



Testimony  
Before the Subcommittee on Livestock  
and Foreign Agriculture, Committee on  
Agriculture, House of Representatives

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# INTERNATIONAL CASH-BASED FOOD ASSISTANCE

## USAID Has Processes for Initial Project Approval but Needs to Strengthen Award Modification and Financial Oversight

Statement of Thomas Melito, Director, International  
Affairs and Trade

# GAO Highlights

Highlights of [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](#). For more information, contact Thomas Melito at (202) 512-9601 or [melitot@gao.gov](mailto:melitot@gao.gov).

July 9, 2015

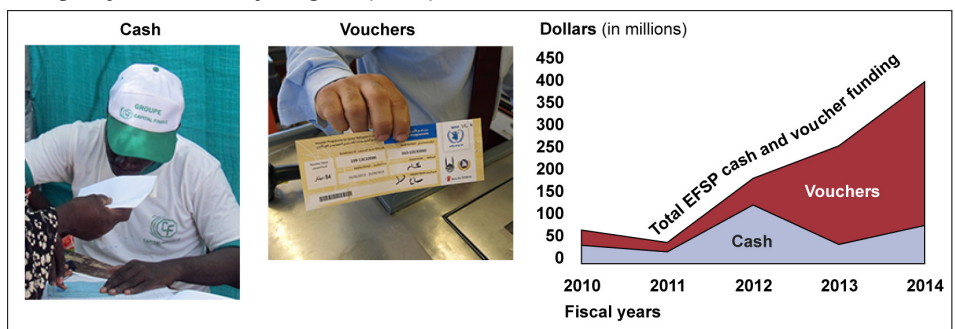
## INTERNATIONAL CASH-BASED FOOD ASSISTANCE

### USAID Has Processes for Initial Project Approval but Needs to Strengthen Award Modification and Financial Oversight

## 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, 7 through an abbreviated noncompetitive review, and 2 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 8 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 modification 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.

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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.<sup>1</sup> 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.<sup>2</sup> In addition, FFP manages the majority of U.S. international food assistance—primarily in-kind food aid commodities—authorized by Title II

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<sup>1</sup>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.

<sup>2</sup>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 several 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.

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of the Food for Peace Act, which in fiscal year 2015 totaled about \$1.47 billion.<sup>3</sup>

My testimony summarizes the findings from our report issued in March of this year,<sup>4</sup> 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).<sup>5</sup> 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.<sup>6</sup> 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.<sup>7</sup> 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

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<sup>3</sup>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.

<sup>4</sup>GAO, *International Cash-Based Food Assistance: USAID Has Developed Processes for Initial Project Approval but Should Strengthen Financial Oversight*, [GAO-15-328](#) (Washington, D.C.: Mar. 26, 2015).

<sup>5</sup>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.

<sup>6</sup>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.

<sup>7</sup>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.

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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.<sup>8</sup>

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.<sup>9</sup> 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 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.

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## 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,

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<sup>8</sup>GAO, *Standards for Internal Control in the Federal Government*, [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).

<sup>9</sup>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.

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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.<sup>10</sup> 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.<sup>11</sup>

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<sup>10</sup>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.

<sup>11</sup>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.

**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 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.<sup>12</sup> In addition, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) has issued an

<sup>12</sup>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.



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internal control framework that, according to COSO, has gained broad acceptance and is widely used around the world.<sup>13</sup> 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.<sup>14</sup> 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.

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<sup>13</sup>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.

<sup>14</sup>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."

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## 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.<sup>15</sup> 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, 7 through an abbreviated noncompetitive review, and 2 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

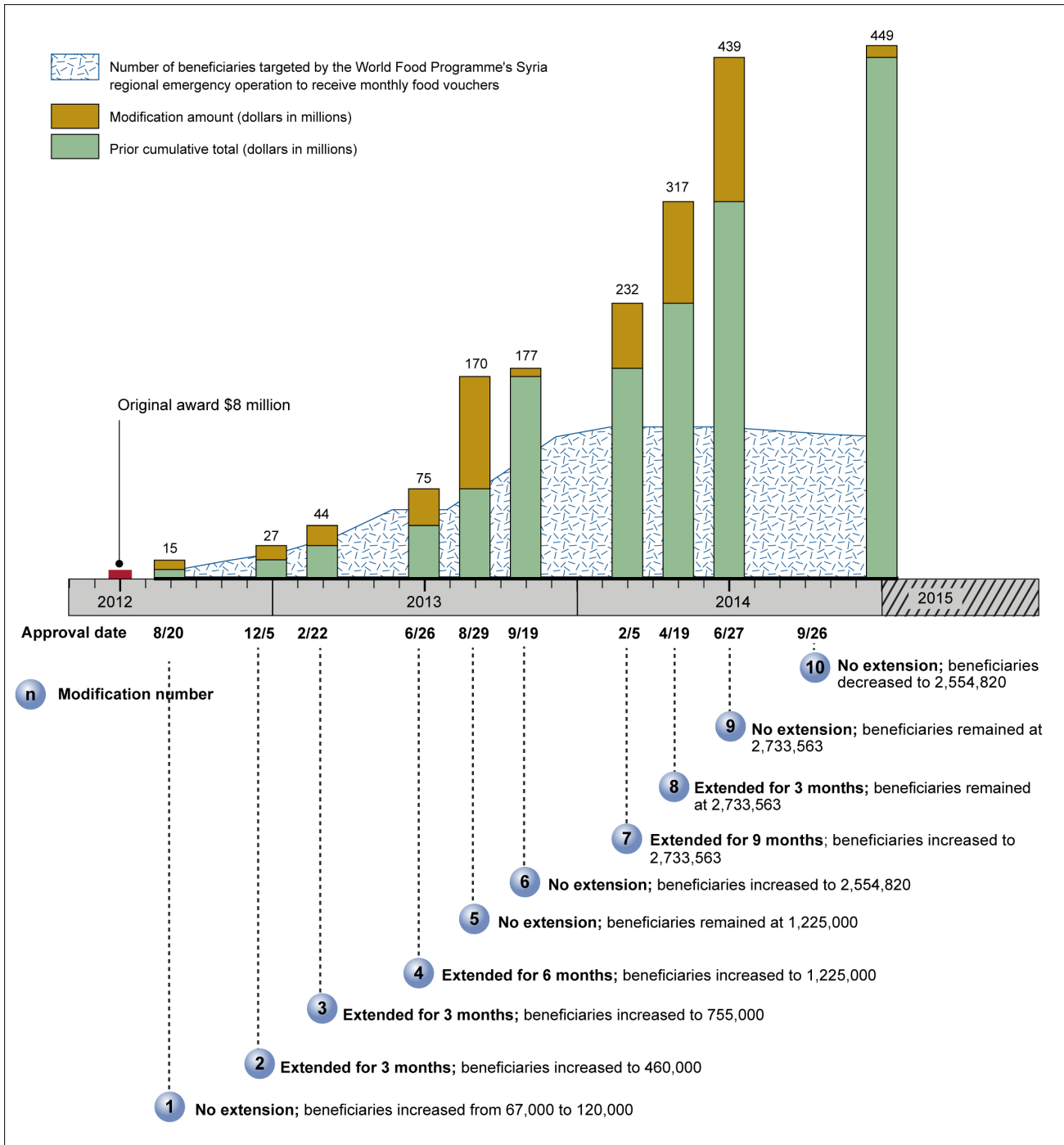
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<sup>15</sup>See U.S. Agency for International Development, Bureau for Democracy, Conflict, and Humanitarian Assistance, Office of Food for Peace, *Annual Program Statement for International Emergency Food Assistance*, Opportunity Number APS-FFP-13-000001. 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>.

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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 resulted 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 1 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

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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 10 percent.

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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.

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**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 implementing 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.<sup>16</sup> 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,

<sup>16</sup>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.

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including when grants are modified.<sup>17</sup> 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, and the village chief; and payment reconciliation reports prepared, signed, and stamped by the financial

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<sup>17</sup>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.



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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.<sup>18</sup> Another implementing partner had developed field financial guidance in 2013 that provides standardized

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<sup>18</sup>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.

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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.<sup>19</sup> Field visits are an integral part of financial oversight and a key control 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

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<sup>19</sup>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.

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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 EFSP funds 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

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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.

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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.

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# Appendix I: GAO Contact and Staff Acknowledgments

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## 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](mailto:melitot@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

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