, looking forward to the next year, how receptive has State been to your recommendations, and how would you advise us to continue to look at that? If safety of our diplomatic corps is one of the top priorities, it seems to me that we need to make sure that these recommendations are taken seriously.

Mr. LINICK. Senator, I think the issue of why do deficiencies continue to appear is a complex question. There are posts all over the world. There is lots of ground to cover. The world is a dangerous place. And there are probably lots of reasons why we continue to find issues. One thing we think would be a simple fix and would contribute to the Department's ability to address these issues is just having a database of all the security needs, the deficiencies around the world, so the Department knows how much money it needs to spend, where the highest-priority security issues are, and so forth. The Department has made progress. We made this recommendation in 2014. They have a database. They have not populated the database. They just need to do that. But it has been a couple of years. So, again, it is a planning function. You do not know what you have unless you understand what the universe of needs are.

The other thing I would say is—and this is another issue I think the new administration ought to look at that relates to the issue of dispersion of authority in the IT context—it is the issue of the need to enhance our mechanisms for accountability, particularly in the security area. Two key recommendations came from the Benghazi Accountability Review Board, one had to do with making sure that risk management is conducted at the highest levels of the Department. And that is very important for the new administration to undertake, particularly where we are sending folks in harm's way and we cannot mitigate risk. It ought to be done at the highest levels.

The other issue is in terms of security. You know, we have had 12 Accountability Review Boards, from Dar-es-Salaam to Benghazi. And in Benghazi, we found that 40 percent of the recommendations

made by the Benghazi Accountability Review Board were repeat recommendations—training, information-sharing, et cetera. Why is that? Largely because it did not have leadership pushing down those recommendations. With changes of administrations a lot of these issues get delegated to the bureaus. That needs to be implemented from the top, as well. And they have actually put something in the FAN to require that the Deputy Secretary make sure that they oversee the implementation of those recommendations.

Those are the primary reasons. We continue to find deficiencies all over the world, whether it is, not having the right setback or not having hardened doors, et cetera. Those are the root causes, and leadership needs to be on top of this.

Senator PERDUE. I notice, in London, in Singapore, and in Islamabad, that some of those recommendations have been incorporated into new construction—setback rules, et cetera. Is that correct, in terms of these priority embassies?

Mr. LINICK. Yes. After the Benghazi Accountability Board, the Department implemented many of those recommendations, and that has improved security at posts all over the world by sending more Marine security guards and enhancing training. So, the answer is yes, they have progressed.

Senator PERDUE. We had the privilege of visiting, in Melon, Spain, a Marine contingent, and one of their primary missions is to be there as the first call for embassies in Africa. And I know Senator Kaine has a son, a young Marine who is out there in harm's way; so we want to make sure those guys are well funded.

Mrs. Calvaresi Barr, you noted in your testimony—this is a specific question, but you called it out, that you are seeking to align the USAID IG system of pay for Foreign Service investigators with that of the rest of the Federal law enforcement community, just to create a level playing field. Can you speak to that just a minute, about the deficiency and what we need to think about here in Congress to help get that rectified?

Ms. CALVARESI BARR. Thank you, Senator Perdue, very much for that question. Of the many challenges I confronted when I took over as IG, this is probably been one of the more disruptive to my organization internally.

Senator KAINE. Has it—excuse me—has it affected retention since you have been there, in the last year?

Ms. CALVARESI BARR. It will if we do not have a fix soon, so let me try to take a very complicated issue and make this simple.

I oversee two personnel systems. One is Civil Service, one is Foreign Service. When it comes to our criminal investigators on the Civil Service side of the house, our criminal investigators get a law enforcement availability pay, known as LEAP, and it allows them to receive 25 percent more over their base salary, up to a GS-15 step 10. And what that pay is for is to ask them to work for a minimum of 50 hours and be available anytime, going forward.

For commissioned Foreign Service Officers, LEAP does not exist. So, my predecessors, many before me, in wanting to bring parity to the system, instituted special differential. So, the special differential was instituted to essentially bring the salaries to about the same because these are the Foreign Service criminal investigators that are in Syria, are in Afghanistan; and certainly, they

should at least be entitled to the same pay, not only within my organization, but across government. Right? LEAP. So, they put a special differential in place for them. What they also did, though, is they put a cap on that differential. Recently, there was a challenge to the IG's ability to put a cap on that special differential.

We are seeking legislation that would allow us to set the pay rate similar to the rate of the Civil Service, because if I do not, every imaginable scenario will directly affect what you asked me—recruitment and retention—or disparity. If I do not put a cap on those salaries, those criminal investigators will receive \$40,000 more than their counterparts, in excess of \$200,000 a year in their salary. If I take it away—they are going to fall way below that. I am not going to be able to retain or recruit.

Folks at that level, at the FSO 1—level, are our special agents in charge. They run the operations regionally. This has been one of the more difficult things that I have had to deal with in our organization. So, we appreciate that we have worked very closely with your staff and other committees' staff to get a legislative fix to this so that we can just bring parity into the mix. And it would go a long way.

Senator PERDUE. Well, we are working with you. We really hope that we can create that level playing field. This is something that is obvious to those of us who see it from the outside.

Ms. CALVARESI BARR. Thank you.

Senator PERDUE. Let me ask both of you this. This is something that we see. We have a new President coming in, in January, who has outside business interests and so forth. So, the conflict-of-interest issue is now front and center at the highest level—inside the State Department, inside USAID,—as in all of government. But I want to talk specifically here about someone who might moonlight with a second job, what are the procedures, going forward, that we need to look at to ensure that there is no conflict of interest with their day job?

Mr. Linick?

Mr. LINICK. Well, Senator, there are ethics rules and criminal rules which prohibit conflicts of interest—financial conflict of interest, in particular. We get allegations, in the investigations area, of conflicts of interest. We get them routinely, and they are pretty common.

Senator PERDUE. Are there training processes inside both institutions to educate people—

Mr. LINICK. Well, there is required ethics training, and we looked at the Department's ethics,—how they conducted ethics training. And I would have to get back to you for specifics about that. We have it within our own office; we take it very seriously. This is something that we deal with more on an allegation-by-allegation space.

Senator PERDUE. But, from a proactive standpoint, are there things that the IG Department does, interacting with people? Ms. Calvaresi Barr, do you want to speak to that?

Ms. CALVARESI BARR. I would be happy to, and I agree completely with what Mr. Linick said here about the rules and the regulations. There is ethics training across the board.

One thing that our Office of Investigations did was put together an integrity working group within USAID. We have USAID's general counsel; we have people from civil rights there; we have people from the management bureau there; we have people from security there, and we are there. And we talk about employee integrity matters, conflicts of interest obviously being one of them.

I can tell you that we are not, certainly, missing in terms of getting requests for us to do investigations. It is a best practice to set something like that up to make it clear that this all needs to come to the Office of the Inspector General. These meetings that we have on a monthly basis, all those matters are discussed. One thing I will say very, very strongly about USAID on this matter, they refer those things to us, the most egregious ones; we talk about all of them, and they let us have at them.

So, I think that this is a good model, a best practice. And again, I am very proud of my staff for coming up with the idea that we have got to pull this together and pull the right stakeholders just to have discussions such as this.

Senator PERDUE. Thank you.

Mr. Linick, I want to go to the IT area. This was a top topic last year, and it seems to be a strong part of your report again this year. You brought to light some serious issues that the State Department and the IG face preventing your office from being as effective as you would like. Can you provide an update on the issue of independence of the State Department and OIG, and the integrity of those investigations? And what about the independence of your IT network? I know we talked about that last year, as well.

Mr. LINICK. Well, fortunately, we have migrated to our own independent network. And last year when I testified, I expressed concern about the integrity of the information on our network—investigative information, audit information, grand jury information—and access to that information by folks. We have no evidence that the Department, just to clarify, actually has access to that. The problem is, we did not have firewalls and controls between our agencies to prevent that. So, we have moved to our own independent IT system, and our work now is secure.

Senator PERDUE. Well, that is great news. I know Senator Kaine has to leave. And we thank you so much for being with us.

Ms. Calvaresi Barr, can I get you to comment on the same thing? You have only been there a year. Have you seen the same sort of thing. What are your comments on the IT function inside USAID?

Ms. CALVARESI BARR. Yes. So, first, I would just start off—from an independent standpoint, one of the first things I did within the first month was establish a memorandum of understanding about the IG's authorities and independence, and the need for that, that Administrator Gail Smith sent out to all folks within USAID. And that has gone a long way to stress the role, the responsibility, and the authorities we have. And that has played out extraordinarily well.

With regard to IT systems, we do maintain our own servers, but there are certainly opportunities, if there is somebody nefarious within USAID proper that would want to try to hack in, whether it be through email accounts or other things, those walls and those structures are not as effectively built. We—some of the new leader-

ship I talked about, that I have brought in—one individual, in particular, very, very strong in our Office of Management, along with our great staff—our Director of IT and her staff—are working on ways to build in more security to those systems.

But, we do have our own servers. I think we need to go a little bit further, because I would not be truthful if I said that it is completely foolproof and nobody can get into these systems. We have work to do on that—in that regard.

Senator PERDUE. I think that is fair.

Mr. Linick, in your testimony, you stated that your office was—you may have given me this thing. I hope not. [Laughter.]

Mr. LINICK. I hope not.

Senator PERDUE. I am kidding. I am actually on the down side of the same thing.

I am concerned about the absence of mitigating action plans for high-risk areas concerning oversight of contractor operations. That is an issue your office has raised before. You have issued four reports in the last years identifying these problems. Give us an update, if you will, on how State has gone about implementing your recommendations. Are you satisfied with the progress of those recommendations? And I know you just talked about, last year, that they made dramatic progress. Give us an update through this year. And also, you have made recommendations repeatedly. Some of those come back. And so, this, again, speaks to the fact that the issue shows up again this year. Can you just speak to that again, please?

Mr. LINICK. Well, we do make a lot of recommendations, and some of them are implemented, and others are not implemented. And we try very hard to follow up and follow through in terms of compliance once we issue a recommendation. In some instances, if it is a serious recommendation or if we are not seeing compliance, we will actually go back out and do a compliance follow-up review. It is a whole new team that goes out to check to see whether or not recommendations are accepted—you know, are complied with and so forth. We do not have the ability to require the Department to follow our recommendations. All we can do is make recommendations and hope they implement them.

The one thing that has really been a help for us, though, we have made a number of recommendations that Congress has actually latched onto and incorporated into legislation. So, for example, our recommendations and some of our management alerts are in our contracting. The Department is required, through legislation, to report to Congress on its implementation of those recommendations. Some of the most critical recommendations in the contracting area, including basic stuff like setting up an inventory for contracts and grants, holding contractors and—excuse me—contracting officers, contracting officers' representatives accountable, things like that. So, that is the most helpful way that we can ensure that the Department follows up on our recommendations. But the bottom line is a mixed bag, and we try to identify the most significant recommendations and bring them to the attention of the Department.

Senator PERDUE. Well, going down the contractor issue that you raised, Ms. Calvaresi Barr, you note in your testimony that contract design flaws led to complications in Haiti in the implementa-

tion of an \$88 million grant. But, there was about \$12 million in question; —I think it was in an anti-malarial program, if I am not mistaken. Can you speak to that and then speak to what you have done to prioritize controls around that to avoid those in the future?

Ms. CALVARESI BARR. Yes. Design is absolutely crucial to get it right. That is the foundation for any sort of development assistance going right. And I think what we are finding is, within USAID, when they develop their country development strategy, specific projects follow from that. A number of things have to be looked at. You have to put the best practices in place with regard to delivering the aid, whatever that aid is that you are delivering there. Your goals have to be reasonable, and they have to be reasonable based on the environment in which you are working. So, USAID's emphasis is a lot on local solutions to provide sustainability, going forward. Let us invest in those local entities to make sure that the aid sticks. So, we talk ourselves out of business. We go in, and they can keep things working. But, you just cannot throw money at it and hope that it works. You have to assess capacity. You have to say, "Do these entities that the money is going to even know what internal controls are?" If they do not know what they are, does the money need to go more towards technical assistance to get them amped up to be able to receive this kind of money?

So, in the examples that we provided, time and time again, with that being one, we had a less than rigorous look at the best practices, an assessment of the capacity, a reporting back of what we are getting.

One thing that I will say that OFDA has recently done—and we have seen this in Afghanistan, which I think is another best practice—is, rather than throwing all of the money out, especially if you have weak monitoring and reporting coming back or data that is less than reliable, which we found across the board on our monitoring work, how about incremental funding? So, it makes the AORs, the CORs, those monitoring, say, "Okay, here is the first tranche. What did we accomplish? Hey, if we are not getting where we need to be, what is it? Did we pick the wrong vehicle? Was the cost-share arrangements that we hoped we would get back from the government or the other entities, are they not standing up to their commitment?" And then, recalibrate and change to get it right. But, we see, too often, the design on those principles that I mentioned as flawed in the beginning, and that is just going to have ramifications, going forward. That was just one example of many.

Senator PERDUE. Thank you.

My last question really has to do with the reforms that you guys have both brought to your respective responsibilities. Can you just bring us up quickly on what reforms in the past year you have been able to implement? And then, the parting question here is, Are there other reforms that we need to be a partner with here legislatively or the things that—to help improve your oversight capability—the things that we need to do in changing the law to help you? I would like a brief answer here, but if you would like to submit an answer in writing to that, we would welcome that for the record, as well.

Mr. Linick?

Mr. LINICK. Okay. So, Senator, to answer your first questions, in terms of reforms, I would divide it up into two baskets of reforms. One is internally, and externally. Internally, our people are our most important asset. We want to make sure that they have the proper work environment, they have the systems, and so forth. We have worked hard, and this is something that is continuing to improve—management systems, the quality assurance of our work, internal controls, workflow, and so forth, making sure the people have adequate space, that the culture in the office is right. And these are things that we have been working on consistently for the last few years.

Externally, we are trying to be more effective at what we do. We are trying to aim at the highest risks to the Department, trying to be more efficient and effective. A few things we have done: our inspections division now operates on a risk-based system, so we are trying to be very smart about how we inspect, where we inspect. We look at a number of factors: how much money a post has, the complexity, the size, and so forth. And we might have different kinds of inspections, depending on the risk factor. We might send bigger teams to higher-risk places, smaller teams to lower-risk places. We may look at one function, like security, or we may look at all of the functions. We may look at just morale and leadership. So, those are the kinds of things.

In addition, we created the Evaluation Special Projects Unit to be a rapid-response unit to handle whistleblower claims, administrative misconduct, and other special assignments, our management alerts and management assistance reports to get information to the highest levels of the Department quickly about urgent issues or systemic issues, and data analytics is something we are really trying to use in an integrated way throughout OIG.

Senator PERDUE. Ms. Calvaresi Barr?

Ms. CALVARESI BARR. I remember, Senator Perdue, you asked me, during my confirmation hearing, what was I going to do to get my arms around the organization and move it forward? So, let me come back to that. I mentioned three things: work, process, and people. And it is something I have lived by in every leadership position that I have been through.

On the work front, we have done tremendous, tremendous work in the past, but what we have done is, we have targeted individual programs across all the countries that we are in—and we had that structure that had 11 offices, and I can tell you, it was like having 11 different IG offices—transformed that into four regional hubs. Our work now is going to be more crosscutting. In addition to my oversight responsibility for USAID, I have those additional other entities that I oversee. So, work that we can do that is crosscutting, work that we can do that follows, as Mr. Linick said, high-priority areas of the Hill, high-priorities areas within the entities that we are overseeing, high priorities from work that we have identified. We have got to hit those things where there are big programs.

For example, if we do an audit of Power Africa, Power Africa is getting at USAID's investment, it is getting at MCC's, it is getting at OPIC's, it is getting at ADF. We have to do that. The recommendations in our reports, then, that I can bring forward talk about systemic issues and lends itself to the kind of oversight hear-

ings you could have with those officials about what their responsibility is to get this right. So, work clearly, you know, is number one.

Processes, just very quickly, we needed to bring ourselves up to date with the best practices for how we do things within audit, things within investigations—new prioritizations, new audit planning guides, new templates and guidance—so that we are providing streamlined efforts so that our reports to you are as timely as they can be. Because if they are not timely, they are not relevant, and you cannot use them. So, I would highlight that.

I have established an Office of Quality Assurance and Review that did not exist before. I am hiring a business process engineer to totally rebaseline our processes and bring some best practices into it. Communications officer, training director—none of that was in our office before, and that speaks to the people part of it. We have tremendous people at this agency, that have been with my office for a very, very long time.

As I said, I have a pretty high standard on expectations, and I would like to think I hold myself to those, as well. And I set those standards. And I had the opportunity to bring in a fairly new bench of senior executive leaders along with all the existing leaders that have really proven already that they have the chops to get this done the way I want it done, with leadership, engagement, coaching, and inclusivity. And we are investing in our folks to do that.

Finally, on the notion of what else we can do, going forward, thank you very much for the question on the pay issue. That is first and foremost—LEAP is one. A separate issue for me has to do with our authority with regard to OPIC, oversight of OPIC. The Foreign Assistance Act only gave limited authority, does not allow us to do financial statements. In short, the appropriations bill says, “USAID, OIG, coordinate with OPIC’s president, board, and come up with a MOU on the work that you are going to do.” So, when I think about an IG’s role—and I have been in this business for 32 years now—the fact that I have to negotiate what my oversight is going to be, and then I have to get it locked and loaded, and, if there is another issue that comes up that I want to look at, oops, it was not in the plan that was agreed to, the MOU—it is not working for me, it has not worked for the agency for a long time, so I think that that one is most important to me, as well.

Senator PERDUE. I am concerned about that, as well. I see that in your report. And, in my business career, that is the one that always jumped off the page at me, as well.

Ms. CALVARESI BARR. Okay.

Senator PERDUE. I am very sensitive to that.

Thank you both for your testimony, and thank you for your tireless effort. I know providing oversight and accountability sometimes can be a thankless job, but I want to tell you, it is very much appreciated by this subcommittee and the committee at large. I want you to know your work is really making a difference. And informing us here in the Senate is so important that we get an objective look at these departments. I mean, these are tremendous departments. We are spending \$54 billion, all in, between State and USAID today, and it is up from 20 billion under the Clinton administration. So, under the last two Presidents, this thing has really

kind of exploded to be a major investment around the world, and yet we see the needs around the world, both from our own internal security of State Department, but also the help that aid is giving around the world today is tremendous, relative to what we are trying to accomplish from a foreign policy standpoint. So, that is why these hearings are so important, to get this information on the record and to see the ball move down the field accordingly.

It is through our diplomatic and foreign assistance agencies that we have been able to bring hope and opportunity to those most in need while also furthering peace and U.S. interests around the world. We cannot forget that oftentimes the meal a Syrian child receives, or the HIV/AIDS medication a mother in Africa receives, may be the first and only thing they learn about America. And so, we must ensure that the aid we provide is helpful, safe, and accountable, and that our people delivering that are safe.

Most importantly, we cannot continue to help others if we do not maintain the trust of those who make this aid possible—the American taxpayer—which is why these hearings are so insightful and important to maintain trust in that accountability.

We will close now, but the record will remain open until Friday, close of business, for those wishing to submit additional questions. We may have a question or two, as we just mentioned. And also, I want to take the privilege here, sitting in the Chair. I want to thank and make a quick—just take a quick moment to thank Major Jim Purekal, of the United States Marine Corps, who is here with us today. He happens to be my congressional military fellow for the past year. Major Purekal has been invaluable in advising me personally, and our team, about the inner workings of military and national security. He moves now to the Senate legislative liaison. But, the thing I want to call out about his career, he was a helicopter pilot for Air Force 1, and so he brings a distinguished career to the Senate, and we look forward to working with him over the next year.

So, Major, thank you very much. [Applause.]

Senator PERDUE. Thank you.

Thank you again for your work and your testimony.

This meeting stands adjourned.

[Whereupon, at 11:30 a.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF STEVE A. LINICK

Chairman Perdue, Ranking Member Kaine, and members of the subcommittee, thank you for inviting me to testify today regarding the work of the Office of Inspector General (OIG) for the Department of State (Department) and the Broadcasting Board of Governors (BBG). I will highlight some of our recent oversight work, our continuing initiatives, and the challenges we face in performing efficient and effective oversight. I will also address the results and impact of our work. At the outset, I would also like to thank this Subcommittee for its interest in and support of OIG's work. In particular, I would like to take this opportunity to thank Members of this Subcommittee for sponsoring legislation intended to expand our hiring authority and our ability to obtain information regarding misconduct by senior Department personnel. This legislation is critical to our operation.

I. STATE OIG'S MISSION AND OVERSIGHT EFFORTS

It is my honor to have led the State OIG for the last three years, and I am pleased to have this chance to update you on the work we have performed since I last testified before this Subcommittee in April 2015.

As I explained at that time, OIG's mandate is extensive and requires us to oversee both Department and BBG programs and operations, which include more than 70,000 employees and over 270 overseas missions and domestic entities. These agencies are funded through combined annual appropriations, fees, and other income of approximately \$43 billion. Moreover, one important difference between State OIG and most other OIGs is that we are statutorily required to periodically inspect and audit every domestic and overseas operating unit around the world.

In recent reports, we have identified some of the top challenges that the Department faces. Today, I will focus particularly on the protection of people and facilities, the security of sensitive information around the world, and the management of contracts and grants. These three issues represent a significant part of the work that we have done over the past eighteen months.

Protecting people and facilities

As testified previously, one of OIG's top priorities is protecting those who work for the Department around the world. OIG has always inspected physical security at overseas posts, but, since the September 2012 attacks on U.S. diplomatic facilities and personnel in Benghazi, Libya, we are now expending additional resources on this critical issue. In 2015 alone, personnel and property experienced attacks in Bangladesh, Burundi, Canada, Central African Republic, Iraq, Mali, the Philippines, South Korea, Timor-Leste, Turkey, and Yemen.¹ These incidents included grenade attacks at embassy residences, car bombs detonated in front of consulate facilities, and the non-fatal stabbing of the U.S. Ambassador to South Korea at an official event.

Although the Department has continued to make improvements in overseas safety and security over the past 18 months, challenges remain. Through our inspection and audit work, OIG continues to find deficiencies that put our people at risk. Given the sensitive nature of OIG's work in this area, many of the reports related to safety and security are classified, and my testimony today will be based solely on information that is publicly available.

Health and safety concerns were a recurring theme in OIG's FY 2016 reports. Our work in these areas covered a wide range of risks. For example, OIG found deficiencies in seismic risk mitigation in embassy residences² and a lack of occupational safety and health approvals to ensure that hazards are addressed before overseas housing is occupied.³ OIG also identified life, health, and safety risks to building occupants due to hazardous spikes in electrical current in both the office and apartment complexes at Embassy Kabul.⁴ In another report, OIG identified inconsistencies in motor vehicle policies that resulted in a lack of proper training for personnel serving in countries with an elevated risk of car accidents and fatalities.⁵ The Bureau of Overseas Buildings Operations (OBO) statistics show that of the 773 armored vehicle mishaps that have occurred at overseas posts within the last 5 years, 469 (about 60 percent) were deemed preventable. Although the Department has acknowledged that driver behavior contributes to vehicle fatalities and that solutions must center on training, OIG recommended that the Department take additional action to address the issue by establishing a mandatory training requirement on armored vehicle safe-driving techniques for all overseas professional chauffeurs and incidental drivers who operate such vehicles.⁶

Another area of focus has been emergency action plans. These plans and associated processes are important because planning and preparation can make the difference between life and death in a crisis situation. During FY 2016, OIG identified several issues with the Department's emergency action planning and preparedness. For example, in a report published in February 2016, OIG found that chiefs of mission were unaware of the U.S. military assets available during emergency situa-

¹ Department of State, Bureau of Diplomatic Security Year in Review 2015 (June 2016).

² OIG, Inspection of Embassy Tashkent (ISP-I-16-12A, March 2016); OIG, Inspection of Embassy Ashgabat (ISP-I-16-13A, March 2016).

³ OIG, Inspection of Embassy Kinshasa (ISP-I-16-19A, June 2016).

⁴ OIG, Management Alert: Hazardous Electrical Current in Office and Residential Buildings Presents Life, Health, and Safety Risks at U.S. Embassy Kabul, Afghanistan (MA-16-01, April 2016).

⁵ OIG, Inspection of Embassy Ashgabat (ISP-I-16-13A, March 2016).

⁶ OIG, Management Assistance Report: Armored Vehicle Training (ISP-16-17, July 2016).

tions.⁷ Without this information, embassies and consulates cannot properly plan for emergencies and may be hindered in their responses to actual crises. OIG also found that consular sections in several posts that it inspected in 2016 were unfamiliar with their roles and responsibilities leading up to and during a crisis.⁸ OIG also found that emergency action plans were out of date, lacked key information, included erroneous points of contact, or were improperly certified by leadership.⁹ Without adequate staff training and a properly documented and tested emergency action plan, embassies and consulates cannot effectively mitigate the risks that a disaster or unforeseen incident poses to its operations.

Finally, maintaining sufficient physical security at overseas facilities is an important aspect of protecting U.S. Government employees. Physical security relates to physical measures—such as locked doors, perimeter fences, and other barriers—to protect against unauthorized access (including attackers or intruders) and to safeguard personnel working in those facilities.¹⁰ In recent years, the Department has developed new tools to identify and track physical security deficiencies overseas; however, the Department needs to take additional action. For example, OIG concluded in a December 2015 report that, until the Department fully implements OIG’s recommendations intended to improve the process to request and prioritize physical security needs, it will be unable to identify and address all physical security-related deficiencies. Further, without taking such steps, the Department will be unable to make informed funding decisions based on a comprehensive list of physical security needs.¹¹

Conducting oversight to protect people and facilities is one of our most important functions. Consequently, we will continue to coordinate with the Department to bring security deficiencies and areas for improvement to its attention and offer recommendations to address these critical vulnerabilities. By conducting both our statutorily mandated inspections and targeted audits and evaluations, OIG helps safeguard the lives of people who work in or visit our posts abroad.

Information security and management

The Department depends on information systems and electronic data to carry out essential functions that are critical to its mission. The Department is entrusted with sensitive information, both classified and unclassified. The security of these systems is vital to protecting national and economic security, public safety, and the flow of commerce.¹² According to the Office of Management and Budget, the Department has spent several billion dollars in the past 5 years on software tools, IT equipment, and professional expertise. However, given the complexity and sensitivity of the Department’s IT apparatus and the security breaches it has experienced, IT security and management continues to be a significant management challenge.

In FY 2016, OIG reported significant weaknesses in the Department’s cybersecurity incident response and reporting program.¹³ The Department’s efforts to respond to incidents (including denial-of-service, malicious code, and unauthorized access) showed that it had not complied with its own information security policies in more than 55 percent of the incidents that OIG reviewed.

OIG also found network user account management to be another cybersecurity vulnerability. In its management assistance report on the Department’s Active Directory (AD), OIG determined that 74 percent of more than 2,500 inactive accounts were inactive for more than 1 year, and the remaining accounts were inactive for greater than 90 days.¹⁴ This is a critical issue because, if an unneeded account remains active, an intruder could gain access to sensitive information that could compromise the integrity of the Department’s network and cause widespread damage across its IT infrastructure. This problem exists, in part, because the Department does not have a centralized process for AD account management. This issue is exac-

⁷ OIG, Inspection of Bureau of Diplomatic Security, Directorate of International Programs (ISP-I-16-07, February 2016).

⁸ OIG, Inspection of Embassy Kinshasa (ISP-I-16-19A, June 2016); OIG, Inspection of Embassy Cairo (ISP-I-16-15A, April 2016).

⁹ OIG, Inspection of Embassy Cairo (ISP-I-16-15A, April 2016); OIG, Inspection of Embassy Kinshasa (ISP-I-16-19A, June 2016); OIG, Inspection of Bureau of Energy Resources (ISP-I-16-06, February 2016).

¹⁰ OIG, Compliance Follow-up Audit of the Process to Request and Prioritize Physical Security-Related Activities at Overseas Posts (AUD-ACF-16-20, December 2015).

¹¹ *Ibid.*

¹² OIG, Audit of the Department of State Information Security Program (AUD-IT-16-16, November 2015).

¹³ OIG, Management Assistance Report: Department of State Incident Response and Reporting Program (AUD-IT-16-26, February 2016).

¹⁴ OIG, Management Assistance Report: Inactive Accounts within the Department of State’s Active Directory (AUD-IT-16-37, June 2016).

erated by the fact that, as we also reported, the Department's Chief Information Officer, the head of the Bureau of Information Resource Management (IRM), is not properly positioned within the organization to ensure that the Department's information security program is effective.

As in prior years, OIG's annual assessment of the Department's Information Security Program identified numerous control weaknesses that significantly affected program effectiveness and increased the Department's vulnerability to cyberattacks and threats.¹⁵ OIG has reported that the Department lacks effective risk management for all phases of the system development lifecycle.¹⁶ These problems persist. For example, in the October 2015 inspection of IRM's Vendor Management Office (VMO), OIG found that VMO did not consistently implement the system that provides the framework for integrating IT project schedules. This inconsistency led to inadequate bureau coordination, incomplete project data, and limited visibility on projects, activities, and risk.

Finally, on a related point, the last time I testified before this Subcommittee, I described OIG's vulnerable IT network as a major challenge. Vulnerabilities in the Department's unclassified network directly affected OIG's IT infrastructure, which was part of the same network. I testified that the fact that the contents of our unclassified network could be easily accessed and potentially compromised placed our independence at unnecessary risk and did not reflect best practices within the IG community. I am pleased to report that OIG recently established its own independent IT network to mitigate these risks.

Oversight of contracts and grants

OIG has focused on oversight of contracts and grants, an area where the Department spends substantial resources. The Department's obligations in FY 2016 included approximately \$15.4 billion for contracted services and \$18.4 billion in grants and fixed charges.¹⁷ As it did the last time I testified, the Department faces continuing challenges managing its contracts, grants, and cooperative agreements, particularly as these vehicles become increasingly complex. The Department needs to ensure that contractors and grantees are properly selected, work is properly conducted and monitored, objectives of the grant or contract are achieved, and costs are effectively contained. As with ensuring the safety of its personnel, management of grants and contracts is especially challenging in conflict areas, which present unique obstacles to effective oversight.

Although the Department has addressed some problems, weaknesses continue to occur in other areas. In FY 2016, OIG issued several management assistance reports addressing the Department's oversight of contracts and grants, and OIG's Office of Investigations opened more than 30 cases related to contract and procurement fraud.

During FY 2016, OIG identified issues with effective management of high-value, critical contracts. In several reviews, inspectors and auditors noted that routine contract management tasks, such as validating performance metrics to assess contractor performance, maintaining complete and accurate procurement files, conducting proper invoice review, and modifying contracts, failed to comply with Department guidance and Federal regulations.

Audits of contracts in Iraq revealed millions of dollars in questioned and unsupported costs and unallowable fees. For example, an audit of task orders awarded under the Operations and Maintenance Support Services contract found that Department officials did not prepare comprehensive planning documents, formally assign oversight personnel, or ensure that oversight personnel adequately documented the contractor's performance. As a result, the Department had no basis to hold the contractor accountable for identified weak performance. In addition, the Department did not comply with statutory and Department requirements for timely agreement on contract terms, specifications, and the price of the task orders, resulting in the contractor being paid more than \$500,000 in unallowable fees.¹⁸

With regard to grants, OIG audits and inspections identified the need for improved management and monitoring of grantees. For example, in an audit of the Bu-

¹⁵ OIG, Audit of the Department of State Information Security Program (AUD-IT-16-16, November 2015).

¹⁶ OIG, Inspection of the Bureau of Information Resource Management, Operations, Vendor Management Office (ISP- I-16-03, October 2015).

¹⁷ USASpending, <www.usaspending.gov>, accessed on November 21, 2016.

¹⁸ OIG, Audit of Task Orders for the Union III Compound Awarded Under the Operations and Maintenance Support Services (AUD-MERO-16-41, July 2016).

reau of Political-Military Affairs (PM) grantees,¹⁹ OIG reported that \$2.8 million of \$15.8 million in grant expenditures were unsupported or unallowable, as defined by Federal policies. OIG reported that these questioned costs occurred, in part, because PM's grant monitoring process was not designed to prevent or detect unallowable and unsupported costs. In particular, PM did not independently verify that all award recipients had sufficient financial management controls in place to prevent unsupported and unallowable costs.

Finally, OIG's inspection of the Bureau of Democracy, Human Rights, and Labor (DRL) programs in Iraq noted the challenges the Department faces in managing grants in conflict areas. All 12 grants that were active between October and November 2015 (with a total award value of more than \$42 million) had the necessary monitoring plans, performance indicators, and risk assessment or contingency plans.²⁰ However, given security restrictions, neither DRL employees nor Embassy Baghdad employees had conducted site visits to Iraq grant recipients since 2013. Instead, DRL relied on local contractors to visit grant recipient sites.

II. CONTINUING INITIATIVES

Nineteen months ago, I described several new initiatives. These initiatives are no longer "new"; rather, they are an integral part of our day-to-day work processes.

First, I earlier testified that OIG had begun making use of management assistance reports and management alerts to bring specific issues to the attention of Department and BBG management quickly and without waiting for the conclusion of longer-term audits or inspections. Since I last spoke with you, OIG has issued four management alerts,²¹ which I personally sign, and twenty-five management assistance reports.²² These reports are an important part of our oversight efforts.

Next, in April 2015, I discussed the role of the Office of Evaluations and Special Projects (ESP), which was established in 2014. I am pleased to report that ESP has issued nine reports and two management alerts and continues to focus on systemic issues. In addition, this office has continued to expand our efforts to meet the requirements of the Whistleblower Protection Enhancement Act of 2012 and related statutes. In particular, the office's whistleblower ombudsman has expanded our outreach and provided extensive information to Department and BBG employees, grantees, and contractors. ESP also is responsible for conducting investigations of allegations of administrative misconduct, as well as retaliation, under the pilot program for contractor and grantee employee whistleblowers and has issued eight reports under this program.

Finally, our work in connection with overseas contingency operations is now an established, well-integrated part of OIG's overall work. I am the Associate Inspector General for the overseas contingency operations in Afghanistan (Operation Freedom Sentinel) and Iraq (Operation Inherent Resolve), and our staff is working closely with the Department of Defense and USAID OIGs to oversee those operations. Since I last spoke before this Subcommittee, I have appointed an assistant inspector general who is responsible for overseeing the work of our OCO staff.

Besides working with the other agencies with oversight responsibility, this staff coordinates closely with OIG's offices of audit and inspections to make the most effective and efficient use of resources. To date, our major oversight efforts have focused on auditing and evaluating bureaus and embassies that engage or support counter-ISIL activities. We have also emphasized contract and grant monitoring in contingency and high-threat environments. In addition, we issued a "Lessons Learned" guide for program managers at the Department of State operating in critical and high-threat environments. During FY 2016, OIG issued 31 oversight products related to OCOs, and we currently have more than 30 ongoing projects.

¹⁹ OIG, Audit of the Bureau of Political-Military Affairs Federal Assistance Awards (AUD-SI-16-49, September 2016).

²⁰ OIG, Evaluation of Bureau of Democracy, Human Rights, and Labor Iraq Programs in Support of Line of Effort 1 of the President's Counter-ISIL Strategy (ISP-16-09, March 2016).

²¹ OIG, Management Alert: Hazardous Electrical Current in Office and Residential Buildings Presents Life, Health, and Safety Risks at U.S. Embassy Kabul, Afghanistan (MA-16-01, April 2016); OIG, Management Alert: Evacuation of Embassy Tripoli (MA-15-02, July 2015); OIG, Management Alert: Broadcasting Board of Governors Significant Management Weaknesses (MA-15-01, May 2015); OIG, Management Alert: Information Security in the Worldwide Refugee Admissions Processing System (MA-17-03, December 2016).

²² See, e.g., OIG, Management Assistance Report: Mandatory Disclosure Language in Department of State Grants and Assistance Agreements (INV-15-02, December 2015); OIG, Management Assistance Report: Contract Management—Lessons Learned From Embassy Kabul, Afghanistan, Operations and Maintenance Contract (AUD-MERO-17-04, October 2016).

III. CHALLENGES

Unlike other OIGs, my office is not always afforded the opportunity to investigate allegations of criminal or serious administrative misconduct by Department employees. Department components, including the Bureau of Diplomatic Security (DS), are not required to notify OIG of such allegations that come to their attention. For example, current Department rules provide that certain allegations against chiefs of mission shall be referred for investigation to OIG or DS. That guidance further states that “[in] exceptional circumstances, the Under Secretary for Management may designate an individual or individuals to conduct the investigation.”²³ Thus, DS or the Under Secretary may initiate an investigation without notifying us or providing us with the opportunity to evaluate the matter independently and become involved, if appropriate.

Accordingly, OIG cannot undertake effective, independent assessments and investigations of these matters as envisioned by the IG Act.

We have been negotiating with the Department for at least two years to address these limitations on our ability to conduct oversight, but the problem persists. Although the Department has begun providing OIG with some information, the process for doing so has not been formalized, and the information is provided to us selectively. That being said, I want to acknowledge and thank both Chairman Perdue and Ranking Member Kaine for sponsoring legislation that would address this limitation.²⁴ Unfortunately, the need for a legislative fix remains. I welcome your continued support as this Congress ends and the new Congress begins next year.

IV. IMPACT

OIG embraces our mission to protect people and information, although these efforts rarely result in a monetary return on investment. At the same time, through our audits, evaluations, inspections, and investigations, OIG returns real value to U.S. taxpayers. Since my arrival three years ago, we have issued 317 reports, which included audits of annual financial statements, procurement activities, and funds management. During this same period, we identified more than \$300 million in taxpayer funds that could be put to better use and questioned costs.

Additionally, our criminal, civil, and administrative investigations resulted in the imposition or identification of more than \$82 million in fines, restitution, recoveries, and other monetary results.

OIG also provides important non-financial benefits. By helping the Department improve its security, OIG’s work helps safeguard the lives of people who work in or visit our posts abroad. Success in this area is not reflected in our financial statistics, but our security work is a source of immense pride because its employees are, of course, the Department’s most valuable assets.

Our oversight provides other non-monetary benefits as well. These include our health and safety work, our investigations that help ensure that Department employees conduct themselves appropriately, and our work to strengthen the integrity of the programs, operations, and resources that are at the foundation of the Department’s ability to help preserve our national security. Indeed, the work of our talented staff in reviewing security and leadership at our overseas and domestic posts has significant and positive effects on the lives and well-being of employees throughout the Department. That is what motivates our employees, many of whom are on the road or serve overseas for extended periods, sometimes at high-threat posts.

In conclusion, I want to thank Chairman Perdue, Ranking Member Kaine, and the other members of the subcommittee here today for the opportunity to testify. I also want to emphasize that OIG’s accomplishments are a credit to the talented and committed staff that I have had the privilege to lead, and I also want to take this moment to thank them for their hard work. I take my statutory requirement to keep the Congress fully and currently informed seriously, and I appreciate your interest in our work and for providing me the opportunity to articulate the challenges faced by my office. I look forward to your questions.

RESPONSES TO ADDITIONAL QUESTIONS FOR THE RECORD SUBMITTED
TO STEVE A. LINICK BY SENATOR PERDUE

Question. Thank you again for your recent report on major management and performance challenges for the State Department, and for briefly outlining a few of the

²³ Foreign Affairs Manual 4322.2.

²⁴ Improving Department of State Oversight Act of 2015, S.1527, 114th Congress (2015).

highlights in your testimony. Though we discussed a few of these challenges and recommendations during the hearing, please outline your top three issues in more detail.

Answer. The three most significant issues are protection of personnel and property overseas, information security, and management of grants and contracts.

With respect to protection of personnel and property, we have focused particularly on physical security deficiencies and health and safety matters. We have found that systemic issues in the Department of State (Department) contribute to these concerns. In particular, we have emphasized the Department's inability to track physical security deficiencies and a lack of coordination between the Bureau of Overseas Buildings Operations and the Bureau of Diplomatic Security.

With respect to information security, although the Department has spent billions of dollars in this area, we have found a number of recurring weaknesses. For example, the Department has not consistently disabled inactive email accounts; it also has unreliable inventories of systems that include personally identifiable information, ineffective incident reporting, and duplicative IT investments. As a general matter, these issues are associated with the lack of a holistic management approach and the failure to adopt a risk management strategy to identify, assess, respond to, and monitor risks. More specifically, these particular technology issues are associated with the Department's failure to position its Chief Information Officer to effectively oversee implementation of information security programs.

Finally, with respect to management of contracts and grants, we have also found persistent problems. In our reviews of contracting issues, we have found incomplete files, a lack of invoice review, acceptance of goods and services that do not meet standards, and ineffective planning.

As to grants, we particularly see insufficient performance monitoring and insufficient focus on sustainability. Like the other challenges, these problems are connected to a lack of emphasis on program management and accountability. These particular problems are also caused by inadequate staffing and training, especially with respect to oversight of complex, high-value contracts and grants.

We note that all three of these problems are amplified in overseas contingency operations (OCO) and other conflict environments because of the Department's heavy reliance on high-cost, contracted support; the constant turnover of personnel in those locations; and unique oversight difficulties caused by heightened safety and security concerns.

Question. Outside of your reports, what hindrances do you see to better management and operations?

Answer. As a general matter, the Department needs to place more emphasis on overall program management. In addition, the Department needs to improve mechanisms for accountability. For example, as described in my written testimony and in response to the previous question, the Department's Chief Information Officer is not properly positioned to ensure that the Department's information security program is effective.

Question. Are there inherent cultural challenges that lead to these management issues?

Answer. The Department's overall organization and assignment processes are not structured to promote effective project management. For example, many Foreign Service personnel are assigned management of contracts and grants as a collateral duty and do not receive training necessary for effective performance of their duties. In addition, most Foreign Service employees rotate in and out of posts frequently, and some assignments are as short as one year. As a result, many large grants and contracts have multiple employees overseeing them, which leads to a lack of both continuity and accountability.

Question. You have been in your post for about 3 years now. Could you discuss in further detail how you have reformed your office since being confirmed?

Answer. Internally, I have ensured that the office is focused on our people-making sure that our personnel have a proper work environment and appropriate systems to work effectively. For example, as I testified, as of August 2016, OIG migrated to an independent IT system that is separate from the Department's network. I have also worked to improve our management systems, especially with respect to supporting technology; quality assurance processes; and office culture. In addition, I implemented leadership training beyond that required by the Department, and we have provided "360" feedback for supervisors.

Externally, we are working to identify and address the highest risks to the Department, while, at the same time, maintaining our own independence and effective-

ness. For example, we use management assistance reports and management alerts to bring specific issues to the Department's attention quickly, without waiting for the conclusion of longer-term audits or inspections. We have also shifted to a risk-based system for our inspections to ensure that we target our limited resources for the greatest effect. Similarly, we have adopted a strategic planning initiative to help us prioritize our work so that we use our resources efficiently. Finally, we created the Office of Evaluations and Special Projects in 2014 to address congressional requests, special assignments, whistleblower claims, and administrative misconduct.

In efforts closely tied to these external reforms, I have ensured that our OCO oversight work is fully integrated into OIG's overall mission. In particular, in collaboration with the inspectors general of the Department of Defense and the U.S. Agency for International Development, I have added personnel to fulfill our obligations under the Lead Inspector General for Overseas Contingency Operations (LIG-OCO) oversight structure required by 2013 amendments to the Inspector General Act. Through these coordinated efforts, we provide LIG-OCO oversight of Operation Inherent Resolve in Iraq and Syria and Operation Freedom's Sentinel in Afghanistan.

Question. What challenges did you face in ensuring proper oversight of your respective agencies, and how have you worked to address those challenges?

Answer. We have faced two primary challenges in ensuring proper oversight.

First, my office has not been consistently afforded the opportunity to investigate allegations of criminal or serious administrative misconduct by Department employees. This occurred because Department components were not required to refer such allegations to OIG. This issue was addressed through recent legislation sponsored by Chairman Perdue and Ranking Member Kaine and signed by the President in December 2016.

Second, our own hiring authorities do not adequately address the unique needs of this OIG and do not allow us to use some of the individuals we hire most effectively.¹ Specifically, our office is required to inspect every embassy and post around the world and to assess, among other issues, how our ambassadors and other senior officials advance U.S. foreign policy goals. To accomplish this unique mission, we rely heavily on retired Foreign Service annuitants who have subject matter expertise necessary to conduct such inspections. In practical terms, however, Foreign Service annuitants generally cannot work more than 1,040 hours during each service year without incurring a reduction in their annuities. This, in turn, limits OIG's ability to adequately staff its inspections, train its Foreign Service annuitants, and maintain continuity of operations.

Question. How can we help you improve your oversight? Are there any reforms you are seeking that need a change in law to achieve? Please include any that we may have discussed during the hearing as well as any we did not have a chance to discuss.

Congress can amend the Foreign Service Act so that OIG itself has the authority to waive a reduction in a retired Foreign Service officer's annuity if OIG hires such an annuitant on a full-time basis. (Currently, OIG must request such a waiver from the Secretary, who must make certain determinations specified in the Act.) This would address the limitations described in the response to question 2(a) above.²

Question. In your testimony before this committee in one of our first hearings last year, you brought to light some serious issues and challenges the State Department Office of the Inspector General (OIG) faces, preventing your office from being as effective as you'd like to be.

¹Until recently, we were also limited in our ability to hire employees from the Special Inspector General for Iraq Reconstruction (SIGIR), even though these individuals have unique expertise conducting oversight in conflict zones, which is the subject of much of our work. The Department of State Authorities Act, Fiscal Year 2017 addressed this issue by granting competitive hiring status to certain SIGIR employees. This language has already been beneficial.

²In addition, because OIG lacks the ability to enforce compliance with its recommendations, it is helpful when Congress addresses the need to implement particular recommendations through legislation or similar action. See, e.g., H.R. Rep. 114-154, at 12-13 (2016) (recommending deferral of funding for the Bureau of Conflict and Stabilization Operations "until such time as the OIG confirms that the Bureau has resolved all fundamental issues involving the Bureau's mission, the extent of its overlap with other bureaus, and interagency partners, and staff size and organization identified in both the OIG's March 2014 inspection report of the Bureau and the subsequent compliance follow-up review"); 161 Cong. Rec. H10413 (Dec. 17, 2015) (statement of Rep. Rogers) (directing Secretary of State to submit a report to the "Committees on Appropriations describing the actions taken by the Department to address the findings detailed in the Office of Inspector General's Report ISP-1-15-35A").

- ◆ Can you provide a more in depth update on the issue of independence of the State Department OIG and integrity of investigations?

Answer. With respect to independence, in last year's testimony, I described OIG's IT system as a major challenge. Previously, our network was connected to the Department's systems, and vulnerabilities in the Department's unclassified network directly affected us. In August 2016, we migrated to our own IT system. This improves both our independence and the integrity of our investigations by ensuring that Department personnel cannot access our documents and materials.

With respect to integrity of investigations, as noted in response to question 2(a), we have not consistently been able to oversee misconduct cases effectively. This is because Department components were not required to refer allegations of misconduct by senior officials to OIG, an approach that was inconsistent with the practices of other agencies and inspectors general. However, as also noted in response to the previous question, legislation passed and signed by the President in December 2016 addresses this important issue.

Question. During our hearing, we discussed some serious problems with management weaknesses at the State Department pertaining to keeping of all federal records—including personal emails—to meet both Department policy and federal regulations.

- ◆ Could you discuss some of the recommendations you've made to the State Department on this front?

Answer. In our May 2016 report addressing email records management and cybersecurity requirements, we made eight recommendations. Seven of these recommendations are resolved but remain open. This means that the Department has agreed with the recommendations but has not fully implemented corrective action. Two notable resolved but open recommendations are that the Department should: (1) continue to issue periodic, regular notices reminding employees that use of personal email accounts is discouraged and that these reminders should include examples of the limited circumstances where such use is appropriate and instruct employees how to preserve records when using personal email accounts; and (2) develop an administrative penalty framework for violations of the Department's guidance on recordkeeping and use of authorized information systems. We also recommended that the Department develop a quality assurance plan to identify and address vulnerabilities in the records preservation process, including lack of oversight and broad inaccessibility of electronic records. The quality assurance plan was issued in December, and this recommendation has been closed.

- ◆ Do you think it would be wise for the next administration to avoid the use of personal email accounts for official business?

Answer. As we explained in our May 2016 report, Department guidance that has been in place since 2014 discourages employees from using personal email for official business except in "very limited circumstances when it becomes necessary to do so." The Department further instructs employees that, in those limited circumstances, messages covering official business sent from or received in a personal account must be forwarded to the employee's official Department email account so that they can be retained in accordance with the Department's policies. Our report recommended that the Department clarify and give specific examples of the types of limited circumstances in which such use would be permissible.

Question. You also recently published findings and recommendations on the State Department's classification policies and compliance with Executive Order 13526, the executive order pertaining to the handling of classified national security information. You found that most of the State Department employees have not taken the training required by EO 13526 on how to handle classified information.

- ◆ What are your priority findings and recommendations from this report?

Answer. In addition to finding that employees had not taken training, we found that the Department had not implemented the sanction provision in the Executive Order that suspends an individual's classification authority until training is completed. We recommended that the Department develop and disseminate guidance explaining how bureaus should monitor and enforce the mandatory classification training requirements for Department employees. We also recommended that the Department develop guidance explaining when contractors should take the relevant course.

- ◆ How should the new leadership at the State Department prioritize this issue?

Answer. These recommendations are resolved but remain open, meaning that the Department has agreed with the recommendation but has not fully implemented corrective action. It will be important for new leadership to ensure that all Depart-

ment components follow through on these recommendations and comply with the classification requirements set forth in Executive Order 13526.

Question. We also discussed how to best address potential conflicts of interest at the State Department going forward. As I mentioned during the hearing, I am particularly concerned by the use of the Special Government Employee (SGE) status, which allows these employees to collect salaries from public and private entities that operate in the same domain simultaneously. We have seen examples in the press over the past year of how State employees were able to work at organizations funded by governments receiving foreign aid from the United States while maintaining their role at our own State Department.

- ◆ While I know your office has not done any direct work on this issue of conflict of interest and use of special government employees at State to date, are there other investigations currently ongoing on this issue that you are aware of?
- ◆ Did you consider conducting an investigation into interactions between the Clinton Foundation and State Department employees?

Answer. Our Office of Investigations handles matters involving Department employees with alleged conflicts of interest, but I cannot appropriately discuss whether we have contemplated or initiated any particular investigation.

Question. You included in your testimony that the State Department still has major shortcomings on implementing your recommendations regarding physical security requirements, emergency planning, and health and safety hazards. That seems like a very serious issue to me, and yet it appears that many of the physical security issues are repeat recommendations.

- ◆ How receptive has State been to your recommendations on physical security and keeping those serving at posts abroad safe?

Answer. The Department has taken substantial steps to improve the physical security of its employees and has accepted many of our recommendations in this area. However, there are still weaknesses to be addressed, and, over the years, many of the physical security issues have led to repeat recommendations. To give one example, as I noted during my testimony, we concluded that 40 percent of the recommendations made by the Benghazi Accountability Review Board (ARB) were repeat recommendations that spanned decades and multiple administrations. Those recommendations had not been implemented because of a lack of involvement by high-level Department leadership; instead, many decisions were pushed down to the bureau level. To the Department's credit, it recently amended the Foreign Affairs Manual to ensure that responsibility for implementation of ARB recommendations resides at the Deputy Secretary level. It will be important for new leadership to ensure that the most senior officials in the Department follow through on implementation of ARB recommendations and address repeat recommendations.

OIG has also found that weaknesses in the Department's efforts to address physical security are exacerbated by its failure to implement critical recommendations issued in a March 2014 OIG report. In that report, OIG recommended, among other things, that the Department complete physical security surveys and construct a security deficiency database, both of which are intended to improve the Department's processes to request resolution of physical security needs and to prioritize those needs. OIG concluded in a December 2015 compliance follow-up report that, until the Department fully implements the March 2014 recommendations, it will be unable to identify and address all physical security-related deficiencies. Further, without taking such steps, the Department will be unable to make informed funding decisions based on a comprehensive, prioritized list of physical security needs.

- ◆ What barriers have been identified to implementing these recommendations?

Answer. In March 2014, we issued recommendations to improve the process to request funds for physical security. In response, the Department has developed new tools, including a new physical security survey instrument and a deficiencies database, to identify and track physical security deficiencies. However, our December 2015 compliance follow-up report found that the Department had not fully implemented these tools. For example, only 143 physical surveys (covering about 10 percent of the Department's facilities) had been completed, and none had been entered into the deficiencies database that the Department established in April 2015. The Department reported that all surveys would be completed and entered into the database by the end of fiscal year 2016, in line with its 3-year reporting cycle. However, in response to the follow-up report, the Department reported that, as of September 30, 2016, it had completed only 50 percent of the required physical security surveys within that reporting cycle. OIG has requested that the Department provide the date it expects the remaining surveys to be completed and the actions it has taken

and will take to ensure that all survey reports are completed as soon as possible. Without a populated database, the Department cannot take action on two other recommendations related to prioritizing all deficiencies and developing and issuing a Long-Range Physical Security Plan.

Question. Last year, we discussed the issue of the five-year inspection requirement for embassies.

- ◆ Are you seeing any improvements in your ability to inspect embassies closer to their required schedule?

Answer. The new risk-based model, tested in fiscal year 2016, is being fully implemented this year. In fiscal year 2017, we expect to shift resources to higher-risk inspections. As we work through implementation of this new model, we hope to conduct our inspections more quickly, efficiently, and effectively.

We expect that an inspection of a low-risk post may be 4-5 days shorter than a medium- or high-risk post and conducted with a smaller team. However, we plan to inspect only one or two low-risk posts per cycle; the other posts will be medium- or high-risk posts or our large missions. The risk model will allow us to re-direct resources—both time and personnel—to those higher-risk posts that warrant increased oversight. We also plan on conducting subject-specific inspections in fiscal year 2017, which will focus on a single high-risk area (e.g., security) or program. Such inspections are not new, but we anticipate making them a more routine part of the inspection schedule.

- ◆ Do you have the resources you need to inspect all posts overseas in addition to the rest of your very important oversight mandate?

Answer. Use of a risk-based model will help us direct more resources to higher-risk posts, but, even with that model, we continue to lack the necessary resources to meet the mandated five-year schedule.

Question. A common theme among both of your reports and testimonies was the challenges we face in administering aid and programs in non-permissive environments—places like Iraq, Syria, and Afghanistan.

- ◆ What challenges do you face? Do you have to rely on partners to gain access to certain sites?

Answer. The challenges that we face in overseeing aid and programs in non-permissive environments are similar to the challenges the Department itself faces. Security issues in those areas make it difficult, if not impossible, to travel and conduct oversight or monitoring. OIG does not generally rely on non-governmental partners to obtain access to those sites, but we sometimes require assistance from U.S. Government law enforcement personnel, military personnel, and post personnel or from host country partners. In addition, we sometimes compensate for our inability to travel to particular locations by meeting with grantees in third countries or by meeting with contractors at an embassy. OIG has auditors and special agents on the ground in Kabul, Islamabad, and Baghdad, in close proximity to contracting officer representatives, contractors, and program managers.

- ◆ Are you seeing greater access issues for investigation, as well as greater oversight challenges at State, as our forces draw down in Afghanistan?

Answer. Generally, in unstable areas with security concerns, it is more difficult for us to conduct oversight work because our movement is limited. This is an issue in Afghanistan, but it is not unique to Afghanistan.

Question. You've highlighted in your testimony the challenge of providing adequate oversight of contracts and grants overseas. In your testimony, you state that while State has focused efforts on improving management of contracts and grants, that the Department is still forced to rely heavily on contractors and grantees, especially in conflict areas, and that your office continues to find instances of insufficient oversight. In particular, your office continues to find that State partners fail to do risk assessment, especially in conflict areas.

- ◆ As State and USAID continue to prioritize the local ownership and involvement that comes with contracts and grants, what recommendations do you have for them to improve the design, management, and oversight of these programs?

Answer. As a general matter, we have identified oversight deficiencies related to a lack of performance monitoring. In particular, we have identified a lack of site visits, inadequate internal controls, and over-reliance on easily measured “outputs” to measure program success. We have also identified problems in ensuring that these programs are sustainable in the long-term. Our recommendations have focused on specific flaws (such as a lack of on-site monitoring) as well as the need to improve

performance measurements and coordination with other entities, both inside and outside the Department.

◆ How receptive has State been to these recommendations?

Answer. The Department has made efforts to improve contracts and grants monitoring, but we continue to identify deficiencies, particularly with respect to program management. As noted previously, some of these flaws relate to systemic issues within the Department, namely, the lack of contracting and grant expertise, short rotations, and a general lack of focus on accountability for grant and contract oversight and performance.

Question. In your testimony, you state that your office was particularly concerned with the absence of mitigating action plans for high-risk areas concerning oversight of contractor operations, and that this is an issue your office has raised repeatedly having issued four reports in the last two years identifying these problems.

◆ Can you give us a more detailed update on how State has gone about implementing these recommendations?

Answer. Our September 2016 audit report³ specifically addressed this issue. We recommended that the Department develop a process to ensure that risk mitigation plans for each high-risk area identified in a risk assessment has a specific mitigation action; we also recommended that the Department develop controls to ensure that each risk mitigation plan includes measurable milestones for implementation and a process for monitoring, measuring, and documenting progress in mitigating or reducing risk. The Department concurred with both recommendations and stated that it is in the process of implementing them. We will continue to monitor that implementation.

◆ What's hindering State from implementing your repeated recommendations?

Answer. The issues that have hindered the Department's effective oversight of contractor risk in high-risk areas relate to the same issues noted previously. In particular, there is often insufficient staffing; inadequate training, particularly for high-value contracts; and little emphasis on program management and accountability.

◆ How would you recommend changing the design of State's management and oversight plan for these high risk areas?

Answer. Our recommendations regarding risk mitigation plans for contractors operating in critical environments provided specific recommendations to assist the Department in monitoring and measuring risk mitigation.

Question. We discussed briefly GAO's report from July of this year which highlighted the fact that of those implementers sampled, less than half had not performed a risk assessment for fraud and loss in Syrian assistance projects. This same report also discussed the finding that U.S.-funded humanitarian assistance projects in Syria are prone to more elevated risks than programs funded by other nations.

◆ Given this information, and given that fraud and loss are the two categories for which you have the highest numbers of reported complaints, do you feel that a risk assessment for fraud and loss should be a requirement for any implementer distributing U.S. foreign aid? Why or why not?

Answer. Our primary recommendation with respect to foreign assistance is that the Department establish a system to track and manage that assistance. Risk assessments for fraud and loss may be helpful, and we believe that consistent application of existing risk assessment processes would improve outcomes. However, we also believe that an important preliminary step is ensuring that the Department can accurately identify the amount of taxpayer funds that are being provided in foreign assistance. Without this basic information, the Department cannot effectively coordinate with other agencies and organizations, cannot provide accurate information to the Office of Management and Budget, and cannot ensure that foreign assistance is appropriately monitored and accounted for.

PREPARED STATEMENT OF HON. ANN CALVARESI BARR

Chairman Perdue, Ranking Member Kaine, and members of the subcommittee, thank you for inviting me to take part in this important hearing to help inform the next administration and the incoming Congress on the current challenges in pro-

³Additional Actions Are Needed To Fully Comply with Section 846 Of The National Defense Authorization Act for Fiscal Year 2013 Concerning Critical Environment Contracting (AUD-MERO-16-50, Sept. 2016).

viding U.S. foreign assistance. As you know, since the U.S. Agency for International Development (USAID) was established in 1961, successive Congresses and administrations have consistently supported the United States' continued leadership in international engagement, reinforcing financial and security interests and building and strengthening ties around the world.

As Inspector General, I am charged with leading the independent oversight of up to \$15 billion spent annually on foreign assistance provided through USAID, the Millennium Challenge Corporation (MCC),¹ the U.S. African Development Foundation (USADF),² the Inter-American Foundation (IAF),³ and the Overseas Private Investment Corporation (OPIC).⁴ Today, I will focus on USAID and the major management challenges the Agency faces in carrying out its mission. I will also highlight OIG's numerous initiatives and reforms for advancing 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.

SUMMARY

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

To provide the level of oversight needed to help USAID address these complex challenges, OIG has capitalized on opportunities I identified to improve our operations—with independence as our grounding principle. Since I was sworn in a year ago, 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 human capital management and training; vetting implementers of USAID programs; coordination among U. S. Government agencies; and efforts to strengthen financial and information technology management. This crosscutting work will provide solutions that link headquarters-based strategies to field-level implementation. To better position my staff to carry out this work, I have 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 oversight partners. Our new audit and investigation plans assess risk, follow high-dollar initiatives, and account for stakeholders' informational and decision-making needs, while providing the flexibility to pivot to emerging oversight needs.
- ◆ Second, I called for multidiscipline teams comprising audit and investigations staff from headquarters and the field, as well as technical experts such as methodologists, writers, and information technology specialists. To provide for controlled engagement of these cross-cutting teams, I consolidated 11 overseas of-

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-scale grants to fund projects that promote sustainable economic growth, open markets, and improved living standards.

² Created in 1980, USADF provides small development grants to underserved and marginalized populations in conflict and post-conflict areas in Africa.

³ Created in 1969, IAF provides small development grants directly to grassroots and non-government organizations in Latin America and the Caribbean.

⁴ Created in 1971 as the U.S. Government's development finance institution, OPIC mobilizes private capital to help solve critical development challenges abroad.

ices to 4 hub offices, with heads of audit, investigation, and management involved in every aspect of their units.

- ◆ Third, I have taken 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. To help ensure these steps take root, I am holding OIG executives, managers, and supervisors accountable for workplace inclusivity and excellence.
- ◆ Finally, I have taken action to solidify our independence. Within weeks after 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. We continue to develop and implement major reforms, including revisiting audit and investigation policies and procedures, to provide reliable and meaningful oversight, while being good stewards of taxpayer dollars.

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.⁵ While U.S. foreign assistance remains rooted in humanitarianism, it has evolved over the decades to emphasize development, economic stability, and sustainability. Today, professionals work around the world to help promote democracy and free markets, while aiding individuals and nations struggling to recover from natural disasters and health crises, rebuild after years of conflict and war, and achieve freedom and dignity.

USAID is the principal U.S. agency for providing development assistance to countries 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, D.C., 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, USADF, IAF, and OPIC. With an amendment to the Inspector General Act in 2013, my OIG also provides joint oversight of overseas contingency operations. Currently, we partner with the Departments of State and Defense OIGs on Operation Inherent Resolve (OIR), the operation dedicated to countering the terrorist threat posed by the Islamic State of Iraq and the Levant in Iraq, Syria, and the surrounding region.

We currently have 275 staff working at headquarters in Washington, D.C., and throughout the world. Our fiscal year 2016 base appropriation was \$66 million.⁶

TOP MANAGEMENT CHALLENGES USAID CONFRONTS IN IMPLEMENTING ITS PROGRAMS AND OPERATIONS

USAID frequently works in environments affected by conflict or civil unrest, natural disasters, or disease. These inhospitable environments create major challenges, including protecting overseas agency personnel and accessing project locales for monitoring. Local laws and restrictions, political repression, corruption, and travel constraints create additional challenges, including coordinating and communicating with implementing partners and other stakeholders to formulate and execute projects.

Given the dollars and programs that are at stake, our office provides continued oversight of USAID and other U.S. foreign assistance operations to identify opportunities and make recommendations for improvement. As required by law, we report each November on the top management challenges facing the agencies we oversee.⁷ USAID has taken many actions to respond to our recommendations, as well as other constructive actions to achieve its mission. However, we identified five top management challenges for USAID in fiscal year 2017. These challenges stem largely from

⁵Public Law 87-195, September 1961.

⁶In addition to base appropriations, OIG draws on other sources of funding, which include supplemental appropriations, prior year balances, and reimbursements from the agencies we oversee to fully support our work.

⁷Reports Consolidation Act of 2000, Public Law 106-531.

the complexities in coordinating and implementing foreign assistance efforts jointly with multiple and diverse stakeholders; a lack of local capacity and qualified personnel to execute USAID-funded projects; and weak project design, monitoring, and internal controls.

Developing strategies to work effectively in nonpermissive and contingency environments

USAID acknowledges that working in nonpermissive and overseas contingency environments—environments characterized by conflict, government instability, or cataclysmic natural events—is one of its longest-standing operational challenges. Challenges include finding qualified contractors and grantees willing to work in dangerous environments, protecting overseas agency personnel, and gaining access to project locales for appropriate monitoring.

USAID's Office of Transition Initiatives notes that the “nature of these environments requires flexible responses and iterative processes adapted to specific country contexts.”⁸ 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 U.S. and Afghan Government sources, other donors, USAID 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.⁹ The mission's limited use of multitiered monitoring was largely due to insufficient guidance and monitoring plans, as well as a lack of systems for collecting and using data.

Moreover, relying on ad hoc approaches to design, implement, and monitor programs in environments designated as nonpermissive can leave 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. Our investigations in Nigeria similarly demonstrate program risks in nonpermissive environments. One investigation and subsequent OIG audit determined that more than a third of a \$17 million award for an AIDS-related health-care program was diverted for personal use or misdirected from the project. The magnitude of our investigations related to humanitarian assistance programs in Syria provide a case study of 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.¹⁰ 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.

To help USAID and its implementing partners combat fraud in nonpermissive environments, our Office of Investigations developed a quick reference guide that covers internal control deficiencies, fraud indicators, and best practices for preventing fraud. The guide was designed for the Middle East humanitarian response but is useful for USAID programs in other regions. While the guide has already proven to be an effective tool, assuring stakeholders that programs are not susceptible to fraud and waste will remain a challenge for USAID until oversight gaps have been identified and closed.

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- or private-sector participation and financial backing. While sustainability has been a precept of development programs since the

⁸Office of Transition Initiatives, “Lessons Learned: Monitoring and Evaluation in Complex, High-Threat Environments,” April 2010.

⁹“Audit of USAID/Afghanistan's Strategy for Monitoring and Evaluating Programs Throughout Afghanistan,” Report No. F-30616-001-P, December 10, 2015.

¹⁰Statement 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,” July 14, 2016.

enactment of the Foreign Assistance Act in 1961, the ability of some host countries to sustain USAID programs remains uncertain. Consider the following examples:

- ◆ As we reported in 2016, 5 of 19 USAID-funded road construction projects in the West Bank show signs of deterioration. A mission-commissioned study found that due to competing budget priorities, the Palestinian Authority did not allocate funds from fuel-tax revenue to support road maintenance. Consequently, USAID-funded road projects will not be fully sustainable until the authority dedicates tax revenue to maintain these critical civic resources.
- ◆ Under the terms of its contract with USAID, Haiti's health ministry was expected to assume some costs for a health services project. However, the project lacked a plan to transfer responsibility for paying health worker salaries at 80 health-care 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, a reform strategy under USAID Forward, has not always met expectations.¹¹ The Local Solutions initiative aims to promote country ownership and sustainability of development outcomes by providing program funding directly to partner governments and local organizations. However, securing host country commitment to sustain USAID's investment, vetting local capacity to manage funds in accordance with U.S. regulations, and planning and monitoring have presented major challenges in missions' implementation of the initiative. Take the following examples:

- ◆ 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.¹² 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.

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 to 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.¹³ As we reported in September 2016, USAID/Pakistan has struggled to reconcile its long-term development objectives with State's diplomatic aims. 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

¹¹ In 2010, USAID launched USAID Forward, a series of reforms to focus on results, promote sustainable development, and scale up innovative solutions.

¹² 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.

¹³ Department of State, "2010 Quadrennial Diplomacy and Development Review: Leading Through Civilian Power."

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 have confronted in implementing EPPA revealed a trend. For a previous audit 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.

As a result of our EPPA audit, we recommended that USAID institute an inter-agency forum to better ensure its development goals are taken into account in countries where State takes the lead. In response, USAID's Administrator has 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. We also recommended that USAID formalize its policy to clearly define its roles and responsibilities for designing and implementing development programs when it is subject to State Department control in critical priority countries.

Improving program design and contractor and grantee monitoring

Poor design can limit the impact of USAID projects or derailed 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. In addition, a procurement design issue resulted in a lengthy award approval process and difficulties in implementing emergency programs to address food shortages caused by quarantines, border closures, and a depleted farm workforce delayed 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 audit and investigation 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 uncovered fraud in two USAID health programs. In one case, a West African was charged with defrauding a USAID-supported antimalaria program of more than \$12 million in funds intended for insecticide-treated nets. To curb such fraud, our office set up malaria hotline campaigns in three countries, which have led to joint operations with the host nations' law enforcement and seizures, arrests, and prosecutions. In the second case, a USAID employee shared sensitive procurement information with a favored candidate for a \$55 million cooperative agreement. As a result of our investigation, USAID stopped the procurement process that prevented the agreement from being improperly awarded.

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 better ensure agencies are effective 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 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.

USAID has taken great strides in implementing the complex requirements of the Federal Information Security Modernization Act of 2014 (FISMA) and removing sig-

nificant deficiencies.¹⁴ However, 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.¹⁵ We found systemic noncompliance related to security education and training, classification markings and guidance, and reporting of program activities and results.

OIG REFORMS AND INITIATIVES FOR ACHIEVING GREATER IMPACT

OIG’s portfolio of work helps ensure USAID and the other entities we oversee not only meet their mission objectives but achieve the highest return on taxpayer investment—a standard our office continues to model. For every dollar we spent in fiscal year 2016, we identified more than 3 dollars in questioned costs, funds put to better use, and investigative savings and recoveries. While I am proud of these accomplishments, we can improve our operations to achieve greater returns on investment, have a more profound impact on agency outcomes, and keep Congress and other stakeholders fully informed.

Since I was sworn in as Inspector General a year ago, I have taken a comprehensive and critical look at our operations and identified opportunities to improve how we work—with independence as our grounding principle. In just 1 year, OIG has significantly advanced my vision for a high-performing organization.

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, we are targeting our work to identify 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; coordination among implementers; and efforts to strengthen 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 and coordinate with oversight partners. Our new audit and investigation plans assess risk, follow high-dollar and crosscutting initiatives, and account for stakeholders’ informational and decision-making needs. For example, our ongoing audit of the Power Africa program will determine whether projects in this complex program—which requires extensive coordination among USAID, MCC, OPIC, USADF, and other Federal components; multiple African governments; and private industry—are on track to achieve the program’s goal to greatly expand access to electricity in sub-Saharan Africa by providing at least 60 million new households and businesses with on- and off-grid power solutions.

At the same time, our plans provide the flexibility to pivot to emerging oversight needs. Our global health work provides examples. Notably, we have identified lessons learned from USAID’s response to the Ebola outbreak to help inform and readily assess USAID’s preparedness to respond to future public health emergencies, such as the Zika virus in Central and South America. Similarly, to provide comprehensive oversight of USAID’s recent award of a \$9.5 billion global health supply chain program for purchasing and distributing life-saving medicine and health supplies, we continued our “Make a Difference” campaign, establishing confidential hotlines for reporting fraud; joined an interagency Malaria Drug Theft Task Force; and

¹⁴The 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.

¹⁵Executive Order 13526 (2009).

conducted targeted outreach.¹⁶ These initiatives have yielded significant results. For example, our investigations led to the seizure of stolen USAID-funded antimalarial medications from 8 of the 17 locations in Malawi that were searched, and the arrest, conviction, and sentencing of 6 individuals. Our investigations work has also brought to light vulnerabilities in the security of other supplies, including HIV/AIDS test kits.

Joint oversight of initiatives such as 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. Over a third of one USAID office's implementers responding to the Syria crisis also receive State Department funding,¹⁷ so we are working with State OIG to provide fraud awareness briefings to implementers¹⁸ and are currently conducting three joint investigations. We are also collaborating with our oversight counterparts at other bilateral donors and public international organizations through the Syria Investigations Working Group, which OIG stood up in October 2015. Programmatic and budgetary overlaps of USAID, U.N. agencies, and public international organizations are associated with potential vulnerabilities and are investigative interests. Public international organizations, such as the United Nations World Food Programme, collectively receive about 40 percent of USAID's budget for the humanitarian response in Syria. To date, we have sent 32 referrals to group members and foreign law enforcement offices.

Second, OIG teams now include staff from across our organization to facilitate and encourage coordination between audit and investigation as well as headquarters and the field. To support these cross-cutting teams, I reorganized our office, consolidating 11 largely independent overseas offices to 4 strategically located hub offices,¹⁹ which allows for controlled engagement, with heads of audit, investigation, and management involved in every aspect of their units. 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 present the most challenges to plan and implement. For example, our investigations raised questions about USAID's oversight of funds provided to public international organizations, prompting us to conduct an audit looking at how USAID assesses risks prior to award, mitigates any risks during implementation, and monitors public international organization programs. The realignment also builds in inclusivity and employee engagement in decision making and obtain buy in.

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 top-down 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 front-line staff have already proven that they have the capacity and drive to meet the standards. Ensuring our staff receive fair and reasonable compensation for their work is also paramount. To that end, I am seeking to align our system of pay for Foreign Service investigators with that of the rest of the Federal law enforcement community to provide for a level playing field in recruiting and retaining these dedicated professionals.

I am also standing up a Quality Assurance Team 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. To further build quality into our work, I hired a communication manager to establish a writing team that fully participates in audit engagements, bringing unique critical thinking skills in developing high-impact reports; a training director to improve employee development processes; and a business process engineer to analyze and revise as needed our policies, processes, and procedures. We have

¹⁶Our agents have provided fraud awareness training to 142 prime implementer and subcontractor staff in Washington, D.C., and approximately 160 procurement and supply management project staff in Nigeria, and conducted risk analysis meetings, addressing vulnerabilities in financial and operational accountability, with USAID and the prime implementer.

¹⁷USAID Office of Foreign Disaster Assistance.

¹⁸USAID OIG and State OIG have provided 5 joint fraud awareness presentations to 83 implementer staff in Jordan to help combat fraud in Syria.

¹⁹Central/South America, Eastern Europe/Middle East, Asia, and Africa.

already begun to institute new streamlined processes for developing more robust and responsive audit reports and cleared a backlog of our investigative cases.

Finally, our work and the processes we employ must be completely independent. Within weeks after my confirmation, I established a cooperation memorandum with the USAID Administrator to formalize OIG's authority to have full access to the documentation and people our auditors and investigators need to carry out our mission. To further solidify our independence, we have plans under way to reverse a long-standing practice and take back responsibility for assessing actions taken to address our recommendations and determining whether these actions are timely and meet our intent. I am also seeking clarification regarding our audit authority over OPIC. Because OIG does not have full authority to oversee OPIC programs and operations, we currently conduct audit and other activities under an annual agreement that has been subject to negotiation, limitations, and delays. This middle ground is untenable. Therefore, we are looking to engage with Congress and other stakeholders to find a more permanent solution that aligns with the Inspector General Act.

Our ongoing and planned audits and investigations will help USAID address the challenges we identified and link the Agency's strategic goals with their tactical implementation. During fiscal year 2017, we will continue to develop and implement major reforms to ensure our dedicated workforce at headquarters and around the world have the policies, processes, training, technologies, and other tools needed to provide reliable and meaningful oversight and, more importantly, to be good stewards of taxpayer dollars. I am confident that we will enter the next fiscal year in a position to make these reforms standard business practices that will last for years to come.

I am as passionate about our oversight role today as I was when I first began working in the accountability community 3 decades ago. I remain committed to ensuring that USAID and the other foreign assistance entities we oversee prudently use every dollar they get. Given the environment and risk that foreign assistance programs work in, this is no easy task, but it makes our work—along with this Subcommittee's oversight and commitment—even more compelling and needed to ensure we get it right.

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

RESPONSES TO ADDITIONAL QUESTIONS FOR THE RECORD SUBMITTED
TO ANN CALVARESI BARR BY SENATOR PERDUE

Question. Thank you again for your recent report on major management and performance challenges for USAID, and for briefly outlining a few of the highlights in your testimony. Though we discussed a few of these challenges and recommendations during the hearing, please outline your top three issues in more detail.

- ◆ Outside of your reports, what hindrances do you see to better management and operations?
- ◆ Are there inherent cultural challenges that lead to these management issues? What will the incoming administration need to be aware of/take on in that regard?

Answer. Our November 15, 2016, report identified five top management challenges for USAID.¹ Foremost among these are (1) improving program design and contractor and grantee monitoring; (2) strengthening local capacity and sustainability while ensuring adequate oversight of USAID funds, and (3) reconciling inter-agency priorities to advance international development. These challenges are exacerbated by nonpermissive environments and lack of effective information technology and financial management systems.

- Sound design, monitoring, and evaluation are critical to the successful implementation of foreign assistance programs. Effective design helps ensure programs have the resources needed to achieve objectives, while program monitoring and evaluation help implementers and missions identify and address fraud and other risks that prevent programs from achieving desired results. Our audit work revealed persistent weaknesses in design in Egypt, Jordan, and the West Bank. Similarly, our investigations revealed widespread corruption in cross-border programs in Syria and other parts of the world, which point to lack of adequate monitoring of implementers by U.S. officials. Particularly, signifi-

¹*Statement on Top Management Challenges for USAID and MCC Fiscal Year 2017* (Nov. 15, 2016).

cant shortcomings in internal controls around procurements and aid distribution by WFP in the Syria program bring into question whether USAID is doing enough to ensure U.S. taxpayer funds being spent through Public International Organizations (PIOs) are adequately protected. 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.

- USAID invests in development projects that it expects can be supported locally and have a lasting impact. However, our work consistently points to concerns about the level of assurance USAID has in achieving sustainability in its programs. Efforts under USAID's Local Solutions initiative, a reform strategy under USAID Forward, have similarly fallen short of expectations. Our reports have identified challenges in missions' implementation of the initiative. Until the Agency fully assesses the capacity of host countries or government and local entities and enhances oversight, USAID funds will remain at risk.
- Contingency operations and other foreign assistance efforts require coordination with multiple U.S. Government agencies. However, USAID's development priorities do not always align with other agencies' priorities, making it difficult for USAID to achieve its core development mission. In particular, coordination with the State Department, which leads multiagency operations that respond to diplomatic and security crises, has presented challenges to USAID's project planning and execution. Despite broad interagency guidance on State's role in politically sensitive environments, USAID employees are sometimes unclear as to how to manage additional layers of review, respond to changing priorities, and balance short-term and long-term priorities. Our work in countries such as Egypt, Tunisia, Libya, Yemen, and Pakistan underscore the need for reconciliation of competing priorities.

USAID's culture is a major barrier to addressing these challenges—notably, the Agency's reliance on its implementing partners, which has, in some cases, extended to program oversight. This practice ignores the most basic internal control and sets USAID up for unsatisfactory outcomes. We have made numerous recommendations that call for more robust monitoring and oversight, including conducting more frequent site visits to vendors and warehouses to verify product quality before cross-border shipment, greater use of pre-award assessments of implementers, greater use of approval thresholds and condition precedents prior to release of funds, and assessments of implementer's accounting and procurement systems.

Question. You have only been in your post for about one year now, but I know you have done significant work to begin to implement reforms in your office. Could you discuss in further detail how you have reformed your office since being confirmed?

- ◆ What challenges did you face in ensuring proper oversight of your respective agencies, and how have you worked to address those challenges?
- ◆ How can we help you improve your oversight? Are there any reforms you're seeking that need a change in law to achieve? Please include any that we may have discussed during the hearing as well as any we did not have a chance to discuss.

Answer. The reforms I have implemented—which were grounded in my 30 years of working in the accountability community—cut across our entire operations and encompasses our people, processes, and work. My assessment included individual meetings with all overseas staff, both U.S. direct hire staff and Foreign Service Nationals, as well as meetings with staff in Washington. Through these meetings, I gained a stronger appreciation for the challenges they face, particularly as it relates to foreign work environments. The actions that I have taken and the reforms that have been implemented, are under way, or planned will better position OIG staff to address these challenges. For example:

- To strengthen my leadership bench, I filled five Senior Executive Service positions with the talent and expertise needed to lead our core functions—audit, investigations, and management. We are now working to develop new strategic plans and performance measures.
- I called for more transparency and open communication to strengthen leadership engagement with staff and encourage more robust dialogue on our work, especially in areas where there is professional disagreement.
- To prioritize, add rigor to, and achieve efficiencies in our work, I called for cross-cutting teams that would leverage staff knowledge and skills across our various offices. To support this new model, I consolidated 11 largely inde-

pendent overseas offices to 4 strategically located hub offices,² breaking down OIG's historically stove-piped organization. The new structure, coupled with more centralized planning, has already improved collaboration by bringing together key players, and facilitating leadership and staff buy-in at the start of an audit or investigation and the messaging of the results. Moreover, the hub structure will result in work that links USAID headquarters-based strategies to field-level implementation.

- To further help staff excel under this new model, I hired a Quality Assurance Director charged with continuously assessing our policies to ensure they thoroughly reflect oversight accountability standards and best practices and support the highest quality of work. I also hired a Communications Officer to enhance the quality of all of our written communications and set the course for developing audit and investigation messages. I am currently working to bring on board a Process Improvement Director, who will continually assess our business operations and policies, and recommend changes that reflect the practices of leading professional service organizations.
- To ensure staff have the knowledge and skills needed to effectively conduct their work and combat program fraud, waste, and abuse, I hired a Training Director to design a disciplined professional development program—a program that aligns core training to each job series and position, and supports individual development plans. I have also initiated a comprehensive review of our performance standards to ensure that they promote and hold staff accountable for performance and results and accurately reflect key mission goals and key work impacts.
- In addition to formal training, I am providing staff other development opportunities. For example, in January, we will launch a Communities of Practice—information sharing sessions on topics of interest to staff and that align with our work, mission and goals. Also in January, I will begin hosting regular Leadership Brown Bags for GS-14s and above and Foreign Service equivalents, and Leadership Development Exchanges for GS-13s and below and Foreign Service equivalents to discuss organizational topics including performance, leadership, and professional development. These forums not only provide additional opportunities for me to engage with my staff on topics they identify as key to their roles, development, and overall career, they will further cultivate a strong community within OIG.

I have also taken action to ensure our full independence—the foundation of any OIG. Shortly after my confirmation, I took action to develop a cooperation memorandum with the USAID Administrator to reaffirm OIG's authority to have full access to the documentation and people our auditors and investigators need to carry out our mission. The memorandum was signed by USAID Administrator Gayle Smith in February 2016 which she released to all USAID staff, underscoring our authority and access rights. In addition, I tasked a team to change the way we track audit recommendations. Historically, the agencies we audit have been responsible for closing out our recommendations. We are taking back this responsibility. By independently determining what actions meet the intent of our recommendations and when those actions satisfy our recommendations, we can keep agencies on track and, most importantly, ensure the problems we identified have been addressed.

Finally, as I briefly mentioned during my testimony,³ one challenge that I face concerns my oversight responsibility for the Overseas Private Investment Corporation (OPIC). Each year during appropriations deliberations, OIG and OPIC negotiate and sign an interagency agreement to identify the types of oversight to be performed in the upcoming fiscal year. This situation is untenable. Effective oversight of OPIC demands a fully independent IG with full IG Act authorities, including audit rights and a funding mechanism that supports OIG oversight activities and is not subject to negotiation with OPIC management. Several options have been proposed in recent years, and I encourage Committee members to work toward a per-

² OIG's hub offices currently oversee one of the following regions each: Latin American and the Caribbean, Eastern Europe, Eurasia, and the Middle East, Africa, and Asia. Satellite offices in these regions provide targeted oversight in targeted countries and/or programs: Haiti, Senegal, Uganda, Egypt, West Bank and Gaza program, and Pakistan.

³ *USAID Top Management Challenges and OIG Initiatives*, Statement of the Honorable Ann Calvaresi Barr before the Senate Committee on Foreign Relations, Subcommittee on State Department and USAID International Operations, and Bilateral International Development (December 8, 2016).

manent solution for OPIC oversight that provides the full authorities that should be vested in an OIG.

Question. You noted in your testimony and during the hearing that aligning USAID IG's system of pay for Foreign Service investigators with that of the rest of the Federal law enforcement community is your top legislative priority.

◆ Could you discuss further the current discrepancy, why it exists, and what we need to do to fix it?

Answer. Providing compensation to OIG's Foreign Service criminal investigators that is consistent with Law Enforcement Availability Pay (LEAP)—compensation provided to Civil Service criminal investigators across the Federal Government—has been one of our greatest personnel-related challenges. In particular, LEAP provides a premium for additional hours worked, allowing Civil Service criminal investigators to earn up to \$160,300 per year while assigned domestically and up to \$155,489 per year while assigned overseas.⁴ Because LEAP does not apply to Foreign Service criminal investigators, my predecessors have relied on a special differential to compensate these employees for additional time worked and extra availability to work. However, the IG's authority to cap these special differentials at an amount commensurate with LEAP pay caps recently came under question. Absent such authority, some of our most senior Foreign Service criminal investigators would have earned in excess of \$200,000 per year.

With the recent enactment of the Department of State Authorities Act, Fiscal Year 2017 (Public Law 114-323), this longstanding issue is now resolved. Without this authority, my ability to attract, hire, and retain a stable, well-qualified investigative workforce would have been impaired. I sincerely appreciate the Subcommittee's attention to this matter, as well as the full Committee's continuing support.

Question. During the hearing, we briefly discussed how you have begun to work on USAID's policies and compliance with Executive Order 13526, the executive order pertaining to the handling of classified national security information.

◆ Can you discuss at greater length what your office has done to investigate IT security and handling of classified information at USAID?

◆ How should the new leadership at USAID prioritize this issue?

Answer. Our most recent audit of USAID's compliance with the Federal Information Security Modernization Act (FISMA) determined that the agency has taken appropriate steps to resolve a longstanding deficiency related to inadequate security plans and control testing for its enterprise risk management system process.⁵

Despite this progress, we reported earlier this year that USAID's organizational structure continues to put its information systems at risk. Specifically, we found that 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 by law. 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, one officer performs security control activities and reviews activities for complying with FISMA—roles and responsibilities typically associated with a chief information security officer and a deputy CIO, respectively—calling into question the independence of USAID's FISMA compliance reviews.

Given the increasingly sophisticated and widespread hacking of Federal systems, USAID must be ever-vigilant in promoting effective cyber security, particularly when it comes to protecting classified information. In the wrong hands, such information can be used to threaten U.S. interests, personnel, or activities. Earlier this year, we reported on deficiencies in USAID's compliance with Executive Order 13526, Classified National Security Information, and related National Archives and Records Administration (NARA) regulations.⁶ Overall, we found that agencywide attention was needed to correct deficiencies related to program management, security training, classification, and reporting program activities and results to NARA's Information Security Oversight Office. To address these weaknesses, USAID committed to developing and implementing a comprehensive corrective action plan.

⁴ Both of these amounts are expected to increase in the coming weeks in line with an anticipated government-wide pay increase in early January 2017.

⁵ *USAID Has Implemented Controls in Support of FISMA, but Improvements are Needed*; Report No. A-000-17-001-C (Oct. 27, 2016).

⁶ *USAID's Implementation of Executive Order 13526, Classified National Security Information, Needs Significant Improvement*; Report No. 9-000-16-001-P (Sept. 30, 2016).

Completing this action plan should be a major focus area for incoming USAID leadership.

Question. I was glad to have the opportunity to discuss the challenges we face in administering aid and programs in non-permissive environments—particularly in Syria. Your office has identified corrupt practices in a number of cross-border aid programs to Syria that were operating from Turkey.

- ◆ Could you discuss further your findings, and how they were used to make changes in the way we implement life-saving humanitarian assistance to civilians in Syria?
- ◆ Given this aid is taking place in non-permissive environments, how does your team gain access to conduct oversight?
- ◆ What challenges do you face? Do you have to rely on partners to gain access to certain sites?
- ◆ Are you seeing greater access issues for investigations, as well as greater oversight challenges at USAID, as our forces draw down in Afghanistan?

Answer. The fraud schemes uncovered by our investigators during unannounced visits to warehouses in Turkey and Jordan demonstrate the complexities in overseeing U.S. aid programs in nonpermissive areas and the vulnerabilities oversight gaps create. These schemes include collusion, bribery, and product substitution. Yet oversight of the cross-border programs, which involved 33 awards totaling more than \$337 million, fell under the responsibility of four USAID employees deployed to Turkey and Iraq.

In Afghanistan, as in Syria, it is difficult to get approval to access certain areas. However, our investigations work in Afghanistan revealed a number of procurement weaknesses that diminish USAID's command over the programs it funds, including a lack of fair and open competition, insufficient U.S. Government monitoring, infrequent site visits to vendors, a lack of risk assessments of vendors, and a lack of approval thresholds for contracts and grants, and questionable segregation of duties. Our audits also found questionable costs. To provide more rigorous oversight of programs in Afghanistan, USAID designed a multitier monitoring plan to leverage data from multiple sources, such as the host government, donors, beneficiaries, and third-parties. However, as we reported, the system as designed was only used in 1 of 127 awards.

In response to our investigative findings, USAID is implementing third-party monitoring to reduce reliance on implementer self-reporting, requiring all employees to attend OIG training on common fraud schemes and fraud indicators, and increasing site visits to include unannounced site visits to vendors and warehouses. In addition, USAID's Office of Foreign Disaster Assistance (OFDA) hired a compliance officer to prevent future fraud and institute better monitoring and evaluation practices in close coordination with our Office of Investigations. Continued vigilance and follow-through on these and other new initiatives will be critical to protecting USAID's investments in the conflict areas such as Syria and Afghanistan.

One area that presents unique oversight challenges for USAID involves PIOs—which collectively receive about 40 percent of USAID's budget for the humanitarian response in Syria—due to USAID's limited authority to oversee these organizations. To identify opportunities where USAID can better ensure due diligence in monitoring despite these limitations, we are examining how USAID assesses and mitigates risks before it awards funds to a PIO and identifies vulnerabilities associated with relying on PIOs to provide U.S. foreign assistance.

We remain committed to providing oversight in Syria and Afghanistan—despite the decreasing number of areas our investigators are permitted to go. Our efforts aim to provide the greatest return on investment, such as training agency and implementer personnel and beneficiaries on program risks and fraud indicators. We also maintain dialogue with OFDA and USAID's Office of Food for Peace on strengthening future awards and programs, and are coordinating with international donors, including PIOs, which have access to areas where OIG staff and other U.S. Government personnel are not permitted. Information shared among bilateral donors, PIOs, and our investigators through the Syria Investigations Working Group that we established further strengthens oversight and helps inform our work to stop fraud. Our region- and country-specific fraud awareness campaigns and hotlines also help close oversight gaps. For example, working with Transparency International—Pakistan, we stood up the Pakistan Anti-Fraud Hotline, which has provided us a number of leads into alleged fraud, including bribery, collusion, and theft. For instance, we have received over 7,000 complaints that have led to cases being opened, programs being terminated, numerous employee terminations and savings and recoveries in the millions. The malaria campaign and hotlines we set up in Ni-

geria, Malawi, and Benin have similarly prompted individuals to contact OIG with allegations of fraud such as theft, diversion, and resale of U.S. Government-funded antimalarial commodities. Globally, illicit proceeds from the sale of stolen or falsified antimalarial medicine total more than \$60 million a year.

Finally, OIG developed "Fraud Prevention and Compliance—A Pocket Guide for the Middle East Crisis Humanitarian Response"⁷ to assist the Agency with monitoring its implementing partners in the response to the humanitarian crisis in Syria and Iraq. The guide addresses trends identified in our investigative experiences and meetings with USAID implementing partners across the region, and provides a quick reference to detect weaknesses in internal controls and common fraud schemes.

Question. I also appreciated our discussion of the challenge of providing adequate oversight of contracts and grants overseas. As State and USAID continue to prioritize the local ownership and involvement that comes with contracts and grants, what recommendations do you have for USAID to improve the design, management, and oversight of these programs?

- ◆ How receptive has USAID been to these recommendations?
- ◆ Are there any immediate steps you can take when you find such fraud in addition to the IG-created hotline and law enforcement partnership?

Answer. Whether USAID works with U.S.-based contractors or non U.S.-based nongovernmental organizations (NGO), the deliberative decision making process should be the same when designing and managing awards and deciding on the degree of monitoring and evaluation necessary to protect U.S. interests. Poor design can limit the impact of USAID projects or derail them before they begin.

However, USAID has been challenged to develop and maintain a fully equipped, fully trained workforce to design, manage, and oversee its development portfolios. With Foreign Service Officers' relatively short overseas tours of duty (between 1 and 4 years), USAID has relied on contractors and outside organizations to implement and maintain progress on development projects. USAID also relies heavily on local foreign nationals, who often stay at missions for years, to function as repositories for institutional knowledge, giving them significant influence in the delivery of U.S. foreign assistance. Moreover, frequent turnover can limit the effectiveness of U.S. direct hire employees, who are ultimately charged with ensuring program achievements and curbing opportunities for fraud.

Our audits have also shown that some programs are at risk because USAID has not adequately secured host country commitment to sustain the gains made through the initial U.S. investment. For example, continued operations at 80 health care facilities in Haiti were at risk because USAID lacked a plan to transfer responsibility for health workers' salaries at these facilities. Similarly, the host government lacked funds to maintain deteriorating USAID-funded roads in the West Bank and Gaza.

Despite such outcomes, USAID lacks a robust pre-award process to clearly identify local implementers who do not have the institutional capacity to meet the administrative requirements for managing Federal funds. For example, USAID Paraguay failed to determine in its preaward survey that a local organization did not have sufficient capacity to manage USAID funds, assess results, or track the progress of a \$24 million program intended to strengthen the internal management and government systems of select public institutions. USAID may elect to work with implementers that carry some level of risk. However, in some cases, USAID does not include conditions in the awards to minimize this risk, such as provisions requiring the implementer to take corrective actions before funds are disbursed. Even when such provisions have been put in place, it has been the tendency to not adequately monitor and enforce them. Ensuring that USAID staff routinely monitor and know the types of questions to ask and observations to make to detect potential losses and fraud is critical in overseeing high-risk implementers, especially those working in countries with high rates of corruption.

Regarding agency receptiveness to OIG recommendations, our audits have traditionally focused on activities and projects, and our recommendations have, accordingly, been made to USAID mission directors and other unit heads. These managers tend to be receptive and take the actions we recommended for remedying the problems we identified. As part of the reforms I am making, we are moving to an approach that focuses our oversight of development programs at a more strategic level to have a more far reaching impact across the agency and its programs worldwide.

⁷ OIG USAID, *Fraud Prevention and Compliance: A Pocket Guide for the Middle East Humanitarian Crisis*, August 1, 2016, 3rd edition.

As such, our recommendations will be issued more broadly to bureau and agency leadership, I anticipate that reception at this level will be similar.

In addition to our training, hotlines, and other outreach efforts, we regularly meet with USAID officials to bring audit recommendations and investigation concerns to the Agency for action. Our coordination with international donors and internal agency integrity working groups serve to further deter fraud, waste, and abuse.

Question. We discussed how U.S.-funded humanitarian assistance projects in Syria are prone to more elevated risks than programs funded by other nations.

- ◆ Given this information, and given that fraud and loss are the two categories for which you have the highest numbers of reported complaints, do you feel that a risk assessment for fraud and loss should be a requirement for any implementer distributing United States foreign aid? Why or why not?
- ◆ Is it in fact the case that State and USAID do not require implementing partners to conduct a fraud risk assessment before pitching and implementing risk controls?
- ◆ Do you agree with GAO's recommendation that a fraud risk assessment should be required for all USAID partnerships in Syria?
- ◆ Is this fraud risk assessment something that has come up in any of your past ongoing investigations or reports?

Answer. In providing aid and assistance in Syria and similar nonpermissive environments, USAID assumes some measure of risk in each contract and grant it awards. While risk cannot entirely be eliminated in these environments, the risk of fraud can be mitigated through quality control procedures in contractual language of awards with implementers. For any project conducted in a nonpermissive environment, implementers should include in their proposal submission a detailed mitigation plan for addressing known fraud vulnerabilities and risks.

Other measures include third-party monitoring, training for Agreement and Contracting Officer Representatives (AOR/COR) that improves their capacity to question implementer self-reporting, workforce assessments to determine the right AOR/COR-to-award ratio, increased involvement of financial management specialists in monitoring and evaluation planning, mandated AOR/COR visits to project sites and allowing technical experts to conduct vendor and implementer warehouse visits, and deploying AORs/CORs during contingency operations.

OIG agrees with the Government Accountability Office recommendation that a fraud risk assessment should be required for all USAID partnerships in Syria. Subsequent to the problems our investigators uncovered with implementers in Syria, OFDA took steps to improve its solicitation process and now requires implementers to address fraud risks in their proposal submission and to sign a Fraud Mitigation Self-Certification Checklist as part of its submission.

We see OFDA's actions as positive steps, but we have yet to assess their impact. Looking ahead, we will continue to consider the effectiveness of the measures both USAID and implementers employ to guard against fraud, including the role fraud risk assessments play in delivering aid in Syria. In particular, we are committed to continuing to be an effective partner with the Departments of State and Defense OIGs to carry out our Lead IG responsibilities for Operation Inherent Resolve (OIR), the operation to counter the Islamic State of Iraq and the Levant in Iraq, Syria, and the surrounding region. Joint oversight of initiatives such as Lead IG oversight of OIR demands upfront planning and ongoing coordination. Therefore, in stepping up our scrutiny of programs under OIR and other initiatives that involve multiple Federal agencies, we continue to expand collaborative efforts with our oversight partners, including a joint audit planning session that occurred in November 2016 and another planned for this coming February. Our quick reference fraud prevention guide can also assist Disaster Assistance Response Teams detect lapses in internal controls, such as implementing partners' failure to conduct a fraud risk assessment.

Question. You identified that many operations overseas involve multiple United States government agencies, and that sometimes USAID priorities and goals don't match up with those of other agencies. Can you discuss in more detail your findings on where interagency strategies haven't linked up, and what are your recommendations to the next administration for ensuring these conflicts do not occur?

Answer. USAID coordinates with other U.S. foreign assistance agencies on a number of cross-cutting U.S. Government initiatives like Feed the Future, Power Africa, the President's Emergency Plan for AIDS Relief (PEPFAR), and the Central America Regional Security Initiative (CARSI), and in some cases assumes a lead role in advancing U.S. Government efforts. OIG has prioritized oversight of such initiatives

and, based on recent work, identified areas in which USAID can work to improve interagency coordination and implementation of U.S. Government development initiatives overseas.

A key concern we identified relates to the interagency relationship between the Department of State and USAID, especially in cases where USAID uses Economic Support Funds (ESF) to support aid and assistance programs for promoting economic or political stability in areas where the United States has special interests. While USAID is responsible for administering ESF programs, State is responsible for policy direction and justification of these programs, creating additional challenges in countries where USAID portfolios are funded mainly through ESF—like those in the Middle East and Central and South Asia—and State’s focus is on diplomacy rather than development goals.

This State-USAID dynamic has a profound effect on missions’ ability to effectively follow USAID guidance on designing and implementing developmentally sound projects. We have also reported that infrastructure projects under this model lacked sustainability and failed to fully realize intended results. For example, our audit of USAID’s implementation of programs funded under the Enhanced Partnership with Pakistan Act of 2009, Public Law 111-73, revealed that State’s responsibility for budget and project decisions made it difficult for USAID/Pakistan to reconcile its long-term development objectives with State’s shorter-term priorities.⁸ In general, State focused on stabilization and energy programs, while USAID focused on other priority areas, such as health, education, and economic growth. In response to our recommendation that USAID institute an interagency forum to better present its development perspective for State-led operations, USAID’s administrator engaged State leadership to discuss solutions that allow both agencies to pursue their objectives simultaneously, including reconciling interests at the beginning of planning and programming development assistance. It will fall on the next administrator to ensure this forum is put into place and used effectively.

We have also suggested USAID needs to provide alternative development strategies on how it should adapt its project design process in politically sensitive transition environments. In politically sensitive environments when program decisions are made by other federal entities, USAID needs clear guidance on how to modify its design and implementation process to fit the circumstances. We recommended that USAID improve guidance on how to increase the flexibility of implementing mechanisms, especially in the case where expedited implementation is critical.

Finally, we have a robust portfolio of ongoing or planned audits that will further assess USAID’s efforts to work with other agencies to achieve U.S. developmental goals. For example, our ongoing audit of the Power Africa initiative will determine whether projects under this complex program—which requires extensive coordination between USAID, the Millennium Challenge Corporation, the Overseas Private Investment Corporation, and the United States African Development Foundation, and other Federal components; multiple African governments; and private industry—are on track to achieve the initiative’s goal to greatly expand access to electricity in sub-Saharan Africa by providing at least 60 million new households and businesses with on- and off-grid power solutions. We also are planning to undertake work on CARSI, a major U.S. Government initiative in Central America. In addition, each year, we develop and implement our Joint Plan for Oversight of Foreign Assistance to Combat HIV/AIDS, Tuberculosis, and Malaria with the OIGs for State and the U.S. Department of Health and Human Services.⁹ Audits under the plan, including one on PEPFAR’s Site Improvement Through Monitoring System, are aimed at ensuring, among other things, that proper coordination is taking place in implementation of PEPFAR programs throughout the world.

Question. As I mentioned during the hearing, I appreciate the goal that USAID has to ensure that communities have a stake in continuing activities and services after USAID involvement ends, which then builds the skills of local stakeholders. Your testimony and insights were particularly insightful on where the implementation of this concept falls short.

⁸ *Competing Priorities Have Complicated USAID/Pakistan’s Efforts To Achieve Long-Term Development Under EPPA*; Report No. G-391-16-003-P (Sept. 15, 2016)

⁹ OIG, USAID, DOS, DHHS, *Fiscal Year 2017 Coordinated Oversight Plan of Foreign Assistance to Combat HIV/AIDS, Tuberculosis, and Malaria*; August 2016.

- ◆ In greater depth, please discuss what steps does USAID need to take as they develop these kinds of projects to ensure local sustainability and ownership once the U.S. involvement ends?

Answer. USAID's development policy promotes the achievement of sustainable results. To help sustain development gains after agency programs end, USAID's program development guidance calls for investing in communities that have a stake in continuing activities and services, building the skills of local stakeholders, and ensuring public- or private-sector participation and financial backing. Further, USAID's Local Solutions initiative has explicitly sought to promote country ownership and sustainability of development outcomes by providing program funding directly to host country governments and local organizations—those typically based in the country receiving U.S. development assistance. As it undertakes development work worldwide, USAID often works directly with host country governments in implementing its programs. In these cases, it is imperative that USAID secures the host country's commitment and assess its ability to support and sustain the initial investment. For such projects, the host country must possess the technical and financial capacity to effectively maintain and utilize USAID-funded projects.

USAID's efforts to ensure sustainability, including programs under Local Solutions, however, have sometimes fallen short of expectations. In my hearing I spoke of our audit work on a West Bank and Gaza construction program and noted the inability of the local government to maintain the program's results.¹⁰ Additional audit reports also identified shortcomings in USAID missions' implementation of activities using local government and NGO implementers in countries such as Pakistan and Paraguay.¹¹

Based on our work to date, before USAID makes any decisions to transfer funds to a local organization, it is incumbent for it to be certain that the recipient organization has adequate procurement and accounting systems to manage United States funds in accordance with applicable regulations. This calls for an effective pre-award assessment process and for USAID to mitigate any risks identified before disbursing funds. OIG's oversight coverage of USAID's use of local organizations has systematically identified this as a problem.

Equally critical is for USAID to have a robust post award follow-up process to hold local organizations accountable to correct deficiencies identified during the pre-award assessments. Where USAID enters into an arrangement where it identified a lack of implementer capacity or other weaknesses that could enable fraud during the pre-award assessment, then USAID must as part of its program design incorporate the appropriate measures to guarantee that resources will be made available to continuously monitor and evaluate the implementer's progress and internal controls. Again, OIG's oversight work addressing programs that rely on local implementers has shown that these critical steps have been lacking, a condition that can enable fraud, waste, and abuse and lead to under achievement of development goals.

OIG is currently taking a strategic look at USAID's Local Solutions initiative to assess whether its efforts are working to strengthen local capacity, enhance and promote country ownership, and increase sustainability. We anticipate issuing this report in the coming year.

Question. As we discussed during the hearing, the GAO has identified a lack of parity in the information that State and USAID share on ForeignAssistance.gov, the centralized public source of information on U.S. foreign aid and assistance online.

- ◆ Can you discuss whether your office is involved in analyzing these efforts to ensure that USAID is sharing pertinent information with ForeignAssistance.gov, as was mandated by Congress?
- ◆ Could you discuss any findings regarding tracking and managing foreign assistance funds?
- ◆ Do you have any recommendations for USAID for managing information and improving transparency of how taxpayer funds are spent on our efforts abroad?

¹⁰ *Audit of USAID/West Bank and Gaza Construction Programs*; Report No. 8-294-16-001-P (Feb. 22, 2016).

¹¹ *Competing Priorities Have Complicated USAID/Pakistan's Efforts to Achieve Long-Term Development Under EPPA*; Report No G-391-16-003-P (Sept. 8, 2016); *Audit of USAID/Paraguay's Democracy and Governance Program*; Report No. 1-526-16-004-P (Jan. 21, 2016).

Answer. Historically, audits have frequently reported problems with data quality and reliability and these issues have been included in our report of top management challenges over the last several years. Weaknesses in data with quality and reliability problems that support performance results can negatively impact foreign assistance decisions.

For example, we reported that USAID/West Bank and Gaza's financial reporting was not accurate when reporting against foreign assistance program areas¹². U.S. Government agencies use the same State Department framework for planning and reporting on their foreign assistance program areas, for example, education or health. The framework involves coding expenses to indicate which objective and related program areas foreign assistance funding is supporting. We conducted an audit to determine if USAID/West Bank and Gaza, which budgeted \$1.1 billion for fiscal years 2012 to 2014, was accurately and consistently reporting which funds went to which areas and the impact of the mission's spending. We found that, although the mission's budget reporting was accurate; reporting on obligations and disbursements to the program level was not. Further, we identified reporting problems with performance information for 9 of 31 projects active during the three fiscal years. We also recommended that the USAID/West Bank and Gaza mission verify that each project's financial information aligns with performance indicators. USAID took final action on this recommendation.

With regards to transparency and accuracy of data, our office is currently assessing USAID's readiness to comply with the Digital Accountability and Transparency Act of 2014 (DATA Act), which seeks to make federal spending more accessible, searchable, and reliable. Beginning next year, we are prepared to assess USAID's compliance with the DATA Act to promote more accurate and transparent reporting of USAID spending, which may lead to what is shared with the public via ForeignAssistance.gov. This work will make appropriate recommendations for better managing information and improving transparency of how taxpayer funds are spent.

Question. You also noted in your testimony that USAID often has unreconciled transactions with other federal agencies, and has an issue with reconciling their fund balance with the Treasury's records.

- ◆ What does USAID need to do to get back on track here? As we discussed, we need all of our federal agencies to have records that ultimately match up to the Treasury.

Answer. The U.S. Government has established strict financial management requirements to better ensure agencies are effective stewards of Federal resources. We continue to reinforce the importance of effective financial management and reporting systems through its audits of USAID's compliance with these governmentwide requirements. We assess USAID's controls most directly through our annual audits of USAID financial statements, including our most recent audit for Fiscal Years 2016 and 2015, issued November 15, 2016, which continued to note the deficiencies cited above.¹³ The persistence of these deficiencies informed one of five management challenges facing USAID in fiscal year 2017: Meeting Governmentwide Financial and Information Management Requirements. We have identified these deficiencies in past years, making both long-standing areas in which USAID must improve its financial management and accounting systems and practices.

USAID has made progress reconciling its Fund Balance With Treasury account (FBWT) with the balance reported by the U.S. Department of the Treasury (Treasury). However, at the close of fiscal year 2016, these differences totaled \$195 million, of which \$141 million was unexplained, and we consider USAID's inability to reconcile these items as a material weakness. As we reported, these differences persist because USAID has not reconciled its FBWT account with Treasury's fund balance on a monthly basis, thereby resolving identified differences in a timely manner. Instead, USAID simply adjusted its FBWT account to agree with Treasury's fund balance. In making a recommendation that USAID's Chief Financial Officer address this weakness we urged USAID to institutionalize the monthly reconciliation of the FBWT account. Further, a process USAID initiated in fiscal year 2014 to coordinate with Treasury and the Office of Management and Budget (OMB) to resolve these differences has not been completed. USAID will need to follow through on its plans to work with Treasury and OMB to resolve this issue.

¹² *USAID/West Bank and Gaza's Financial Reporting Should Be Clearer on Use and Results of Foreign Assistance Spending*; Reporting No. 8-294-17-001-P; (Nov. 18, 2016)

¹³ *Audit of USAID's Financial Statement for Fiscal Years 2016 and 2015*, Report No. 0-000-17-001-C, November 15, 2016

With respect to USAID unreconciled transactions with other agencies, we reported that USAID has over \$3 billion in such transactions as of September 30, 2016. USAID was required to reconcile \$596 million of the total amount under OMB Circular A-136, but has made little progress. While USAID is likely to address timing differences, one cause of USAID's unreconciled transactions, differences resulting from accounting errors for example, will require a special effort and greater resources. These are significant deficiencies, and we will continue to closely watch USAID's actions to correct them. Additionally, we have ongoing and planned audits on USAID's compliance with Data Act and FITARA requirements and efforts to reduce improper payments.

