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U.S. INTERNATIONAL FOOD AID PROGRAMS: OVERSIGHT AND ACCOUNTABILITY

HEARING

BEFORE THE

SUBCOMMITTEE ON LIVESTOCK AND FOREIGN AGRICULTURE

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

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U.S. INTERNATIONAL FOOD AID PROGRAMS: OVERSIGHT AND ACCOUNTABILITY

THURSDAY, JULY 9, 2015

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LIVESTOCK AND FOREIGN AGRICULTURE,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 9:34 a.m., in Room 1300 of the Longworth House Office Building, Hon. David Rouzer [Chairman of the Subcommittee] presiding.

Members present: Representatives Rouzer, King, Hartzler, Yoho, Newhouse, Kelly, Conaway (*ex officio*), Costa, Plaskett, Nolan, and Peterson (*ex officio*).

Staff present: Bart Fischer, Caleb Crosswhite, Callie McAdams, Carly Reedholm, Haley Graves, Mollie Wilken, Scott C. Graves, John Konya, Andy Baker, and Nicole Scott.

STATEMENT OF HON. DAVID ROUZER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

The CHAIRMAN. This hearing of the Subcommittee on Livestock and Foreign Agriculture to review U.S. international food aid programs, oversight and accountability, will come to order. Now, before I get going any further, I want to welcome a new Member of the Subcommittee, Trent Kelly from Mississippi. I am very glad to have you on the Subcommittee, and I look forward to your contributions.

Now, I want to thank each of you for joining us this morning to build off the work begun here 2 weeks ago at the full Committee level. At that time we heard from both USDA and USAID officials who are charged with implementing U.S. international food aid programs about some of the things that are working, and others that could be improved. One of the programs most lauded by USAID, the Emergency Food Security Program, allows for local and regional purchases of food abroad, as well as cash transfers and food vouchers to aid those most in need.

In fact, we have been made keenly aware of efforts to transform Title II of the Food for Peace Act into a cash-based assistance program that is virtually identical to the Emergency Food Security Program. But, as Chairman Conaway pointed out, reforms made in the 2014 Farm Bill have already resulted in unprecedented flexibility with Title II spending. So rather than rushing ahead with efforts to convert a time-tested food aid program into cash-based assistance, it is imperative that we monitor effects of the programs

and flexibilities that are already in place. It is my hope that today's hearing will make strides in doing just that.

According to the Government Accountability Office, in Fiscal Year 2014 the United States funded cash and voucher projects spanning across 28 countries, totaling about $410 million through the Emergency Food Security Program. Given USAID's use of section 202(e) funding to engage in similar projects, and the push for even more Title II flexibility, I find GAO's recent report on cash-based assistance especially timely, and look forward to discussing it in greater detail today. I also look forward to learning more about the USDA and USAID OIG's body of work regarding the agency's implementation of various programs and projects.

The Economic Research Service just announced that the global percentage of food insecure people will drop to 13.4 percent this year, compared to 14.8 percent last year. Unfortunately, that progress may be short lived, as the percentage of food insecure people is expected to increase to 15.1 percent by 2025. These figures underscore the continued importance of international food aid programs, and I am proud of the United States' long established tradition as the leader of global efforts to alleviate hunger and malnutrition abroad.

I am especially proud of the role that the agriculture community has played in that process during the past 60 years. In order to continue this custom, additional food aid reforms must be debated in an open and transparent manner, and in the context of developing the next farm bill. I also believe that agriculture must be an integral part of any discussions about the overall approach to global food security. Now, as we move forward, it is very important that we work to maximize cooperation and program efficiency to reach an even greater number of people in need, but in doing so, we must not lose sight of the importance of maintaining broad domestic support for these vital programs.

Again, thank you all for being here today, and I look forward to continuing to work with you throughout the review process.

[The prepared statement of Mr. Rouzer follows:]

PREPARED STATEMENT OF HON. DAVID ROUZER, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

Thank you for joining us this morning as the Subcommittee on Livestock and Foreign Agriculture continues to build off the work begun here just 2 weeks ago at the full Committee level. At that time, we heard from both USDA and USAID officials who are charged with implementing U.S. international food aid programs about some of the things that are working and others that could be improved.

One of the programs most lauded by USAID—the Emergency Food Security Program—allows for local and regional purchases of food abroad, as well as, cash transfers and food vouchers to aid those most in need. In fact, we have been made keenly aware of efforts to transform Title II of the Food for Peace Act into a virtually identical cash-based assistance program. But, as Chairman Conaway pointed out, reforms made in the 2014 Farm Bill have already resulted in unprecedented flexibility with Title II spending. So, rather than rushing ahead with efforts to convert a time-tested food aid program into cash-based assistance, it is imperative that we monitor effects of the programs and flexibilities already in place. It is my hope that today's hearing will make strides in doing just that.

According to the Government Accountability Office, in Fiscal Year 2014, the United States funded cash and voucher projects spanning across 28 countries and totaling about $410 million through the Emergency Food Security Program. Given USAID's use of section 202(e) funding to engage in similar projects, and the push for even more Title II flexibility, I find GAO's recent report on cash-based assistance

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The Economic Research Service just announced that the global percentage of food-insecure people will drop to 13.4 percent this year, compared to 14.8 percent last year. Unfortunately, that progress may be short-lived, as the percentage of food-insecure people is expected to increase to 15.1 percent by 2025. These figures underscore the continued importance of international food aid programs, and I am proud of the United States' long-established tradition as the leader of global efforts to alleviate hunger and malnutrition abroad.

I am especially proud of the role that the agricultural community has played in that process over the past 60 years. In order to continue this custom, additional food aid reforms must be debated in an open and transparent manner and in the context of developing the next farm bill. I also believe that agriculture must be an integral part of any discussions about whole-of-government approaches to global food security.

As we move forward, it is important that we work to maximize cooperation and program efficiency to reach an even greater number of people in need. But in doing so, we must not lose sight of the importance of maintaining broad domestic support for these vital programs.

Again, thank you all for being here today, and I look forward to continuing to work with you throughout this review process.

I now yield to Ranking Member Costa for any remarks he would like to make.

The CHAIRMAN.I now yield to Ranking Member Costa for any remarks that he would like to make. Mr. Costa?

STATEMENT OF HON. JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. COSTA. Thank you very much, Chairman Rouzer, Members of the Subcommittee. I think this is an important matter that the Subcommittee provide its attention and oversight to for a host of reasons. I also appreciate the witnesses that are appearing before the Subcommittee, and look forward to their testimony.

The United States Agency for International Development, USAID, as we refer to it, and the Department of Agriculture's foreign service, USDA's FAS, must be commended for a history of long work that they do. And that is just the facts. But it is also very important, as we have this oversight hearing today, that we examine, for the purpose of the Agriculture Committee's oversight, to evaluate the implications from what I believe the traditional direct food assistance aid has done, and continues to do, *versus* the cash-based assistance effort.

And let me just put it out here very clearly so everybody understands it. I have a sense that the traditional direct food aid support is a much more meritorious way to provide the support for those who need it, as opposed to a cash-based assistance effort. Frankly, there are all sorts of issues out there that create problems in a cash-based assistance program, and the GAO, in their preliminary report of what I read, indicates that you are having a difficult time monitoring that and staying on top of it.

And, frankly, if you want to talk about giving food to needy people who are hungry, and you also want to have the corollary benefit of helping American farmers and ranchers and people, you are taking surplus food that is there, and you are giving it to the people who need it. And there is a lot less room when you do a direct transfer of food itself than the sort of shenanigans that can go on when you deal with cash-based assistance in some third world countries in which, frankly, there is a level of corruption that—let

us acknowledge it for what it is: cronyism, these things happen, and we have less ability to monitor and to control.

The United States is the largest supplier of food aid. Now we have become the largest provider of cash-based assistance. And it is wonderful that we are in a position where we can help, with all the cornucopia of food products that we grow in our country to help those who are most in need. That is an important humanitarian thing to do, and we should. But, providing cash as an alternative is a poor substitute.

The Agricultural Act of 2014, which the Agriculture Committee spent many long hours—we all spent a lot of hours—working on making several improvements to the international food aid programs to provider greater flexibility to USAID, and to the United States Department of Agriculture's Foreign Agricultural Service. However, there appears, to me, to be an inherent flaw in the system, because despite the flexibility that we provided you, both for USAID and for USDA, in Congress we have obviously made cuts on your budget, and so we get that. We want you to do more with less.

But monitoring that, especially when you are looking at the dual application of the food assistance *versus* the cash, can be dealt with in a significant way by simply relying more on the direct food support, as opposed to the cash assistance, where there are much more requirements to monitor to avoid the sort of monies being put into the wrong hands, and never getting into the hands of the people who are hungry, and who need the food.

So we should do all we can to provide these agencies the support so that they can properly monitor how American tax dollars are being spent. That is what we all care about here. But we also care about doing the right thing. But we ask this in all our domestic programs, so I am going to look forward to the answers by the witnesses on questions we will ask on how these programs are actually being implemented. Because to provide assistance to hungry people around the world is incredibly important. It is a good part of American diplomacy as we deal in a more troubling world, and it provides American goodwill in areas where we have a lot of challenges. And I think, politically and diplomatically, that is important as well.

But for the food aid programs to provide the benefits to America's farmers, our ranchers, our transportation systems, to our docks to haul the food out, it also helps our economy. So for people who aren't in the Farm Belt, we move those excess products—they get shipped across the country, they get shipped to ports. People are working. And then, of course, they get sent to those countries where the need is the greatest. So the food aid programs provide benefit to America's farmers, ranchers, its agriculture economy, to its support workers, by moving those products abroad.

In my home State of California, we produce some of the best food and fiber that helps feed not only everybody in America, but also people around the world. So one of the problems that I see is that the in-kind donations, which a lot of my farmers provide when we have surplus crops, and we have crops that are sitting and being shelved, is that locally sourced products are not adequate, and do not come close to matching the quality of the food produced in the

United States. Furthermore, based on conversations I have had with local producers, there is a greater network for monitoring commodity based food areas that I don't think we are taking advantage of, and I would like your comments there.

And, finally, I understand that a changing and global economy in many of the locations where these programs operate, it is necessary to be flexible. We get that. I know you need some assistance on flexibility. But we need to make sure that these programs are supported with the necessary resources, and I think that there is naturally a tendency—the cash-based is easier. I get that. It is easier to provide, have somebody write a check. But I think it is far more worthwhile and productive to provide the food, and there is a much greater assurance that that food is going to get in the hands of the people who need it the most.

So, again, I want to thank the witnesses. Mr. Chairman, I want to thank you for having this hearing today, and I look forward to the testimony by the witnesses.

The CHAIRMAN. Thank you, Mr. Costa. The chair would request that other Members submit their opening statements for the record so the witnesses may begin their testimony, and to ensure that there is ample time for questions. The chair would like to remind Members that they will be recognized for questioning in order of seniority for Members who were present at the start of the hearing. After that, Members will be recognized in order of their arrival, and I appreciate Members' understanding. Witnesses are asked to limit their oral presentations to 5 minutes. All written statements will be included for the record.

Now, I would like to welcome our witnesses to the table. First we have Mr. Thomas Melito, Director of International Affairs and Trade, U.S. Government Accountability Office here in Washington, D.C. Following him we have Ms. Catherine Trujillo, Acting Deputy Inspector General, U.S. Agency for International Development, Office of Inspector General here in Washington. And then finally we have Mr. Rod DeSmet, Deputy Assistant Inspector General for Audit, USDA Office of Inspector General, here in Washington as well.

Mr. Melito, please begin when you are ready.

STATEMENT OF THOMAS MELITO, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, D.C.

Mr. MELITO. Chairman Rouzer, Ranking Member Costa, and Members of the Subcommittee, thank you for this opportunity to discuss our recent work reviewing international food assistance delivered through cash transfers and voucher programs funded and overseen by the U.S. Agency for International Development. For over 60 years the United States has provided assistance to food insecure countries, primarily in the form of food commodities procured in the United States and transported overseas. In recent years the United States has joined other major donors in increasingly providing food assistance in the form of cash or vouchers. In Fiscal Year 2014 the U.S. funded cash and voucher projects in 28 countries, totaling about $410 million, with the majority of this

funding for the Syria crisis. The United States was the single largest donor of cash-based food assistance in 2014.

My testimony is based on a report which was released in March of this year. I will focus on three topics. First, USAID's process for awarding and modifying cash-based food assistance. Second, the extent to which USAID and its partners have implemented financial controls to help ensure appropriate oversight of such projects, and third, GAO's recommendations and USAID's response to them.

Regarding the first topic, GAO found that USAID followed its internal guidance when it awarded new cash-based food assistance grants. However, USAID lacks formal guidance when modifying these awards. Partners may propose cost or no cost modifications for a variety of reasons, such as an increase in the number of beneficiaries, or changing market conditions affecting food prices. In our review of 13 grant awards that had been modified, GAO found that cost modifications had increased the funding for these 13 awards from about $91 million to $626 million.

GAO also found that, although USAID requires partners to monitor market conditions, which is a key factor that may trigger an award modification, it does not provide guidance on when and how to respond to changing market conditions. Without guidance on modifying awards, including when market conditions change, USAID cannot hold its staff and implementing partners accountable for taking all necessary steps to justify the modification of awards.

Regarding the second topic, USAID relies on implementing partners for financial oversight of cash grants, but does not require them to conduct comprehensive risk assessments to planned financial oversight activities. In addition, it provides little related procedural guidance to partners and its own staff. For projects we analyzed in four case study countries, GAO found that neither USAID, nor its implementing partners, conducted comprehensive risk assessments to identify and mitigate financial vulnerabilities. Additionally, although USAID's partners had generally implemented financial controls over cash and voucher distributions that GAO had reviewed, some partners' guidance for the financial oversight had weaknesses, such as a lack of information on how to estimate and report on losses.

In addition, GAO found that USAID had limited guidance on financial activities, and provided no information to aid partners in estimating and reporting losses. As a result, partners may neglect to implement appropriate financial controls in areas that are most vulnerable to fraud, diversion, and misuse of cash funding. As we noted in our March report, several incidences of malfeasance had already surfaced in this program. It is essential that USAID learn from these circumstances and implement the necessary changes.

Regarding the third topic, our March 2015 report included recommendations to strengthen USAID's guidance for staff on approving award modifications, and guidance for partners on responding to changing market conditions. GAO also made recommendations to strengthen financial oversight of cash-based food assistance projects by addressing gaps in USAID's guidance on risk assessments and mitigation plans, and on financial control activities.

USAID concurred with the recommendations in the March 2015 report. Since that time, USAID has indicated to GAO that it has taken some actions to implement these recommendations. According to USAID, it has, among other efforts, issued written guidance on the review and approval of modifications to cash awards. In addition, USAID indicated that they now have a requirement for applicants to provide an assessment of risk of fraud or diversion, and controls in place to prevent any diversion. We appreciate USAID's efforts in response to our recommendations. We will work expeditiously with USAID to collect and review evidence, documenting its actions to determine whether they are sufficient to close, as implemented, any of the GAO recommendations.

Chairman Rouzer, Ranking Member Costa, and Members of the Subcommittee, this completes my prepared statement. I will be pleased to respond to any questions you may have.

[The prepared statement of Mr. Melito follows:]

PREPARED STATEMENT OF THOMAS MELITO, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, D.C.

International Cash-Based Food Assistance—USAID Has Processes for Initial Project Approval but Needs to Strengthen Award Modification and Financial Oversight

GAO Highlights

Highlights of GAO–15–760T (*http://www.gao.gov/products/GAO-15-760T*), a testimony before the Subcommittee on Livestock and Foreign Agriculture, Committee on Agriculture, House of Representatives.

Why GAO Did This Study

For over 60 years, the United States has provided assistance to food-insecure countries primarily in the form of food commodities procured in the United States and transported overseas. In recent years, the United States has joined other major donors in increasingly providing food assistance in the form of cash or vouchers. In Fiscal Year 2014, U.S.-funded cash and voucher projects in 28 countries totaled about $410 million, the majority of which was for the Syria crisis, making the United States the largest single donor of cash-based food assistance.

This testimony summarizes GAO's March 2015 report (GAO–15–328) that (1) reviewed USAID's processes for awarding and modifying cash-based food assistance projects and (2) assessed the extent to which USAID and its implementing partners have implemented financial controls to help ensure appropriate oversight of such projects. GAO analyzed program data and documents for selected projects in Jordan, Kenya, Niger, and Somalia; interviewed relevant officials; and conducted fieldwork in Jordan, Kenya, and Niger.

What GAO Recommends

GAO's March 2015 report included recommendations to strengthen USAID's guidance for staff on approving award modifications and guidance for partners on responding to changing market conditions. GAO also made recommendations to strengthen financial oversight of cash-based food assistance projects by addressing gaps in USAID's guidance on risk assessments and mitigation plans and on financial control activities. USAID concurred with the recommendations.

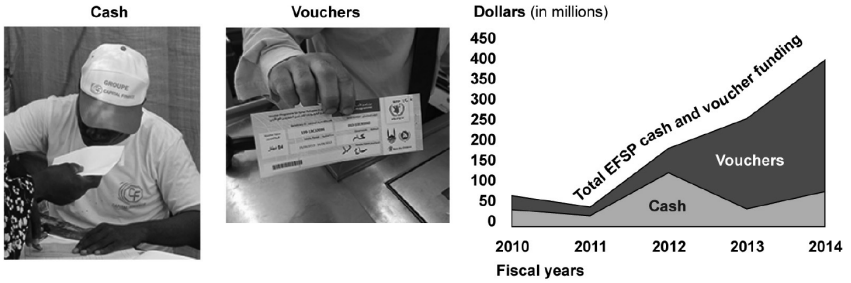
View GAO–15–760T (*http://www.gao.gov/products/GAO-15-760T*). For more information, contact Thomas Melito at (202) 512–9601 or *melitot@gao.gov*.

What GAO Found

The U.S. Agency for International Development (USAID) awards new cash-based food assistance grants under its Emergency Food Security Program (EFSP) through a competitive proposal review or an expedited noncompetitive process; however, USAID lacks formal internal guidance for modifying awards. In its March 2015 review of 22 grant awards, GAO found that USAID made 13 through its competitive process, seven through an abbreviated noncompetitive review, and two under authorities allowing an expedited emergency response. According to USAID, the agency follows a similar process for modification requests. Partners may propose cost or no-cost modifications for a variety of reasons, such as an increase in the number

of beneficiaries or changing market conditions affecting food prices. In its review of 13 grant awards that had been modified, GAO found that cost modifications for eight awards resulted in an increase in funding for the 13 awards from about $91 million to $626 million. According to USAID, procedures for modifying awards have been updated but GAO has yet to verify this information. GAO also found that though USAID requires partners to monitor market conditions—a key factor that may trigger an award modification—it did not provide guidance on when and how to respond to changing market conditions. GAO concluded that, until USAID institutes formal guidance, it cannot hold its staff and implementing partners accountable for taking all necessary steps to justify and document the medication of awards.

Emergency Food Security Program (EFSP) Cash and Voucher Awards, Fiscal Years 2010–2014



Source: GAO analysis of USAID data. | GAO–15–760T.

USAID relies on implementing partners for financial oversight of EFSP projects but did not require them to conduct comprehensive risk assessments to plan financial oversight activities, and it provided little related procedural guidance to partners and its own staff. For projects in four case study countries reviewed in its March 2015 report, GAO found that neither USAID nor its implementing partners conducted comprehensive risk assessments to identify and mitigate financial vulnerabilities. Additionally, although USAID's partners had generally implemented financial controls over cash and voucher distributions that GAO reviewed, some partners' guidance for financial oversight had weaknesses, such as a lack of information on how to estimate and report losses. In addition, GAO found that USAID had limited guidance on financial control activities and provided no information to aid partners in estimating and reporting losses. As a result, partners may neglect to implement appropriate financial controls in areas that are most vulnerable to fraud, diversion, and misuse of EFSP funding.

July 9, 2015

Chairman Rouzer, Ranking Member Costa, and Members of the Subcommittee:

Thank you for this opportunity to discuss our recent work reviewing international food assistance delivered through cash transfers or voucher programs funded and overseen by the U.S. Agency for International Development (USAID). For over 60 years, the United States has provided assistance to food-insecure countries primarily in the form of food commodities procured in the United States and transported overseas. In recent years, the United States has joined other major donors in increasingly providing food assistance in the form of cash or vouchers. In addressing humanitarian crises around the world, USAID currently implements a cash-based program—the Emergency Food Security Program (EFSP)—through its Office of Food for Peace (FFP), with funding from the International Disaster Assistance account.[1] In Fiscal Year 2014, FFP's funding of targeted cash transfer and food voucher programs amounted to about $410 million, the majority of which was for the Syria crisis; in Fiscal Years 2010 through 2014, it totaled about $991 million.[2]

[1] The International Disaster Assistance (IDA) account funds programs authorized by Chapter 9 of the Foreign Assistance Act of 1961, as amended (22 U.S.C. § 491 et seq.), and receives appropriations pursuant to annual appropriations acts for Foreign Operations. Appropriations for Fiscal Years 2013 and 2014 included amounts designated by Congress for Overseas Contingency Operations (OCO) for the purpose of addressing humanitarian crises, including the Syria crisis.

[2] EFSP also funds local and regional procurement projects, which totaled $1.2 billion in Fiscal Years 2010 through 2014. In addition, with funding from the Emergency Refugee and Migration Assistance and the Migration and Refugee Assistance budget accounts the U.S. Department of State's (State) Bureau of Population, Refugees, and Migration provides U.S. contributions to sev-

In addition, FFP manages the majority of U.S. international food assistance—primarily in-kind food aid commodities—authorized by Title II of the Food for Peace Act, which in Fiscal Year 2015 totaled about $1.47 billion.[3]

My testimony summarizes the findings from our report issued in March of this year,[4] which had two objectives: (1) to review USAID's processes for awarding and modifying cash-based food assistance projects and (2) to assess the extent to which USAID and its implementing partners have implemented financial controls to help ensure appropriate oversight of such projects. To address these objectives, we analyzed data and reviewed program documents provided by USAID and its implementing partners, including the United Nations (UN) Food and Agriculture Organization (FAO), the UN World Food Programme (WFP), and selected nongovernmental organizations (NGO).[5] To review USAID's processes for awarding and modifying cash-based food assistance projects, we reviewed USAID's program guidance and relevant directives, as well as grant proposals and agreements.[6] Given that FFP's cash-based projects are to monitor market conditions to detect significant changes that may warrant project modifications, we also analyzed price data for key staple commodities in selected markets in four case study countries: Jordan, Kenya, Niger, and Somalia.[7] To assess the extent to which USAID and the implementing partners implemented financial controls, we reviewed documentation and reports related to the cash and voucher distributions in our case study countries, and assessed the controls they have designed and implemented against their policies, procedures, guidance; Federal internal control standards; and international principles and guidelines.[8]

In Washington, D.C., we interviewed officials from the Department of State (State), the U.S. Department of Agriculture (USDA), and USAID. We also met with officials representing NGOs that were awarded EFSP grants to serve as implementing partners in carrying out U.S. food assistance programs overseas or were sub-awardees for USAID grants awarded to WFP (and in some cases were both). In Rome, we met with officials from the U.S. Mission to the United Nations, FAO, and WFP. We also met with the UN permanent representatives for three major donors—Canada, the European Union, and the United Kingdom. In addition, we conducted fieldwork in three countries (Jordan, for Syrian refugees; Kenya; and Niger) where we met with officials from the U.S. missions, implementing partners, vendors, financial institutions, and beneficiaries, among others.[9] Further details on our scope and methodology can be found in our March 2015 report. In June 2015, USAID provided GAO with information on its progress in addressing the recommendations from our March 2015 report. The work upon which this testimony was based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate

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eral multilateral organizations including the UN World Food Programme (WFP), among others. For example, over the past 4 years, the bureau supported cash-based food assistance activities as follows: in Fiscal Years 2010 and 2011, $5 million and $7.7 million, respectively, to WFP for in-kind food and vouchers to Iraqi refugees living in Syria; and in Fiscal Year 2014, $1.2 million to WFP for repatriating refugees from the Republic of the Congo.

[3] Title II is reauthorized through the farm bill approximately every 5 years and is funded through the U.S. Department of Agriculture budget. Title II of the Food for Peace Act, administered by USAID, addresses donation of agricultural commodities for humanitarian purposes. In this report, we refer to the Food for Peace Act as Title II.

[4] GAO, *International Cash-Based Food Assistance: USAID Has Developed Processes for Initial Project Approval but Should Strengthen Financial Oversight,* GAO–15–328 (*http://www.gao.gov/products/GAO-15-328*) (Washington, D.C.: Mar. 26, 2015).

[5] We use the term "implementing partners" to refer to entities such as WFP, FAO, and NGOs that are awarded U.S. Government grants to carry out food assistance activities overseas. WFP and FAO may contract with international and local NGOs as sub-awardees.

[6] This review focused on cash and voucher interventions funded under EFSP. We did not include local and regional procurement funded through EFSP, which some consider to be a form of cash-based food assistance.

[7] We selected these four countries on the basis of several factors including the level of USAID EFSP funding, the types of modalities and mechanisms used to transfer the assistance, implementing partners, security concerns and risks, and logistics and budget constraints. We cannot generalize our findings from these four countries to the other countries where USAID has funded cash-based food assistance projects.

[8] GAO, *Standards for Internal Control in the Federal Government,* GAO/AIMD–00–21.3.1 (*http://www.gao.gov/products/GAO/AIMD-00-21.3.1*) (Washington, D.C.: November 1999); Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (September 1992) and *Internal Control—Integrated Framework* (May 2013); and International Organization for Standardization, ISO 31000, *Risk Management—Principles and Guidelines* (2009).

[9] We interviewed staff from USAID and its implementing partners in Nairobi who had responsibility for oversight of the EFSP-funded operations in both Kenya and Somalia.

evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

USAID's cash-based food assistance program started in 2008 under the management of its Office of Foreign Disaster Assistance. In June 2010, management of the program was transferred to FFP. In 2014, FFP provided EFSP funding for cash and voucher projects in 28 countries, including some countries with areas considered high security risk. Obligations for cash-based EFSP projects grew from $75.8 million in Fiscal Year 2010 to $409.5 million in Fiscal Year 2014—an increase of 440 percent over the 5 year period, the majority of which was in response to a large and sustained humanitarian crisis in Syria, including cash-based food assistance to Syrian refugees in the Syria region.[10] Of the $991 million in total grant funding obligated in Fiscal Years 2010 to 2014, $330.6 million was for cash interventions and $660.3 million was for voucher interventions. The majority of the funding—$621.7 million (or 63 percent)—was awarded to WFP, and $369.3 million (or 37 percent) was awarded to other implementing partners.

To deliver cash-based food assistance, USAID's implementing partners employ a variety of mechanisms ranging from direct distribution of cash in envelopes to the use of information technologies such as cell phones and smart cards to redeem electronic vouchers or access accounts established at banks or other financial institutions (see *Fig. 1*). The value of cash and voucher transfers is generally based on a formula that attempts to bridge the gap between people's food needs and their capacity to cover them.[11]

Figure 1: Types of Cash and Voucher Mechanisms Used to Deliver Cash-Based Food Assistance

Cash

Immediate cash: Cash can be made immediately available to beneficiaries through direct delivery (e.g., at a selected site such as a post office) or through collection from an agent or bank counter. In both cases, beneficiaries are not required to open an account.

Cash account: Cash can be distributed through accounts that beneficiaries have opened in a selected bank, money transfer, or other financial institution. There can be as many accounts as the number of beneficiaries or one account can be used by a group of beneficiaries. In both cases, individuals generally have several alternatives to access cash, e.g., at the bank counter, with ATM cards, and through cell phones.

Vouchers

Paper voucher: A voucher is a redemption slip that can be exchanged in preselected shops, with specified traders, service providers, or at specifically organized fairs. Beneficiaries receive one or more paper coupons that have either a cash or a commodity value. Both cash and commodity vouchers can be exchanged for food items or services but not for cash.

Electronic voucher: Electronic vouchers carry information on the monetary value of assistance or on the items and quantities the vouchers can be exchanged for. This information is stored in a barcode, a magnetic band or microchip of a plastic card, or a Short Message Service (SMS) text sent to a mobile phone. Electronic voucher instruments (e.g., bank card, cell phone, etc.) are issued to beneficiaries only once, but their redemption value or quantity is credited remotely at predefined temporal intervals.

Source: GAO analysis of data from the U.S. Agency for International Development and the United Nations World Food Programme. | GAO–15–760T.

Financial oversight in cash-based food assistance programs includes managing program funds to ensure they are spent in accordance with grant agreements by, among other things, assessing financial risks and implementing controls to mitigate those risks, including controls to prevent theft and diversion of cash, counterfeiting

[10] These obligations included funds designated for OCO. The targeted food voucher program in Syria was funded with IDA, including amounts designated for OCO, in 2013 and was entirely funded with IDA funds designated for OCO in 2014, according to data from USAID. IDA obligations for cash transfer and voucher programs, including amounts designated for OCO, increased from $75.8 million in Fiscal Year 2010 to $136.9 million in Fiscal Year 2014.

[11] The cash and voucher transfers can be either (1) conditional transfers, where certain requirements are imposed on beneficiaries such as their participation in community work programs or attending training or going to school; or (2) unconditional transfers, whereby no requirements on beneficiaries are made, and the assumption is that beneficiaries will use the cash or vouchers to obtain food based on a household assessment of food access and availability.

of vouchers, and losses. Standards for Internal Control in the Federal Government provides the overall framework for establishing and maintaining internal control in Federal programs.[12] In addition, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) has issued an internal control framework that, according to COSO, has gained broad acceptance and is widely used around the world.[13] Both frameworks include the five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Internal control generally serves as a first line of defense in safeguarding assets, such as cash and vouchers.[14] In implementing internal control standards, management is responsible for developing the detailed policies, procedures, and practices to fit the entity's operations and to ensure they are built into and are an integral part of operations.

USAID Had Developed Processes for Awarding EFSP Funds but Lacked Guidance on Modifying Awards and Responding to Changing Market Conditions

In our March 2015 report, we found that USAID had developed processes for awarding cash-based food assistance grants; however, it lacked formal internal guidance for its process to approve award modifications and provided no guidance for partners on responding to changing market conditions that might warrant an award modification.

USAID's process for awarding EFSP funds. USAID outlined its process for reviewing and deciding to fund proposals for cash-based food assistance projects in the Annual Program Statement (APS) for International Emergency Food Assistance.[15] According to USAID, the APS functions as guidance on cash-based programming by describing design and evaluation criteria for selecting project proposals and explaining the basic steps in the proposal review process. The APS also serves as a primary source of information for prospective applicants that apply for emergency food assistance awards using EFSP resources. Under the terms of the APS, USAID awards new cash-based food assistance grants through either a competitive proposal review or an expedited noncompetitive process. For our March 2015 report, we reviewed 22 proposals for new cash-based food assistance projects that were awarded and active as of June 1, 2014; we found that USAID made 13 of these awards through its competitive process, seven through an abbreviated noncompetitive review, and two under authorities allowing an expedited emergency response.

USAID lacked guidance for staff on modifying awards. In our March 2015 report, we found that although the APS outlined the review process for new award proposals, neither the current 2013 APS nor the two previous versions provide clear guidance on the process for submission, review, and approval of modifications to existing awards. According to USAID officials, USAID follows a similar process in reviewing requests to modify ongoing awards, which implementing partners may propose for a variety of reasons, such as an increase in the number of beneficiaries within areas covered by an award or a delay in completing cash distributions. Two main types of modifications may be made to a grant agreement—no-cost modifications and cost modifications. For the four case study countries, in our March 2015 report, we reviewed 13 grant agreements made from January 2012 to June 2014 that had 41 modifications during that period. Twenty of these cost modifications re-

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[12] GAO/AIMD–00–21.3.1. (*http://www.gao.gov/products/GAO/AIMD-00-21.3.1*) These internal control standards were revised in September 2014, and the revisions will become effective for Fiscal Year 2016.

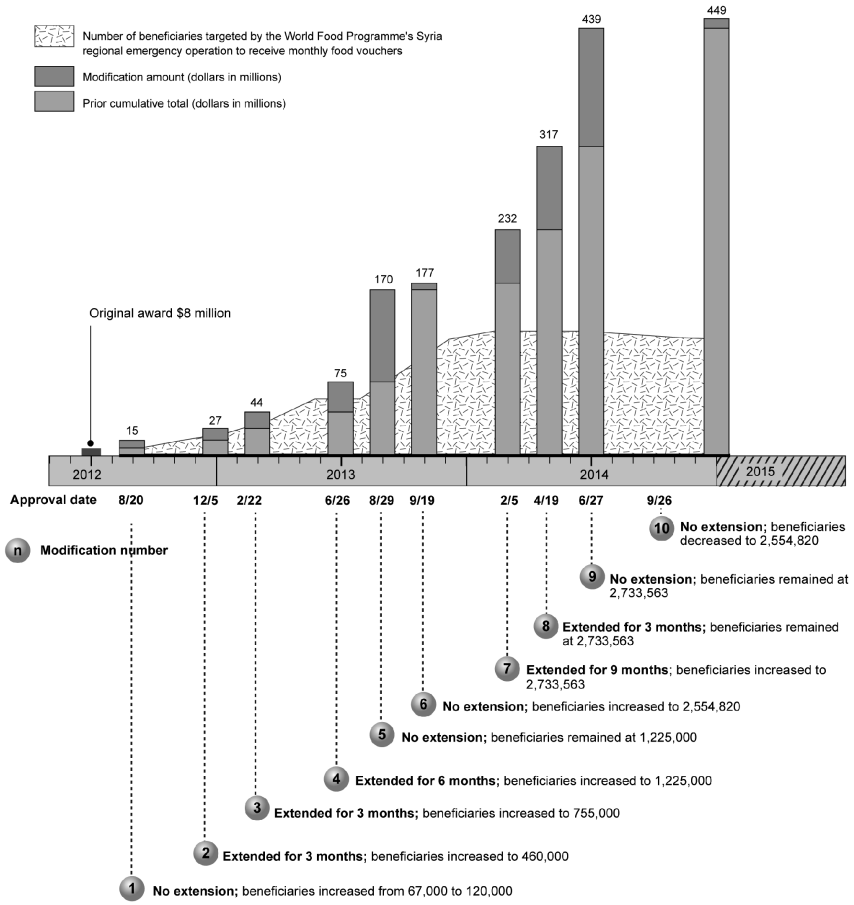
[13] Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (1992). COSO was formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent, private sector initiative that studied the causal factors that can lead to fraudulent financial reporting. In 1992, COSO issued *Internal Control—Integrated Framework* to help businesses and other entities assess and enhance their internal control. Since that time, COSO's internal control framework, which was updated in May 2013, has been recognized by regulatory standards setters and others as a comprehensive framework for evaluating internal control, including internal control over financial reporting.

[14] In 2004, COSO issued *Enterprise Risk Management—Integrated Framework* to help entities better deal with risk in achieving their objectives. It defines enterprise risk management as "a process, effected by an entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

[15] See U.S. Agency for International Development, Bureau for Democracy, Conflict, and Humanitarian Assistance, Office of Food for Peace, *Annual Program Statement for International Emergency Food Assistance,* Opportunity Number APS–FFP–13–000001. USAID has published annual program statements for this program on its website at *http://www.usaid.gov/what-we-do/agriculture-and-food-security/food-assistance/programs/emergency-programs*.

sulted in an increase in total funding for the 13 grants from about $91 million to about $626 million, a 591 percent increase. Ten of these cost modifications were made to one award, the Syria regional award, whose funding increased from $8 million to $449 million (see *Fig. 2*). The Syria regional award modifications amounted to about 82 percent of the total increase in funding for the cost modifications we reviewed.

Figure 2: Timeline of the Modifications Made to the Ongoing Syria Regional Award, from July 2012



Source: GAO analysis of U.S. Agency for International Development data.
| GAO–15–760T.

We concluded that without formal guidance, USAID cannot hold its staff and its partners accountable for taking all necessary steps to justify and document the modification of awards. At the time of our study, USAID noted that its draft internal guidance for modifying awards was under review. In our March 2015 report, we recommended that USAID expedite its efforts to establish formal guidance for staff reviewing modifications of cash-based food assistance grant awards. USAID concurred with our recommendation. In June 2015, USAID reported that it issued written guidance that addresses the review and approval of grant modifications. We have yet to verify this information to determine whether it addresses the issues we identified.

USAID lacked guidance for implementing partners. Additionally, in our March 2015 report we found that, although USAID required partners implementing cash-based food assistance to monitor market conditions, USAID did not provide

clear guidance about how to respond when market conditions change—for example, when and how partners might adjust levels of assistance that beneficiaries receive. We analyzed data on the prices of key staple commodities in selected markets for our case study countries from Fiscal Years 2010 through 2014. We found that the prices of key cereal commodities in Niger and Somalia changed significantly without corresponding adjustments to all implementing partners' cash-based projects. We did not find similar food price changes in Jordan and Kenya.

According to USAID officials, USAID does not have a standard for identifying significant price changes, since the definition of significance is specific to each country and region. In addition, we did not find guidance addressing modifications in response to changing market conditions in the APS. We found that this lack of guidance had resulted in inconsistent responses to changing market conditions among different cash and voucher projects funded by USAID. For example, an implementing partner, whose project we reviewed in Kenya, predetermined, as part of its project design, when adjustments to cash transfer amounts would be triggered by food price changes, while an implementing partner whose project we reviewed in Niger relied on an ad hoc response. The implementing partner in Kenya established the cash and voucher transfer rate based on the value of the standard food basket; it reviewed prices every month but would change cash and voucher transfer amounts only in response to price fluctuations, in either direction, of more than ten percent.

We concluded that without clear guidance about when and how implementing partners should modify cash-based food assistance projects in response to changing market conditions, USAID ran the risk of beneficiaries' benefits eroding through price increases or inefficient use of scarce project funding when prices decrease. We recommended in our March 2015 report that USAID develop formal guidance to implementing partners for modifying cash-based food assistance projects in response to changes in market conditions. USAID concurred with this recommendation. In June 2015, USAID reported entering into an agreement with the Cash Learning Partnership (CaLP), an organization that is working to improve the use of cash and vouchers, to help develop guidance to implementing partners on adapting programs to changing market conditions. USAID plans to complete this guidance by April 2016. We have yet to verify this information to determine whether it addresses the issues we identified.

USAID's Partners Had Generally Implemented Financial Controls in Projects We Reviewed; We Found Weaknesses in Risk Planning, Implementation, and Guidance

In our March 2015 report, we found that USAID relied on its implementing partners to implement financial oversight of EFSP projects, but it did not require them to conduct comprehensive risk assessments to plan financial oversight activities—two key components of an internal control framework. In addition, we found that USAID provided little or no guidance to partners and its own staff on carrying out these components.

Internal Control Framework

The internal control standards and framework prescribed for Federal agencies, and those accepted by and widely used by organizations around the world, contain five components:

We focused on the risk assessment and control activities components to assess the extent to which the U.S. Agency for International Development and its imple-

menting partners conduct financial risk assessments of cash and vouchers and implement appropriate controls.

Source: GAO; Committee of Sponsoring Organizations of the Treadway Commission. | GAO–15–760T.

Risk assessments were lacking. Our March 2015 report found that for case study projects we reviewed in four countries, neither USAID nor its implementing partners conducted comprehensive risk assessments that address financial vulnerabilities that may affect cash-based food assistance projects, such as counterfeiting, diversion, and losses.[16] USAID officials told us that they conduct a risk assessment for all USAID's programs within a country rather than separate risk assessments for cash-based food assistance projects. According to USAID, its country-based risk assessments focus primarily on the risks that U.S. Government funds may be used for terrorist activities and on the security threat levels that could affect aid workers and beneficiaries; these risk assessments do not address financial vulnerabilities that may affect cash-based food assistance projects, such as counterfeiting, diversion, and losses. A USAID official provided us with internal EFSP guidance to staff on the grant proposal and award process stating that an award would not be delayed if a risk-based assessment has not been conducted.

According to USAID officials, its partners have established records of effective performance in implementing cash and voucher projects and they understand the context of operating in these high-risk environments. As a result, USAID expects that its partners will conduct comprehensive risk assessments, including financial risk assessments, and develop appropriate risk mitigation measures for their cash-based food assistance projects. However, none of the partners implementing EFSP-funded projects in our four case study countries had conducted a comprehensive risk assessment based on their guidance or widely accepted standards during the period covered by our March 2015 review. We found that USAID did not require its implementing partners to develop and submit comprehensive risk assessments with mitigation plans as part of the initial grant proposals and award process or as periodic updates, including when grants are modified.[17] USAID officials stated that most EFSP grant proposals and agreements do not contain risk assessments and mitigation plans. In addition, the implementing partners we reviewed had not consistently prioritized the identification or the development of financial risks that address vulnerabilities such as counterfeiting, diversion, and losses.

We concluded that without comprehensive risk assessments of its projects, USAID staff would be hampered in developing financial oversight plans to help ensure that partners are implementing the appropriate controls, including financial controls over cash and vouchers to mitigate fraud and misuse of EFSP funds. In our March 2015 report, we recommended that USAID require implementing partners of cash-based food assistance projects to conduct comprehensive risk assessments and submit the results to USAID along with mitigation plans that address financial vulnerabilities such as counterfeiting, diversion, and losses. USAID concurred with our recommendation. In June 2015, USAID noted that the Fiscal Year 2015 APS includes a requirement for applicants to provide an assessment of risk of fraud or diversion and controls in place to prevent any diversion or counterfeiting. We have yet to verify this information to determine whether it addresses the issues we identified.

Control activities had weaknesses. In our March 2015 report, we found that USAID's partners had generally implemented financial controls over cash and voucher distributions but the partners' financial oversight guidance had weaknesses. We reviewed selected distribution documents for three implementing partners with projects that began around 2012 in our four case study countries (Jordan, Kenya, Niger, and Somalia). Our review found that the three implementing partners had generally implemented financial controls over their cash and voucher distribution processes. For example, in Niger, we verified that there were completed and signed beneficiary payment distribution lists with thumb prints; field cash payment reconciliation reports that were signed by the partner, the financial service provider,

[16] For our review, we defined a comprehensive risk assessment as one that includes key elements of the risk management process such as risk identification, assessing the likelihood of the risk occurrence, its impact, the severity or risk level, mitigation plans, and risk owners that are reflected in a risk register. In addition, the identification of risk should be comprehensive and include security risks, as well as financial, political, market, and other risks.

[17] At the time of our review, USAID's draft Fiscal Year 2015 APS required applicants for EFSP grants to conduct risk assessments as a requirement of their monitoring and evaluation plans. However, the risk assessment described in the draft Fiscal Year 2015 APS was a general risk assessment and did not specifically mention risks that address vulnerabilities endemic to cash and voucher distributions.

and the village chief; and payment reconciliation reports prepared, signed, and stamped by the financial service provider. Additionally, we determined that these three implementing partners generally had proper segregation of financial activities between their finance and program teams. Nonetheless, in Kenya, our review showed that in some instances, significant events affecting the cash distribution process were not explained in the supporting documentation.

Our review also found that in most instances the implementing partners had submitted reports required by their grant awards, and generally within the required time frames; in addition, we found that these reports contained the key reporting elements required by the grant award. However, in some instances, we were unable to determine whether quarterly reports were submitted on time because USAID was unable to provide us with the dates when it received these reports from the implementing partner. According to USAID officials, USAID does not have a uniform system for recording the date of receipt for quarterly progress reports and relies on FFP officers to provide this information; however, individual FFP officers have different methods for keeping track of the reports and the dates on which they were received.

Financial oversight guidance had gaps. In our March 2015 report, we found that implementing partners in the four case study countries we reviewed had developed some financial oversight guidance for their cash and voucher projects, but we found gaps in the guidance that could hinder effective implementation of financial control activities. For example, one implementing partner developed a financial procedures directive in 2013 that requires, among other things, risk assessments, reconciliations, and disbursement controls. However, the directive lacked guidance on how to estimate and report losses.[18] Another implementing partner had developed field financial guidance in 2013 that provides standardized policies and procedures for financial management and accounting in the partner's field offices. However, the implementing partner acknowledged that the field manual does not address financial procedures specifically for voucher projects. In addition, we found that USAID's guidance to partners on financial control activities is limited. For example, USAID lacked guidance to aid implementing partners in estimating and reporting losses.

We concluded that when implementing partners for EFSP projects have gaps in financial guidance and limitations with regard to oversight of cash-based food assistance projects, the partners may not put in place appropriate controls for areas that are most vulnerable to fraud, diversion and misuse of EFSP funding. In our March 2015 report, we recommended that USAID develop a policy and comprehensive guidance for USAID staff and implementing partners for financial oversight of cash-based food assistance projects. USAID concurred with our recommendation and in June 2015 reported that CalP is expected, as part of its award, to work on the development and dissemination of policy and guidance related to cash-based food assistance. USAID plans to complete this effort by April 2016. We have not yet verified this information to determine whether it addresses the issues we identified.

Limitations in USAID's field financial oversight. As we reported in March 2015, according to USAID officials, Washington-based country backstop officers (CBO) perform desk reviews of implementing partners' financial reports and quarterly and final program reports and share this information with FFP officers in the field; in addition, both the Washington-based CBOs and FFP officers in-country conduct field visits. However, we found that the ability of the CBOs and FFP officers to consistently perform financial oversight in the field may be constrained by limited staff resources, security-related travel restrictions and requirements, and a lack of specific guidance on conducting oversight of cash transfer and food voucher programs.[19] Field visits are an integral part of financial oversight and a key control

[18] Other cash-based assistance programs have procedures to measure improper payments, which include losses. For example, the Supplemental Nutrition Assistance Program (SNAP), formerly known as the Federal Food Stamp Program, is a domestic Federal program that supplements low-income individuals and households with benefits to purchase allowable food items. Under Section 2 of the Improper Payments Information Act of 2002, Federal agencies must identify programs susceptible to significant improper payments and estimate the annual amount of improper payments. In Fiscal Year 2014, SNAP, a $76 billion program, reported an improper payment rate of 3.2 percent (or $2.4 billion), which represents payments that should not have been made or were for an incorrect amount, and payments that were not supported by sufficient documentation. SNAP improper payments can include benefits distributed in error due to administrative as well as recipient errors, not all of which can be attributed to fraud, among other reasons.

[19] CBOs have the primary responsibility for oversight of EFSP grants. They manage these programs within their geographic portfolios and also serve as agreement officer representatives for those awards.

to help ensure management's objectives are carried out. They allow CBOs and FFP officers to physically verify the project's implementation, observe cash disbursements, and conduct meetings with beneficiaries and implementing partners to determine whether the project is being implemented in accordance with the grant award.

According to the CBOs and FFP officers, the frequency of field visits for financial oversight depends on staff availability and security access. In our four case study countries, the FFP officers told us that because of their large portfolios and conflicting priorities, they performed limited site visits for the projects that we reviewed. In Kenya, the FFP officer told us that her portfolio covered 14 counties, and the cash-based food assistance project we reviewed was just one component. Owing to the demands of all her projects, she had been able to perform limited site visits for the projects we reviewed. We also found that USAID had two staff members in the field to oversee its Syria regional cash-based projects spread over five countries that had received approximately $450 million in EFSP funding from July 2012 through December 2014.

Because of staff limitations, FFP officers primarily rely on implementing partners' reports from the field and regular meetings with them to determine whether a project is being executed as intended. However, USAID's guidance to its FFP officers and its implementing partners on financial oversight and reporting is limited. For example, FFP staff in Niger stated that they have had insufficient guidance and training on financial oversight of cash-based food assistance projects. Furthermore, the FFP officers told us that USAID is not prescriptive in the financial oversight procedures it expects from its implementing partners. Additionally, they noted that USAID has not set a quantitative target for site visits by FFP officers. FFP officers in our four case study countries told us that they use a risk-based approach to select which sites to visit.

We concluded that without systematic financial oversight of the distribution of cash and voucher activities in the field, USAID is hampered in providing reasonable assurance that is EFSP funds and are being used for their intended purposes. In our March 2015 report, we recommended that USAID require its staff to conduct systematic financial oversight of USAID's cash-based food assistance projects in the field. USAID concurred with this recommendation. As of June 2015, USAID reported that it is working to develop training for its staff and will continue to explore using third-party monitors where security constraints may be an issue. USAID plans to complete these actions by April 2016. We have not yet verified this information to determine whether it addresses the issues we identified.

Chairman Rouzer, Ranking Member Costa, and Members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

APPENDIX I: GAO CONTACT AND STAFF ACKNOWLEDGMENTS

GAO Contact

If you or your staff have questions about this testimony, please contact Thomas Melito, Director, International Affairs and Trade at (202) 512–9601 or *melitot@gao.gov*. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

Staff Acknowledgments

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The CHAIRMAN. Thank you very much. Ms. Trujillo?

STATEMENT OF CATHERINE M. TRUJILLO, ACTING DEPUTY INSPECTOR GENERAL, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, D.C.

Ms. TRUJILLO. Thank you. Chairman Rouzer, Ranking Member Costa, and Members of the Committee, I am pleased to appear before you today on behalf of the Office of Inspector General for USAID, and we appreciate the Committee's interest in our work to improve the effectiveness in international food aid programs. Let me just start out by saying that elements of risk are inherent in all of USAID programs, including food assistance.

USAID works in environments that are very vulnerable to fraud, waste, and abuse, and working in fragile countries where there are weak operational and financial systems, there is insufficient capacity, deteriorating infrastructure, it makes it ever so critical that USAID manage and design its programs, and then in considering each one of these risk elements. And for that reason we conduct our audits and our investigations in a way where we focus on the higher levels of risk that surround USAID assistance programs.

In the last 5 years we have conducted 12 performance audits and reviews, and reported almost 100 recommendations to USAID to promote the effectiveness and the management of their food aid programs. Together with our investigative work and our audit work, our work has produced more than $18 million in savings and cost recoveries for the U.S. Government.

Now, our work has primarily addressed the controls and the performance surrounding the efforts in transport, storage, monetizing, and distributing food aid commodities, along with assessing the results of those programs that USAID is designing to deal with: hunger, malnutrition, agricultural productivity, and helping countries be more resilient to conflict.

Across that supply chain distribution, our audits and our investigations have identified risks in all areas, in how USAID manages its food programs with Title II commodities. For example, let us just start with shipping and transport. Just last month the Department of Justice reached an $836,000 settlement with a shipping company that is used by USAID for food transport. Our investigations concluded that that company had been billing USAID for higher prices than it should have, and that had been going on for about 4 years.

We have also reported weaknesses in internal controls at USAID implementers' levels critical to safeguarding those commodities. Through our direct observations and our validation of inventory, we have identified discrepancies with what the implementer is saying is on hand, and what we have been able to verify. And that is often because there are weak internal controls. There is poor recordkeeping. There is improper segregation of duties. There is mishandling of commodities. There are poor storage conditions. And these weak controls also make food vulnerable to theft as well. For example, in East Africa U.S. commodities were siphoned off, and they had been sold for an extended period of time. And, as a result of our investigation, USAID actually had to terminate this $100 million program.

And we have also identified problems with USAID's management of the programs that are designed to help those populations in need. Our work in Madagascar, for example, noted that implementing partners had designed different distribution methods, and, as a result of inconsistency, some beneficiaries were not getting the rations that they needed when they needed them the most. In Uganda we found poor program management, where some individuals were getting commodities that were not part of the targeted population.

In Haiti we found that cooperating sponsors had failed to adopt demonstrated best practices, and, as a result, the program failed to reach the optimized number of mothers with infants. And also in

Haiti we saw overlapping with Title II programs and USAID programs. As a result, a few beneficiaries get more than what they are entitled to, and some get less.

In Somalia we found inconsistencies on how USAID vendors and sub-recipients were using best practices, with regards to vetting their vendors and their sub-recipients. We have reduced assurance in those areas that USAID is making sure that they are examining whether all these groups have any ties to armed, or terrorist groups, or any other prohibited parties.

We also audited USAID's approach to pre-positioning commodities in the Horn of Africa, and there we noted that USAID had not compared the respective costs and benefits of pre-positioning food in the international ports, compared to what it would cost to ship them from the United States, despite the fact that there was an earlier analysis that had demonstrated that shipping from an international area could cost up to seven times more.

Lack of key monitoring is a key finding, frequent with all our findings, and that often explains why these problems have gone unnoticed, and other problems that we have identified. For example, poor data quality. We have identified a lack of financial oversight, which the GAO report also recognized. And also, not complying with branding and marketing issues. Because of lack of monitoring, these issues are not identified in a timely manner, or they are identified when the audits are performed.

Monitoring deficiencies are of particular concern to us in conflicted area settings. A substantial amount of food that USAID gives is going to these types of areas, and because of security concerns USAID—U.S. direct hires cannot get out—Americans cannot get out and actually see these activities. And, therefore, we take very seriously any thefts or reports, and we actively investigate those, like in areas such as Syria.

Now, I don't want to just leave this on a negative point, because, as Congressman Costa said, this is an important program, and we have seen successes in in-kind commodities. We have talked to direct beneficiaries, who had chronic health issues, and they have shared with us that they have received these commodities, and their health has improved. We have spoken with farmers who said they are seeing improved productivity. They are actually seeing that they are able to now use new technologies that they are learning under the Food for Peace Program. So this is a positive aspect of the in-kind commodity programs.

Moving forward, we plan to continue to execute our oversight plans——

[The prepared statement of Ms. Trujillo follows:]

PREPARED STATEMENT OF CATHERINE M. TRUJILLO, ACTING DEPUTY INSPECTOR GENERAL, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, D.C.

Chairman Rouzer, Ranking Member Costa, Members of the Subcommittee, I am pleased to appear before you on behalf of the Office of Inspector General (OIG) for the U.S. Agency for International Development (USAID). Today, I will discuss USAID OIG's role in overseeing international food aid programs and the work that our office has undertaken to help improve their effectiveness. We appreciate the Committee's interest in ensuring accountability in the provision of United States food assistance and welcome the opportunity to share our perspectives and observations alongside our colleagues from the Government Accountability Office (GAO) and U.S. Department of Agriculture (USDA) OIG.

International food assistance occupies a prominent place among U.S. foreign assistance programs around the world. The U.S. Government's Food for Peace program dates back to 1954 and has served as an enduring vehicle for responding to disasters, crises, and hunger abroad. With more than $1.4 billion in appropriations in Fiscal Year 2014, USAID programs and activities implemented under Title II of the Food for Peace Act reflect a major commitment on the part of U.S. taxpayers to help combat world hunger and malnutrition, promote sustainable agricultural development, expand international trade, foster private sector and market development, and prevent conflict.

The majority of Title II assistance is directed toward emergency programs. This assistance, most of which is provided in-kind, has provided life-saving support as a major component of the U.S. Government's response to sudden and urgent crises abroad, such as earthquakes, floods, drought, and famine. In these cases, USAID typically partners with international aid organizations, such as the World Food Programme (WFP), and nongovernmental organizations, to ensure assistance is delivered to those in need. Conflict and instability can also prompt the need for the emergency provision of food assistance, and these settings present even greater challenges, including direct threats to the lives and welfare of the committed individuals working to deliver aid.

Food aid also has important non-emergency applications, and under current law, a minimum of $350 million must be spent on USAID non-emergency assistance in this area. These funds help provide the basis for development programs around the world that aim to address hunger and malnutrition, bolster agricultural productivity, and increase resilience within target countries.

No humanitarian assistance or development program is without risk, and USAID and other agencies we oversee all face distinct challenges related to the settings in which they operate and how they address both inherent and operational risks. With respect to Food for Peace programs, beneficiaries are often difficult to access due to geography, damage caused by natural disasters, or ongoing conflict and instability. In such settings, infrastructure that may have existed—including roads and other transportation systems, and local and national government response capacity—may not be present or functioning. However Food for Peace programs are ultimately implemented, the ability to effectively manage and respond to these types of risks is a key to program success.

Before I discuss our specific observations about how the Food for Peace program manages these risks, I would like to take a moment to share a little information about our organization. USAID OIG was established in 1980 to combat waste, fraud, and abuse, and to promote economy, efficiency, and effectiveness in USAID programs and activities. Our mandate has subsequently grown to include oversight responsibilities for the Millennium Challenge Corporation, the U.S. African Development Foundation, the Inter-American Foundation, and the Overseas Private Investment Corporation. Our 224 personnel, including U.S. direct hire and Foreign Service National staff, operate from ten locations overseas and our headquarters in Washington, D.C. More than half of our workforce is comprised of Foreign Service and Foreign Service National auditors and investigators who enable us to operate in regional and country offices overseas and help evaluate and respond to risks on the ground. Meanwhile, our civil service personnel undertake oversight work in Washington, D.C., and abroad on a temporary duty basis, and also provide mission critical support through legal counsel, human capital and information technology assistance, and policy, planning, and budget functions. Together, OIG staff represent a formidable team dedicated to improving the way in which foreign assistance programs are executed.

OIG operates independently from the agencies we oversee. Our oversight portfolio is broad, with agency programs that extend across more than 100 countries, and cover activities relating to disaster assistance and reconstruction, health, finance, education, economic growth, and, of course, food security, to name a few. We issue audit reports and undertake investigations into allegations of fraud, criminal wrongdoing, and other misconduct relating to foreign assistance programs. In addition to improving how these programs operate, every year our work yields a net return for the agencies we oversee.

OIG has examined food assistance activities, including those implemented under the Food for Peace Act, as a regular part of its oversight program. In recent years, we have looked at related activities in conflict- and disaster-affected areas as well as those in traditional development settings where assistance is provided under more secure, stable conditions. To help counter risks in both types of settings, OIG has conducted audits and investigations that enabled USAID to improve food aid programs and address conditions that hamper effective delivery of food aid or in which fraud and waste can flourish. In the last 5 years, USAID OIG has issued 12

performance audits and reviews with almost 100 recommendations to promote effective management of food aid programs and activities. Together with our investigative efforts, this work has produced more than $18 million in savings and recoveries for the U.S. Government.

As the bulk of Title II Food for Peace programming involves the provision of in-kind assistance, much of our related work has addressed controls and performance surrounding the effort to transport, store, monetize, or distribute food aid commodities. All points along the supply and distribution chains for food aid are vulnerable to waste and inefficiency, and may also be subject to fraudulent activity. In fact, just last month, the U.S. Department of Justice reached a $836,630 civil settlement with a shipping company used by USAID for food aid transport after an OIG investigation concluded that the company had billed USAID at a higher rate than it should have for more than 4 years.

The application of appropriate internal controls is critical to keeping commodities safe and preventing spoilage over the full course of the logistical chain that links goods to beneficiaries. Our audit work has focused on such controls over Food for Peace program commodities and identified related weaknesses on a number of occasions. During the course of one audit, we found weaknesses such as poor documentation of the delivery of goods to beneficiaries, inadequate supervisory controls, and a lack of segregation of duties. In another, we found discrepancies in records of incoming and outgoing commodities in one of several warehouses we visited. The same audit also noted that USAID did not have an adequate system in place to reconcile these records or identify and resolve discrepancies in a consistent manner, and that USAID had also not tracked losses for the period audited. These audits also identified the substandard storage of commodities, including indications of termite and rodent infestation and conditions that risked mold growth. In one report, auditors noted that USAID appeared ill-prepared to evaluate the usability of commodities or to authorize and effect their disposal. OIG, in turn, recommended measures to improve management and handling of commodities to address these types of issues.

With food commodities delivered and sometimes stored in areas of extreme need, it is also important to guard against theft. We have observed this vulnerability at different levels in our investigative work. In Pakistan, we worked with WFP and provincial education authorities to identify and remove three school employees who had diverted cooking oil and high-energy biscuits from school children and sold them on the local market. By contrast, in East Africa, we found theft on an industrial scale. In that case, U.S. food commodities intended for beneficiaries had been siphoned off to a local milling operation that had converted U.S. wheat into flour for international resale over what appeared to have been an extended period. This, in turn, prompted USAID to terminate funding for the more than $100 million program that had been the source of the stolen commodities.

The effective delivery of food aid also hinges on sound implementation of program plans, such that USAID and its network of implementers execute on a properly considered strategy and achieve overall objectives of providing food assistance to those who need it most. We have, nonetheless, seen indications of weaknesses in Food for Peace program management and coordination over the years. Recent audit work, for example, noted inconsistencies in the delivery of assistance by partners with the effect that, in some cases, beneficiaries lacked access to rations during times of greatest need. In Uganda, OIG found that poor program management contributed to the distribution of some food aid to recipients outside the targeted population. In another case in Somalia, OIG found inconsistencies in how USAID partners vetted vendors and sub-recipients, reducing assurance that best practices had been used in fully examining whether these groups had ties to armed or terrorist groups, or other prohibited parties. Meanwhile, in another country, OIG investigators concluded that food aid had been provided to a group registered with the Department of Treasury's Office of Foreign Assets Control, which enforces sanctions against foreign parties that represent a national security, foreign policy, or economic threats to the United States.

OIG work has also identified other program management limitations in Food for Peace programs. Past OIG work on USAID's approach for pre-positioning food aid found that USAID had not performed a cost-benefit analysis comparing pre-positioning food in international ports against shipping it from the United States, despite an earlier analysis that showed pre-positioning overseas was seven times more expensive than doing so in the United States. More recently, OIG auditors observed that USAID had not implemented recommendations from an evaluation of its Food for Peace activities in Madagascar and failed to follow-up on warehouse fumigation requirements. In Haiti, cooperating sponsors failed to pick up on a demonstrated best practice in implementing their assistance programming with the result that those with the greatest nutritional needs received incomplete coverage for a time.

We also found duplication across Food for Peace activities in Haiti, where Title II programs were overlapping with other USAID activities.

USAID and its implementers frequently gather large volumes of data on program performance and results to support policy-making on food aid programs. Accurate and reliable information is critical to program managers and policymakers alike as they rely on reported data to drive decisions. However, recent OIG performance audits have frequently identified data quality weaknesses, something that has been a challenge for USAID as a whole, and a problem in food assistance programs dating back many years. An earlier report on programs in Niger found that the subject program also had too many indicators and noted that many were too loosely defined to produce meaningful results. Changes to indicators, such as their definitions and the number of indicators, have also presented data quality problems, as we found in a recent audit in Madagascar, where such changes had been made annually, making it difficult or impossible to compare performance across years or identify trends.

Collecting data has also been a source of difficulty in some cases. Sometimes reported data have been found to be unreliable due to under- or over-reporting, the latter of which was revealed in a recent audit in Madagascar. OIG audit work has also identified problems with the accuracy of program data in Syria, Malawi, Mauritania, and Zambia, and inconsistencies in how this data was collected in Haiti.

Finally, ensuring quality across the full scope of Food for Peace activities requires effective monitoring. Yet, OIG has found problems with the frequency or effectiveness of site visits associated with the Food for Peace programs in the past. Audit work has linked insufficient monitoring to several of the issues described earlier, such as problems with data quality and ineffective storage of commodities. Our work has also identified insufficient monitoring as a contributing factor to problems related to branding and marketing and overseeing finances associated with monetization activities. In one instance, weaknesses in program oversight resulted in a failure to ensure that local sub-recipients implementing program activities received required audits. Such audits provide an important measure of assurance that the many implementers and sub-implementers that play a part in food aid delivery can properly manage and account for the resources with which they have been entrusted.

Monitoring deficiencies are of particular concern in conflict-affected settings. USAID provides a substantial amount of food assistance in insecure environments, where U.S. Government and implementer personnel face constraints on their ability to properly oversee activities. Monitoring difficulties in these settings affect the full complement of assistance programs, and our work has confirmed that these weaknesses also apply to Food for Peace programs in these areas. For this reason, OIG closely follows and aggressively investigates reports of loss and theft in conflict zones.

Although OIG has noted several significant challenges facing Food for Peace programs, we have also observed program successes in a number of settings. Our auditors have credited program implementers with leveraging technology, networks of volunteers, and community feedback mechanisms to help meet monitoring needs in challenging security environments. Our work has also confirmed that Food for Peace programs have made a number of significant contributions in targeted areas. People affected by chronic health conditions have described how the receipt of program commodities helped improve their health. Farmers have noted increased productivity and pointed to increased incomes as a result of new agricultural techniques they learned through Food for Peace programs. We have also seen the effectiveness of programs in helping ameliorate conditions in crises around the world through the delivery of food aid to those in desperate need. In addition, OIG audits have noted that Food for Peace programs have improved nutrition and produced health gains for families and communities where they have operated.

To help the U.S. Government's food assistance programs achieve their full potential, USAID OIG will continue its work to assess their performance and help identify and respond to corresponding risks. In line with this commitment, OIG recently initiated an audit of related activities as part of USAID's response to the Ebola crisis in West Africa. Also, as a follow up to concerns raised in past audit work, we plan a review of the use of Food for Peace consortiums in Southern and East Africa and their effect on competition for Agency awards. In the coming fiscal year, OIG plans to assess the performance of Food for Peace programs in Haiti, as well as food assistance in Syria delivered through WFP. As we execute these oversight plans, we will also continue to examine the U.S. Government's broader effort to address food insecurity by auditing USAID's role in the Feed the Future initiative as well as activities to improve nutrition and strengthen agricultural value chains.

Thank you for the opportunity to address the Subcommittee on this very important component of U.S. foreign assistance. We appreciate the Subcommittee's interest in and support of our oversight efforts and welcome the opportunity to learn more about your interests and concerns as we continue to work to help ensure that foreign assistance programs operate as effectively and efficiently as possible. I would be happy to answer any questions you may have at this time.

The CHAIRMAN. We will need to move to the next witness. I have let you go about——

Ms. TRUJILLO. I am so sorry.

The CHAIRMAN.—about 2 minutes over. That is okay. You can make it up during the answering of questions.

Ms. TRUJILLO. I apologize.

The CHAIRMAN. No problem. Mr. DeSmet?

STATEMENT OF RODNEY G. DESMET, DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDIT, USDA OFFICE OF INSPECTOR GENERAL, WASHINGTON, DC.

Mr. DESMET. Good morning, Chairman Rouzer, Ranking Member Costa, and Members of the Subcommittee. Thank you for this opportunity to discuss OIG's oversight of USDA' Food for Progress program. As you know, a large part of OIG's mission is to promote the efficiency and effectiveness of USDA programs, such as Food for Progress, by performing audits to reduce fraud, waste, and abuse. Our audits are designed to determine if programs are functioning as intended, and when we identify problems, we make recommendations that we believe will help USDA agencies better accomplish their missions.

FAS administers the Food for Progress program through agreements with various entities, including private voluntary organizations, or PVOs. FAS's responsibilities include monitoring these agreements, including the receipt and disposition of donated commodities, in-country oversight, and close out reviews.

Since 1999 OIG has conducted three audits addressing FAS's administration of the Food for Progress program. In these audits we evaluated the effectiveness of FAS's implementation of its corrective actions to prior audit recommendations. Although we have found improvements in FAS's administration of the program, we continue to report systemic internal control weaknesses. Many of these weaknesses could have been mitigated if FAS had effectively implemented corrective actions in response to OIG's earlier recommendations.

In response to our 1999 audit, FAS agreed to strengthen its management controls. However, in 2006, we found that FAS had not effectively implemented corrective actions to address previously reported weaknesses in its oversight of PVO agreements. We reported that FAS controls for monitoring PVOs could not provide reasonable assurance that USDA program objectives were being met, or that funds were being spent appropriately.

OIG commends FAS for taking several positive actions in response to our 2006 audit. However, many of the systemic deficiencies identified in 1999 and 2006 continue. In our 2014 report, OIG again reported that FAS does not have effective controls in place to monitor and close out its agreements with the PVOs. These weaknesses resulted in questioned and unsupported costs totaling over $685,000. As a result of these findings, OIG specifically

recommended that FAS designate a senior management official with sufficient authority to ensure that all current and prior recommendations are fully addressed in a timely manner.

GAO, and private consulting firms contracted by FAS, have reported similar internal control weaknesses. In 2011 GAO recommended that FAS establish a monitoring process for measuring program progress and develop policies and procedures for closing out grant agreements. And in 2013, a private consultant reported that FAS still has significant internal control issues with respect to oversight and accountability. Based on our audits, together with work from GAO and independent consultants, we concluded that until FAS strengthens its management oversight and accountability, it cannot ensure that Federal resources expended on the Food for Progress program are being efficiently and effectively utilized.

This concludes my testimony. I again want to thank the Subcommittee for the opportunity to brief you today, and I welcome any questions you may have.

[The prepared statement of Mr. DeSmet follows:]

PREPARED STATEMENT OF RODNEY G. DESMET, DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDIT, OFFICE OF INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Good morning, Chairman Rouzer, Ranking Member Costa, and Members of the Subcommittee. I thank you for inviting me to testify before you today to discuss the Office of Inspector General's (OIG) oversight of the Department of Agriculture's (USDA) Food for Progress Program. As you know, a large part of OIG's mission is to promote the efficiency and effectiveness of USDA programs, such as Food for Progress, by performing audits to reduce fraud, waste, and abuse. Our audits are designed to determine if a program is functioning as intended, if program payments are reaching intended recipients, and if funds are achieving their intended purpose. When we identify problems, we make recommendations that we believe will help USDA agencies better accomplish their missions.

To avert famine and encourage economic development, USDA supports food aid programs in many countries worldwide. Within the Department, the Foreign Agricultural Service (FAS) is responsible for administering food aid programs through several program authorities. The first is Public Law 83–480, Titles I and II,[1] which are the primary means by which the United States provides foreign food assistance. Another is the McGovern-Dole International Food for Education and Child Nutrition Program (McGovern-Dole Program),[2] which supports the donation of U.S. agricultural commodities as well as financial and technical assistance to carry out school meal programs in foreign countries. Maternal, infant, and child nutrition programs also are authorized under the McGovern-Dole Program. The Food for Progress Program, which is the topic of this hearing, was authorized by the Food for Progress Act of 1985.[3] This Act authorizes the provision of U.S. agricultural commodities to both developing countries and emerging democracies with demonstrated commitments to free enterprise in their agrarian economies.

FAS administers the Food for Progress Program through agreements with foreign governments, nonprofit agricultural organizations, cooperatives, intergovernmental organizations, and private voluntary organizations (PVOs). PVOs are charitable, nonprofit organizations. The Food for Progress Act provides for the use of Commodity Credit Corporation (CCC) funding for commodity procurement, transportation, and associated non-commodity program costs. For Fiscal Year 2016, the Department plans to budget $135 million in CCC funding for the Food for Progress Program. Under this program, participants use the donated commodities (or proceeds from the monetization of such commodities) to promote humanitarian and developmental activities, pursuant to their agreement with CCC. CCC funds are used to cover expenses involved in the administration and monitoring of the food aid ac-

[1] Agricultural Trade Development and Assistance Act of 1954, 83 Pub. L. No. 480.
[2] 7 U.S.C. § 1736o–1.
[3] 7 U.S.C. § 1736o.

tivities under the agreements. Congress reauthorized the Food for Progress Program in the Agricultural Act of 2014.[4]

Within FAS, the Office of Capacity Building and Development (OCBD), Food Assistance Division (FAD) is responsible for administering and evaluating Food for Progress Program agreements from the proposal stage through the duration of the agreements. FAD's responsibilities include monitoring agreements through a review of required reports—including the receipt and disposition of donated CCC commodities—as well as in-country oversight of project operations and close-out reviews to assess the PVOs' administration of foreign food aid from start to finish.[5]

Since 1999, the Office of Audit has conducted a number of audits addressing FAS' administration of the food aid programs; our last report was issued in March 2014. In these audits, we have evaluated the effectiveness of FAS' implementation of its agreed—to corrective actions to earlier audit recommendations. Although we have found improvements in FAS' administration of the Food for Progress Program, we continue to report systemic internal control weaknesses in FAS' administration of this Program. Many of these internal control deficiencies could have been mitigated if FAS had effectively implemented its agreed-to corrective actions in response to OIG's earlier recommendations. Furthermore, we have found a number of reviews—issued by the Government Accountability Office (GAO) and private consulting firms contracted by FAS—which report similar internal control weaknesses.

Specifically, we reported in 2006 that, although six of eight reviewed PVOs generally complied with their agreements, FAS' controls for monitoring PVOs could not provide reasonable assurance that USDA's program objectives were being met—or that funds were being spent appropriately. OIG concluded that, due to these internal control weaknesses, one PVO was not held accountable for violations of its grant agreements leading to the loss of $2.2 million. Although FAS learned about possible grant irregularities in November and December of 2000, it still had not, as of OIG's 2006 report, reviewed the PVO's compliance with its agreements.[6]

Several years earlier, in response to OIG's March 1999 audit, FAS agreed to strengthen significant aspects of its management controls. However, OIG's 2006 review found that the agency did not effectively implement corrective actions to address previously reported weaknesses in FAS' oversight of PVO agreements.[7] FAS officials explained that, though they had attempted to obtain adequate funding and staffing to review PVOs' use of agreement monies, they nevertheless had fallen short of the level of oversight recommended by OIG.

OIG commends FAS for taking several positive actions in response to the March 2006 audit, such as developing and implementing a Food Aid Information System for administering food aid agreements; providing staff training; issuing new regulations; and hiring consultants to assess management controls over food aid programs. However, many of the systemic deficiencies identified in our 1999 and 2006 audits persist. In our 2014 audit, OIG continued to report management control weaknesses in FAS' Food for Progress Program. For example, OIG reported that FAS does not have effective controls in place to monitor and close out its agreements with PVOs. Further, OIG found that FAS' internal controls did not ensure: (1) that PVOs reported financial information completely and accurately in their semiannual reports; (2) that PVOs established separate bank accounts to administer agreements; (3) that interest earnings on advanced CCC administrative funds held in interest-bearing accounts were reported and returned to FAS; and (4) that completed agreements were timely and properly closed out. These weaknesses resulted in questioned and unsupported costs totaling over $685,000. In response to these findings, OIG specifically recommended in 2014 that FAS designate a senior management official, who has sufficient authority, to ensure all current and prior recommendations are fully addressed in a timely manner.

In addition to OIG's findings in 1999, 2006, and 2014, GAO and a number of independent consultants contracted by FAS also have reported ongoing deficiencies with FAS' management controls and oversight. In May 2011, GAO issued an audit of FAS' McGovern-Dole Program and recommended that FAS establish a monitoring process for measuring program progress and develop policies and procedures for evaluating completed projects and closing out grant agreements. FAS agreed with

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[4] 113 Pub. L. No. 79, § 3201.

[5] OIG Audit 07601–0001–22, *Private Voluntary Organization Grant Fund Accountability,* March 2014.

[6] OIG Audit 07016–1–At, *Foreign Agricultural Service Private Voluntary Organization Grant Fund Accountability,* March 2006.

[7] OIG Audit 50801–6–At, *FAS Food for Progress Program PVOs Grant Fund Accountability,* March 1999.

GAO's recommendations, acknowledging that proper monitoring and evaluation are essential to improving management oversight of the McGovern-Dole Program.[8]

FAS also has contracted with a number of independent consultants, who have found similar weaknesses in FAS' control environment. One of these consultants performed an internal control and corrective action assessment of the Food for Progress Program and the McGovern-Dole Program. In its 2013 report, this consultant found that, "FAS has made incremental progress towards remediating these [earlier reported] findings and recommendations; however, overall corrective actions have not been fully implemented and there remain several deficiencies that exist within current processes." This report also found that "the deficiencies identified in this assessment in addition to the recurring concerns identified in prior audits demonstrate that FAS still has significant internal control issues with respect to oversight and accountability of operations."[9]

Based on our reports, together with reports from GAO and independent consultants, we believe that, until FAS significantly strengthens its management oversight and accountability, it cannot ensure that Federal resources expended on food assistance programs are used efficiently and effectively to relieve global food crises and to encourage economic development. This concludes my written statement. I again want to thank the Subcommittee for the opportunity to testify today. I welcome any questions you may have.

The CHAIRMAN. Thank you very much. We will each have 5 minutes for questions, and I am going to start off with Mr. Melito.

It is my understanding that section 202(e) funds may be used to augment those funds specifically allotted for monitoring oversight and evaluation. However, it seems that USAID, especially after the changes made in the last farm bill, is more focused on using section 202(e) funds for cash-based assistance that is already possible through the separate Emergency Food Security Program. Do you agree with that assessment, and do you think that section 202(e) funds could be used more efficiently to improve the monitoring of deficiencies identified in your work?

Mr. MELITO. We recognize that the Farm Bill of 2014 gave USAID more flexibility for using section 202(e), and also increased the funding by about 50 percent. We are in conversations with your staff about actually looking at how those funds are being used. We currently don't have a good handle on exactly how USAID is using those funds, but one of the things we definitely want to understand is whether or not they are taking advantage of the flexibilities they have for monitoring and evaluation. That is an area where we have concern—haven't been done enough—and section 202(e) does seem like a funding source for them to actually address these deficiencies.

The CHAIRMAN. Ms. Trujillo, we sometimes hear about inefficiencies with in-kind donations, but USAID OIG's body of work suggests that most problems with in-kind assistance are due to the on-the-ground implementation issues, and a general lack of oversight and monitoring. In other words, it sounds like most of what you have observed is simply the result of USAID's mismanagement of the authorities already granted, and failure to act on a litany of recommendations OIG has made. Is that a fair assessment, in your view?

Ms. TRUJILLO. As I shared in my testimony, we have covered, in the last 5 years, 12 different audits and reviews. Looking across the entire body of work, monitoring has been an issue that we have

[8] GAO–11–544, *International School Feeding: USDA's Oversight of the McGovern-Dole Food for Education Program Needs Improvement,* May 2011.

[9] Morgan Franklin Consulting, *Foreign Agricultural Service—Food for Progress and McGovern Dole Program Assessment,* September 2013.

identified as a cause for many of the problems that we have seen in the management of these programs.

So we have reported that as a program deficiency with USAID's oversight, and also too the oversight responsibilities that the different implementing partners are responsible to do as well. As part of their plans they are required to identify their monitoring plans. And we often find those plans lacking in implementation.

The CHAIRMAN. Well, as a natural follow up, could we not see the same, if not worse, problems with cash-based assistance?

Ms. TRUJILLO. And as I mentioned, there is risk that is inherent in everything that USAID does. Whether they are using any type of cash modalities, local regional purchases, or the in-kind, yes, if there are vulnerabilities, and USAID is not taking the appropriate actions to mitigate those vulnerabilities and those risks, we are going to see losses, and we are going to see a higher risk of loss in those areas. USAID works in the environments, as Congressman Costa said, that are vulnerable for fraud, waste, and abuse, so it is critical that those internal controls and those mechanisms are put in place for any kind of modality that USAID uses.

The CHAIRMAN. Mr. Melito, in our last hearing it was implied by USAID that delivery of immediate cash was very limited. Yet, as many of you know, during a full Committee hearing I sit almost up there at the witness table, I heard this firsthand. The USAID witness stated it is not cash in terms of $100 bills, it is vouchers. Now, is it true that cash assistance is only in the form of vouchers, or are you aware of cases where USAID is indeed handing out cold, hard cash for food assistance?

Mr. MELITO. Mr. Chairman, we are well aware of the use of physical cash in the system, and my team observed the distribution of cash in both Niger and in Kenya.

The CHAIRMAN. That completes my questioning. Mr. Costa?

Mr. COSTA. Yes. Thank you, Mr. Chairman, and I want to apologize in advance to the Members of the Subcommittee and witnesses. I have another hearing going on concurrently on an important piece of legislation affecting California and the drought conditions, so I am going to ask these questions in the next 5 minutes, and that will probably be the extent of my presence for this morning.

For all the witnesses, you have given your pros and cons on direct food aid *versus* cash-based assistance. Let me just ask all three of you on your preference. Mr. Melito, direct food aid or cash-based assistance?

Mr. MELITO. They are both the right choice in certain circumstances, and they are wrong in the other. And part of what we are doing now at GAO is a follow on study to try to understand when those circumstances are correct.

Mr. COSTA. Ms. Trujillo?

Ms. TRUJILLO. I have to echo Mr. Melito's comments. USAID has to make complex decisions on how they are going to balance that, and it is important that those——

Mr. COSTA. You are saying one size doesn't fit all?

Ms. TRUJILLO. One size does not fit all, correct.

Mr. COSTA. Okay. And do you agree, Mr. DeSmet?

Mr. DESMET. Sir, USDA has not done any work on the cash-based side.

Mr. COSTA. Now, it is interesting, because as a part of our fact finding we find ourselves in different parts of the world, and when we get our mission briefing at embassies, they are usually as a representative of the USDA. I would assume that the USDA representative in our embassy there in this country that is providing where support is being received, either cash-based or direct food aid, would have a sense, along with some other elements of the embassy, as to what is the best way to provide that. I mean, is that some sort of a consultation process? How is the decision ultimately made as to which size fits?

Mr. MELITO. When we were looking at the grant approvals for the cash program, it was a dialogue between the implementing partners and USAID, and it did involve issues of how quickly the food may be needed for the emergency, the availability of food in the market itself, because if there isn't food in the market, then a cash program is not going to work, as well as the appropriateness of it. There was a discussion between USAID and the implementing partner on these factors, and they did basically make the justification for cash once they determined that those three factors were met.

Mr. COSTA. Did you find there is a more likelihood or evidence that cash or vouchers are more likely to be diverted, or used more fraudulently, than in-kind food commodities?

Mr. MELITO. GAO has raised concerns about diversion for both the cash program and the commodity program, and in both cases one area where we really wish they would improve is measurement of loss. That would become a statistic that you would use to see whether the program is improving over time, and the measurement of loss is weak for both the commodity program and the cash program.

Mr. COSTA. Did your study end up taking a look at what other contributors, of the international community—there are folks in the EU and others that also provide support and assistance—whether they were providing in-kind food donations or cash?

Mr. MELITO. Almost every other donor in the world provides resources through the World Food Programme, and then lets the World Food Programme decide how to use those resources. So, for the most part, they are giving money to the World Food Programme to either buy commodities or to provide cash. The U.S. Government, while being the largest provider of all modalities, is also the only one providing physical commodities in any large number.

Mr. COSTA. Ms. Trujillo, your investigation revealed areas of increased risk for fraud or diversion with cash or voucher distribution programs in U.S. commodities. If, in fact, those that you have discovered, and some you noted in your testimony, what efforts are you making to implement to the partner or the suspects what that fraudulent activity is doing, and what actions do you take?

Ms. TRUJILLO. Thank you for that question. Our investigators are very aggressive, as I mentioned, in following up with any allegations of criminal acts or fraud. In the cases where the investiga-

tions have concluded that a criminal act was done, we work with the Department of Justice, we work to get these cases——

Mr. COSTA. On a case by case basis? Are you working with the embassies as well in these countries?

Ms. TRUJILLO. Well, if it is an American-based implementer, we will be working through—with—notifying the embassy, but we are working largely with the Justice Department here in the United States to resolve these and take actions.

Mr. COSTA. No, I am just wondering, but with cutback of resources, we have these embassies there on the ground, they are where the rubber meets the road. Most of these embassies, to the degree they are staffed up, have a lot of resources, and they know kind of what is going on in the country, and where the—most of the corruption lies.

Ms. TRUJILLO. Yes.

Mr. COSTA. So it seems to me—and a lot of times USDA or others have people in those embassies.

Ms. TRUJILLO. Right.

Mr. COSTA. So I am just trying to understand——

Ms. TRUJILLO. Right.

Mr. COSTA.—if you work with them as well.

Ms. TRUJILLO. We do have investigators that are actually posted overseas, and we cover USAID regionally through these overseas offices. These investigators do collaborate with the other law enforcement agencies that are there, so there is coordinated investigative efforts on any allegations of fraud, especially those that cut across the different agencies there, yes.

Mr. COSTA. Thank you very much. My time has expired.

The CHAIRMAN. I noticed that the Chairman of the Committee, has just arrived.

Mr. CONAWAY. I will ask questions in the correct order.

The CHAIRMAN. Very good. I will turn to our friend from Florida, Mr. Yoho.

Mr. YOHO. Thank you, Mr. Chairman, I appreciate this important Committee hearing. I appreciate you all being here. Mr. Melito, I appreciate your directness and unfettered reports.

The purpose is to make sure that the money that the American people are taxed for to provide relief to people in need go to the people that it was intended to. And when I look at the Public Law, this is not something new we are doing. We might be going into a new era, but when I look at the 1954 Public Law on agricultural trade and development, it states the law's original purpose was to expand international trade to promote economic stability of the American agriculture, to make maximum use of surplus ag commodities in the furtherance of foreign policy, and to stimulate the expansion of foreign trade in agricultural commodity products in the U.S.

And, of course, it has morphed since then, now it is a humanitarian goal, in addition to those others. And I find disturbing that—Ms. Trujillo, you were talking about that it took you 4 years to find a deficiency in the program, yet it hasn't been corrected. Take me through the process of you going into a country—because I know we have conflict countries, and we have non-conflict countries. Going into a country to set up a program where you set up

that program, you initiate it, whether it is food, whether it is vouchers, whether it is cash—and I agree 100 percent with Mr. Costa's assessment. I would rather give commodities. I know it is more expensive, but it is more representative of America, and the taxpayers would be better served by doing that, as our farmers would be.

So when you go into a country, and you set up a program, I would assume you have a program that says, all right, this is the beginning of it, and we are going to distribute throughout the region, and these are the metrics we are going to set up, and we are going to follow those so that we can measure so there is no fraud, there is no waste, there is no abuse. How do you do that, and if you do it properly, there shouldn't be a miscommunication of where would the money go?

Ms. TRUJILLO. Thank you for that question. It is USAID's responsibility to identify up front, as part of their program design, what are those risk factors that they need to consider in doing exactly what you are talking about. When they set up a program in country—much of the Food for Peace programs are centrally managed here out of Washington, so Washington should be involved in that. They set up those metrics. They set up what those controls are, and they should be monitoring that. That is their responsibility. Our responsibility, as an oversight body, is to make sure that those processes and procedures are being followed.

Now, why did——

Mr. YOHO. Okay, I am going to interrupt you——

Ms. TRUJILLO. Why——

Mr. YOHO.—there. You are supposed to monitor and make sure they are being followed, but yet when I look at what Mr. DeSmet said, that FAS, since 1999—OIG recommended they make these changes, that is 16 years it takes. It sounds like the changes weren't made to be held accountable. Why is that?

Ms. TRUJILLO. Is this for Mr.——

Mr. YOHO. Well, you are the one on the ground. He is up in Washington. I would like to hear from both of you, if I have time.

Mr. DESMET. Again, FAS has made changes, and has responded to each of our recommendations, in 1999, and 2006, and 2014. What we found, though, is——

Mr. YOHO. I think you said they didn't do it in a timely manner.

Mr. DESMET. They did not, and they didn't go far enough. They come back, and in the last audit we did, and in the 2006 audit also, they come back with staff—they did not have the staff and the resources to implement all of their changes timely, and they prioritized their resources to get the grants out, rather than on monitoring and closing out the——

Mr. YOHO. I come from the private-sector, and if we had a business that was running like that, and we tasked people to manage that business, and they don't perform that way, we would fire that person. And if you are set up to have it staffed to do that, why are people not being held accountable for that? Because, I have to go back to my district and sell to the people in my district that we are giving cash to foreign countries, yet I have people struggling in my district. And I just find it unconscionable that we are not

doing a better job spending the American taxpayers' money in a responsible manner. I am about out of time, but go ahead, quickly.

Ms. TRUJILLO. Well, I just wanted to mention, our oversight effort is on the ground, as you mentioned. We are looking at the activity. So for every one of these examples that I gave you, we provided recommendations to address the cause for why monitoring wasn't happening effectively. It is USAID's responsibility, and we followed up with those actions that they have taken.

So for that one particular activity, we will go back, and we will look to see, have those actions been implemented? And often the case it hasn't. That has been one activity. USAID implements hundreds of activities. So——

Mr. YOHO. I am out of time. I appreciate it, Mr.——

Ms. TRUJILLO. Okay.

Mr. YOHO.—Chairman. I yield back. Thank you.

The CHAIRMAN. Ms. Plaskett?

Ms. PLASKETT. Yes, good morning. I was looking at your statement, Ms. Trujillo, and I saw that you talked about over-reporting. There are problems of under-reporting and over-reporting, and that then plays a part in your determining whether there are efficiencies in the program. What would be over-reporting, and how would that impact your reports?

Ms. TRUJILLO. Well, that particular issue was discussed when we talked about data quality. Data is important. Data is what is used to make decisions. And in this particular case, an implementer is identifying to USAID and reporting that they have reached a certain number of beneficiaries. And when we go out and we verify the information that they have stored, their data, we identify that, no, they either misrepresented that number because of errors in their monitoring and evaluation system, so they are over-reporting what they have actually achieved on that one particular activity. And that is what we meant by that.

Ms. PLASKETT. Okay. And could you explain, you may have done it previously, cash transfers? I don't know which witness would best be able to do that for me. What exactly are cash transfers, and how do they work in the food aid context?

Mr. MELITO. The use of cash is done in one of four ways.

Ms. PLASKETT. Yes.

Mr. MELITO. In one extreme it is the actual passing out of physical cash. Then there is the use of a financial institution, so you would have money that the beneficiary can go and receive from the bank, or a bank-like entity. And then there are two types of vouchers. There are physical vouchers, and then there are electronic cards that function like a voucher. Those would be the four ways that cash transfers are used.

Ms. PLASKETT. And it is determined by what, the efficiencies in the particular area that that money is going to be used?

Mr. MELITO. The determination is multi-faceted, but for either extreme it is basically on how developed the financial system is. You couldn't use an electronic voucher in places that don't have a financial institution that can use it. We are seeing it in Jordan, which has a fairly developed financial system, but we didn't see it in Niger, in a rural area of Niger, where you had to basically rely on much more traditional methods. And there we actually saw the

use of physical cash. So once they have determined they are going to use a cash-type transfer, they then figure out the modality that seems most appropriate for that particular beneficiary.

Ms. PLASKETT. In your estimation, what is the likelihood—are we going to be going to more cash, or will this be stable, or will we still have the continuance of commodities going to these countries?

Mr. MELITO. The use of cash has grown steadily since 2010, but it has come out of the EFSP, which is the 150 account on the foreign assistance side. The use of commodities has remained steady under Title II during this time, so——

Ms. PLASKETT. So has there been a decrease in commodities going?

Mr. MELITO. No, there has not. The decrease, only in terms of the tonnage, goes up and down based on price and such, but the program has been steadily funded, and that is still the single largest modality.

Ms. PLASKETT. So you say the tonnage goes up and down based on price, or based on the need that are in specific areas that you have identified?

Mr. MELITO. It is both. It fluctuates between about $1½ billion to $2 billion a year, based on whether or not there is a new emergency that is coming out, but then the price of food itself does determine tonnage as well.

Ms. PLASKETT. So if food is costing more, then we are sending less?

Mr. MELITO. There are times when high prices of food does impact the tonnage, yes.

Ms. PLASKETT. Even if the need is still there?

Mr. MELITO. Well, this is one of the reasons USAID would like to have flexibility, because they also want to be able to purchase food locally and regionally, where the prices may be better or use cash. The opportunities that the three modalities of cash, local regional procurement, and U.S. commodities give them is to basically try to smooth out those kind of uncertainties.

Ms. PLASKETT. And in areas—and I am running out of time quickly. In areas where they do not have their own crops, or the means to purchase any foods, what are we doing in the long-term, aside from just the commodities in those areas?

Mr. MELITO. Well, under the Feed the Future initiative, they are trying very hard right now to improve agricultural productivity across the world. And I am sure, in countries like that, the focus is not just on the immediate need, but on dealing with the chronic underlying problem.

Ms. PLASKETT. Okay. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. King from Iowa?

Mr. KING. Thank you, Mr. Chairman. I appreciate this hearing, and I appreciate the witnesses. It raises my curiosity, Ms. Trujillo, when you talked about some of the aid being siphoned off in Africa, and I would ask if you could flesh that out a little bit more on which countries, and how that actually happened?

Ms. TRUJILLO. This was the situation in East Africa, where it was commodities—it was wheat that was siphoned off, taken to a milling factory, made into flour, and then sold internationally.

Mr. KING. And what country?

Ms. TRUJILLO. You know what, I don't have—forgive me.

Mr. KING. Just——

Ms. TRUJILLO. Can I get back to you——

Mr. KING. That is fine. If you could get back to us after the hearing, that would be fine.

Ms. TRUJILLO. Okay.

[The information referred to is located on p. 43.]

Mr. KING. I wanted to also ask you about the coordination of food aid to those who are receiving anti-retroviral drugs. Can you talk a little bit about that kind of coordination, just for the benefit of the Committee, in case we haven't come across that, that those drugs are not particularly effective unless there is high protein food also that goes along with them. And if we ensure that the people that are taking anti-retroviral drugs also have access, especially to high protein food, then the drugs are effective. If they are not, the drugs aren't effective.

What about the level of coordination so that we are ensuring that high protein nutrition is available to the people that are also receiving medication that are HIV positive?

Ms. TRUJILLO. When we design our audits to look at USAID's programs that are intended to reach individuals who have these nutritional needs, we look to that to see if the commodities, the food that they are getting, is being distributed in accordance with the way they intended to distribute it. If we were to identify in any situation that those populations were not getting that, that would be one of our findings in our report.

Mr. KING. Is——

Ms. TRUJILLO. As far as coordination, I can't speak to that specifically——

Mr. KING. Yes.

Ms. TRUJILLO.—the level of coordination.

Mr. KING. You are talking about a report that is written, or one that will be written?

Ms. TRUJILLO. No, I am just saying that, in the course of our oversight work, I mean, we conduct performance audits——

Mr. KING. Yes.

Ms. TRUJILLO.—for the purposes of determining if USAID is achieving its intended results. For example, I spoke to a situation in Haiti where we identified that a consortium of implementers were using inconsistent distribution practices, and we noted a population of mothers with infants who should have been getting more nutritional assistance, more nutritional help, but they were overlooked because of these inconsistent practices.

Mr. KING. Could you explain what an inconsistent distribution practice is when you use that vernacular?

Ms. TRUJILLO. Yes, I can. I apologize for my technical vernacular. USAID uses one implementer, who then might be sub-implementing with other partners. Each partner has maybe a geographic responsibility. The concern, and what we have brought up many times, is that even though USAID is working with one partner, who is working with four partners, everyone is pretty much working how they see as it best fits their needs.

But sometimes there are best practices that could be adopted across all of the implementing partners to ensure that there is fair-

ness and equity across all the distributions. We don't see that. Sometimes somebody is doing a practice that is much better than others, but it is not being effectively coordinated.

Mr. KING. Sometimes someone will come up with a very good idea and make it more efficient——

Ms. TRUJILLO. Yes.

Mr. KING.—as well as sometimes it gets out of control. It is the——

Ms. TRUJILLO. Correct.

Mr. KING.—nature of the beast.

Ms. TRUJILLO. So we see more efficient work in one area than we see in the other, and it is under the same program.

Mr. KING. Yes. I am also interested: is there essentially a holistic view of this, particularly in Africa, where, if they had irrigation water, they have soil that would produce. Are you aware that there is any effort putting together a package that could eventually transition us out of this food aid and into the support for ag production so that they could sustain themselves?

Ms. TRUJILLO. Well, that is what I was going to end with, before I ran out of time. Our ongoing effort, moving forward, we are going to be focusing on Feed the Future, and looking at exactly this. We are going to be looking at how USAID is implementing programs to improve agricultural value chains, to teach new technologies to farmers so that they can be more productive.

So this is going to be a focus not only with Feed the Future in Haiti, and in—I lost my train of thought on the next one. But anyway, we have our plan moving forward for 2016, and we have identified Feed the Future as one of our priority areas moving——

Mr. KING. That is fine, thank you. I will be very interested in that as that unfolds. I appreciate it, and I yield back, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. King. Mr. Kelly? And again, welcome to the Subcommittee.

Mr. KELLY. Thank you, Mr. Chairman, and thank you to the witnesses for being here today. Just a few brief questions. Number one, what percentage now of our aid goes with in-kind *versus* cash? What percentage would you say is each?

Mr. MELITO. It is a rough number, when you combine both Title II and the Emergency Food Security Program (EFSP), it is about 55, 60 percent in-kind, and the rest is local and regional procurement (LRP) or cash.

Mr. KELLY. Okay. A follow up on that, and more of a statement than a question. The question will follow. I think it is inherently important that we understand the value of when we send these in-kind, the presence of USAID on the side, USAID on the side of those bags, and people seeing those, that shows our presence there, and we lose that with the invisibility of cash, or those type of transactions. So I think that is important to show that we are helping the world when we are doing that.

What basis—and I know you have kind of answered this, so basis is probably not the—quite the answer I am looking for. What criteria are you using to determine whether or not it is in-kind *versus* a cash transaction? Are those things like the maturity and the cor-

ruption level of a government, or are they the location of that government, what criteria is used, if you can explain that?

Mr. MELITO. So we explained, on the program side, what they are looking at to decide whether cash was the right modality, and that included the need for speed—if the crisis was unfolding rapidly, whether or not there is actually food available in the market, because if there isn't food available in the market, then you don't want to bring cash into it. You will have price increases without any benefit. And then, finally, whether you are more likely to get appropriate food to the beneficiary. So this is all on performance side. We observed that they did not do what we called comprehensive risk assessments on the financial control side.

So the market itself may be appropriate because there is enough food available that you bring cash in, and it could work, but you also need to determine whether or not there is a financial entity on the other side you can trust and work with, and you need to make sure that you have mitigation strategies in place if financial problems arise. So there are two sides to this. There is making the program effective, in terms of feeding people, but also there is a side of making sure the proper accountability for the funds is in place.

Mr. KELLY. And again, I just want to make sure that we are doing the best thing to get food in the hands of those who most need it. And from a little bit of different perspective that I had, in my 2005 tour in Iraq, we had to deal a lot with local governments, and I had to deal with 3½ different provinces. And so with each of those local governments within that nation, we dealt differently in how we distributed relief, or products, or whatever we were dealing with to those local governments based on the local governments. How can you give me a comfort level that we are doing the same thing with USAID to make sure that the right, whether in-kind or cash, is going to the right person which best assists us in getting food in the right people's hands?

Mr. MELITO. We did observe several distributions of either cash or vouchers for our case study countries, and as part of the distribution, we made sure that the basic control structures were in place. They had a verified list of beneficiaries in advance. There was an attempt to make sure that the person who was coming forward was the person who was on that list. There was something like a thumbprint recorded to demonstrate that that person was that person. We also looked at the reconciliation process on the other end.

We did find some level of assurance that we wanted to see, but there were still weaknesses.

Ms. TRUJILLO. And as well, if I could just add, during the course of our work, as I said, we are on the ground. We will verify with the beneficiaries, asking them did they know, first of all, what they were supposed to receive, and did they receive it? And we try to verify what was the quality of it, and is it helping as it was intended to help?

Mr. KELLY. Mr. Chairman, I yield back the remainder of my time.

The CHAIRMAN. I now recognize the Chairman of the full Committee, Mr. Conaway.

OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

Mr. CONAWAY. Well, thank you, Mr. Chairman. Thank you all for being here. In how many countries do we operate food programs, including any of the three modalities?

Mr. MELITO. I am going to probably have to get back to you. There were 28 countries for cash, but the number is in excess of 40, when you bring all the modalities. But I will get back to you with that.

[The information referred to is located on p. 43.]

Mr. CONAWAY. So then a range of 40?

Mr. MELITO. Yes.

Mr. CONAWAY. I mean, no one modality fits any one country particularly, in terms of these kind of questions.

Mr. MELITO. They are generally using multiple modality——

Mr. CONAWAY. Ms. Trujillo, you talked about a case in East Africa with theft on an industrial scale. How do we make sure that the folks who perpetrated that problem—and they may or may not be prosecuted locally—but how do we make sure that we are not dealing with those folks again 2 years later because of exigencies on the ground that allow these folks to come back into the system? How do we know that we are not still dealing with the bad guys? And, again, there are 40 countries, so you have 40 answers, I guess.

Ms. TRUJILLO. And that is a very important question.

Mr. CONAWAY. I wouldn't have asked it otherwise.

Ms. TRUJILLO. Yes, that is a very important question, yes.

When we do meet a lot of bad guys, and so we coordinate closely with USAID. We work to have either the individual or the company debarred, suspended, so that they cannot——

Mr. CONAWAY. But in each of these countries, are their reporting systems good enough that the local USAID folks, who turn over from time to time, don't we wind up working with the same bad actors, 4 years down the road?

Ms. TRUJILLO. Well——

Yes. Well, all of these risks need to be considered in the actual procurement.

Mr. CONAWAY. And who does that? Is there a local USAID person on the ground that has full responsibility deciding who is the implementer or who is not?

Ms. TRUJILLO. Where USAID operates, in the mission office, which they operate in close to 100 countries, there are contracting officers and agreement officers who have that responsibility to take proper due diligence, and ensure that, during the solicitation process and the award process, that there are decisions made, and they have gone through and determined if there are any individuals who shouldn't be receiving awards, they are not getting it. Now, is it foolproof?

Mr. CONAWAY. Yes.

Ms. TRUJILLO. You will——

Mr. CONAWAY. You have a fighting chance though, right?

Ms. TRUJILLO.—see people move from one to the other, and they have had problems with one, and you see them pop up in another, and that is when we hear about that, from an investigative stand-

point. As I have mentioned in my testimony, we are very aggressive at following up on these types of activities and any allegations of——

Mr. CONAWAY. Yes. About Haiti, have you found duplication across Food for Peace and other activities in Haiti, where Title II programs are overlapping with other USAID activities?

Ms. TRUJILLO. Well, USAID, as you know, in Haiti they run a mission as well that has all the sectors. They work in agricultural and development, health, education. On those portfolios, where they are also trying to reach beneficiaries to help them with health issues, and with food issues, they are running programs. The Food for Peace office is running programs as well. And in these cases, where there is a lack of coordination between the two offices within USAID, we have seen where activities have actually gone on top of each other.

Mr. CONAWAY. That can't be an official policy, that they don't operate together. There has to be some sort of a policy statement that they coordinate. Is that failure personality driven? Is this a case where the people running Food for Peace and the other programs didn't get along, or they just didn't care? What was the issue there?

Ms. TRUJILLO. No. The policy is that they are supposed to make sure that they——

Mr. CONAWAY. All right. In this instance, why didn't these two folks speak to each other?

Ms. TRUJILLO. My experience, because I have worked in the field for many years, I have seen oftentimes, as you have, especially in an emergency situation like Haiti, where you have many implementers trying to get on the ground and roll out activities quickly, oftentimes coordination amongst the offices are hindered.

Mr. CONAWAY. So, was this particular sentence in your testimony related to an emergency circumstance like that, or was it a long running inability to coordinate with each other?

Ms. TRUJILLO. You know what, I am—I—let me——

Mr. CONAWAY. Would you mind getting back to us on that?

Ms. TRUJILLO. I will——

Mr. CONAWAY. Because that is a——

Ms. TRUJILLO.—get back to you on that.

Mr. CONAWAY.—different issue. If you——

Ms. TRUJILLO. I don't want——

Mr. CONAWAY. You have emergency circumstances going on where we do things to try to help, but if it is a systemic issue that lasted over a period where it shouldn't have, then that would be a different circumstance. You will get back to me, so I appreciate it.

Ms. TRUJILLO. I will get back to you. Thank you. I appreciate your questions.

[The information referred to is located on p. 43.]

Mr. CONAWAY. This is a big deal to us on the Agriculture Committee.

Ms. TRUJILLO. I understand.

Mr. CONAWAY. The ratio between food aid, cash, and local purchases is of keen interest to the Committee, as you have seen today, so thank you all for being here. I appreciate it.

The CHAIRMAN. Mr. Newhouse?

Mr. NEWHOUSE. Thank you, Mr. Chairman. I appreciate everybody being here this morning. As Chairman Conaway just said, this is an issue of very keen interest. I understand it is in many situations around the world you make even the best of a bad situation, perhaps is one way to characterize it, so I appreciate the difficulty in delivering food assistance in the most efficient method possible, but effort needs to be made to make that as good as we can.

I apologize if this question has been asked already, but much of the aid we are sending overseas is ending up in Syria, and understandably so, so I would like to ask Mr. Melito, as well as Ms. Trujillo, to talk a little bit about places like Syria, where we have inability to send personnel to actually make sure that the delivery is happening, what kind of oversight is in place to make sure that people in need are actually getting the assistance, *versus* perhaps some of the groups that we are actually in a continuing struggle with, such as ISIS, or the Syrian military? How can we assure the American people that aid is getting into the peoples' hands that we want it to, and not those that are trying to do us harm?

Mr. MELITO. It is a very difficult challenge. For Syria, the program is basically divided into efforts to help the Syrians within Syria, and then efforts to help the refugees who have left Syria. For the cash job, we were looking at the services provided to the Syrian refugees in Jordan. There it is a relatively safe environment, and you have contact with the beneficiaries. You can implement some of the monitoring that you would hope to implement.

We have a study that we just began for the House Foreign Affairs Committee which is going to try to understand the larger Syria program, which includes efforts to work within Syria. We are really at the very beginning of that job, so I can't really talk about what we are going to find. But I do know from previous work we did looking at Somalia, when you are in an environment of conflict, and an environment where the U.S. Government can't operate—so in Somalia and in Syria there are places that we cannot send U.S. citizens, you end up relying on third parties. And then you have to come into a process where you can trust these third parties. And it is a difficult process, so——

Ms. TRUJILLO. And if I could share, as Tom mentioned, our work too is relatively new. We have more work planned for this next year, but we did conduct an audit of the Food for Peace activities that are being implemented for Syria. And the during the extent of our travels we too could not travel into Syria, but what we did is we looked at each of the implementing partner's controls. We looked to see how they were monitoring, and how they were validating to ensure that—and we were looking at flour that was being sent to bakeries, what they were doing to ensure that the flour actually got to the bakery.

And so they were implementing various different types of mechanisms, to have third party monitoring, volunteers in Syria to call back to the implementers to confirm delivery of the flour. But the biggest challenge is the fact that there is nobody from USAID who can go in and do that direct kind of monitoring.

Mr. NEWHOUSE. So what is your——

Ms. TRUJILLO. And that——

Mr. NEWHOUSE. What is your level of comfort that the aid is actually getting where we want it to go?

Ms. TRUJILLO. Well, it is testing the controls that the implementers have in place. Working—trying to get access to these third—getting access to these third party monitors. The World Food Programme, their OIG, actually, was able to send people into Syria and do a much more thorough test of the controls of World Food Peace—World Food Programme's implementers.

Mr. NEWHOUSE. Okay.

Ms. TRUJILLO. And they identified very much similar issues that we have identified——

Mr. NEWHOUSE. Okay.

Ms. TRUJILLO.—on the in-kind.

Mr. NEWHOUSE. Before my time is up, I just wanted to ask you, Ms. Trujillo, you mentioned a shipping company that you found was overcharging, and had been for many years. Are you still using that shipping company?

Ms. TRUJILLO. I don't know. I can't answer that question. I am——

Mr. NEWHOUSE. I would be interested if you could find an answer.

Ms. TRUJILLO. Okay, I will.

[The information referred to is located on p. 43.]

Mr. NEWHOUSE. Thank you. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. I recognize the Ranking Member of the full Committee, Mr. Peterson.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman. So I don't know if you could answer the first part of this question, which is if you are going to go to cash, how do you determine where to do that? Is it based on whether our commodities are undermining a legitimate agriculture market that might be in that country? I don't know exactly how that is done, but the more relevant question is in areas that need assistance, and need cash, are probably the most corrupt areas that there are. And how are you going to ever deal with that? You have indications of not being able to get this through the problems in those countries, and that is where it is most needed. Is there ever going to be a solution in those countries that you can rely on?

Mr. MELITO. So one of the recommendations of GAO was before you implement a cash or voucher program is to do what we call a comprehensive risk assessment.

Mr. PETERSON. What?

Mr. MELITO. A comprehensive risk assessment, where you are really trying to objectively assess whether you can operate, whether the financial system—the vendors that are there provide a reasonable level of assurance and trust. And if the answer is no, then you probably shouldn't do it, but you need to make an assessment in advance.

Mr. PETERSON. And that is done in every case?

Mr. MELITO. Well, we weren't observing it, so that was one of our recommendations——

Mr. PETERSON. That hasn't been done, necessarily?

Mr. MELITO. Since our March report, USAID has made it clear that that will now be a new requirement, but that is moving forward.

Mr. PETERSON. So it is not going to be a requirement?

Mr. MELITO. It will be a——

Mr. PETERSON. It will be?

Mr. MELITO. They agreed to our recommendation, and they say——

Mr. PETERSON. I don't know how many of these countries have a viable ag system. They have so many problems in terms of lack of marketplace, and infrastructure, and too small of farms, and all kinds of other problems. Is that taken into consideration when you decide what kind of aid is going into these countries? Because I have heard complaints that our commodities going in undermine the existing—or undermine anything that is getting developed there. And in the long term we would want those countries to be able to feed themselves. And I have not been to Africa much, but when I have been there, it is apparent to me that they have the land and the water, that they could feed themselves, if they could just straighten out all the other problems.

Mr. MELITO. So there really are three modalities. It is U.S. commodities, which is still a very substantial part of the program, there is local and regional procurement, so it is buying commodities locally, or in a neighboring country, and then finally it is using cash or vouchers. So the local and regional procurement idea would be if a country has a severe drought in one part of it, but it is actually fine in the other part, you are helping them with logistics, basically, of moving the food from the part of the country that is fine down to the part that needs it. And that would be considered, hopefully, also supporting the market as well in that country.

So USAID has asked for these three modalities, and they all make sense in certain circumstances. The question is whether or not you have done a legitimate market assessment and really analyzed the underlying circumstance, and then choose the appropriate modality for the circumstance.

Mr. PETERSON. Anybody else have any comments?

Ms. TRUJILLO. I mentioned in my statement that, under the Food for Peace we have been looking at USAID's role in providing assistance to these farmers and teaching them new ways on agriculture. And in many cases we have spoken to these recipients who have seen positive results. They need to be seen on a much broader scale, so that when these countries do have conflict, they are resilient enough to get through it. And this is a large scale program that is a priority.

Mr. PETERSON. I was in Haiti earlier this year, and I was at one of these research facilities, where they had a USAID guy that was trying to develop varieties to grow there. I don't know how come, but, he couldn't get help to determine how to find the seed in the varieties that he was trying to grow in these test plants. And I had to hook him up with some people that I knew in the U.S.

Why can't the bureaucracy get that kind of information to people out there that—I mean, he was doing the right thing, but it seemed like he couldn't get any help from anybody to get what he needed?

Ms. TRUJILLO. Yes. I——

Mr. PETERSON. You——

Mr. MELITO. I just wanted to add that there does seem to be a strong interest in trying to address the underlying chronic food insecurity. Feed the Future, that is really its goal. Feed the Future is trying to leverage the efforts of multiple U.S. agencies to address what you are saying. But it is still a relatively new program, 5 or 6 years old, and I am sure there are still things they could improve on.

Mr. PETERSON. Well, 5, 6 years seems like a lot of time to me, but——

Mr. MELITO. Yes.

Mr. PETERSON. I yield back.

The CHAIRMAN. Mrs. Hartzler?

Mrs. HARTZLER. Thank you, Mr. Chairman. Thank you, every one. I understand that while the implementation of cash-based assistance programs may be subject to some level of third party monitoring, there is virtually no monitoring by U.S. Government officials. Do I have that correct?

Mr. MELITO. We reported that in many of these countries there is only one on-the-ground U.S. Government official, and that person has responsibilities that go beyond the cash program. They are responsible for other USAID programs. And also, due to security concerns, they might not be able to travel to where the operations are going on, so yes, they then rely on third party monitoring.

Mrs. HARTZLER. What are some of the third party entities that are monitoring these——

Mr. MELITO. These would be locally based organizations that they contract with. So it comes down to the vetting process that USAID is going through, in terms of whether or not the organization has the capability to do it, as well as the financial assurance aspects they are looking for.

Mrs. HARTZLER. What type of monitoring report do they give back? So is it they get on the phone and say, yes, everything is going great here, or what are they required to provide back, as far as evidence of their monitoring?

Mr. MELITO. Well, we have looked at this on several different reports in the past, commodity ones as well as cash. It varies. In some cases it can be actually a pretty detailed checklist that they want them to fill out. In other cases it might just be that they want to report that the commodities were distributed.

Part of what we would like to see is a more uniform process for monitoring. You want to make sure the program is working right, and you want to make sure that food is not being diverted. And you want to make sure your monitoring is giving you useful information on both of those goals.

Mrs. HARTZLER. And the question was specifically on cash-based. So that is even more tricky, where you are not actually distributing rice, or——

Mr. MELITO. Well, cash gives you some opportunities that the commodity program doesn't, because you are now dealing with, in

many cases—let us not say physical cash. Let us talk about the vouchers, or the electronic debit cards. It gives you a new intermediary, which is often a financial institution. So you may actually get data that you hadn't gotten before. If it is a fairly mature financial institution, it could be actually a fairly robust set of records. But, again, you need to know that that—the organization exists, and you trust them.

So both modalities, cash and commodities, have challenges and opportunities. I keep stressing that, but that is the case.

Mrs. HARTZLER. Okay. This question is for Ms. Trujillo. It appears that most of USAID OIG's work has focused on auditing the implementation of programs made possible through in-kind assistance. Given USAID's continued push for greater flexibility, in addition to that recently provided by the farm bill, why has the OIG not focused more of its attention on the implementation of cash-based programs?

Ms. TRUJILLO. Thank you for that question. Over the last 5 years, as Tom has mentioned, and you have read, in-kind is still the bulk of the food assistance that USAID is responsible for. The use of the cash modalities with Title II funding it is a relatively new concept. As the level of funding continues to grow, then we look at our work based on where is the highest risk?

And so as the level of cash modalities grows, the risk grows, and we will be then redirecting our resources to focus on that area of the management of the cash, and the controls of the cash.

Mrs. HARTZLER. Okay. Very good. I yield back. Thanks.

The CHAIRMAN. I want to thank all the witnesses for your testimony today and your input. This has been very helpful, in terms of information gathering. That will be quite useful as we move forward, particularly as we begin preparations for the next farm bill. It seems crazy to think that it is already around the corner, but in essence it is, and time flies, as we all know. And certainly up here, the days are long, but the years are short, and I have learned that very quickly in my 6 months here as a Member.

I want to state for the record that, under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witnesses to any questions posed by a Member. This Subcommittee on Livestock and Foreign Agriculture hearing is now adjourned.

[Whereupon, at 10:55 a.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUPPLEMENTARY MATERIAL SUBMITTED BY CATHERINE M. TRUJILLO, ACTING DEPUTY INSPECTOR GENERAL, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Insert

Mr. KING. Thank you, Mr. Chairman. I appreciate this hearing, and I appreciate the witnesses. It raises my curiosity, Ms. Trujillo, when you talked about some of the aid being siphoned off in Africa, and I would ask if you could flesh that out a little bit more on which countries, and how that actually happened?

Ms. TRUJILLO. This was the situation in East Africa, where it was commodities—it was wheat that was siphoned off, taken to a milling factory, made into flour, and then sold internationally.

Mr. KING. And what country?

Ms. TRUJILLO. You know what, I don't have—forgive me.

Mr. KING. Just——

Ms. TRUJILLO. Can I get back to you——

Mr. KING. That is fine. If you could get back to us after the hearing, that would be fine.

Ms. TRUJILLO. Okay.

* * * * *

Mr. CONAWAY. Well, thank you, Mr. Chairman. Thank you all for being here. In how many countries do we operate food programs, including any of the three modalities?

Mr. MELITO. I am going to probably have to get back to you. There were 28 countries for cash, but the number is in excess of 40, when you bring all the modalities. But I will get back to you with that.

* * * * *

Mr. CONAWAY. So, was this particular sentence in your testimony related to an emergency circumstance like that, or was it a long running inability to coordinate with each other?

Ms. TRUJILLO. You know what, I am—I—let me——

Mr. CONAWAY. Would you mind getting back to us on that?

Ms. TRUJILLO. I will——

Mr. CONAWAY. Because that is a——

Ms. TRUJILLO.—get back to you on that.

Mr. CONAWAY.—different issue. If you——

Ms. TRUJILLO. I don't want——

Mr. CONAWAY. You have emergency circumstances going on where we do things to try to help, but if it is a systemic issue that lasted over a period where it shouldn't have, then that would be a different circumstance. You will get back to me, so I appreciate it.

Ms. TRUJILLO. I will get back to you. Thank you. I appreciate your questions.

* * * * *

Mr. NEWHOUSE. Before my time is up, I just wanted to ask you, Ms. Trujillo, you mentioned a shipping company that you found was overcharging, and had been for many years. Are you still using that shipping company?

Ms. TRUJILLO. I don't know. I can't answer that question. I am——

Mr. NEWHOUSE. I would be interested if you could find an answer.

Ms. TRUJILLO. Okay, I will.

August 14, 2015

Hon. DAVID ROUZER,
Chairman,
Subcommittee on Livestock and Foreign Agriculture,
House Committee on Agriculture,
Washington, D.C.;

Hon. JIM COSTA
Ranking Minority Member,
Subcommittee on Livestock and Foreign Agriculture,
House Committee on Agriculture,
Washington, D.C.

Dear Chairman Rouzer/Ranking Member Costa,†

On behalf of the U.S. Agency for International Development (USAID) Office of Inspector General (OIG) I am pleased to have had the opportunity to appear before the Subcommittee on Livestock and Foreign Agriculture of the House Committee on Agriculture to discuss oversight and monitoring of U.S. food assistance programs under Title II of the Food for Peace Act. During the hearing, Congressmen King, Conaway, and Newhouse posed questions that required additional follow-up on my part and I committed to providing responses at a later date. These responses appear below and are presented in the order of the questions that were asked.

Congressman King cited a reference in my written statement to the diversion of commodities in East Africa and sought the names of the specific countries in which the diversion occurred. In this case, USAID food assistance programs underway in Ethiopia were affected by large-scale division of commodities, specifically grain. The grain was relayed to and processed by a local flour factory, which sent the flour to parts of Ethiopia, as well as to Somalia and Kenya.

Chairman Conaway sought additional information regarding the duplication of efforts that USAID OIG identified in connection with a Title II program in Haiti, which I also mentioned in my written statement. The Chairman further asked whether the Title II program activities that OIG audited were in response to emergency circumstances or as part of a long running effort to provide assistance. USAID OIG's audit report, *Audit of USAID/Haiti's Public Law 480 Title II Programs,* addressed Title II activities that were conducted under non-emergency circumstances, directed by USAID's Office of Food for Peace in Washington, D.C., and managed and monitored out of USAID's mission in Haiti. The audited activities consisted of a multi-year effort to improve food security and increase the resilience of vulnerable rural households. Under the program, USAID made three awards, which began in February 2008 and ran through September 2012 in two cases and through February 2013 in a third. In the audit report, we cited evidence of duplication with USAID-funded programs in two Title II regions in Haiti. One case involved the overlap of Title II agricultural activities with another program with a similar focus, USAID's Watershed Initiative for National Natural Environmental Resources (WINNER). OIG attributed the problem to a lack of communication and also cited the USAID mission's decision to continue WINNER in the same area, despite an earlier assertion that it would end the program and therefore limit the extent of duplication. At the time, USAID officials committed to follow up on the problem and, later, indicated that the mission established a tracking tool to record and monitor activities in the area with the purpose of avoiding "wasteful duplication" of efforts.

The second case of overlap that related to USAID's Title II efforts in Haiti concerned the work of a grant recipient under the International Food Relief Partnership (IFRP). OIG's audit report noted that, while IFRP relies on its applicants to identify potential overlap, applicants are not always aware of activities under other USAID programs and the wording of this requirement in IFRP's grant application is not clear. Auditors also noted that USAID's mission in Haiti had not initially identified the potential overlap as a problem. While the Title II implementer had advised USAID's mission in Haiti of duplication and the mission confirmed the overlap, communication to USAID staff in Washington on the subject reportedly went unanswered. The IFRP grantee subsequently stopped distributing food pending further discussions between USAID and its Title II implementer.

Last, Congressman Newhouse asked whether USAID continues to use a shipping company that I referenced in my opening statement. The shipping company had recently reached a $836,630 civil settlement with the U.S. Department of Justice after a USAID OIG investigation concluded that the company had billed USAID at a higher rate than it should have for more than 4 years. USAID continues to use this shipping company.

I trust the information above is responsive to each Member's question and thank you for your interest in the effectiveness of U.S. food assistance programs abroad. I also appreciate your support of the oversight work conducted by USAID OIG and by our partners in the Federal oversight community. Should you require further in-

† **Editor's note:** there were two identical letters submitted by Catherine M. Trujillo, Acting Deputy Inspector General, U.S. Agency for International Development. They have been combined.

formation regarding our work, please contact me; or, your staff may contact Justin Brown, Chief of Staff, at **[Redacted]**.

Sincerely,

CATHERINE M. TRUJILLO,
Acting Deputy Inspector General.

SUBMITTED QUESTIONS

Response from Thomas Melito, Director, International Affairs and Trade, U.S. Government Accountability Office

Question Submitted by Hon. K. Michael Conaway, a Representative in Congress from Texas

Question. In which countries do we operate food aid programs? Please indicate the modalities used in each country.

Answer. In Fiscal Year 2014, the U.S. government operated food assistance programs in more than 50 countries.[1] The chart below details the modality or modalities provided in each country, and was developed by GAO using Fiscal Year 2014 data provided by the U.S. Agency for International Development (USAID), including information on in-kind food aid programs provided through Title II Emergency and Development Assistance, Food for Progress, the Bill Emerson Humanitarian Trust, and the McGovern-Dole International Food for Education and Childhood Nutrition program; and cash-based food assistance funded through the Emergency Food Security Program under the International Disaster Assistance account.[2]

Figure 1: Countries with U.S. Food Assistance Programs, by Modality, Fiscal Year 2014

Country or regional program name	Cash transfers	Vouchers	In-kind commodity	Local and/or regional procurement
Afghanistan			✔	✔
Algeria			✔	
Bangladesh		✔	✔	
Benin			✔	
Bosnia and Herzegovina				✔
Burkina Faso	✔		✔	
Burma				✔
Burundi		✔	✔	✔
Cameroon			✔	✔
Central African Republic			✔	✔
Central American Drought Regional	✔	✔		
Chad	✔	✔	✔	
Colombia			✔	
Congo (Brazzaville)			✔	
Congo (Kinshasa)			✔	

[1] In 2014, three awards-the East Africa regional award, Syria regional award, and Central American Drought award-were regional in nature, covering multiple jurisdictions. Individual country-level modality data for regional awards were not provided to GAO, so these programs are represented on a regional basis in the figure on the following page.

[2] Fiscal year 2014 in-kind food aid program data are preliminary.

Figure 1: Countries with U.S. Food Assistance Programs, by Modality, Fiscal Year 2014—Continued

Country or regional program name	Cash transfers	Vouchers	In-kind commodity	Local and/or regional procurement
Côte d'Ivoire		✔	✔	✔
Djibouti			✔	
East Africa Regional		✔		✔
Ecuador			✔	
El Salvador			✔	
Ethiopia			✔	
Guatemala			✔	
Guinea			✔	
Haiti	✔			
India			✔	
Iraq	✔		✔	✔
Kenya			✔	
Laos			✔	
Liberia			✔	
Madagascar			✔	
Malawi	✔	✔	✔	✔
Mali	✔		✔	✔
Mauritania				✔
Mozambique			✔	✔
Nepal			✔	
Nicaragua	✔	✔	✔	✔
Niger			✔	
Pakistan	✔		✔	✔
Philippines				✔
Rwanda		✔		✔
Senegal	✔		✔	
Sierra Leone			✔	
Somalia	✔	✔	✔	✔
South Sudan			✔	✔
Sudan	✔	✔	✔	✔
Syria		✔		✔
Syria Regional		✔		
Tanzania			✔	
Uganda	✔		✔	✔
West Bank/Gaza			✔	
Yemen		✔	✔	

Figure 1: Countries with U.S. Food Assistance Programs, by Modality, Fiscal Year 2014—Continued

Country or regional program name	Cash transfers	Vouchers	In-kind commodity	Local and/or regional procurement
Zimbabwe	✔		✔	✔

Source: U.S. Agency for International Development and U.S. Department of Agriculture data.

Questions Submitted by Hon. David Rouzer, a Representative in Congress from North Carolina

Question 1. To what extent does USAID have oversight over the steps of the process prior to aid arriving in countries that are in need of food assistance? To what extent does USAID have oversight of the process after aid has arrived in the country?

Answer. USAID has oversight of commodity-based food assistance programs prior to and after the aid arrives in countries. Additionally, USAID has oversight over the cash-based assistance programs.

GAO–11–491, *International Food Assistance: Better Nutrition and Quality Control Can Further Improve U.S. Food Aid,* discusses the oversight process for commodity-based assistance. As described in GAO–11–491 (*http://www.gao.gov/products/GAO-11-491*), before the food aid arrives in countries, USAID has oversight over some of the domestic planning, procurement, and decision making for its food aid contracts.

- For planning, USAID reviews the World Food Programme (WFP) or nongovernmental organizations' (NGO) food orders within a Web Based Supply Chain Management system (WBSCM) to ensure that the quantity and type of commodity requested are suitable for the program and country in need. If approved, the request is forwarded to the procurement office, USDA's Farm Service Agency, and USDA's Kansas City Commodity Office (KCCO).
- For procurement, USAID issues a solicitation and reviews offers made by ocean freight services within WBSCM to deliver commodities to overseas destinations. Meanwhile, KCCO reviews all offers made by commodity vendors. Responsive ocean carrier and commodity vendor offers are evaluated by a linear program to determine the combination of commodity and ocean carrier offers that together provide for the lowest landed cost.
- For decision making, USAID, in coordination with KCCO, reviews the lowest landed cost evaluation, considers program needs and budgets, and gives authorization to proceed, or not to proceed, with the procurement. USAID's Transportation Division also provides WFP or NGOs with a procurement plan to inform them of the ocean carrier that resulted in the lowest landed cost and recommends the fair and reasonable rate for ocean carriers.

After the food arrives in countries, USAID has some oversight over the discharge of the food at the foreign port if the food's destination was a preposition warehouse. In this case, USAID's warehouse contractor manages the reconstitution and rebagging of damaged commodities and inspects warehouses and food stocks at least once a week so that prompt action can be taken if problems occur, such as physical damage, staining caused by water, or evidence of theft.

GAO–15–328, *International Cash-Based Food Assistance: USAID Has Developed Processes for Initial Project Approval but Should Strengthen Financial Oversight,* describes the oversight process for cash-based emergency food assistance. We found that USAID developed processes for awarding cash-based food assistance grants that are consistent with USAID's policies and procedures. USAID outlines its process for reviewing and deciding to fund proposals for cash-based food assistance projects in the Annual Program Statement (APS) for International Emergency Food Assistance. The competitive proposal review process outlined in the APS includes documented steps intended to ensure that the proposal is aligned with U.S. foreign assistance objectives and is technically sound.

With regard to USAID's field oversight of its cash-based food assistance, according to USAID officials, Washington-based country backstop officers (CBO) perform desk reviews of implementing partners' financial reports and quarterly and final program reports and share this information with Food for Peace (FFP) officers in the field; in addition, both the Washington-based CBOs and FFP officers in-country conduct field visits. However, we found that the ability of USAID's staff to consistently perform financial oversight in the field may be constrained by limited staff resources,

security-related travel restrictions and requirements, and a lack of specific guidance on conducting oversight of cash transfer and food voucher programs.

GAO is currently undertaking a separate review of monitoring activities for cash-based food assistance projects under the Emergency Food Security Program. We plan to report out in 2016.

Question 2. There are costs associated with delivery of food aid, regardless of whether it is in-kind or cash-based. For cash, there are the often-overlooked costs such as security for the cash delivery system, costs of approving vendors (if needed), and perhaps the most overlooked of all, the costs of the built-in profits of suppliers and store owners when food assistance recipients use cash to make retail food purchases. What mechanisms does USAID have in place to determine whether to deliver in-kind or cash-based assistance? Do those mechanisms take into account the final delivered cost of food aid per calorie, or some other measure of efficiency? Further, are you aware of any official USAID guidance or rules that provide a framework for the appropriate selection of food aid modalities and periodic evaluation and/or modification of those modalities?

Answer. USAID's APS provides guidance to implementing partners on how to choose modalities of food assistance. As we reported in GAO–15–328 (*http://www.gao.gov/products/GAO-15-328*), USAID's policy is that Emergency Food Security Program resources may be used when one or more of the following conditions apply:

- Local and regional procurement, cash-based food assistance, or both are deemed more appropriate than in-kind food aid because of market conditions.
- Title II in-kind food aid cannot arrive in a sufficiently timely manner through the regular ordering process or through the use of pre-positioned stocks.
- Significantly more beneficiaries can be served through the programming of local and regional procurement or cash-based food assistance.

Applicants must justify their chosen delivery mechanism based on one or more of the criteria: appropriateness, timeliness, or cost-effectiveness. For example, applicants can justify using cash-based assistance if providing cash or voucher is more cost effective than providing in-kind food aid.

However, we are not aware of any specific USAID guidance or rules that provide a framework on how the cost comparison should be done. Researchers at the International Food Policy Research Institute have compared the cost of in-kind and cash-based assistance using an activity-based approach in four case study countries that had programs designed for such comparisons.

Question 3. In its March 2015 report, GAO found that increases in the **global** and **regional** market prices of commodities may erode the benefits recipients receive. How can USAID and NGOs improve their responses to these periods of inflation?

Answer. In GAO–15–328 (*http://www.gao.gov/products/GAO-15-328*), we recommended that the USAID Administrator develop formal guidance to implementing partners for modifying cash-based food assistance projects in response to changes in market conditions. USAID concurred with this recommendation and in June 2015 reported entering into an agreement with the Cash Learning Partnership—an organization that is working to improve the use of cash and vouchers—to help develop guidance to implementing partners on adapting programs to changing market conditions. USAID plans to complete this guidance by April 2016. We have yet to verify this information to determine whether it addresses the issues we identified. In addition, we noted in GAO–15–328 (*http://www.gao.gov/products/GAO-15-328*) that the World Food Programme's (WFP) *Cash and Vouchers Manual* suggests that WFP's country offices consider setting cutoff limits for maximum acceptable price inflation and have a contingency exit plan to respond to the situation when acceptable price inflation limits are exceeded.

Question 4. If the **local** price of food spikes when cash-based assistance is provided, is that an indicator that cash-based assistance may no longer be appropriate in that situation? How do partners in the field monitor and adapt to those situations? Also, did you find any instances where cash or vouchers were being used, but then the program was switched to commodities? If so, why?

Answer. In GAO–15–328 (*http://www.gao.gov/products/GAO-15-328*), we found that USAID requires implementing partners of cash-based food assistance projects to collect and report market prices of key commodities during the implementation of the assistance. For example, we found that an implementing partner in Niger monitored both the local market price for commodities and the cost of distributing these commodities. The implementing partner then considered switching from distributing cash to in-kind food distributions when the price of commodities that beneficiaries purchased in local markets neared the cost of in-kind distributions. The im-

plementing partner's Niger officials reported that they switched from cash to in-kind distributions in certain geographic areas but not in other areas where the prices of staple commodities did not reach the cost of in-kind distributions. In another example, the implementing partner in Kenya established the transfer rate based on the value of the standard food basket; it reviewed prices every month and would change transfer amounts only in response to price fluctuations, in either direction, of more than ten percent. In Taita Taveta, the site we visited in Kenya, the implementing partner informed us that the transfer value had not been adjusted since June 2013 because retail food prices had not changed more than ten percent. However, according to both USAID and WFP officials, while WFP has more flexibility because it receives contributions from multiple donors for a specific project, NGOs that primarily rely on USAID for funding generally do not have the same flexibility to switch modalities due to restrictions, including legal and programmatic constraints of the funding streams.

Question 5. Based on your review of these programs and the controls that are in place, what is the appropriate response to a situation where the cash price of commodities is increasing? How does that impact the effectiveness of food aid? Are the appropriate procedures in place to adapt to those changes? What about if the cash price of food is decreasing?

Answer. In cases when the cash price of commodities increases, USAID runs the risk of beneficiaries' benefits being eroded by the price increases. In cases when the cash price of food decreases, USAID runs the risk of inefficient use of scarce project funding. In GAO–15–328 (*http://www.gao.gov/products/GAO-15-328*), we found that, according to USAID officials, USAID does not have a standard for identifying significant price changes, since the definition of significance is specific to each country and region. In addition, we did not find guidance addressing modifications in response to changing market conditions in the APS for International Emergency Food Assistance. This lack of guidance has resulted in inconsistent responses to changing market conditions among different cash and voucher projects funded by USAID. For example, an implementing partner in Kenya predetermined, as part of its project design, when adjustments to cash transfer amounts would be triggered by food price changes, while an implementing partner whose project we reviewed in Niger relied on an ad hoc response. The implementing partner in Kenya established the cash and voucher transfer rate based on the value of the standard food basket; it reviewed prices every month but would change cash and voucher transfer amounts only in response to price fluctuations, in either direction, of more than ten percent.

Question 6. We have concerns about the risk management procedures in place at USAID and with the PVOs. How can those be addressed, and between USAID and the PVOs, which would need to make changes first?

Answer. In GAO–15–328 (*http://www.gao.gov/products/GAO-15-328*), we examined the risk management procedures for USAID's cash-based food assistance program. We did not examine risk management at USAID as a whole. As the agency administering cash-based food assistance, USAID first needs to develop risk management policy and comprehensive guidance. Based on the guidance developed by USAID, the PVOs should develop and implement their own guidance that delineates procedures, including developing risk registers with mitigation plans, for managing potential risks to their projects.

Question 7. In a March 2014 GAO report on food aid pre-positioning, GAO expressed concerns about USAID's assessments of timeliness of pre-positioning efforts. Have there been any improvements in the ability to track effectiveness of pre-positioning efforts since your 2014 report?

Answer. GAO–14–277, *International Food Aid: pre-positioning Speeds Delivery of Emergency Aid, but Additional Monitoring of Time Frames and Costs Is Needed,* discusses USAID's efforts to reduce the time frame for delivering international emergency food aid by pre-positioning food domestically—in warehouses in the United States—and overseas. As of June 28, 2015, USAID officials noted that they were exploring options for developing a pre-positioning tracking system but are still in the early stages. USAID completed an independent evaluation on the efficiency and effectiveness of the Title II Food for Peace pre-positioning program in 2014 but has yet to address our recommendations in GAO–14–277 (*http://www.gao.gov/products/GAO-14-277*) to *systematically* monitor and assess data on delivery time frames and assess costs associated with commodity procurement, shipping, and storage for pre-positioned food aid shipments.

Question 8. One of the reasons why monitoring and evaluation funding was reduced in the 2014 Farm Bill was because of continued lack of coordination between USDA and USAID on WBSCM, a system designed to improve monitoring and eval-

uation of the procurement process. What specific improvements, if any, have been made on this front?

Answer. GAO–14–22, *International Food Aid: Better Agency Collaboration Needed to Assess and Improve Emergency Food Aid Procurement System,* reviews USAID's and USDA's use of the Web Based Supply Chain Management system (WBSCM) to help manage international emergency food aid procurements. In GAO–14–22 (*http://www.gao.gov/products/GAO-14-22*), GAO made three recommendations to USAID and USDA to improve the efficiency and accountability of the emergency food aid procurement process. To date, while the agencies have taken some actions, they have not fully addressed the recommendations.

- Agencies have not resolved the issue of verifying the accuracy of preposition warehouse data. USDA still cannot independently verify the accuracy of the information that USAID provides because USAID does not use WBSCM to manage inventory at the preposition warehouses, which could make it easier for USDA to independently verify the data and compile its quarterly financial reports. On July 15, 2015, USDA officials organized a WebEx session to demonstrate for USAID officials how WBSCM could track and manage inventory in USAID's preposition warehouses. During the meeting, USAID officials offered suggestions for improving the system to accommodate USAID's needs. In response to USAID's comments, USDA officials noted that it would be technically feasible to make the changes to WBSCM if USAID were to commit to using the system.
- Agencies have not resolved concerns of users of the international food aid procurement functions. In August 2014, USDA completed an assessment of WBSCM's functionality for the international procurement process. USAID was not able to participate and test the functionality of the system at that time. According to USDA officials, the agency can make technical changes to meet USAID's needs if USAID agrees to use the system.
- Agencies have not created a memorandum of understanding to resolve how agencies will use WBSCM. USDA has created a team to work with USAID to develop a memorandum of understanding that clearly outlines the roles and responsibilities of WBSCM users. In May 2015, USAID identified a point of contact for USDA to work with in developing the provisions of a memorandum. As of July 29, 2015, a USDA official informed GAO that a draft Memorandum of Understanding had been developed, but the agencies had not finalized it.

Response from Catherine M. Trujillo, Acting Deputy Inspector General, U.S. Agency for International Development

October 2, 2015

Hon. DAVID ROUZER,
Chairman,
Subcommittee on Livestock and Foreign Agriculture,
House Committee on Agriculture,
Washington, D.C.;

Hon. JIM COSTA
Ranking Minority Member,
Subcommittee on Livestock and Foreign Agriculture,
House Committee on Agriculture,
Washington, D.C.

Dear Chairman Rouzer/Ranking Member Costa,†

On behalf of the U.S. Agency for International Development (USAID) Office of Inspector General (OIG) I am pleased to have had the opportunity to appear before the Subcommittee on Livestock and Foreign Agriculture of the House Committee on Agriculture on July 9, 2015, to discuss oversight and monitoring of U.S. food assistance programs under Title II of the Food for Peace Act.

I am writing in reply to the Subcommittee's official questions for the record, transmitted to my office following the Subcommittee's hearing. My responses follow an earlier letter to you and Ranking Member Costa, dated August 14, 2015, in which I provided additional information in response to questions posed during the hearing by Chairman Conaway, Congressman King, and Congressman Newhouse. My answers to each of the Subcommittee's official questions for the record appear

† **Editor's note:** there were two identical letters submitted by Catherine M. Trujillo, Acting Deputy Inspector General, U.S. Agency for International Development. They have been combined.

below in the order in which we received them. Portions of my responses reiterate and expand upon information relayed to you in my August 14, 2015, letter.

Question Submitted by Hon. K. Michael Conaway, a Representative in Congress from Texas

Question. The testimony by Ms. Trujillo mentioned "weaknesses in Food for Peace program management and coordination over the years," and also provided several specific examples. Was the inability to coordinate efforts taking place under emergency circumstances, or are these part of a long-running inability to coordinate all programs, including non-emergency food aid?

Answer. References to instances of management and coordination weaknesses in my July 9, 2015, testimony draw upon OIG audit and investigative work concerning both humanitarian (*i.e.,* emergency) and development (*i.e.,* non-emergency) programs. As I wrote in my August 14, 2015, letter and in response to a related question from Chairman Conaway during the Subcommittee's July 9, 2015, hearing, one example of these weaknesses derives from OIG audit work performed in Haiti. During the audit, OIG identified duplication of efforts in connection with a Title II program operating under non-emergency circumstances, directed by USAID's Office of Food for Peace in Washington, D.C., and managed and monitored out of USAID's mission in Haiti. The audited activities consisted of a multiyear effort to improve food security and increase the resilience of vulnerable rural households. Under the program, USAID made three awards, which began in February 2008 and ran through September 2012 in two cases and through February 2013 in a third.

In the audit report, OIG cited evidence of duplication with USAID-funded programs in two Title II regions in Haiti. One case involved the overlap of Title II agricultural activities with another program with a similar focus, USAID's Watershed Initiative for National Natural Environmental Resources (WINNER). OIG attributed the problem to a lack of communication and also cited the USAID mission's decision to continue WINNER in the same area, despite an earlier assertion that it would end the program and therefore limit the extent of duplication. At the time, USAID officials committed to follow up on the problem and, later, indicated that the mission established a tracking tool to record and monitor activities in the area with the purpose of avoiding "wasteful duplication" of efforts.

The second case of overlap that related to USAID's Title II efforts in Haiti concerned the work of a grant recipient under the International Food Relief Partnership (IFRP). OIG's audit report noted that, while IFRP relies on its applicants to identify potential overlap, applicants are not always aware of activities under other USAID programs and the wording of this requirement in IFRP's grant application is not clear. Auditors also noted that USAID's mission in Haiti had not initially identified the potential overlap as a problem. While the Title II implementer had advised USAID's mission in Haiti of duplication and the mission confirmed the overlap, communication to USAID staff in Washington on the subject reportedly went unanswered. The IFRP grantee subsequently stopped distributing food pending further discussions between USAID and its Title II implementer.

In my July 9, 2015, testimony I cited additional examples of weaknesses in non-emergency programs in Madagascar (where inconsistencies in how partners delivered assistance resulted in beneficiaries lacking access to rations during times of greatest need) and Uganda (where OIG noted the delivery of food aid to recipients that were outside the target population). OIG's audit work in Somalia, which concerned humanitarian as well as development activities, demonstrated that USAID implementers were inconsistently vetting vendors. Last, another example that I mentioned in my July 9, 2015, testimony concerned the provision of assistance to a group registered with the U.S. Department of Treasury's Office of Foreign Asset Control. In this instance, the affected program concerned humanitarian (*i.e.,* emergency) assistance.

Questions Submitted by Hon. David Rouzer, a Representative in Congress from North Carolina

Question 1. There are costs associated with delivery of food aid, regardless of whether it is in-kind or cash-based. For cash, there are the often-overlooked costs such as security for the cash delivery system, costs of approving vendors (if needed), and perhaps the most overlooked of all, the costs of the built-in profits of suppliers and store owners when food assistance recipients use cash to make retail food purchases. What mechanisms does USAID have in place to determine whether to deliver in-kind or cash-based assistance? Do those mechanisms take into account the final delivered cost of food aid per calorie, or some other measure of efficiency? Further, are you aware of any official USAID guidance or rules that provide a frame-

work for the appropriate selection of food aid modalities and periodic evaluation and/or modification of those modalities?

Answer. Information in recent GAO reporting, USAID testimony, and agency materials provide guidance for such programs and suggest that the mechanisms it uses to deliver food assistance depend, in part, on the type of setting in which the agency and its partners are working. For instance, the Government Accountability Office's (GAO's) recent work on international cash-based assistance [1] notes that USAID has deemed cash-based interventions to be critical in emergencies such as the humanitarian crises in Syria, due to the ongoing civil war, and in the Philippines in the aftermath of Typhoon Haiyan. Indeed, in June 24, 2015, testimony before the full House Committee on Agriculture, USAID's Acting Assistant Administrator for the Bureau for Democracy, Conflict, and Humanitarian Assistance appeared to confirm this position, noting that cash-based assistance is part of the Emergency Food Security Program, which the Acting Assistant Administrator described as an "indispensable" component of the agency's response to major crises, such as Syria, where commodity-based food aid is not appropriate in USAID's estimation.[2]

Also, in March 2015, USAID issued its Annual Program Statement (APS) for International Emergency Food Assistance covering both Title II and Emergency Food Security Programs. A guide for award applicants seeking to provide food assistance, the APS identifies project objectives, describes the application process, and provides criteria for evaluating and selecting proposals. The APS covers cash-based assistance and includes a number of areas for consideration in project design, including distribution method, market analysis and impact, and monitoring and evaluation, among other areas. The APS further calls for regular reports on implementers' activities, to include performance information such as an actual average cost per beneficiary reported for each applicable modality under an award.

Question 2. Based on the OIG's work, what could be done to improve pre-positioning of commodities? Would things like cost-benefit analysis be useful to improving program efficiencies?

Answer. In our performance audit of USAID's internal controls over pre-positioned food assistance for the Horn of Africa, issued in January 2013, auditors identified several areas for improvement. These findings remain relevant when considering the pre-positioning of food assistance commodities in general. First, the audit report's third recommendation, that USAID implement a system of internal controls to monitor and track losses more closely at warehouses, including procedures to recover losses from warehouse contractors, remains open and unimplemented. While USAID described procedures that it argued satisfied the recommendation, OIG observed that the Agency's management comment to the recommendation did not reflect the intent of the recommendation and that the processes the Agency described did not demonstrate how losses occurring within warehouses are identified and recovered. Implementation of OIG recommendations is a critical step in protecting taxpayer resources and, in the case of this particular audit, can help improve USAID's pre-positioning efforts worldwide.

Beyond taking action on open and unimplemented recommendations, the use of cost-benefit analyses can offer important insights into how USAID manages the program and may help lead to improvements. In fact, in the audit report mentioned above, OIG's first recommendation was for USAID to conduct an analysis of cost and timeliness between overseas and domestic pre-positioning. This recommendation was closed in March 2015, when the Agency completed final action on the recommendation. In closing the recommendation, USAID reported that an independent evaluation of the Food for Peace pre-positioning program had been completed. The evaluation included a comparison between domestic and overseas pre-positioning of commodities. USAID noted that, based on the evaluation findings, as well as several other factors, Food for Peace had moved all of its pre-positioning for the West Africa region back to the domestic warehouse in Jacinto, Texas. Furthermore, USAID has advised that it is consolidating its warehouses in East Africa to save costs, and will also ship commodities as necessary from Jacinto, Texas.

Question 3. What do you view as the biggest problem areas or areas for improvement in USAID's portfolio of programs?

Answer. With respect to the delivery of food assistance under Title II, Food for Peace, as discussed in my July 9, 2015, testimony before the Subcommittee, OIG

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[1] *International Cash-Based Assistance: USAID Has Developed Procedures for Initial Project Approval but Should Strengthen Financial Oversight;* GAO–15–321 (March 2015); *http://www.gao.gov/assets/670/669255.pdf.*

[2] Testimony of Thomas H. Staal, Acting Assistant Administrator, USAID before the House Committee on Agriculture (June 24, 2015), p. 5. *http://agriculture.house.gov/sites/republicans.agriculture.house.gov/files/pdf/Staal%20Testimony.pdf.*

has identified a number of areas in which USAID needs to improve the design and/or implementation of its programs. First, our work has identified weaknesses in USAID's internal controls in several respects. Such weaknesses have included problems documenting the flow of goods and ensuring that USAID or its implementers maintain adequate records for tracking commodities. OIG findings concerning internal controls also described the substandard storage of commodities and noted the importance of guarding commodities against theft throughout the supply chain.

As I mentioned in my July 9, 2015, testimony, and reiterated above in my response to Chairman Conaway's question, OIG audit work has also pointed to concerns regarding the management and coordination of food assistance programs. OIG has identified several instances in which programs yielded substandard results, such as food aid not being delivered when beneficiaries were most in need, or when food aid was provided to groups other than those intended. In other cases, USAID did not conduct critical analysis or ensure coordination among partners to promote best practices and eliminate duplication.

Finally, OIG has consistently highlighted problems with data quality in food assistance activities, a finding common in audit reports on many different types of Agency programs, as well as with monitoring efforts for food assistance programs. Both activities are important for program oversight and help stakeholders make decisions about the effectiveness and allocation of food assistance program resources.

Question 4. In your testimony, you indicated that USAID OIG has conducted at least 12 reviews of USAID food programs resulting in almost 100 recommendations for ways in which USAID's programs could be improved. Which of these recommendations are the highest priority for USAID to implement to improve program integrity and effectiveness? Furthermore, how well have these recommended changes been implemented?

Answer. Out of 98 recommendations across 12 reports that I referenced in my July 9, 2015, testimony, all but one have received "final action," meaning that USAID has taken steps to address the recommendation and that the recommendation has been closed. The remaining recommendation, Recommendation 3 in our *Audit of USAID's Internal Controls Over Pre-positioned Food Assistance for the Horn of Africa,*[3] is slated to receive final action in March 2016 and OIG considers to be a high priority in terms of improving program integrity and effectiveness. OIG specifically recommended that USAID's Office of Acquisition and Assistance's (OAA's) Transportation Division implement a system of internal controls to monitor and track losses more closely at warehouses, including procedures for recovering losses from warehouse contractors. Action on this recommendation would help improve internal controls and strengthen accountability in USAID's program for pre-positioning food in overseas warehouses and keeping those commodities safe.

Question 5. In many instances, USAID relies on implementing partners to deliver food aid to those who need it. Are USAID's implementing partners following the best practices recommended by USAID?

Answer. As I indicated in my July 9, 2015, testimony, OIG's work has periodically documented instances in which USAID implementers do not appear to be following best practices, or even consistent practices, even in cases where they might have benefited from doing so. For instance, OIG noted that USAID implementers used inconsistent practices when vetting vendors and sub-recipients in Somalia, reducing assurance that best practices were being used to fully examine whether these groups had ties to armed or terrorist groups, or other prohibited parties. In a separate report, OIG noted that implementers in Haiti had failed to pick up on demonstrated best practices in implementing their assistance programs, with the result that beneficiaries with the greatest nutritional needs received incomplete coverage for a time. Last, OIG has identified opportunities where USAID itself could have improved its management practice supporting its programs. As noted in an OIG audit report mentioned above, for example, failing to conduct a cost-benefit analysis that compares pre-positioning food in international ports against shipping it from the United States means that USAID did not have important information needed to assess whether it was using resources effectively and efficiently.

Question 6. It is disturbing to hear about the thefts of food aid described in your testimony. You mentioned specific instances of food aid commodities being stolen in Pakistan and East Africa. I understand that cash-based assistance is also being used in some of these places. What confidence do you have that USAID has ade-

[3] *Audit of USAID 's Internal Controls Over Pre-positioned Food Assistance for the Horn of Africa;* Report No. 4–962–13–004–P (January 7, 2013); *https://oig.usaid.gov/sites/default/files/audit-reports/4-962-13-004-p.pdf.*

quate controls in place to prevent theft of cash-based assistance in these locations and anywhere else cash-based assistance is used?

Answer. GAO's work earlier this year[4] addressed this topic most directly, identifying several areas in which USAID's controls over cash-based assistance, provided under the Emergency Food Security Program and funded through the International Disaster Assistance account, could be improved. Specifically, GAO found that USAID had not required its partners to conduct comprehensive risk assessments to plan financial oversight activities, which it described as two key components of an internal control framework. According to the report, USAID had also not provided adequate guidance to its partners to execute these components of an internal control framework. Because USAID operates in many areas that present a high degree of risk to fraud, diversion, and other abuse, addressing these program weaknesses is a key step in increasing the level of confidence in USAID's controls over cash-based assistance in any location.

Question Submitted by Hon. Steve King, a Representative in Congress from Iowa

Question. The testimony by Ms. Trujillo indicated instances of commodities being stolen in East Africa. Please provide more specifics around this instance, including which country this occurred in, and the volume and value of food that was stolen.

Answer. The commodity theft in East Africa that I mentioned in my testimony on July 9, 2015, pertained to a USAID food assistance program in Ethiopia. The large-scale diversion of commodities, specifically grain, resulted in the grain being relayed to and processed by a local flour-milling factory, which sent the flour to parts of Ethiopia, as well as to Somalia and Kenya. OIG estimated that its investigators observed more than $270,000 in USAID-provided commodities at the factory on days they visited. Based on evidence obtained by USAID and USAID OIG, losses due the fraud and non-delivery of food assistance in this case amounted to $1.15 million, which would cover approximately 1,150 metric tons of grain using USAID's valuation. However, given reports that the factory had been in operation for 3 or 4 years and that it operated almost exclusively on USAID commodities, losses may have been as high as $3.5 million.

Question Submitted by Hon. Dan Newhouse, a Representative in Congress from Washington

Question. A shipping company that improperly overcharged USAID for the shipment of U.S. food aid over a period of 4 years was mentioned in the hearing testimony. Is that company still being used by USAID, and are they still eligible to be used by USAID?

Answer. The shipping company—Maersek Line, Ltd.—that I mentioned in my testimony on July 9, 2015, had recently reached an $836,630 civil settlement with the U.S. Department of Justice after an OIG investigation concluded that the company had billed USAID at a higher rate than it should have for more than 4 years. To OIG's knowledge, the company is still eligible for USAID awards and USAID continues to use this shipping company.

I trust the information above is responsive to each Member's question(s) and thank you for your interest in the effectiveness of U.S. food assistance programs abroad. I also appreciate your support of USAID OIG's oversight work, and the work of our partners in the Federal oversight community. Should you require further information regarding our work, please contact me; or, your staff may contact Justin Brown, Chief of Staff, at [**Redacted**].

Sincerely,

CATHERINE M. TRUJILLO,
Acting Deputy Inspector General.

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[4] *International Cash-Based Assistance: USAID Has Developed Procedures for Initial Project Approval but Should Strengthen Financial Oversight;* GAO–15–321 (March 2015); *http://www.gao.gov/assets/670/669255.pdf.*