



June 2015

FOREIGN AID

USAID Has Taken Steps to Safeguard Government-to-Government Funding but Could Further Strengthen Accountability

GAO Highlights

Highlights of [GAO-15-377](#), a report to congressional requesters

Why GAO Did This Study

USAID's Local Solutions initiative, launched in 2010 as part of USAID Forward, seeks to reform how the agency administers development assistance and to increase funding implemented through partner-country systems, including partner governments. In fiscal years 2012 through 2014, average annual obligations to G2G activities were about \$620 million. The Local Solutions initiative aims to strengthen local capacity and enhance country ownership and sustainability of development efforts. GAO was asked to review accountability under this initiative.

GAO assessed the extent to which USAID policies and practices related to (1) planning, (2) implementing, and (3) monitoring and evaluating G2G assistance provide reasonable assurance that this assistance is used as intended. GAO analyzed key USAID policy documents; interviewed USAID officials; reviewed planning documents from 14 USAID missions; and conducted fieldwork in Nepal, Peru, and Tanzania.

What GAO Recommends

GAO recommends that USAID take steps to strengthen accountability for G2G assistance by, among other things, improving the timeliness of risk assessments; incorporating risk mitigation measures into M&E planning; improving on-time audit submission; and assessing the effects of G2G assistance on capacity, ownership, and sustainability. USAID agreed with all of GAO's recommendations and noted various actions it is taking to address them.

View [GAO-15-377](#). For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

June 2015

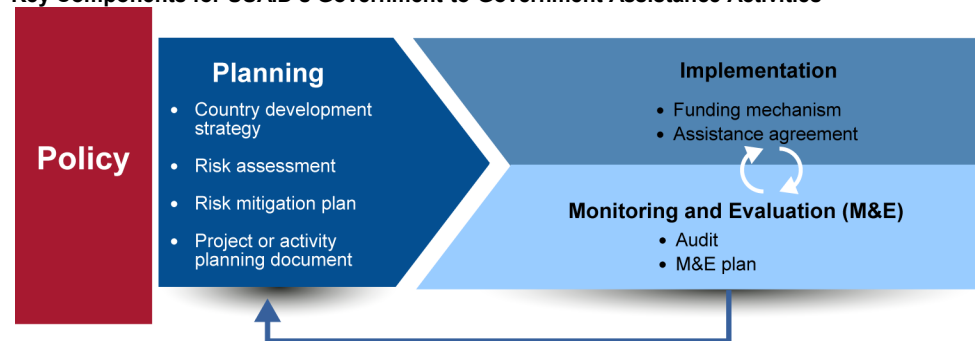
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USAID Has Taken Steps to Safeguard Government-to-Government Funding but Could Further Strengthen Accountability

What GAO Found

For each key phase for government-to-government (G2G) assistance activities under its Local Solutions initiative, the U.S. Agency for International Development (USAID) has policies that generally reflect federal accountability standards to help ensure funds are used as intended. However, GAO identified several steps in implementing these policies that could further strengthen accountability.

Key Components for USAID's Government-to-Government Assistance Activities



Source: GAO synthesis of U.S. Agency for International Development (USAID) policies. | GAO-15-377

Planning: This phase entails designing projects that link to USAID missions' country development strategies, assessing and mitigating risks, and preparing planning documents. GAO found that USAID missions completed detailed fiduciary risk assessments for G2G assistance activities when required but did not always include mitigation steps in planning documents, in part, because risk assessments were often done after planning had been completed. Also, project monitoring and evaluation (M&E) plans often did not incorporate steps USAID and partner governments agreed to take to mitigate risks and build capacity.

Implementation: In this phase, USAID implements G2G activities according to the terms and conditions established in assistance agreements with partner governments. USAID missions usually selected funding mechanisms in which USAID reimburses partner governments for costs related to completion of agreed-upon activities. In addition, consistent with USAID policy, missions employed assistance agreements and corresponding implementation letters to commit funds and set objectives, among other things.

M&E. This phase includes conducting audits of partner-government entities and assessing the results of G2G assistance activities. Annual audits GAO reviewed were often submitted late, which delays audit follow-up actions required by USAID policy and limits the audits' usefulness as a monitoring tool. In addition, project M&E plans GAO reviewed rarely included indicators or evaluation questions for assessing the degree to which G2G assistance activities are building capacity, increasing ownership, or ensuring sustainability—the three interrelated goals of the Local Solutions initiative.

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Abbreviations

AAD	activity approval document
ADS	Automated Directives System
AUPGS	Authorization to Use Partner Government Systems
CDCS	country development cooperation strategy
FAA	Foreign Assistance Act
G2G	government-to-government
M&E	monitoring and evaluation
OIG	Office of Inspector General
PAD	project appraisal document
PEFA	Public Expenditure and Financial Accountability
PFMRAF	Public Financial Management Risk Assessment Framework
PPD-6	Presidential Policy Directive on Global Development
USAID	U.S. Agency for International Development

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June 4, 2015

The Honorable Bob Corker
Chairman
Committee on Foreign Relations
United States Senate

The Honorable Robert Menendez
United States Senate

With its Local Solutions initiative, the U.S. Agency for International Development (USAID) has sought to align its administration of development assistance more closely with an international consensus on how best to improve global development effectiveness and accountability. Launched as part of USAID Forward in 2010, this shift has simultaneously aimed to increase the funding USAID implements through partner-country systems in order to achieve sustainable development outcomes, while also overhauling how the agency plans, implements, and monitors and evaluates assistance projects and activities, including those funded through partner governments, known as government-to-government (G2G) assistance.¹

According to USAID data made available in May 2015, USAID missions obligated on average approximately \$620 million, or about 7 percent of all mission program funds, to partner governments in fiscal years 2012 through 2014. USAID has provided such assistance to partner-country ministries of health to train community health workers, to ministries of education to improve children's reading skills, and to ministries of agriculture to improve roads used to transport agricultural products, among others. By channeling funding through partner-country systems, including governments, USAID aims to achieve three interrelated goals: strengthening capacity to achieve development results, enhancing and promoting country ownership, and increasing sustainability.

¹For the purposes of this report, we refer to assistance provided to partner governments as G2G assistance.

You asked us to review USAID's Local Solutions initiative. This, the second of two reports responding to this request, focuses on G2G assistance.² For this report, we assessed the extent to which USAID policies and practices related to (1) planning, (2) implementing, and (3) monitoring and evaluating G2G assistance provide reasonable assurance that this assistance is being used as intended.

To address these objectives, we reviewed USAID policies related to planning, implementing, and monitoring and evaluating G2G assistance activities effective at the time of our review. We also interviewed USAID officials in Washington, D.C., about these policies. For the purposes of our review, we compared the relevant USAID policies with standards in GAO's *Standards for Internal Control in the Federal Government*, which we refer to as accountability standards in this report.³ To assess USAID missions' adherence to these policies, we reviewed planning documents for 29 G2G assistance activities from 14 USAID missions with more than \$500,000 in G2G obligations in fiscal year 2012.⁴ These included risk assessments, project or activity planning documents, assistance agreements, and audits, among others.⁵ From those USAID missions, we selected missions in Nepal, Peru, and Tanzania for in-depth case studies. We chose these missions on the basis of fiscal year 2012 G2G funding levels, progress in implementing projects and activities, and geographic and sector diversity. Although the results of our case studies cannot be

²In April 2014, we reported on USAID's efforts to track progress on its Local Solutions initiative. See GAO, *Foreign Aid: USAID Has Increased Funding to Partner-Country Organizations but Could Better Track Progress*, [GAO-14-355](#) (Washington, D.C.: Apr. 16, 2014).

³GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

⁴These missions are in Armenia, Barbados, Ghana, Haiti, Honduras, India, Liberia, Mozambique, Nepal, Peru, Senegal, South Africa, Tanzania, and Zambia. USAID missions in Afghanistan and Pakistan also obligated over \$500,000 in G2G assistance in fiscal year 2012, but we did not include their projects in our document review because various aspects of G2G assistance in these countries have been reviewed previously, by us as well as by the USAID Office of Inspector General (OIG) and the Special Inspector General for Afghanistan.

⁵Current USAID policies on planning and on G2G assistance require certain missions to document planning for projects (which consist of one or more activities) in project appraisal documents (PAD). Prior to 2012, missions documented project and activity planning using activity approval documents (AAD). We refer to these, and other related documents, as planning documents in this report.

projected across all USAID missions, we believe these missions provide an illustrative mix of USAID's G2G assistance activities. In our three case-study countries, we conducted site visits and interviewed USAID and partner-government officials as well as representatives of other donor countries and civil society. Appendix I provides more information on our objectives, scope, and methodology.

We conducted this performance audit from April 2014 to June 2015 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.

Background

U.S. Policy Commitments Related to G2G Assistance

Through its participation in a series of aid effectiveness forums beginning in 2005, the U.S. government, along with other donor and partner countries, has committed to improving the effectiveness of assistance programs, in part through increased use of partner-country systems and strengthening of local capacity to achieve development results.⁶ For example, the 2011 Busan Partnership for Effective Development Cooperation states that donor and partner countries will use country systems as the default approach for implementing development assistance, working with both donors' and partner countries' governance structures.⁷ In keeping with these commitments, the 2010 Presidential

⁶The U.S. government endorsed both the 2005 Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action, both of which call on donor and partner countries to take certain steps to enhance ownership, alignment, harmonization, results, and mutual accountability of development assistance. See <http://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm>.

⁷The 2011 Busan Partnership for Effective Development Cooperation is endorsed by 160 countries, including the United States. See <http://www.oecd.org/dac/effectiveness/49650173.pdf>. USAID refers to country systems as local or partner-country systems, which include partner governments, the private sector, and nongovernmental organizations.

Policy Directive on Global Development, USAID's 2011-2015 Policy Framework, and USAID's Local Systems Framework all stress the need to build partner-country capacity to achieve shared development goals.⁸

Local Solutions and G2G Assistance

USAID's Local Solutions initiative aims to increase funding for partner-country systems, including partner governments, private sector, and nongovernmental organizations, that have sufficient capacity—and to help strengthen their capacity when needed—in order to achieve sustainable development outcomes.⁹ In 2013, USAID created the senior position of Local Solutions Coordinator in the agency's Counselor's Office. The Local Solutions Coordinator is responsible for coordinating the functions and activities of the various headquarters offices and missions involved in carrying out the Local Solutions initiative.

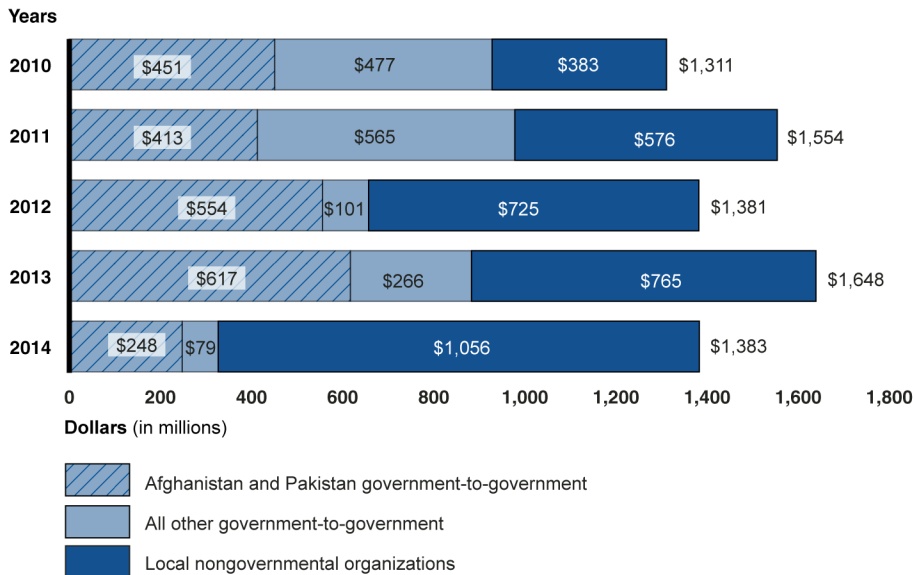
According to data USAID made available in May 2015, although overall obligations to partner-country systems increased in fiscal years 2010 to

⁸The September 2010 Presidential Policy Directive on Global Development (PPD-6) emphasizes capacity building, sustainability, and country ownership, among other things, as means for achieving development results. USAID's 2011-2015 Policy Framework describes how USAID will put the policy directive into practice and presents an agenda for institutional reform (known as USAID Forward). See <http://www.usaid.gov/documents/1870/usaaid-policy-framework-2011-2015>. In addition, USAID's Local Systems Framework, available at <http://www.usaid.gov/policy/local-systems-framework>, describes USAID's approach to attaining sustained development outcomes through support for local systems.

⁹According to USAID, the agency has authorities under the Foreign Assistance Act (FAA) of 1961, as amended, and related legislation to provide direct assistance to and through friendly governments. For example, under Section 635 of the FAA, USAID furnishes assistance "on such terms . . . as may be best determined to be suited to the achievement of the purposes of this Act," and to "make loans, advances, and grants to, make and perform agreements and contracts with, or enter into other transactions with . . . [a] friendly government or government agency." See Pub. L. No. 87-195, § 635, 75 Stat. 424, 456 (codified as amended at 22 U.S.C. § 2395).

2014, obligations to partner governments declined from about \$929 million to \$327 million during this period, as shown in figure 1.¹⁰

Figure 1: USAID Mission Program Funds Obligated through Partner Governments and Local Nongovernmental Organizations in Fiscal Years 2010-2014



Source: GAO analysis of U.S. Agency for International Development (USAID) data. | GAO-15-377

Notes: Figures may not add to total because of rounding.

During the course of our review and in response to our inquiries, USAID determined that fiscal year 2012 Local Solutions data included some funding mechanisms that the agency does not consider to be government-to-government. According to USAID, the agency is developing a process to identify and exclude these funding mechanisms for fiscal year 2015 data, but does not yet have plans to adjust previously published data. For more information, see app. I.

Following the launch of USAID Forward in 2010, USAID began to revise various policies related to planning, project design and implementation, and monitoring and evaluation—often referred to as USAID’s program

¹⁰USAID’s March 2013 progress report on its USAID Forward initiative provided information on the status of the Local Solutions initiative, including G2G obligation amounts, among other things. USAID also has published data on its website Local Solutions obligations data, including G2G funding amounts, for fiscal years 2012-2014. During the course of our review and in response to our inquiries, USAID determined that fiscal year 2012 Local Solutions data included some funding mechanisms that the agency does not consider to be G2G. According to USAID, the agency is developing a process to identify and exclude these funding mechanisms for fiscal year 2015 data, but does not yet have plans to adjust previously published data. For more information, see app. I.

cycle. While many of these policies apply broadly to all USAID assistance, some apply specifically to G2G assistance. For the purposes of this report, we identified the following key components of USAID's program cycle as they relate to G2G assistance:

- **Policy:** USAID policy related to G2G assistance is documented primarily in the agency's Automated Directives System (ADS), which contains the policies and procedures that guide the agency's operations. USAID first issued a policy chapter specifically related to G2G assistance in 2011 and updated it in March 2012 and July 2014.¹¹
- **Planning:** The initial phase of USAID's program cycle entails designing projects that are consistent with the mission's country development strategy, assessing and addressing risks associated with implementing the projects, and preparing planning documents for mission director approval.
- **Implementation:** This phase entails selecting appropriate funding mechanisms and implementing G2G assistance activities according to the terms and conditions established in bilateral assistance agreements and other legal documents.
- **Monitoring and evaluation (M&E):** This phase entails conducting audits of partner-government entities and assessing the progress and results of G2G assistance activities.

Appendix II provides a detailed summary of these components.

Accountability Standards

Agencies should have in place appropriate mechanisms to help ensure achievement of program results. GAO's *Standards for Internal Control in the Federal Government*, which we refer to as accountability standards, emphasizes the importance of identifying goals and objectives, identifying and mitigating risks, and establishing and tracking performance

¹¹See *ADS Chapter 220: Use and Strengthening of Reliable Partner Government Systems for Implementation of Direct Assistance*, available at <http://www.usaid.gov/ads/policy/200/220>.

indicators, among other things.¹² As continuous, built-in components of agencies' operations, such measures help provide reasonable assurance that funds are used as intended and help agencies meet their objectives.

Planning: USAID Missions Completed Detailed Fiduciary Risk Assessments but Did Not Always Address Risks and Mitigation Steps in Project Design and Missed Opportunities to Coordinate with Other Donors

USAID policy addresses accountability standards calling for identification, analysis, and mitigation of risks, and we found that USAID missions completed detailed risk assessments. However, missions did not always integrate risk mitigation measures into project and M&E planning when required by USAID policy. We found that risk assessments had often been completed after planning documents had been finalized. In addition, M&E plans we reviewed often did not incorporate steps USAID and partner governments agreed upon to address risks and build capacity. We also found that USAID missions missed opportunities to coordinate risk assessment activities with other donors.

¹²See GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999). In September 2014, GAO updated these standards, which generally take effect starting in fiscal year 2016. See <http://www.gao.gov/greenbook/overview>.

USAID Missions Conducted Detailed Fiduciary Risk Assessments and Identified Mitigation Steps but Did Not Always Incorporate Them into Project Planning

Accountability Standards

Accountability standards call for an approach to risk management based on how much risk can be prudently accepted. The approach is designed to keep risks within levels judged appropriate, and specific control activities are decided upon to manage or mitigate specific risks. Risk assessment entails

- identification of relevant risks,
- risk analysis, and
- risk management (or mitigation).

Source: *Standards for Internal Control in the Federal Government*, (GAO/AIMD-00-21.3.1 (Washington, D.C. November 1999). | GAO-15-377

By requiring missions to conduct detailed fiduciary risk assessments and incorporate them into project planning, USAID policy addresses accountability standards calling for identification, analysis, and mitigation of risk. According to USAID's policy on G2G assistance, before providing funds directly to a partner-government entity, the missions must complete a fiduciary risk assessment of that entity.¹³ The goal of this assessment is to establish risk mitigation measures that will be integrated into the design of the project to help ensure that funds are managed appropriately.¹⁴ Possible risk mitigation measures include technical assistance for capacity building, disbursement of funds in tranches contingent on the achievement of certain milestones, establishment of benchmarks for the partner country to demonstrate progress in correcting financial management weaknesses, and limits on cash advances under cost-reimbursable funding mechanisms. Missions are required to include the findings of the risk assessments, as appropriate, in the planning documents approved by the mission director. In addition, missions should include provisions for ensuring partner-government compliance with risk mitigation measures in the M&E plans for projects with G2G assistance activities.¹⁵ Since fiscal year 2012, legislation governing the use of funds

¹³USAID calls this the Public Financial Management Risk Assessment Framework, or PFMRAF. In some cases of G2G assistance, certain PFMRAF requirements may not be mandatory. Exceptions include cases of small-scale or pilot projects with budgets of less than \$750,000; fixed-amount reimbursement life-of-project obligations of less than \$10 million made before fiscal year 2018; and where PFMRAF policies and procedures may impair foreign assistance objectives. According to USAID, in these cases, missions complete rigorous assessments, in part to comply with legislative requirements regarding G2G assistance.

¹⁴Multidisciplinary teams of mission staff are responsible for completing these risk assessments. USAID mission directors designate members of the teams, which, according to USAID policy, should comprise the mission's controller; resident legal advisor; program officer; technical officer; democracy, human rights, and governance officer; the contracting officer, and others as deemed necessary. At USAID headquarters, the G2G Risk Management Team in the Office of the Chief Financial Officer is responsible for assuring quality and consistency of the missions' fiduciary risk assessment process and approves the final risk assessment report. Other bureaus, such as the Bureau for Economic Growth, Education and Environment; the Bureau for Democracy, Conflict and Humanitarian Assistance; the Bureau for Policy, Program and Learning; and other regional and technical bureaus provide support for the design and implementation of projects with G2G assistance activities and promote best practices among missions.

¹⁵Starting in 2012, USAID policy on planning requires missions with an approved country development strategy to document project planning and design using a PAD. Prior to 2012, missions documented project and activity planning using AADs. See app. II for more information.

for direct G2G assistance has placed conditions on such assistance, including requiring the assessment of the partner-government entity that will receive the assistance funds and determination regarding whether it has the systems required to manage those funds.¹⁶ According to USAID, the agency meets these assessment requirements by means of its policies and procedures relating to G2G assistance.¹⁷

On the basis of our review of 29 planning documents for G2G assistance activities with fiscal year 2012 obligations, we found that missions conducted risk assessments and formulated risk mitigation plans, as required.¹⁸ Table 1 provides illustrative examples of risks and associated recommendations identified in fiduciary risk assessment reports from our three case-study countries—Nepal, Peru, and Tanzania.

¹⁶See, for example, Consolidated Appropriations Act, 2012, Pub. L. No. 112-74, § 7031(a), 125 Stat. 786, 1209-10 (2011).

¹⁷Section 7031(a) in the appropriations acts for the Department of State, Foreign Operations, and Related Programs for fiscal years 2012 and 2014 states that “[f]unds appropriated by this Act may be made available for direct government-to-government assistance only if . . . each implementing agency or ministry to receive assistance has been assessed and is considered to have the systems required to manage such assistance.” The section in each respective act also asserts that funds may be made available for direct government-to-government assistance only if any identified vulnerabilities or weaknesses on the part of the recipient agency or ministry have been addressed. See Consolidated Appropriations Act, 2014, Pub. L. No. 113-76, § 7031(a), 128 Stat. 5, 509 and Pub. L. No. 112-74, § 7031(a). These conditions were carried forward from fiscal year 2012 into fiscal year 2013 by the Consolidated and Further Continuing Appropriations Act, 2013, Pub. L. No. 113-6, 127 Stat. 198.

¹⁸A 2013 OIG review of 34 fiduciary risk assessments from seven USAID missions found that 17 of the assessments did not provide a reasonable basis for deciding whether to use partner-government systems. OIG noted, as contributing causes for varying levels of assessment quality, guidance that was insufficiently detailed and lack of involvement from headquarters financial officers, among other things, and made three recommendations to strengthen the assessment process. See OIG, *Review of USAID’s Partner-Country and Local Organization Assessments Under Implementation and Procurement Reform*, 9-000-13-003-S (Washington, D.C.: June 7, 2013), available at https://oig.usaid.gov/sites/default/files/audit-reports/9-000-13-003-s_0.pdf. According to USAID, the agency has taken action in response to all three recommendations.

In addition, the OIG and the Special Inspector General for Afghanistan Reconstruction (SIGAR) reviewed risk assessments conducted by USAID missions in Afghanistan and Pakistan. Appendix III provides a summary of the OIG’s and SIGAR’s reviews of direct assistance in these countries.

Table 1: Examples of Identified Risks and Associated Recommendations in U.S. Agency for International Development Fiduciary Risk Assessments of Government Entities in Three Partner Countries

Risk category^a	Risk level^b	Risk	Recommendation	Government entity (country)
Accounting and reporting	Medium	Funds justification reports not consistently submitted on time.	Bilateral agreement should contain guidelines for liquidation reports; provide public financial management training.	President's Office—Public Service and Good Governance (Tanzania)
Audit and compliance	Medium	Managers and stakeholders do not have timely information on audit results.	Partner government should plan for timely annual financial audits.	Regional government of San Martín (Peru)
Budget	Low	Detailed budgets are not prepared to support initial budget requests.	Develop procedures for and training in standardizing program activity costs.	Regional government of San Martín (Peru)
Cash management and treasury	Medium	Lack of effective cash-flow management processes.	Ensure that procedures do not affect budget execution; develop cash-flow policies.	Ministry of Education (Nepal)
Entity features	Medium	Key programs may be replaced because of political influence.	Require district education officers who receive funds to prepare draft budgets and be included in negotiations.	Ministry of Education (Nepal)
Human resources and payroll	High	Thorough job descriptions not used to guide hiring process.	Require detailed job descriptions for hiring; expand use of media in advertising job openings.	President's Office—Public Service and Good Governance (Tanzania)
Information technology	Medium	No contingency plan for unexpected disasters.	Develop a contingency plan for continuity of information technology operations.	Regional government of San Martín (Peru)
Internal control	High	Minimal effort to assess fraud risk.	Assist partner government in incorporating fraud risk assessment into government-to-government (G2G) programs; partner country should consider inherent risk of fraud when conducting risk assessments.	Ministry of Education (Nepal)
Procurement	Critical	Lack of documented policies for receiving and inspecting goods	Develop written policies for receiving and inspecting goods.	President's Office—Public Service and Good Governance (Tanzania)

Source: GAO synthesis of U.S. Agency for International Development documents. | GAO-15-377

^aRisk categories are taken from the "Public Financial Management Risk Assessment Stage 2 Questionnaire," Version 2 (3/12/2014), as shown in U.S. Agency for International Development, *Public Financial Management Risk Assessment Framework Manual: A Mandatory Reference for ADS Chapter 220* (July 28, 2014), available at <http://www.usaid.gov/sites/default/files/documents/1868/220mae.pdf>.

^bRisk levels are outlined in the manual cited above.

The planning documents we reviewed showed that in some cases, missions took concrete steps to avoid risk. In Tanzania, for example, the mission identified four government organizations as potential recipients of G2G funds for a governance project but proceeded with only three of them, because the assessment identified significant risks that would have required extensive mitigation measures.

However, for most planning documents we reviewed, missions did not integrate risk mitigation measures into project design and M&E planning when required. Of the 29 planning documents we reviewed, 20 included no discussion of identified risks, and 17 of the planning documents did not address measures for mitigating risks. Furthermore, 25 of the 29 M&E plans did not integrate follow-up for ensuring partner government compliance with agreed-upon risk mitigation measures.

In most cases, missions had not completed the fiduciary risk assessments prior to finalizing project or activity planning: for 14 of the 20 planning documents that did not include risk mitigation information, we found that the fiduciary risk assessment was either under way or not yet initiated at the time of project planning. In some cases, our document review enabled us to identify possible reasons missions completed planning before the corresponding risk assessments were completed. In one instance, the planning document included non-G2G activities for which a fiduciary risk assessment was not required, according to the document; to avoid delays in the approval of these non-G2G activities, the mission approved the larger project and proceeded while the G2G-related risk assessment was under way.¹⁹ In another instance, the USAID mission had a previous funding relationship with the partner-government agency and thus may have decided to proceed because it was already aware of potential risks.

USAID policy on G2G assistance clearly underscores the importance of integrating risk mitigation measures into project and M&E planning. When missions finalize project planning without having the information from completed fiduciary risk assessments, they may not incorporate into the design of the project appropriate safeguards or measures that would strengthen partner-country systems. Furthermore, not integrating partner-

¹⁹Previous and current versions of USAID policy on G2G assistance address risk assessment requirements as part of project design. However, according to USAID, agency policy on planning did not integrate these requirements until July 2014.

government follow-up on risk mitigation measures into project M&E plans weakens oversight and accountability and creates potential reporting inefficiencies.

In some cases, missions documented risk mitigation measures and compliance-monitoring plans in other project-related documents. For example, in Tanzania, the mission sent implementation letters to the government entities receiving G2G assistance outlining agreed-upon action plans for mitigating risks and stating that the entities would report progress to the mission on a regular basis.²⁰

USAID Missions Missed Opportunities to Coordinate Risk Assessments with Other Donors

On the basis of our fieldwork in Nepal, Peru, and Tanzania and our review of 29 planning documents for projects with G2G assistance funding obligated in fiscal year 2012, we found that missions missed key opportunities to work with other donors.²¹ According to USAID policy on G2G assistance, missions may consider various means of coordinating with other donors, such as by conducting joint risk assessments, involving other donors in USAID's assessment, sharing the results of USAID's fiduciary risk assessments, or other measures.²² In the three countries we visited, USAID mission and partner-government officials, as well as other donor representatives, told us that USAID's risk assessments provided valuable opportunities for learning and relationship building, but they also cited, in all three countries, opportunities for improved coordination.

²⁰According to USAID, risk mitigation measures included in implementation letters are binding on the partner-government ministry or agency receiving G2G assistance.

²¹Under the 2005 Paris Declaration on Aid Effectiveness, donors, including the U.S. government, commit to (1) implementing harmonized public financial management diagnostic reviews and performance assessment frameworks and (2) working together to reduce the number of separate, duplicative diagnostic reviews.

²²According to July 2014 supplemental guidance on risk assessment for G2G assistance, missions may consider a joint assessment with other donors, public international organizations, or other U.S. agency as an alternative to the fiduciary risk assessment if the opportunity to collaborate exists. Most often, the timing and scope of donor efforts will dictate whether the opportunity presents itself in any particular country context. In these cases, USAID must still take ownership of the final risk assessment, the scoring of risks, and the risk mitigation measures in the context of USAID's project design. See U.S. Agency for International Development, *Public Financial Management Risk Assessment Framework (PFMRAF) Manual: A Mandatory Reference for ADS Chapter 220*, available at <http://www.usaid.gov/sites/default/files/documents/1868/220mae.pdf>.

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- In Nepal, representatives of bilateral and multilateral donor organizations participating in a working group dedicated to improving public financial management stated that each donor conducts its own risk assessment and that they were not aware of the results of USAID's assessment. They also stated that there were opportunities for donors to better coordinate their risk assessment efforts and share information, thereby decreasing duplicative efforts and eliminating unnecessary burdens on the government of Nepal.
 - In Peru, the Swiss Agency for Development Cooperation assessed the management capacity of a subnational government partner that also underwent a USAID fiduciary risk assessment. Swiss officials stated they were not aware of the results of USAID's assessments, and USAID's assessments made no reference to the Swiss assessment.²³
 - In Tanzania, officials from a key recipient of G2G funds stated that the government organization had previously undergone capacity assessments and received technical assistance from the Swedish International Development Agency, but the findings of these assessments were not reflected in USAID's risk assessment.

In addition, in our review of planning documents for 29 G2G assistance projects, we found that 18 (about two-thirds) included general information about the project's relationship to other donors' activities, but none of these 18 described how USAID planned to work with other donors to assess risks or follow up on mitigation plans and steps.

Although we did not find any examples of risk assessments conducted jointly with other donors in the 29 planning documents we reviewed, in 2014, the USAID mission in Senegal conducted a risk assessment of the

²³According to USAID policy, mission officials may decide to use material and reliable analysis from relevant assessments of public financial management functions by the partner government (including those by the country's supreme audit institution), other donors, other U.S. agencies, or international auditing authorities, for all or part of the fiduciary risk assessment, as appropriate. In these cases, preexisting assessments should be compared with the factors being assessed by the mission's risk assessment. In addition, the mission may need to conduct a validation analysis, including limited on-site or other results testing, to identify areas or customized factors presenting particular risk to the proposed project or activity that were unaddressed by the prior assessment, or which may require further assessment.

Senegalese Ministry of Health and Social Welfare jointly with the World Bank. USAID headquarters officials told us they consider this type of joint assessment to be a best practice. In addition, USAID headquarters officials noted that mission officials in Rwanda, Egypt, and Indonesia worked with other donors, including the World Bank, on public financial management capacity assessments.²⁴ Nevertheless, mission officials in the three countries we visited told us that donor coordination on risk assessment can be difficult and cited several reasons, among them that USAID has more rigorous risk assessment requirements, donor budget and project planning cycles may not coincide with USAID's time frames, and donor working groups may be organized around pooled funding arrangements in which USAID does not participate. In addition, two of the USAID missions had yet to determine who should take the lead on donor coordination focused on improving partner-government public financial management.

Despite such difficulties, some USAID mission officials and donor representatives we spoke with described potential benefits of coordination on risk assessments. For example, they told us that since donors' risk assessments tend to produce similar results, a lack of coordination among donors leads to duplication and increased costs associated with conducting the assessments, costs borne by donors (including USAID) and partner governments alike.²⁵ Moreover, by not coordinating on risk assessments, USAID misses opportunities to build relationships among donors that can help strengthen implementation of partner countries' risk mitigation activities, including efforts to strengthen partner-government capacity.

²⁴According to USAID headquarters officials, USAID Rwanda participated in the World Bank's Public Expenditure and Financial Accountability (PEFA) assessment. In addition, USAID Egypt assisted the International Monetary Fund with its public financial management assessment. Likewise, USAID Indonesia took the lead in working with other donors to plan for and conduct a PEFA assessment, resulting in the mission's contributing \$5 million to a multidor trust fund focused on public financial management reforms.

²⁵According to USAID, agency officials are aware of, and advised to avoid, so-called assessment fatigue resulting from multiple assessments conducted by various donors of roughly the same partner-government administrative, technical, or public financial management capacities.

Implementation: Missions’ Disbursement of Assistance Funds Primarily on a Reimbursement Basis Reflects Accountability Standards and Adheres to USAID Policy

USAID policy on G2G assistance addresses accountability standards related to mitigating risk and safeguarding funds by encouraging missions to select one of three funding mechanisms for G2G assistance. We found that missions frequently established funding mechanisms whereby USAID reimburses partner governments for costs related to achievement of results. In addition, consistent with USAID policy addressing accountability standards related to the establishment of control activities, missions employed G2G assistance agreements and corresponding implementation letters with partner governments to commit funds and set objectives and conditions for funding, among other things.

Missions Frequently Used Reimbursement Funding Mechanisms

USAID policy on G2G assistance addresses accountability standards related to mitigating risk and safeguarding funds by encouraging missions to select a funding mechanism that best achieves the purpose of the project or activity, fosters and deepens the partner government’s public financial management capacity, efficiently implements the project or activity, guarantees accountability, and promotes sustainability. Missions generally choose from among three possible funding mechanisms for G2G assistance: cost reimbursement, fixed-amount reimbursement, and resource transfer.

Control Activities to Manage Risks

Accountability standards call on agencies to develop an approach to risk management based on how much risk can be prudently accepted and to establish specific control activities to manage specific risks.

Source: *Standards for Internal Control in the Federal Government*, (GAO/AIMD-00-21.3.1 (Washington, D.C. :November 1999). | GAO-15-377

- **Cost reimbursement:** USAID reimburses the partner-government entity for actual costs and expenditures incurred in carrying out the project activities, up to an estimated total cost specified in advance.
- **Fixed-amount reimbursement:** USAID reimburses an amount agreed to in advance based on unit of output, such as kilometers of roads built, or on associated project milestones, after the mission has verified that quality standards have been met.
- **Resource transfer:** USAID provides a transfer of funds or commodities to the partner government. Disbursement is generally

dependent on the completion of specific actions by the partner government.²⁶

Since 2012, legislation governing the use of funds for direct G2G assistance states that such assistance should be made on a cost-reimbursable basis.²⁷ Our review of 29 planning documents for G2G assistance activities with fiscal year 2012 obligations showed that, in nearly all of these cases (26 of 29), USAID missions employed reimbursement-based mechanisms.²⁸ In 11 of the 26 cases, missions also allowed funds to be advanced to the partner country. USAID policy allows for cash advances for projects that have been approved outside of the partner government's budget cycle or when funding from the partner government is not available. In such cases, the partner government is required to provide documentation of the proper use of the funds. Finally, in 3 cases, USAID missions provided resource transfers. In our three case study countries, we noted the following examples of missions using these three types of funding mechanisms:

- In Nepal, the USAID mission used a resource transfer for a democracy and governance project, contributing to a multidonor trust fund managed by the government of Nepal; the mission also planned to use a fixed-amount reimbursement agreement to fund an accompanying capacity-building project with the Ministry of Peace and Reconstruction.

²⁶According to USAID policy, resource transfer is used for either (1) sector program assistance, which provides cash or in-kind assistance used to carry out wide-ranging developments plans in a defined sector without restriction on the specific use of funds, but on the condition that the recipient execute a development plan in favor of the sector concerned, or (2) balance of payments or general budget support, commonly known as cash transfers.

²⁷See Pub. L. No. 113-76, § 7031(a) and Pub. L. No. 112-74, § 7031(a). These conditions were carried forward from fiscal year 2012 into fiscal year 2013 by the Consolidated and Further Continuing Appropriations Act, 2013. Pub. L. No. 113-6. Furthermore, for the assistance provided using funds appropriated by the respective act, the legislation requires USAID to periodically report to appropriations committees the type of procurement instrument or mechanism utilized and whether the assistance was provided on a reimbursable basis.

²⁸In 12 of these cases, missions employed cost reimbursement mechanisms and, in 14 cases, missions employed fixed-amount reimbursement funding mechanisms. For information on these funding mechanisms, see app. II.

- In Peru, the mission specified cost reimbursement as the funding mechanism in its planning document for a health, education, and alternative development project implemented through the regional government of San Martín. The planning document stated that this mechanism was appropriate because it would provide the mission flexibility to make adjustments during project implementation based on the regional government's performance or in the event of any unforeseen circumstances.
- In Tanzania, the USAID mission signed a fixed-amount reimbursement agreement with the Tanzania National Roads Agency for a rural roads rehabilitation project. However, to mitigate the agency's lack of resources to finance the project start-up, USAID provided a 20 percent cash advance, conditional on the transportation agency's agreement to certain terms.

Consistent with USAID Policy, Assistance Agreements and Implementation Letters Document Terms of G2G Assistance

USAID policy related to use of assistance agreements and implementation letters addresses accountability standards regarding documentation of significant events and establishment of control activities.

According to USAID policy on G2G assistance, assistance agreements between USAID and partner governments commit U.S. funds; these agreements also generally set forth agreed-upon terms regarding time frames; expected results; means of measuring results; and resources, responsibilities, and contributions of participating entities for achieving a clearly defined objective. In addition, USAID policy on G2G assistance states that missions can use implementation letters, which are formal correspondence from USAID to another party, to commit funds, detail project implementation procedures, specify the terms of an agreement, record the completion of conditions precedent to disbursements, and approve funding commitments and mutually agreed-upon modifications to project descriptions.²⁹ Since 2012, legislation governing the use of funds

Documentation of Significant Events

Accountability standards call for documentation of significant events.

Source: *Standards for Internal Control in the Federal Government*, (GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999). | GAO-15-377

²⁹USAID defines a condition precedent as a condition, or set of conditions, that must be met before USAID will agree to disburse funding. For example, if the host country laws require legislative approval of the assistance agreement, then USAID must receive evidence of that approval before funds are disbursed.

for direct G2G assistance requires USAID to enter into formal agreements with partner governments on the objectives of this assistance.³⁰

On the basis of our review of 29 planning documents for projects with G2G assistance funding obligated in fiscal year 2012, we found that USAID used one or more of four types of assistance agreements (see table 2) and associated implementation letters.³¹ For example, the USAID mission in Nepal has implemented G2G assistance through a broad assistance agreement with the national government with specific provisions spelled out in various implementation letters exchanged with the Ministries of Health and Population and Education, among others. Similarly, USAID Peru has implemented its G2G assistance through two broad assistance agreements, the first signed in 2008 and the second in 2012. The mission used implementation letters to approve work plans and establish funding amounts, among other things, with three government entities. In addition, the USAID mission in Tanzania implemented some of its G2G assistance through a strategic objective grant agreement with the national government to improve accountability and oversight of public resources through increased citizen engagement; the mission then used implementation letters to establish funding amounts, work plans, and reporting requirements with the National Audit Office, Public Procurement Regulatory Authority, and Ethics Secretariat.

³⁰Section 7031(a) in the appropriations acts for the Department of State, Foreign Operations, and Related Programs for fiscal years 2012 and 2014 includes certain limitations on direct government-to-government assistance, including that funds may be made available for government-to-government assistance only if the U.S. government and the government of the recipient country have agreed, in writing, on clear and achievable objectives for the use of such assistance. See Pub. L. No. 113-76, § 7031(a) and Pub. L. No. 112-74, § 7031(a). These conditions were carried forward from fiscal year 2012 into fiscal year 2013 by the Consolidated and Further Continuing Appropriations Act, 2013. Pub. L. No. 113-6.

³¹We found that the precise names of these agreements varied somewhat from those described in current USAID policy. However, all of the agreements fell into the same categories described in current USAID policy.

Table 2: Type, Definition, and Number of Assistance Agreements Used by USAID Missions to Implement a Sample of 29 Projects with Fiscal Year 2012 Obligations for Government-to-Government Assistance

Type	Definition	Number
Development and strategic objective agreements ^a	Agreement based on development objective in mission's country development strategy	24
Project- or activity-level agreements	Agreement for specific projects	5
Limited scope agreements ^b	Agreement for small project obligations of less than \$500,000	4
Program assistance agreements	Agreement for providing resource transfers in the form of foreign exchange or commodities	2

Source: GAO analysis of U.S. Agency for International Development (USAID) documents. | GAO-15-377

Notes: The data are based on our analysis of U.S. Agency for International Development planning documents, assistance agreements, and implementation letters for a sample of 29 activities with fiscal year 2012 obligations for government-to-government (G2G) assistance. In some cases, the G2G activities were implemented under multiple assistance agreements.

^aThese are the same type of agreement, currently called a development objective agreement; Some agreements we reviewed originated prior to January 2012, when the name for them was strategic objective agreements. In addition, we included broad assistance agreements that included several development or strategic objectives in this category

^bIn our review of assistance agreements, we found examples of two types of limited scope agreements—limited scope grant agreements and limited scope cooperative agreements—under which missions provided G2G assistance. According to supplemental USAID guidance, the difference between a cooperative agreement and a grant agreement is the level of oversight or management of the activity by USAID. For our purposes, we grouped these agreements into one category.

M&E: USAID Missions Collected Audits, but Those We Reviewed Were Often Late; Project-Level M&E Planning Did Not Always Address Local Solutions Objectives

Audit requirements that apply to USAID's G2G assistance are a key control for monitoring G2G assistance. Some of the USAID missions included in our review provided audits of G2G assistance they had collected when required. We found that these audits revealed weaknesses in partner countries' management of assistance funding. However, the audits were often submitted late, limiting their usefulness as a monitoring tool. In addition, we found that project-level plans for M&E rarely included indicators or evaluation questions for assessing the degree to which G2G assistance activities would build local systems capacity, increase country ownership, or enhance sustainability—the three interrelated goals of the Local Solutions initiative.

Audits Are a Key Monitoring Tool and Have Revealed Financial Management Weaknesses, but Late Submission Hampers Their Effectiveness

Objectives and Performance Indicators

Accountability standards call for establishment of entity-wide objectives and performance indicators.

In addition, accountability standards related to control activities call for agencies to establish and review performance indicators.

Source: *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999). | GAO-15-377

Audit requirements that apply to USAID's G2G assistance are a key control for monitoring G2G assistance and thus support proper stewardship of U.S. government resources. According to USAID policy on audits, when a financial audit is required, the completed audit is to be submitted no later than 9 months after the end of the audit period.³² The main determinant for conducting an audit is whether G2G assistance recipients will expend more than \$300,000 in the given fiscal year.³³ USAID's Office of Inspector General (OIG) reviews submitted audits and establishes recommendations for action. USAID policy on audits states that missions receiving such recommendations should take whatever steps are necessary to respond to the recommendations and provide documentation of the actions it takes.

On the basis of our review of 18 audits provided by five USAID missions, we found that these missions collected audits and used them to identify weaknesses in the management of G2G assistance, but the frequently late submission of these audits to USAID limited their usefulness as a monitoring tool. In response to our request for audits of G2G assistance,³⁴

³²This policy applies to independent auditors performing recipient-contracted audits required by USAID agreements with non-U.S. recipient organizations. A financial audit aims to assess whether a contractor, recipient, or host government has accounted for and used USAID funds as intended, and in compliance with applicable laws and regulations. See *ADS Chapter 591: Guidelines for Financial Audits Contracted by Foreign Recipients*, available at <http://www.usaid.gov/ads/policy/500/591maa>.

³³According to USAID policy on audits, non-U.S.-based organizations—including partner governments—expending \$300,000 or more of USAID-funded awards in its fiscal year must be audited annually. In addition, USAID policy states that a closeout audit must be performed for all awards in excess of \$500,000. In addition, USAID policy allows missions to request audits of partner governments; USAID's Office of Inspector General (OIG) may conduct these audits at its own discretion. See app. II for more information.

³⁴We reviewed audits submitted by USAID missions in response to our request but did not seek to verify that all required audits had been conducted or submitted. According to USAID policy, designated mission officials maintain each mission's annual audit inventory, decide when to conduct audits, and coordinate with OIG to develop the annual audit plan. See *ADS Chapter 591: Financial Audits of USAID Contractors, Recipients, and Host Government Entities*, available at <http://www.usaid.gov/ads/policy/500/591>. See app. II for more information.

five USAID missions provided 18 financial audits.³⁵ Six of the 18 audit opinions were unqualified, meaning the auditors found no significant problems.³⁶ However, 12 of the audits received qualified audit opinions because of questions about costs identified by the audits.³⁷ Examples of costs questioned by the audits included payment of value-added tax, grants or advances to other organizations, and training- and travel-related expenses. In addition, during reviews of the audits, OIG identified additional questionable costs in 6 audits it believed did not comply with the terms of the award agreement or lacked supporting documentation. Finally, audits reported material weaknesses in internal controls in 14 of the financial audits and a lack of compliance with agreements, regulations, or laws in 17 of the 18 audits. The auditors' negative findings in these areas included payments to contractors for unverified work, procurement from suppliers not on approved vendor lists, and improper cash advances, among other things.

On the basis of its reviews of submitted audits, OIG made recommendations to USAID missions in all of the 15 OIG audit reviews

³⁵Of the 18 audits we reviewed, 10 were conducted by a third-party contractor and 8 by the partner-government supreme audit institution. Fifteen of the 18 submitted audits were annual audits and 3 were multiyear audits. According to USAID policy on audits, an annual audit conducted in accordance with OIG guidelines may fulfill the closeout audit requirement for foreign nonprofit organizations provided it follows required closeout procedures. See *Guidelines for Financial Audits Contracted by Foreign Recipients*, available at <http://www.usaid.gov/ads/policy/500/591maa>. In addition, one mission submitted a performance audit. In contrast to a financial audit, performance audits, often conducted by OIG, provide an independent assessment of the performance and management of USAID systems, programs, activities, and functions against objective criteria or an independent assessment against best practices or other information. See *ADS Chapter 592: Performance Audits*, available at <http://www.usaid.gov/ads/policy/500/592>.

³⁶An unqualified opinion is given when the auditor is reasonably assured that the audited entity's financial records and statements are free of material misstatements.

³⁷A qualified opinion is given when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements exist, individually or in the aggregate, that are material but not pervasive in the financial statement. The misstatements may be due to a misclassification of an accounting entry, a lack of supporting evidence, or a restriction on the scope of the audit.

we received from USAID missions.³⁸ According to audit tracking data and supporting documentation provided by USAID, missions have taken final action on most of the recommendations in the OIG audit reviews we received. For example, one OIG audit review included a recommendation for USAID Nepal to correct deficiencies related to procurement and internal controls; in response, the mission agreed to ensure that goods and services are procured from authorized vendors only. In another example, OIG instructed USAID Ethiopia to determine whether questioned costs of about \$28,000 were allowable or unallowable and, if appropriate, to recover unallowable costs; the mission found the costs to be unallowable and recovered the funds.

Nevertheless, on the basis of our review of these audits, we found that two-thirds (12 of 18) were submitted late (see table 3); in one case, OIG indicated it had received the audit report about a year late.

Table 3: Timeliness of 18 Financial Audits for Government-to-Government Assistance from Five USAID Missions, by Months Submitted after End of Audited Period	
Timeliness	Number of audits
On time	6
Up to 12 months late	10
More than 1 year late	2
Total 18	

Source: GAO analysis of financial audits provided by the U.S. Agency for International Development (USAID). | GAO-15-377
Note: According to USAID policy on audits, when a financial audit is required, the completed audit is to be submitted no later than 9 months after the end of the audit period.

The late submission of audits delays subsequent audit follow-up activities required by USAID policy, including OIG’s review as well as USAID mission follow-up on OIG recommendations. For example, on the basis of

³⁸OIG reviews audits and makes recommendations regarding the recovery of questioned costs. In some cases, OIG’s review of the audits identified additional questioned costs. For example, in its review of 1 audit and associated documentation, OIG found that the auditor neglected to properly characterize as unsupported costs about \$30,000 in lodging and related expenses. According to data provided and supporting documentation provided by USAID, in some cases, all questioned costs should be recovered, while in others, after the audited entity provides additional documentation, only a small percentage of initially questioned costs—or none at all—need to be recovered.

its review of an annual audit of a government entity in Nepal, OIG recommended that the USAID mission ensure that the government entity correct one internal control weakness and address certain questioned costs, among other things. However, because the audit was submitted 1 year late—and near completion of the G2G assistance activity—the mission notified OIG that it would not take further action on the recommendations. The mission determined that although it did not plan to provide additional assistance to the government entity at that time, it would ensure corrective actions were taken prior to providing any future assistance. Late audit submission reduces the audit’s usefulness for selecting timely and appropriate responses to the audit findings—such as recovering funds, putting in place additional safeguards, or identifying ways to enhance financial management capacity. Moreover, by allowing weaknesses to continue unaddressed, late audits of G2G assistance activities increase the risk that those activities will not achieve their goals as efficiently and effectively as possible.

Project-Level M&E Plans Frequently Lacked Key Indicators and Evaluation Questions for Measuring Capacity Building, Country Ownership, and Sustainability

USAID policy on M&E for G2G assistance incorporates accountability standards through the identification of objectives and related performance indicators. USAID policy on M&E requires missions to describe in their project planning documents indicators and, when appropriate, evaluation methods that will be used to assess achievement. Furthermore, project planning documents, in describing the project’s M&E plan, must link to missions’ country development strategies and mission-wide performance management plans. In addition, USAID policy on G2G assistance states that carefully defining M&E roles and responsibilities during project design is critical for this type of assistance.

Objectives and Performance Indicators

Accountability standards call for establishment of agency objectives.

In addition, accountability standards related to control activities call for agencies to establish and review performance indicators.

Source: *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999). | GAO-15-377

In our review of the M&E plans included in 29 planning documents for G2G activities with funding obligated in fiscal year 2012, we found that missions included general project-level M&E information, but often did not specify how they would monitor or evaluate achievement of Local Solutions goals the missions included in their mission-level strategies. Although some missions have begun to develop ways to measure and track progress in achieving these goals, at the time of our review, USAID did not have agency-wide guidance on how to do so.

The country development strategies of 13 missions we reviewed that obligated G2G funding in fiscal year 2012 included strengthening partner-government capacity, enhancing and promoting country ownership, and increasing sustainability—the three goals of the Local Solutions initiative—among their development objectives. For example, one of

USAID Nepal's three development objectives is "more inclusive and effective governance," while one of USAID Peru's three development objectives is "management and quality of public services improved in the Amazon Basin," and one of USAID Tanzania's three development objectives is "effective democratic governance improved."

However, we found relatively little information in the project-level planning documents we reviewed about how missions would track progress toward these goals. In our review of the M&E plans included in 29 planning documents for G2G assistance activities with fiscal year 2012 obligations, we found that nearly all of them included general M&E information—such as periodic progress reporting, illustrative indicators, and general plans for evaluating program results—as well as considerations related to program sustainability. However, 18 of 29 planning documents we reviewed made no mention of indicators for measuring capacity, ownership, or sustainability, and 24 lacked evaluation plans or questions addressing these goals.³⁹

Our previous report on Local Solutions noted specific weaknesses in USAID's proxy indicator for tracking Local Solutions progress—the percentage of mission program funds obligated to partner-country systems. In addition, we noted that a USAID-commissioned study, while it concluded that increasing funding to partner governments was associated with improved capacity of partner governments in some countries, also highlighted the need for more evidence demonstrating the impact of this approach on funding development assistance relative to other funding

³⁹According to USAID policy on G2G assistance, when designing a project with G2G assistance activities, missions should consider approaches for assessing the effectiveness and sustainability of the use of partner-country systems in meeting assistance objectives as well as the effectiveness of related partner-government capacity-building efforts.

approaches.⁴⁰ At the time of our prior review, USAID officials told us that other approaches existed within the agency for measuring progress toward strengthening partner-country systems and promoting sustainable development, particularly project-level indicators and evaluation data.

Some of the planning documents we reviewed did include indicators or evaluation plans, suggesting that missions have begun to develop ways to measure and track progress in achieving the three Local Solutions goals of strengthening capacity to implement programs, enhancing and promoting country ownership, and increasing sustainability.⁴¹ For example, the planning document for a nutrition project in Ghana envisioned conducting an impact evaluation to assess the relative effectiveness in achieving results of direct G2G funding versus an indirect funding model. The same planning document also included several expected results related to local government capacity, such as strengthening district assemblies' capacity to manage direct donor funding. In addition, the M&E plan for a USAID early-education project in Nepal identified as an illustrative evaluation question prospects for scale-up and sustainability of the project as a regular activity of the local Ministry of Education. Finally, the planning document for a democratic governance and accountability project in Tanzania indicated that an evaluation would identify the keys to sustainability of enhanced public

⁴⁰See Overseas Development Institute, *Localising Aid: Sustaining Change in the Public, Private and Civil Society Sectors* (London: March 2013), available at <http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8284.pdf>. The study noted that emphasis on using country systems stems from a common experience among donors that project-based approaches to development assistance have undermined, rather than helped strengthen, partner-government capacity. The study also found that most research the authors reviewed and experts they interviewed considered assistance to partner-country systems to be associated with local system strengthening. Although the study concluded that providing assistance to partner-country systems is a crucial tool for strengthening partner-government systems, it also noted the complexities and risks involved with providing such assistance and stated that evidence on the impact of local aid is mixed. As a result, donors may require more evidence of the positive effect that providing assistance to partner-country systems can have on partner-government capacity.

⁴¹USAID's M&E policy states that, in cases where impact evaluations are not feasible, missions may undertake performance evaluations to assess untested hypotheses or demonstrate new approaches that are anticipated to be expanded in scale or scope, such as G2G assistance. Further, the policy states that, regardless of the type of evaluation, evaluation should be integrated into project design. In our April 2014 report on Local Solutions progress, we noted that USAID officials deemed performance evaluations feasible and appropriate for assessing achievement of Local Solutions goals.

resource oversight, as well as constraints to wider adoption of accountability practices. This planning document also stated that indicators of citizen perceptions of governance and accountability would be tracked through a survey in targeted districts.

The President's Emergency Plan for AIDS Relief (PEPFAR), in which USAID is heavily involved, and other USAID-specific initiatives and programs have published guidance addressing how to measure and track progress toward enhancing capacity, country ownership, and sustainability. For example, PEPFAR's guidance on capacity building provides illustrative examples of indicators, such as percentage of PEPFAR-supported government staff transferred to government salaries, number of workers trained and percentage of trainees retained, and percentage of partners with on-time reports and unqualified audits.⁴² With regard to sustainability planning, PEPFAR's guidance calls on PEPFAR country teams to develop sustainability M&E plans.⁴³ Similarly, the M&E guidance for the U.S. government's global hunger and food security initiative (Feed the Future) states that it will measure public sector capacity and program sustainability primarily by tracking partner-government budgets allocated to agriculture and nutrition.⁴⁴ With regard to measuring country ownership, the Global Health Initiative's interagency paper on country ownership cites increases in health spending in the partner country and in direct funding to its government as possible indicators.⁴⁵ Finally, USAID's strategic framework for democracy, human

⁴²According to the guidance, M&E plans are needed to build the evidence base for testing capacity building strategies. See U.S. Department of State, Office of the U.S. Global AIDS Coordinator, *Capacity Building and Strengthening Framework*, Version 2.0 (Washington, D.C.: 2012), available at <http://www.pepfar.gov/documents/organization/197182.pdf>.

⁴³The guidance states that country teams should identify one to three indicators for each objective in its sustainability plan, but does not yet include indicators. See U.S. Department of State, Office of the U.S. Global AIDS Coordinator, *Sustainability Planning Guidance Document: Advancing Country Ownership in PEPFAR III* (Washington, D.C.: October 2013), available at <http://www.pepfar.gov/documents/organization/217767.pdf>.

⁴⁴See U.S. Agency for International Development, *Feed the Future M&E Guidance Series: Volume 5: USAID Forward/IPR and Feed the Future*, (Washington, D.C.: March 2014), available at http://www.feedthefuture.gov/sites/default/files/resource/files/ftf_guidanceseries_vol5_locapacitydevelopment_march2014.pdf.

⁴⁵See Global Health Initiative, *U.S. Government Interagency Paper on Country Ownership*, (Washington, D.C.: July 2012), available at <http://www.ghi.gov/principles/docs/ownershipinteragencypaper.pdf>.

rights, and governance cites improved governance and institutional capacity as key expected results of USAID activities.⁴⁶

USAID's July 2014 policy on G2G assistance allows missions to collaborate with partner governments to identify indicators and select evaluation questions that address capacity building and sustainability.⁴⁷ According to USAID headquarters officials, an internal discussion paper on M&E for G2G assistance activities elaborates on these concepts, and the agency is currently reviewing tools and methods used by missions to measure performance of partner governments. In addition, according to USAID, as of March 2015, the agency is in the process of developing supplemental guidance on indicators that can be used to track results of strengthening public financial management activities. Nevertheless, at the time of our review, USAID did not have agency-wide guidance on how to collect data or evaluate the development hypothesis that channeling funds through partner-government systems helps to achieve Local Solutions goals. Without integrating indicators or evaluations for assessing progress toward Local Solutions goals into the plans for ongoing and future projects that include G2G assistance activities, USAID missions risk committing resources to unproven funding strategies as the agency executes its plans to expand G2G assistance in scale and scope. Moreover, USAID missions forgo an opportunity to contribute to empirical knowledge about the effects of channeling funds through partner-government systems.

Conclusions

USAID's policies guiding the processes that missions follow to plan, implement, and monitor and evaluate G2G assistance generally reflect an international consensus on how best to achieve development outcomes as well as accepted accountability standards. As designed, these policies permit USAID to work toward its goals of strengthening local system capacity, country ownership, and sustainability while providing reasonable assurance that U.S. resources are being used as intended. We found that USAID policies require that missions incorporate safeguards throughout

⁴⁶See U.S. Agency for International Development, *USAID Strategy on Democracy, Human Rights, and Governance: USAID Strategy*, (Washington, D.C.: June 2013), available at <http://www.usaid.gov/democracy-human-rights-and-governance-strategy>.

⁴⁷According to USAID, its policies on planning and G2G assistance recognize the diversity of projects that include G2G activities and provide general direction to missions but do not require that specific indicators or evaluation questions be integrated into every activity.

the program cycle of planning, implementing, and monitoring and evaluating G2G assistance; however, we also found that missions have not yet fully applied these safeguards in all cases. In the cases we reviewed, USAID had carried out required fiduciary risk assessments, documented project planning, utilized assistance agreements and funding mechanisms, conducted audits, and devised key elements of monitoring and evaluation. However, missions in some cases had not completed the risk assessments in a timely manner, hampering their efforts to integrate assessment findings and mitigation measures into project planning and M&E plans, when required. Missions also encountered difficulties coordinating risk assessment and related activities with other donors, potentially leading to inefficiencies and less effective oversight of partner countries' efforts to address financial management weaknesses. Because required audits we reviewed often were submitted late, the subsequent chain of OIG review and mission response also was delayed, decreasing the likelihood of resolving important audit findings such as questioned costs and other financial management weaknesses. Finally, though some missions demonstrated that they had begun to envision how to monitor and evaluate whether G2G assistance is achieving project goals while also enhancing capacity, country ownership, and sustainability, the agency as a whole has yet to identify indicators or evaluation approaches that would support expansion of these efforts.

Recommendations for Executive Action

We recommend that the USAID Administrator take the following five actions to improve accountability for G2G assistance:

1. develop an action plan to improve the timeliness of risk assessments so that these assessments can better inform project planning;
2. develop an action plan to ensure that M&E plans for G2G assistance activities incorporate risk mitigation measures;
3. disseminate information to missions regarding best practices for coordinating risk assessments with other donors;
4. identify the factors contributing to late submission of required audits and develop a strategy to improve on-time audit submission and follow-up; and
5. develop and disseminate guidance on assessing the effects of G2G assistance on partner-country capacity, ownership, and sustainability, including through the identification of indicators and evaluation approaches.

Agency Comments and Our Evaluation

We provided a draft of this report to USAID for review and comment. USAID provided technical comments on the draft, which we incorporated as appropriate. USAID also provided written comments, which are reprinted in appendix IV. In its written comments, USAID agreed with all five of our recommendations and described steps taken, planned, or under way that it believes respond to the recommendations. With regard to the first two recommendations, given the actions it already has completed or has scheduled for completion by the end of 2015, USAID requested that we either remove the recommendations from our final report or indicate that the recommended actions have been completed and that we consider the recommendations implemented and closed. We appreciate USAID's detailed description of its reported actions—including revised policy, training, and other guidance—aimed at improving the timeliness of risk assessments and ensuring that monitoring plans for G2G assistance incorporate risk mitigation measures. We will work expeditiously with USAID to collect and review evidence documenting its actions to address the first two recommendations. We also look forward to following up with USAID to monitor and collect information on the steps the agency noted it has already taken or planned to take in response to our other three recommendations.

We are sending copies of this report to appropriate congressional committees, the Administrator of USAID, and other interested parties. The report is also available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-3149 or gootnickd@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix V.



David Gootnick
Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

Our objectives in this report were to assess the extent to which U.S. Agency for International Development (USAID) policies and practices related to (1) planning, (2) implementing, and (3) monitoring and evaluating government-to-government (G2G) assistance provide reasonable assurance that this assistance is used as intended.

To address these objectives, we reviewed USAID policy outlined in the agency's Automated Directives System (ADS) related to planning, implementing, and monitoring and evaluating G2G assistance activities. We also interviewed USAID officials in Washington, D.C., about the policies we reviewed. Some of the policy documents we reviewed apply broadly to all USAID assistance, while others were specific to G2G assistance. Specifically, the chapters we reviewed were the following:

- *ADS Chapter 220: Use and Strengthening of Reliable Partner Government Systems for Implementation of Direct Assistance* (first issued August 2011, revised in March 2012 and July 2014);
- *ADS Chapter 201: Planning* (most recently revised in December 2014); and
- *ADS Chapter 203: Assessing and Learning* (most recent revisions in January and November 2012 and January 2013).

In our summary of these policies, we drew from the most recent versions available at the time of our review,¹ but in conducting our analysis, we used the versions that were in place at the time that we developed our tools for analysis. We also reviewed other chapters referenced in these policies, such as *ADS 591: Financial Audits of USAID Contractors, Recipients, and Host Government Entities* and *ADS 350: Grants to Foreign Governments*, as well as supplemental guidance (e.g., *Public Financial Management Risk Assessment Framework [PFMRAF] Manual and Key Bilateral Funding Mechanisms*). To assess the degree to which these policies reflect generally accepted accountability standards, we compared the most recent versions of these policies with relevant sections of GAO's *Standards for Internal Control in the Federal Government*, which we refer to as accountability standards.² These

¹See app. II.

²See GAO, *Standards for Internal Control in the Federal Government*. [GAO/AIMD-00-21.3.1](http://www.gao.gov/aiid-00-21.3.1) (Washington, D.C.: November 1999). In September 2014, GAO updated these standards, effective in fiscal year 2016. See <http://www.gao.gov/greenbook/overview>.

standards outline ways agencies can improve accountability, such as by assessing and mitigating risk and carrying out defined policies and procedures. We mapped the USAID policies listed above to relevant sections of the accountability standards, noting ways in which USAID policy addresses specific factors or elements that contribute to a supportive environment for accountability.

To review mission planning for G2G assistance activities, we began by identifying project appraisal documents (PAD) and activity approval documents (AAD) as key sources of information for our review. Starting in 2012, USAID policy on planning required missions with approved country development cooperation strategies (CDCS) to document planning for projects (which consist of one or more activities) in PADs. Prior to 2012, missions documented project and activity planning using AADs. We next identified 22 USAID bilateral missions that had obligated more than \$500,000 in G2G assistance in fiscal year 2012 and had completed a stage 1 rapid appraisal at the time of our review,³ according to USAID Local Solutions data and other information provided by the agency.⁴ We then requested planning, implementation, and monitoring and evaluation documents—including risk assessments, activity approval documents, project appraisal documents, assistance agreements, implementation letters, and audits—from these 22 USAID missions.

During the course of this preliminary work and as we reviewed the submitted documents, we removed 8 missions from the scope of our review for the following reasons. First, according to USAID headquarters and mission officials, all of the fiscal year 2012 G2G funds obligated by missions in Egypt and Mali were deobligated after fiscal year 2012.

³ According to USAID policies on planning and G2G assistance, missions considering the use of partner-government systems generally must conduct a “stage 1 rapid appraisal,” which is a country-level examination of the partner government’s public financial management environment and associated risks. See app. II for more information.

⁴ On the basis of our previous review of Local Solutions data, we determined that USAID Local Solutions obligations data were sufficiently reliable for the purposes of selecting USAID missions for our document review and country case studies. We also used these data to report on changes in Local Solutions obligations, including G2G assistance, from 2010 to 2014 in the background section of this report. During the course of our review and in response to our inquiries, the agency determined that fiscal year 2012 Local Solutions data included some funding mechanisms that the agency does not consider to be government-to-government. According to USAID, the agency is developing a process to identify and exclude these funding mechanisms for fiscal year 2015 data, but does not yet have plans to adjust previously published data.

Second, mission officials in Indonesia and Georgia determined that all of each mission's respective fiscal year 2012 obligations had not, in fact, been implemented through partner government entities and, as such, were incorrectly characterized as G2G assistance.⁵ Third, project and activity planning documents for G2G assistance activities with fiscal year 2012 obligations were not available for USAID missions in Ethiopia and Rwanda. In response to our request for documents, these missions provided assistance agreements and implementation letters; in the case of Ethiopia, the mission stated that the agreements and letters documented authorization of G2G assistance activities. Finally, because GAO, the USAID Office of Inspector General (OIG), and the Special Inspector General for Afghanistan Reconstruction had each reviewed various aspects of USAID's G2G assistance in Afghanistan and Pakistan, we did not include those two countries in our document review. (App. III provides a summary of other reviews of USAID's G2G assistance in Afghanistan and Pakistan.) As a result of this process, we reviewed all 29 project appraisal or activity approval documents provided by 14 USAID missions: Armenia, Barbados, Ghana, Haiti, Honduras, India, Liberia, Mozambique, Nepal, Peru, Senegal, South Africa, Tanzania, and Zambia. Table 4 provides a list of the projects with G2G assistance activities for which we reviewed planning documents, by USAID mission.

⁵In addition, following our fieldwork visit to Tanzania in August 2014, USAID mission and headquarters officials determined that about \$2.7 million channeled to the Ministry of Health through a host country contract should not have been counted as G2G assistance in fiscal year 2012. We removed these activities from the scope of our review.

Table 4: USAID Projects or Activities with Fiscal Year 2012 Government-to-Government Obligations for Which We Reviewed Planning Documents, for 14 Missions

USAID mission	Project or activity
Armenia	<ul style="list-style-type: none"> Improved Emergency Medical Services Support of Pension Awareness and Financial Literacy and Enhancing the Quality of Services to Women Victims of Domestic Violence
Barbados	<ul style="list-style-type: none"> Build Regional Climate Change Adaptation Capacity in the Eastern Caribbean
Ghana	<ul style="list-style-type: none"> Construction of Biofil Toilets in Schools Increasing Professionalism and Stakeholders' Confidence in Ghana's Electoral Process Resiliency in Northern Ghana
Haiti	<ul style="list-style-type: none"> Health and Other Basic Services
Honduras	<ul style="list-style-type: none"> Merida Initiative/Central American Regional Security Initiative Project
India	<ul style="list-style-type: none"> Food Security Assistance
Liberia	<ul style="list-style-type: none"> Rebuilding Basic Health Services
Mozambique	<ul style="list-style-type: none"> Feed the Future Improving the Health of Mozambicans
Nepal	<ul style="list-style-type: none"> Early Grade Reading Program Feed the Future Integrated Agriculture and Nutrition Project Health for Life Nepal Peace Trust Fund Support Project
Peru	<ul style="list-style-type: none"> Environmental Management Strengthening Program Funding for Monitoring and Evaluation, Environmental Protection, and Communications Activities of the National Commission for Development and Life without Drugs Cacao Project, Education Project, and the Comprehensive Child Nutrition Program in the San Martín Region
Senegal	<ul style="list-style-type: none"> National Malaria Control Program Entomological Monitoring to Support Cheikh Anta Diop University Vector and Parasite Ecology Laboratory and Pasteur Institute of Dakar Global Food Security Response Construction of Middle Schools in Senegal
South Africa	<ul style="list-style-type: none"> Trilateral Assistance Program
Tanzania	<ul style="list-style-type: none"> Supporting Accountability to Tanzania Citizens Natural Resource Management Project Feed the Future Rural Road Infrastructure Project
Zambia	<ul style="list-style-type: none"> Improved Quality of Basic Education for More School-Aged Children Improved Health Status of Zambians

Source: GAO analysis of U.S. Agency for International Development (USAID) planning documents. | GAO-15-377

To conduct our review of these planning documents, we developed a data collection instrument to gather information on the required elements of PADs, as described in USAID policies on G2G assistance, planning, and

monitoring and evaluation (M&E). Table 5 provides information on the data fields in our data collection instrument.

Table 5: Data Fields in GAO's Data Collection Instrument for Analyzing USAID Planning Documents

Information category	Data gathered
Basic information	Country.
	Title of activity approval document (AAD) or project appraisal document (PAD).
	AAD or PAD date.
	Activity or project title and brief description.
	Activity or project time frames.
Risk identification and management	What type of risk assessment was conducted?
	What risks are identified?
	What steps, actions, or other measures are identified or proposed for mitigating risks?
	What "overarching foreign policy or national security interest" or "humanitarian concerns" are identified?
Project design	Does the PAD include an Approval for Use of Partner-Government Systems (AUPGS)?
	What obligating or subobligating instruments are considered or selected?
	What funding mechanisms are selected or identified?
	What information does the planning document provide regarding use of different modalities (e.g., complementary programs or projects implemented by different partners)?
	What information does the planning document provide regarding use of multidonor approaches (e.g., multidonor trust fund, public international organization grant)?
Implementation, monitoring, and evaluation	What information does the planning document provide about the relationship to other donor programs?
	What information does the planning document provide regarding cooperation with civil society organizations regarding oversight and accountability?
	What information does the planning document contain related to the monitoring and evaluation plan?
	What provisions does the monitoring plan provide regarding partner-government compliance with any risk mitigation measures established in the AUPGS or related agreements?
	What information does the planning document provide about consideration of evaluations that will be undertaken and key evaluation questions?
	What information does the planning document contain related to sustainability considerations?

Source: GAO synthesis of U.S. Agency for International Development (USAID) policies. | GAO-15-377

Because USAID requirements differed for PADs and AADs (the two types of planning documents we reviewed), we tracked which of these documents each mission used and took this into consideration as we

conducted our analysis of the information gathered.⁶ To determine the extent to which these documents contained the required elements, we reviewed each planning document and recorded any relevant information we found for each of the elements in our data collection instrument. We then analyzed this information and determined whether the information provided met requirements outlined in the USAID policies described above. With regard to project-level M&E plans, while we recognized that USAID missions may refine project M&E plans after completing project design, our interest was in the degree to which missions had integrated M&E into planning for G2G assistance activities. Accordingly, we reviewed the M&E information provided in the planning documents we collected and identified cases where these documents (1) included general M&E information and (2) specifically addressed sustainability, country ownership, or capacity. Finally, we also reviewed assistance agreements and implementation letters associated with the G2G activities in our review for information we did not find in the planning documents, including the funding mechanism used to implement the G2G activity and partner-government compliance with risk mitigation measures.⁷

To identify examples of types of risks identified in USAID risk assessments, we selected illustrative examples from our case study countries for inclusion in this report. We selected these examples to demonstrate the type of information contained in these risk assessments, including risks identified, the risk level (i.e., low, medium, high, or critical), and the assessor's recommendation for mitigating each risk.

To obtain insights into the use of financial audits as a key monitoring tool for G2G assistance, we requested the most recent completed financial

⁶Although USAID policy did not require a standard format for AADs—USAID officials were instructed to exercise judgment to determine when planning was adequate and sufficiently documented—these documents were expected to contain, at a minimum, all of the following: (1) descriptions of activities; planned inputs and outputs; and, if appropriate, development objective results; (2) documentation of completion of preobligation requirements, such as congressional notification; (3) approval of any applicable policy waivers; (4) description of project management roles and responsibilities; (5) summary of environmental review requirements; (6) outline of the degree to which gender-related considerations are incorporated into the project or activity; and (7) description of the implementation and finance mechanisms selected for the project or activity.

⁷For some G2G activities in Ghana and India, the missions provided assistance agreements, implementation letters, or both, but not project or activity planning documents.

audits from 22 missions with G2G assistance funds obligated in fiscal year 2012.⁸ In response to this request, 5 USAID missions provided 18 financial audits: Ethiopia (1), India (2), Nepal (7), Peru (7), and Rwanda (1).⁹ We reviewed audits submitted by these missions in response to our request, but did not seek to validate that all required audits were conducted or submitted.¹⁰ Accordingly, our findings are limited to the audits provided. We also reviewed agency or OIG reviews, memos, and related documentation provided by USAID headquarters and USAID missions. We recorded the following information from these documents: the type of auditor (third-party contractor, host country supreme audit institution, mission, or OIG), audited entity, time frame for audit and submission, audit findings, OIG recommendations, and status of

⁸According to USAID policy, designated mission officials maintain each mission's annual audit inventory, decide when to conduct audits, and coordinate with OIG to develop the annual audit plan. See *Automated Directives System (ADS) Chapter 591: Financial Audits of USAID Contractors, Recipients, and Host Government Entities*, available at <http://www.usaid.gov/ads/policy/500/591>. USAID officials stated that, in practice, the controller at each mission fulfills these duties and liaises with the audit manager at USAID headquarters. According to USAID officials, as of March 2015, missions utilized two databases for tracking audits: the first to track audit timing and the second to monitor audit recommendation follow-up. Officials stated that the agency was in the process of introducing a new agency-wide database for tracking audits of non-U.S.-based organizations, which, when fully operational, would maintain a record of all non-U.S. vendors receiving USAID funds, as well as the timeliness of audits of these organizations.

⁹One mission also submitted a performance audit. In contrast to a financial audit—which aims to assess whether a contractor, recipient, or host government has accounted for and used USAID funds as intended, and in compliance with applicable laws and regulations—performance audits, often conducted by OIG, provide an independent assessment of the performance and management of USAID systems, programs, activities, and functions against objective criteria or an independent assessment against best practices or other information. See *ADS Chapter 591: Financial Audits of USAID Contractors, Recipients, and Host Government Entities*, available at <http://www.usaid.gov/ads/policy/500/591>, and *ADS Chapter 592: Performance Audits*, available at <http://www.usaid.gov/ads/policy/500/592>.

¹⁰In some cases, audits may not have been required for the G2G assistance in our scope because of the amount of funding expended in a given fiscal year. According to USAID policy on audits, non-U.S.-based organizations—including partner governments—expending \$300,000 or more of USAID-funded awards in their fiscal year must be audited annually. This policy does not require an annual audit of foreign nonprofit organizations and partner governments expending less than \$300,000 in USAID funds during their fiscal year. USAID policy further states that although the laws and the regulations do not require a financial audit, missions are still responsible for ensuring accountability for these funds. In addition, USAID policy states that a closeout audit must be performed for all awards in excess of \$500,000. In other cases, an audit may not have been completed because of the lag between obligation and expenditure of G2G assistance funds.

implementation of the recommendations for each audit. The analysis we conducted is a reflection of the documentation provided by USAID, including the documents' limitations. For example, OIG recommendations incorporate the findings and recommendations of the third-party contractor, supreme audit institution, and USAID auditors. We considered it reasonable to assume that if OIG had closed all its audit review recommendations, then the underlying auditors' findings and recommendations for that audit could also be considered closed.

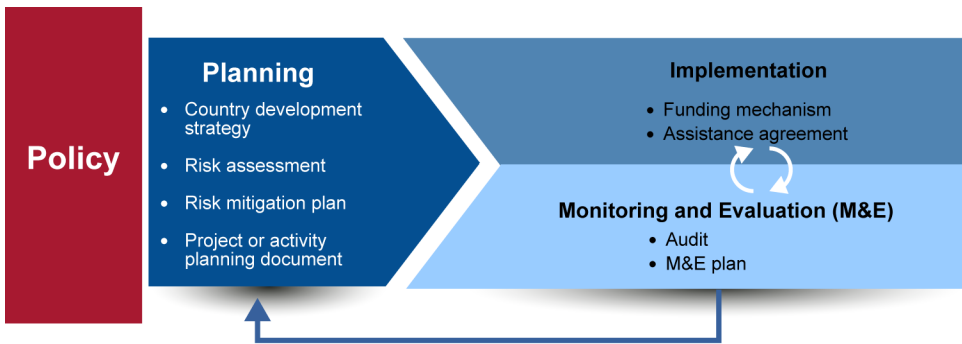
We also selected 3 USAID missions—Nepal, Peru, and Tanzania—for in-depth case studies. We chose these missions on the basis of fiscal year 2012 G2G funding levels; sector diversity (G2G assistance in at least two sectors, such as education or health), their progress in implementing projects and activities, and geographical diversity. While the results of our case studies cannot be projected across all USAID missions, these 3 missions provide what we believe to be an illustrative mix of USAID's G2G assistance activities. While in these countries, we conducted site visits and interviewed USAID and partner-government officials as well as representatives of other donor countries and civil society.

We conducted this performance audit from April 2014 to June 2015 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.

Appendix II: Key Components of U.S. Agency for International Development Program Cycle Related to Government-to-Government Assistance

Following the launch of USAID Forward in 2010, USAID began to revise various policies related to the agency’s planning, project design and implementation, and monitoring and evaluation—often referred to as USAID’s program cycle. These policies guide the agency’s assistance program activities and operations. While many of these policies apply broadly to all USAID assistance, some apply specifically to G2G assistance. For the purposes of our report, we describe the program cycle in three stages: planning, implementation, and monitoring and evaluation. We summarize key components of USAID’s program cycle as they relate to G2G assistance below and conceptualize these components in figure 2.

Figure 2: Key Components for USAID’s Government-to-Government Assistance Activities



Source: GAO synthesis of U.S. Agency for International Development (USAID) policies. | GAO-15-377

Planning

According to USAID’s *Automated Directives System Chapter 201*, planning begins at the mission level, with the development of a country development cooperation strategy (CDCS). The CDCS reflects the agency’s development approach in each country and articulates how USAID’s strategy reflects partner-country priorities. Regarding G2G assistance, the policy states that missions should consider building local capacity, including that of partner governments, to achieve sustainable development results.¹ According to USAID’s *ADS Chapter 220: Use and Strengthening of Reliable Partner Government Systems for*

¹As of March 2015, 57 USAID missions had completed their CDCS. See <http://www.usaid.gov/documents/cdcs/workplan>.

Implementation of Direct Assistance, planning for G2G assistance activities also entails risk assessment and formulation of risk mitigation plans; these assessments and plans are key elements of broader project planning, which is summarized in a project appraisal document (PAD).

Country Development Cooperation Strategy

USAID policy on planning states that a CDCS must include goals, results, and indicators, among other things, which help focus USAID investments in key areas affecting partner countries' overall stability and prosperity. The policy states that missions should consider using partner-government systems in order to develop their capacity and improve sustainability—two key Local Solutions goals—during development of their CDCS. We found that these considerations were reflected in various parts of the CDCS, notably in general discussions of how the mission is addressing USAID initiatives as well as in the results framework, which identifies objectives and expected results.² Table 6 summarizes key elements of CDCSs for USAID missions in our three country case studies: Nepal, Peru, and Tanzania.

²According to USAID policy, sustainability issues should be considered when making strategic choices in the CDCS; the policy notes that a key aspect of sustainability is partner-government involvement in developing and implementing the development strategy. In addition, the policy states that missions should consider building the capacity of specific institutions and related governance systems at various levels of government to achieve sustainable results and notes that the relationship between USAID and the partner government may need to evolve over time, going from mentoring support, possibly in conjunction with a contract or grant from an international entity, and then transitioning into a different implementation mechanism. See *Automated Directives System (ADS) Chapter 201: Planning*, available at <http://www.usaid.gov/ads/policy/200/201>.

Table 6: Goals, Objectives, and Government-to-Government Approach from Three USAID Missions' CDCS

Country	Approval date	Fiscal years covered	Goal	Objectives	G2G approach
Nepal	March 2014	2014-2018	A more democratic, prosperous, and resilient Nepal	<ol style="list-style-type: none"> 1. More inclusive and effective governance 2. Inclusive and sustainable economic growth to reduce extreme poverty 3. Increased human capital 	The mission plans to support capacity building, including public financial management capacity, to national and subnational government, civil society organizations, and private sector entities in key sectors.
Peru	June 2012	2012-2016	Strengthened stability and democracy through increased social and economic inclusion and reductions in illicit coca cultivation and illegal exploitation of natural resources	<ol style="list-style-type: none"> 1. Alternatives to illicit coca cultivation increased in targeted regions 2. Management and quality of public services improved in the Amazon Basin 3. Natural resources sustainably managed in the Amazon Basin and glacier highlands 	With more than 50 years working in Peru, USAID Peru aims to transition to greater government ownership of development programs through increased use of partner-country systems and local capacity development.
Tanzania	October 2014	2015-2019	Tanzania's socio-economic transformation toward middle income status by 2025 advanced	<ol style="list-style-type: none"> 1. Tanzanian women and youth empowered 2. Inclusive broad-based economic growth sustained 3. Effective democratic governance improved 	

Source: GAO synthesis of U.S. Agency for International Development (USAID) missions' country development cooperation strategies (CDCS). | GAO-15-377

Risk Assessment and Risk Mitigation Plan

According to USAID policy on planning, while developing the CDCS, missions considering the use of partner-government systems generally must conduct a "stage 1 rapid appraisal," which is a country-level examination of the partner government's public financial management environment and associated risks.³ The stage 1 rapid appraisal is used to determine whether G2G assistance is feasible—in other words, whether to proceed to the next risk assessment stage—and informs development

³According to USAID policy on G2G assistance, planning for a stage 1 rapid appraisal must be conducted when a mission director determines that a mission may provide more than \$500,000 to a partner government, or when the mission contemplates using a quasi-governmental entity.

of the CDCS. In addition, as of July 2014, USAID policy states that, when appropriate, certain missions may be asked to undertake an expanded democracy, human rights, and governance review for G2G assistance in order to aid consideration of the reputational risk to the U.S. government as well as the risk that U.S. government resources could be misused in a way that damages political freedoms or human rights or benefits a central government at the expense of its citizens. Following completion of the stage 1 rapid appraisal, missions may decide to conduct one or more risk assessments of partner-government organizations (e.g., ministries or subnational agencies), known as “stage 2” risk assessments.⁴ Intended to inform the larger project design process, stage 2 risk assessments identify fiduciary risks and propose measures to address them.⁵ According to USAID’s policy on G2G assistance,⁶ USAID missions generally must complete a fiduciary risk assessment as part of the overall project

⁴USAID defines “fiduciary risk” as the danger that funds allocated from the budget (1) may not be controlled properly, (2) may be used for purposes other than those intended, or (3) may produce inefficient or uneconomic programmatic results.

⁵According to USAID policy on G2G assistance, USAID mission staff, third-party contractors, or both may conduct the assessments, which focus on fiduciary risk, including examination of current capacity, control systems, and day-to-day public financial management practices, including the procurement system of the partner-government entities that may be responsible for managing USAID funds. USAID policy states that when using third-party contractors, USAID officials must review and approve contractor assessments and make all “inherently governmental” determinations concerning the provision of G2G assistance. The stage 2 assessment must address financial and competitive procurement policies and systems; whether U.S. foreign assistance is taxed and whether taxes can be reimbursed; and steps the partner government is taking to publicly disclose the national budget, among other things. Other assessments, unless combined with the stage 2 assessment, normally address technical and management capacity. USAID missions may also rely on previously conducted risk assessments, including those conducted by other donors, partner governments, or partner countries’ supreme audit institutions if the assessments are reviewed by USAID and deemed to be of acceptable quality. In addition, missions may consider conducting a joint assessment with bilateral donors, public international organizations, or other U.S. government agencies as an alternative to stage 2 risk assessments if the opportunity to collaborate exists. Missions must consult with the G2G Risk Management Team regarding the scope of the stage 1 appraisal and stage 2 assessment. USAID’s Washington-based G2G Risk Management Team ensures quality control and consistency for analyzing data supporting PFMRAF conclusions and recommendations, the review and clearance of the stage 1 rapid appraisal final report package, the review and clearance of the stage 2 risk assessment statements of work, and the review and clearance of stage 2 final report package.

⁶ADS Chapter 220: *Use and Strengthening of Reliable Partner Government Systems for Implementation of Direct Assistance*, available at <http://www.usaid.gov/ads/policy/200/220>.

design and authorization process before obligating funds to a partner government for implementation of G2G assistance activities.⁷

Project Planning Document

According to USAID policy on planning, the PAD is used by missions to document the complete design of the project and serve as a reference document for project authorization and subsequent implementation.⁸ PADs must define the following:

- the development problem to be addressed by the project and how it links to the mission CDCS;
- a monitoring and evaluation (M&E) plan, including expected results and indicators;
- the financial plan and budget; and
- the overall project implementation plan.

Table 7 describes projects with G2G activities in the three case-study countries.

⁷USAID calls this the Public Financial Management Risk Assessment Framework, or PFMRAF. In some cases of G2G assistance, certain PFMRAF requirements may not be mandatory. According to USAID policy on G2G assistance, exceptions include cases of small-scale or pilot projects with budgets less than \$750,000, fixed-amount reimbursement life-of-project obligations of less than \$10 million made before fiscal year 2018, and where PFMRAF policies and procedures may impair foreign assistance objectives. According to USAID, in these cases, missions complete rigorous assessments to discharge USAID's fiduciary responsibilities for taxpayer funds and comply with legislative requirements.

⁸Starting in 2012, USAID policy requires missions with an approved CDCS to document project planning and design using PADs. Prior to 2012, missions documented project and activity planning using activity approval documents (AAD). Although USAID policy did not require a standard format—USAID officials were instructed to exercise judgment to determine when planning was adequate and sufficiently documented—AADs were expected to contain, at a minimum, all of the following: (1) descriptions of activities, planned inputs and outputs, and, if appropriate, development objective results; (2) documentation of completion of preobligation requirements, such as congressional notification; (3) approval of any applicable policy waivers; (4) description of project management roles and responsibilities; (5) summary of environmental review requirements; (6) outline of the degree to which gender-related considerations are incorporated into the project or activity; and (7) description of the implementation and finance mechanisms selected for the project or activity. USAID has since phased out these documents. See *ADS 201: Planning*, available at <http://www.usaid.gov/ads/policy/200/201>.

**Appendix II: Key Components of U.S. Agency
for International Development Program Cycle
Related to Government-to-Government
Assistance**

Table 7: USAID Government-to-Government Assistance Activities in Nepal, Peru, and Tanzania

Country	Government entity	Name of project or activity	G2G activity description
Nepal	Ministry of Education	Early Grade Reading Program	Improve reading skills of children in grades 1-3 by: (1) improving early grade reading instruction, (2) improving national and district early grade reading service delivery, and (3) increasing family and community support to early-grade readers.
	Ministry of Health and Population	Health for Life (H4L)	Strengthen the government of Nepal's capacity to plan, manage, and deliver quality and equitable family planning and maternal, newborn, and child health services. H4L is intended to build the technical and managerial capacity of the Ministry of Health and Population to apply evidence and best international practices and will strengthen the overall ability of the health care system to respond to the needs and demands of the population.
	Ministry of Peace and Reconciliation	Nepal Peace Trust Fund Support Project	Strengthen the government of Nepal's capacity to advance the peace process through contributions to the Nepal Peace Trust Fund and the Technical Cooperation Pool for Capacity Development.
Peru	National Counternarcotics Commission	Funding for Monitoring and Evaluation, Environmental Protection, and Communications Activities of the National Commission for Development and Life without Drugs	Support the monitoring and evaluation, environmental protection, and communications activities related to eradication of coca and promoting alternative livelihoods in five localities.
	Ministry of Environment	Environmental Management Strengthening Program	Support technical capacity building in the ministry to mitigate the effects of climate change.
	Regional government of San Martín	Three projects: Cacao Project, Education Project, and the Comprehensive Child Nutrition Program	Support improvements in cacao production and competitiveness, basic education in underprivileged areas, and child nutrition in the San Martín region.
Tanzania	Tanzania National Roads Agency and Local Governing Authorities	Rural Road Infrastructure Project under the Feed the Future Program	Rehabilitate 1,000 kilometers of rural roads in four priority districts; design for upgrade of 58 kilometers of national access roads and replacement of three bridges; and engineering support services to carry out studies and designs, capacity building of local government authority engineering staff and contractors, and construction management and quality assurance tasks.
	Accountability institutions	Supporting Accountability to Tanzania Citizens	Provide funding to the following government institutions of accountability: (1) Ethics Secretariat, (2) National Audit Office, and (3) Public Procurement Regulatory Authority to strengthen staff, improve information packaging, facilitate public outreach, and improve linkages to civil society and the media.
	Natural Resources Management	Natural Resource Management Project	Climate change research on rice and maize in the Kilombero Valley.

Source: GAO synthesis of U.S. Agency for International Development (USAID) planning documents. | GAO-15-377

According to USAID policy on G2G assistance, PADs for projects with G2G activities must incorporate the findings of stage 2 risk assessments and a plan for mitigating risks identified in the fiduciary risk assessment.⁹ Possible risk mitigation measures may include the following:

- technical assistance for capacity building,
- disbursement of funds in tranches,
- inclusion of milestones and benchmarks for demonstrating progress in correcting financial management weaknesses,
- USAID “no objection” reviews of actions taken by partner-government ministries or agencies receiving assistance before proceeding to the next step, and
- limits on advance of funds.

The policy also states that risk mitigation plans should be incorporated into the project M&E plan, which is a required part of the PAD, and include provisions for ensuring partner-government follow-up on any risk mitigation measures through periodic progress reports or meetings with partner-government officials as part of the project’s M&E plan. In addition, the policy states that missions may consider various means of coordinating with other donors, such as by conducting joint risk assessments, involving other donors in USAID’s assessment, sharing the results of USAID’s risk assessments, or other measures.¹⁰

⁹Section 7031(a) in the appropriations acts for the Department of State, Foreign Operations, and Related Programs for fiscal years 2012 and 2014 includes certain limitations on funds for direct government-to-government assistance. One provision states that funds may be made available for direct government-to-government assistance only if any identified vulnerabilities or weaknesses on the part of the implementing agency or ministry have been addressed. See Pub. L. No. 113-76, § 7031(a) and Pub. L. No. 112-74, § 7031(a). These conditions were carried forward from fiscal year 2012 into fiscal year 2013 by the Consolidated and Further Continuing Appropriations Act, 2013. Pub. L. No. 113-6.

¹⁰According to USAID policy on G2G assistance, missions may consider a joint assessment with other donors, public international organizations, or other U.S. agencies as an alternative to the stage 2 risk assessment if the opportunity to collaborate exists. Most often, the timing and scope of donor efforts will dictate whether the opportunity presents itself in any particular country context. In these cases, USAID must still take ownership of the final risk assessment, the scoring of risks, and the risk mitigation measures in the context of USAID’s project design. See *Public Financial Management Risk Assessment Framework (PFMRAF) Manual: A Mandatory Reference for ADS Chapter 220*, available at <http://www.usaid.gov/sites/default/files/documents/1868/220mae.pdf>.

Implementation

USAID's policy on G2G assistance outlines use of assistance agreements and implementation letters as well as selection of funding mechanisms for G2G assistance. The assistance agreements and implementation letters specify the type of funding mechanism USAID will use for the G2G assistance project or activity. USAID policy on G2G assistance also describes factors missions should consider when selecting funding mechanisms.

Assistance Agreements

According to USAID policy, assistance agreements between USAID and partner governments set forth mutually agreed-upon terms regarding time frames, results expected to be achieved, means of measuring those results, resources, responsibilities, and contributions of participating entities for achieving a clearly defined objective.¹¹ In addition, because missions obligate funds through assistance agreements, missions must go through a set of preobligation requirements designed to ensure adequate planning prior to committing funds. USAID implements G2G assistance using one or more of four types of assistance agreements:

- *development objective agreement*: when obligating funds through development objective agreements, under USAID, policy missions must develop separate agreements for each development objective in an approved CDCS;¹²
- *bilateral project agreement*: used to implement specific projects;
- *limited scope grant agreement*: used to award a grant to a partner-government entity for project obligations of less than \$500,000; and
- *program assistance agreement*: used to provide resource transfers in the form of foreign exchange or commodities.

¹¹Section 7031(a) in the appropriations acts for the Department of State, Foreign Operations, and Related Programs for fiscal years 2012 and 2014 includes certain limitations on funds for direct government-to-government assistance. One provision states that funds may be made available for direct government-to-government assistance only if the U.S. government and the government of the recipient country have agreed, in writing, on clear and achievable objectives for the use of such assistance. See Pub. L. No. 113-76, § 7031(a) and Pub. L. No. 112-74, § 7031(a). These conditions were carried forward from fiscal year 2012 into fiscal year 2013 by the Consolidated and Further Continuing Appropriations Act, 2013. Pub. L. No. 113-6.

¹²Prior to January 2012, development objective agreements were called strategic objective agreements.

In addition, USAID missions use implementation letters, which are formal correspondence from USAID to another party, and can serve several functions, including detailing project implementation procedures, specifying the terms of an agreement, recording the completion of conditions precedent to disbursements, and approving funding commitments and mutually agreed-upon modifications to project descriptions.¹³ In some cases, missions use assistance agreements to obligate funds to several projects or activities implemented by different partners. For G2G assistance activities developed under some of these types of agreements involving multiple partners, missions may subobligate funds to partner-government entities—such as central government ministries and regional and local governing authorities—through the use of implementation letters.¹⁴ USAID policy effective as of July 2014 states that the assistance agreement or implementation letter should incorporate risk mitigation measures.

Funding Mechanisms

USAID policy describes factors missions should consider when selecting funding mechanisms for G2G assistance. The goal in each case is to select the funding mechanism that will best achieve the purpose of the project or activity, foster and deepen the partner government's public financial management capacity, efficiently implement the project or activity, guarantee accountability, and promote sustainability. According to USAID policy, selection of the appropriate funding mechanism is also an important means of mitigating risk and safeguarding funds. USAID policy outlines three funding mechanisms:

- *Cost reimbursement:* USAID reimburses the partner-government entity for actual costs and expenditures incurred in carrying out the project activities, up to an estimated total cost specified in advance. Cost reimbursements require missions to prepare a budget that reasonably estimates the cost of implementing the project, with the understanding that the final amounts may be further refined. Cost

¹³USAID defines a condition precedent as a condition, or set of conditions, that must be met before USAID will agree to disburse funding. For example, if the host country laws require legislative approval of the assistance agreement, then USAID must receive evidence of that approval before funds are disbursed.

¹⁴USAID generally treats as an obligation the bilateral agreements it makes with other countries to deliver assistance. It uses the term "subobligation" to refer to transactions such as amounts of orders placed, contracts awarded, and services received during a given period that will require payments during the same or a future period.

reimbursements may be used when unit costs cannot be estimated with sufficient accuracy at the beginning of the project because of price fluctuations over the life of a project that are outside the control of the partner-government. Because USAID reimburses actual costs incurred based on these estimates, the mission is responsible for closely monitoring project implementation to help ensure that it is on schedule and to resolve problems as they arise. When the partner government is ready to request a reimbursement for costs incurred during project implementation, it submits the request according to procedures specified in the assistance agreement or the implementation letter, along with certified financial reports detailing the amount of expenditures incurred and supporting documents, such as contracts, invoices, and payments. The reports and supporting documents are subject to USAID review and audit procedures outlined in the agreement. Under this funding mechanism, USAID may provide cash advances for projects that have been approved outside of the government's budget cycle or when funding from the partner government is not available.

- *Fixed amount reimbursement:* USAID reimburses an amount agreed to in advance, per output or associated milestone, after the mission has verified that quality standards have been met. This mechanism requires that the mission and the partner government invest a significant amount of time and resources to develop cost estimates for outputs and associated milestones during the design phase of the project. The partner-government entity implementing the project submits design specifications and cost estimates for each output or associated milestone for approval by the mission. The mission independently verifies that the estimate is reasonable and negotiates payment amounts with the partner government for each output or milestone. The amount of the mission's contribution to the project is thereby fixed and the partner government bears the responsibility for any unforeseen cost increases. Similarly, if actual costs are less than estimated costs, the mission's payment to the partner government is not reduced. However, the mission may make periodic adjustments for subsequent payment amounts in certain cases, such as unforeseeable inflation or price increases. Once the cost estimate has been established under this funding mechanism, the mission's monitoring and oversight of the project is significantly less than that required for the cost reimbursement mechanism because the mission's primary role is to verify that the outputs or associated milestones have been completed and meet the agreed-upon quality standards. In addition, during project planning, the mission must also determine that the partner-government entity has the qualified

management staff with sufficient technical skills and experience to implement the project in a timely manner. As with the cost reimbursement mechanism, USAID may also provide cash advances under this funding mechanism, as long as these funds are then liquidated based on successful completion of outputs or associated milestones rather than actual costs incurred.

- *Resource transfer:* USAID provides a generalized resource transfer in the form of foreign exchange or commodities to the partner government. According to USAID policy, resource transfer is used for either (1) sector program assistance, which provides cash or in-kind assistance used to carry out wide-ranging development plans in a defined sector without restriction on the specific use of funds, or (2) balance-of-payments or general budget support, commonly known as cash transfers. The transfer of resources is generally dependent on the completion of specific actions by the partner government. For example, the provision of funds under sector program assistance must be directly linked to the implementation of specific policies, institutional reforms, or other partner-government actions necessary to achieve agreed-upon development objectives. These actions must be specified directly or by reference in the assistance agreement as conditions that must be established before these funds are disbursed, and the mission is required to document how it reached the decision to disburse funds.

Monitoring and Evaluation

USAID's general audit requirements outlined in *ADS Chapter 591: Financial Audits of USAID Contractors, Recipients, and Host Government Entities* apply to G2G assistance. The main determinant, in most cases, for conducting an annual audit is whether G2G assistance recipients expend more than \$300,000 in G2G assistance funds in the given fiscal year. In addition, both USAID's *ADS Chapter 203: Assessing and Learning* and its policy on G2G assistance establish M&E requirements. According to these documents, missions should begin preparing for M&E activities during the planning stage and must document M&E planning in the planning document for each project or activity. Notably, USAID policy on G2G assistance states that carefully defining M&E roles and responsibilities during project design is critical for this type of assistance.

Audit

According to USAID policy on audits, non-U.S.-based organizations—including partner governments—expending \$300,000 or more of USAID-funded awards must be audited annually.¹⁵ In addition, a closeout audit must be performed for all awards in excess of \$500,000. According to the guidelines, audits may be performed by independent audit firms, or by a government's supreme audit institution, and must be in accordance with auditing standards approved by the U.S. Comptroller General.¹⁶ Completed financial audits are to be submitted to the USAID Office of Inspector General (OIG) for review no later than 9 months after the end of the audited period. Upon completing its review, OIG establishes recommendations for action, if appropriate, and provides copies of the audit reports to the responsible USAID management.

According to USAID policy, designated mission officials maintain each mission's annual audit inventory, decide when to conduct audits, and coordinate with OIG to develop the annual audit plan.¹⁷ According to USAID, in practice, the controller at each mission fulfills these duties and liaises with the audit manager at USAID headquarters. Controllers track audit requirements, timing, and completion, as well as audit recommendations and implementation status. According to USAID, as of March 2015, missions utilized two databases for tracking audits: the first to track audit timing and the second to monitor audit recommendation follow-up. According to USAID, the agency was in the process of introducing a new agency-wide database for tracking audits of non-U.S.-based organizations, which, when fully operational, would maintain a

¹⁵According to USAID policy, foreign nonprofit organizations and partner governments expending less than \$300,000 in USAID funds during their fiscal year are exempt from the audit requirements. USAID policy further states that although the laws and the regulations do not require a financial audit, missions are still responsible for ensuring accountability for these funds.

¹⁶As an exception to this requirement, according to USAID policy, if a USAID mission determines that the capability of nonprofit organizations and host governments to conduct a financial audit in accordance with the required standards is not available, and timely and economical audit services are not available through other means, the mission must conduct a financial review that adheres to the USAID Office of Inspector General's (OIG) guidelines to the maximum extent possible. Where it involves partner-government organizations, the USAID mission also has the option of requesting that OIG perform or supervise the audits, which OIG may do at its discretion.

¹⁷See *ADS Chapter 591: Financial Audits of USAID Contractors, Recipients, and Host Government Entities*, available at <http://www.usaid.gov/ads/policy/500/591>.

record of all non-U.S. vendors receiving USAID funds, as well as the timeliness of audits of these organizations.

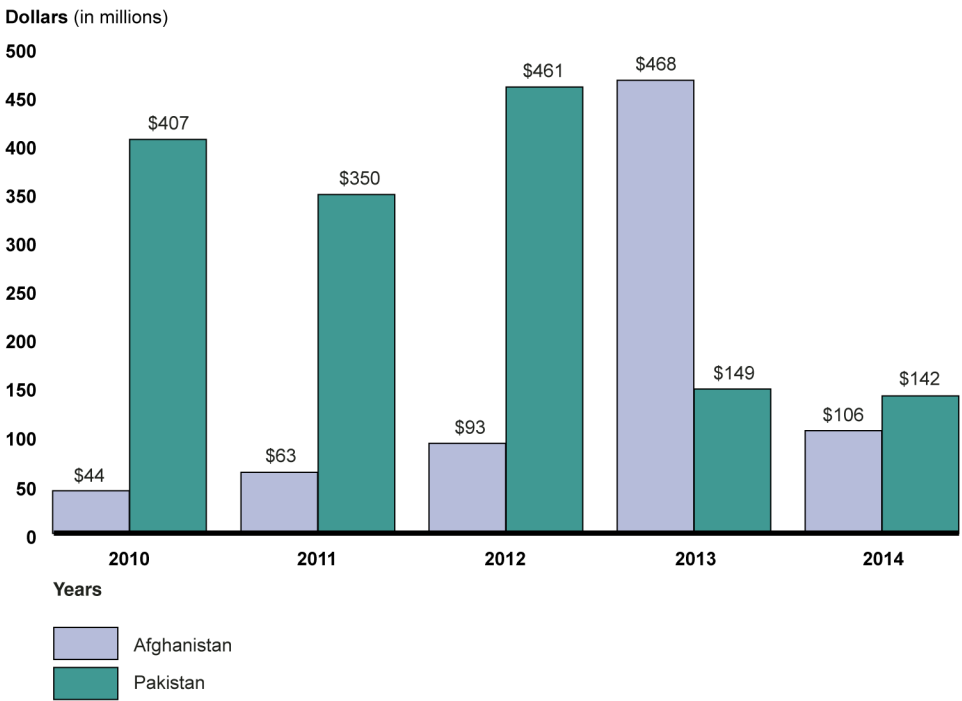
Monitoring and Evaluation

USAID policy on M&E requires missions to describe how they will collect data and assess achievement during project planning in what is known as the project M&E plan. Furthermore, project planning documents, in describing the project's M&E plan, must link to missions' CDCS and mission-wide performance management plans; they are to be used to measure progress toward planned results and identify the cause of any delays or impediments during project implementation. Moreover, the policy states that defining the project M&E plan during project planning aids in adapting implementation to achieve sustainable results and future project planning. Notably, USAID policy on M&E for G2G assistance activities states that carefully defining M&E roles and responsibilities during project design is critical for G2G assistance.

Appendix III: Summary of Reviews of U.S. Agency for International Development Government-to-Government Assistance in Afghanistan and Pakistan, Fiscal Years 2010 through 2014

According to U.S. Agency for International Development (USAID) data, in fiscal years 2010 through 2013, the agency obligated between about \$44 million and \$468 million per fiscal year in government-to-government (G2G) assistance in Afghanistan and about \$149 million and \$461 million in Pakistan. (See fig. 3.) Summarized below are key findings from reviews of USAID’s G2G activities conducted by the USAID Office of Inspector General (OIG) in Afghanistan, the OIG in Pakistan, the Special Inspector General for Afghanistan Reconstruction (SIGAR), and GAO.

Figure 3: Government-to-Government Funds Obligated by USAID Missions in Afghanistan and Pakistan, Fiscal Years 2010-2014



Source: GAO analysis of U.S. Agency for International Development (USAID) data. | GAO-15-377

Afghanistan

In 2010, along with other donors, the United States pledged to provide at least 50 percent of development assistance funds directly through the

Afghan budget by 2012.¹ According to SIGAR, USAID and the government of Afghanistan signed a memorandum of understanding in December 2010 in support of the goals, objectives, and mechanisms for effective assistance in Afghanistan. SIGAR also reported that the memorandum of understanding focused on maximizing opportunities presented by USAID-funded assistance to increase capacity, institutional growth, and public ownership of the development process in Afghanistan. The memorandum also laid out financial requirements to ensure that direct assistance funds are used as intended, according to SIGAR.² USAID's assistance provided directly through the Afghan budget includes host-country contracts, G2G awards, and contributions to certain multidonor trust funds.³ According to USAID data, in 2014, the agency obligated funds for G2G assistance in the following sectors: agriculture, education, health, governance, rule of law and human rights, and private sector competitiveness.

Planning

While USAID Afghanistan does not have a country development cooperation strategy, the mission has taken steps to conduct fiduciary risk assessments of several Afghan government entities. In 2011, we reported that USAID had not completed preaward risk assessments before providing funds to two Afghan government entities.⁴ In 2014, SIGAR reported that the mission had contracted with private firms to conduct fiduciary risk assessments of 16 ministries and found that all 16 ministries were unable to manage direct funds without taking risk mitigation

¹These commitments were announced during the London Conference in January 2010 and the Kabul Conference in July 2010.

²See SIGAR, *Direct Assistance: USAID Has Taken Positive Action to Assess Afghan Ministries' Ability to Manage Donor Funds, but Concerns Remain*, SIGAR-14-32-AR (Arlington, Va.: January 2014), available at <http://www.sigar.mil/pdf/Audits/SIGAR-14-32-AR.pdf>.

³In a separate review of processes and controls used to provide direct assistance by the Department of Defense's (DOD) Combined Security Transition Command-Afghanistan (CSTC-A), the State Department's Bureau of International Narcotics and Law Enforcement Affairs, and USAID, SIGAR noted that the State Department does not consider its funding to multilateral trust funds to be on-budget assistance. See SIGAR, *Direct Assistance: Review of Processes and Controls Used by CSTC-A, State, and USAID*, SIGAR-15-14-SP (Arlington, Va.: October 2014), available at <http://www.sigar.mil/pdf/special%20projects/SIGAR-15-14-SP.pdf>.

⁴See GAO, *Afghanistan: Actions Needed to Improve Accountability of U.S. Assistance to Afghanistan Government*, GAO-11-710 (Washington, D.C.: July 2011).

measures recommended in these assessments.⁵ The mission's internal review of 7 of these ministries also found that these ministries were unable to manage funds without the implementation of significant risk mitigation measures. In 2012, the USAID Administrator approved the mission's request to waive compliance with agency requirements for assessing risks associated with using partner-government systems and documenting any risk mitigation plans for funds appropriated through fiscal year 2013. In spite of this waiver, SIGAR recommended that the USAID Administrator require compliance with all USAID requirements for the use of partner-government systems, with the exception of the country-wide stage 1 assessment. USAID responded that in spite of the approved waiver, USAID Afghanistan continues to comply with all USAID requirements for the use of partner-government systems.

In 2011, we reported that USAID had not consistently followed its own policies for assessing risks associated with funds provided to a World Bank-administered trust fund for Afghan reconstruction.⁶ The Afghanistan Reconstruction Trust Fund was established in 2002 as a vehicle for donors to pool resources and coordinate support for Afghanistan's reconstruction. We reported that for its initial \$5 million contribution to the trust fund in 2002, USAID could not provide documentation supporting risk assessment procedures prior to disbursement, but determined afterward that (1) the trust fund had a comprehensive system in place for managing the funds and (2) the World Bank had a long history in managing multidonor pooled funding mechanisms. Similarly, the mission did not make preaward determinations for 16 of the 21 subsequent modifications to its contribution amounts. USAID agreed with our recommendation that the agency ensure adherence with its policies for assessing risks associated with multilateral trust funds and revised its guidance on awards to public international organizations in 2011.⁷

Implementation

In their reviews of USAID Afghanistan's implementation of G2G activities, SIGAR and the OIG both identified issues related to the implementation

⁵SIGAR-14-32-AR.

⁶[GAO-11-710](#).

⁷See USAID, *Automated Directives System (ADS) Chapter 308: Awards to International Public Organizations*, available at <http://www.usaid.gov/sites/default/files/documents/1868/308.pdf>.

of G2G activities. According to SIGAR, while USAID had instituted several controls to help protect its direct assistance funds, the mission had not ensured full implementation of a key control activity—the inclusion of corrective actions to be taken by the Afghan government entity as conditions precedent to the disbursement of funds in USAID’s agreements with the Afghan government.⁸ SIGAR noted that the mission had incorporated a very small percentage of risk mitigation measures identified in the fiduciary risk assessment into the assistance agreements signed by the mission and the Afghan government and outlines the terms of the agreement. SIGAR recommended that the mission develop a plan for each ministry that has a complete risk assessment that defines how each of the risks identified is being or will be mitigated, and suspend disbursements until these plans are completed. USAID agreed with this recommendation, and stated that the mission had prepared such plans for six ministries receiving assistance. The mission further noted that the agency’s use of conditions precedent is only one control activity for mitigating risk in a suite of interventions used in its work with the Afghan government.

Regarding funding mechanisms, an OIG review of USAID’s financial management controls in G2G assistance found that most of USAID/Afghanistan’s G2G activities may not count as G2G assistance as described in USAID policy.⁹ According to USAID policy, to the extent possible, missions must avoid funding the establishment of separate donor-funded project management or implementation units that operate outside the existing partner-government structures. USAID aims to strengthen those government institutions already established by the partner government rather than create or maintain separately operated project management or implementation units that may be unsustainable in the long run. Similarly, USAID policy states that while missions may use host country contracts to engage with partner governments, this funding mechanism is different from using partner-government systems and therefore is not counted toward the agency’s 30 percent Local

⁸SIGAR-14-32-AR.

⁹See OIG, *Review of USAID/Afghanistan’s Financial Management Controls for Government-to-Government Assistance*, Report No.F-306-15-001-S (Kabul, Afghanistan: October 2014), available at <http://oig.usaid.gov/sites/default/files/audit-reports/f-306-15-001-s.pdf>.

Solutions target.¹⁰ OIG found that most of the mission's G2G activities in Afghanistan had been implemented through project implementation and management units. For example, USAID provides funds for an education program to a nongovernmental organization, which hires a team of consultants to work in the Ministry of Education to manage and implement the activities under this program. OIG considered the use of project implementation and management units as a key risk mitigation measure that helped safeguard funds and thus did not find issue with this finding or make any recommendations. Similarly, a SIGAR review of USAID's health programs in Afghanistan also noted that the mission funds this activity through a host country contract, which is managed by a separate grants and contracts management unit.¹¹

In addition, SIGAR found that USAID Afghanistan's use of cash advances in one G2G activity made funds more vulnerable to waste, fraud, and abuse because the activity is funded with monies paid in advance of costs incurred.¹² USAID disagreed, stating that the activity is funded on a reimbursable basis through advances and liquidations.¹³

The October 2014 OIG review of USAID's G2G activities in Afghanistan identified additional issues related to the mission's implementation of these activities.¹⁴ OIG found that USAID staff were not properly involved with the Afghan ministries' procurement procedures required to mitigate risks; mission staff were not fully aware of their responsibilities for overseeing G2G activities; the mission did not properly document expectations concerning project objectives, results, resources, and timelines so as to avoid misunderstandings with the Afghan government;

¹⁰See USAID, *ADS Chapter 201: Planning*, available at <http://www.usaid.gov/ads/policy/200/201>.

¹¹See SIGAR, *Health Services in Afghanistan: USAID Continues Providing Millions of Dollars to the Ministry of Public Health Despite the Risk of Misuse of Funds*, SIGAR Audit 13-17 (Arlington, Va.: September 2013), available at <http://www.sigar.mil/pdf/audits/SIGAR%20Audit%2013-17.pdf>.

¹²SIGAR-15-14-SP.

¹³USAID, *ADS Reference 220MAJ: Advances for Government to Government (G2G) Assistance: A Mandatory Reference for ADS Chapter 220* provides guidance on the use of cash advances. Available at <http://www.usaid.gov/sites/default/files/documents/1868/220maj.pdf>.

¹⁴OIG, F-306-15-001-S.

and transactions were often recorded late in the USAID accounting system. The mission agreed with all OIG recommendations and reported on steps it planned to take to address these issues.

In 2011, we reported on U.S. efforts to build public financial management capacity in the Afghan government and provided information on USAID-funded projects that provide training, mentoring, coaching, and technical assistance.¹⁵ We found that USAID had not consistently established baselines and targets, or reported actual performance data, and recommended that the agency establish targets and ensure that implementing partners report performance data. USAID agreed with these recommendation and noted steps it was taking to address them.

Monitoring and Evaluation

Regarding audits, 2014 OIG and SIGAR reports stated that the mission was conducting audits for all G2G activities with expenditures over \$300,000 in a given fiscal year as called for in USAID policy.¹⁶ According to SIGAR, USAID contracted with an accounting firm to perform audits of all G2G activities in Afghanistan. Examples of audit objectives included assessments of project internal controls, determination of validity and reliability of information, and determination of whether the ministry was complying with agreement terms and applicable laws and regulations related to the USAID-funded program. However, according to the SIGAR report, these audits had not been completed within the 9-month period required by USAID policy. SIGAR stated that USAID's lack of timely and regular audit results makes it difficult for the agency to take action to identify and reconcile ineligible expenditures and address other issues with direct assistance implementation. USAID acknowledged the need for timely third-party audits, stating that it has modified its audit requirements and is now contracting and actively managing the required audits of the ministries. In addition, OIG found that the mission did not fully adhere to the audit requirements as described in project documents nor did the mission ensure Afghan government adherence. As a result, contracts for audits were not awarded annually and audits were not completed on time.

¹⁵See GAO, *Afghanistan Governance: Performance-Data Gaps Hinder Overall Assessment of U.S. Efforts to Build Financial Management Capacity*, [GAO-11-907](#) (Washington, D.C.: September 2011), available at <http://www.gao.gov/assets/330/323498.pdf>.

¹⁶See SIGAR-15-14-SP and OIG, F-306-15-001-S.

OIG recommended that the mission implement procedures to validate that audits had been conducted prior to disbursing funds and modify the audit requirements in its G2G activity documents to describe the requirements for the audit process. The mission agreed with these recommendations and explained steps it had taken and planned to take to address these issues.

Pakistan

The Enhanced Partnership with Pakistan Act of 2009 authorized up to \$1.5 billion a year for development, economic, and democratic assistance to Pakistan for fiscal years 2010 through 2014.¹⁷ The act authorized civilian assistance for a wide range of activities, including projects to build the capacity of government institutions, promote sustainable economic development, and support investment in people through education and health programs. The act also encouraged, as appropriate, the use of Pakistani organizations, including Pakistani firms and community and local nongovernmental organizations, to provide this assistance. In order to increase the capacity of Pakistani organizations to manage U.S. funds and to implement this strategy in accordance with international commitments, USAID Pakistan launched the Assessment and Strengthening Program (ASP) in October 2010.¹⁸ The goals of this program are to assist potential Pakistani implementing partners, including the government of Pakistan organizations: (1) increase capacity to manage and account for U.S. government development assistance funds, (2) reduce the vulnerability of the funds to waste and misuse, and (3) increase speed and efficiency in getting USAID development resources to the intended beneficiaries.¹⁹ According to USAID data, in 2014, the

¹⁷Pub. L. No. 111-73, 123 Stat. 2060 (Oct. 15, 2009).

¹⁸See OIG's review of this program. OIG: *Audit of USAID/Pakistan's Assessment and Strengthening Program*, No. G-391-12-009-P (Islamabad, Pakistan: September 2012), available at <http://oig.usaid.gov/sites/default/files/audit-reports/g-391-12-009-p.pdf>.

¹⁹The act also required the Department of State to develop several monitoring and strategy reports for U.S. assistance to Pakistan, including the *Pakistan Assistance Strategy Report* and directed the Comptroller General to provide (1) a review of, and comments addressing, State's *Pakistan Assistance Strategy Report*; (2) an assessment of the impact of the civilian assistance on the security and stability of Pakistan; (3) a detailed description of the expenditures made by Pakistan with Foreign Military Financing (FMF) grants; and (4) recommendations relating to any additional actions the Comptroller General believes could help improve the efficiency and effectiveness of U.S. efforts to meet the objectives of the act. [GAO-11-310R](#) addresses these issues. See GAO: *Department of State's Report to Congress and U.S. Oversight of Civilian Assistance to Pakistan Can Be Further Enhanced*, [GAO-11-310R](#) (Washington, D.C.: February 2011).

agency obligated funds for G2G assistance in the following sectors:
agriculture, education, and infrastructure.

Planning

In 2011, we reported that USAID planned to shift its program implementers from U.S.-based partners to Pakistani organizations, including local, provincial, and federal government and nongovernmental organizations.²⁰ To mitigate risks associated with providing funds to organizations with limited institutional capacity, USAID guidance directed missions to conduct a preaward assessment of the organizations' internal controls and financial management systems. We found that USAID guidance at the time did not contain information on whether weaknesses identified in the preaward assessment must be addressed or whether the assessment's recommendations to enhance the accountability of U.S. funds must be implemented. For Pakistani organizations that were required to undergo a preaward assessment, we found that not all contracts, grants, or agreements required these organizations to address weaknesses identified in the preaward assessment. We recommended that USAID assistance provided through Pakistani organizations identified as high or medium risk be required to address weaknesses identified in the risk assessment. USAID agreed with our recommendation and provided examples of steps the agency had taken to address identified weaknesses.

Furthermore, according to USAID policy, if a mission is planning to increase the amount of total estimated funding for existing G2G activities implemented by a previously approved government entity by more than 50 percent of the initially authorized amount, or authorizes an additional amount of more than \$20 million, an updated assessment must be conducted and documented to ensure that the entity's public financial management systems are sufficient to bear the increased risk associated with the increased funding levels. This updated assessment must also include a revalidation of the risk mitigation plan for every approved partner-government entity receiving the funding increase.²¹ In a 2013 OIG review of USAID's G2G assistance programs in Pakistan, OIG auditors found that the mission had not reassessed the government of Pakistan

²⁰ [GAO-11-310R](#).

²¹ See USAID, *ADS Chapter 220: Use and Strengthening of Reliable Partner Government Systems for Implementation of Direct Assistance*, available at <http://www.usaid.gov/ads/policy/200/220>.

implementing entities as required by USAID policy. For example, the mission increased its commitment to provide funds to the partner-government entity administering the Federally Administered Tribal Areas to a ceiling of \$611 million as of October 2012 from an initial commitment of \$55 million in 2010 without updating the fiduciary risk assessment.²² USAID cited various reasons for not updating the assessments, including conflicting agency and mission policies. While USAID agreed with the OIG recommendations to reassess partner government implementing entities and develop a plan for full compliance with USAID policy, at the time of the release of the OIG report, the agency had not reached a decision on how to address these issues. In response to this report, the mission stated that it has submitted a waiver on compliance with agency requirements for assessing risks associated with using partner-government systems, and, at the time of the review, was awaiting approval from USAID headquarters.

Implementation

According to OIG, USAID Pakistan had been providing G2G assistance under the Enhanced Partnership with Pakistan Act in 2009, prior to the launch of the USAID Forward initiative in 2010 and the issuance of agency-wide policy on the use of partner-country systems in 2011.²³ According to the OIG review, the mission developed and refined its own procedures for implementing G2G assistance and documented these procedures in mission orders.²⁴ These mission orders incorporate lessons learned by the mission while planning and implementing its G2G activities and reflect the evolution of procedures during this period. As a result, OIG found that several mission orders related to G2G activities conflicted with agency-wide policy. For example, OIG found that while the mission order required a risk assessment, the mission order did not include a requirement for a Democracy, Human Rights, and Governance review as

²²See OIG, *Audit of USAID/Pakistan's Government-to-Government Assistance Program*, No. G-391-14-002-P (Islamabad, Pakistan: December 2013), available at <http://oig.usaid.gov/sites/default/files/audit-reports/g-391-14-002-p.pdf>.

²³OIG, G-391-14-002-P. USAID first issued *ADS Chapter 220: Use and Strengthening of Reliable Partner Government Systems for Implementation of Direct Assistance* in August 2011 and issued revised versions of this guidance in March 2012 and again in July 2014.

²⁴According to USAID policy, mission orders are required when additional mission-specific procedures are necessary to implement USAID policy. See USAID *ADS Reference 527SAB, Guidance on Preparing Mission Orders*, available at <http://www.usaid.gov/sites/default/files/documents/1868/527sab.pdf>.

part of its assessment, as specified in the agency-wide policy. OIG did not specify whether the mission had neglected to conduct this governance review as a result of the conflicting policies. OIG also found examples of instances in which the mission was not following its own mission orders, primarily concerning the lack of clarity over the designation of roles and responsibilities.

Monitoring and Evaluation

According to OIG, USAID Pakistan launched the ASP in 2010, in part to increase the capacity of Pakistani organizations, including the Pakistani government, to manage U.S. funds, but found shortcomings in the mission's oversight of this program.²⁵ Furthermore, according to OIG, the agreement between USAID Pakistan and ASP implementers calls for annual validations to ensure ongoing compliance with the standards and procedures developed under the institutional capacity-building program and to establish benchmarks to allow government implementers to reach a point where annual validations are no longer necessary. According to OIG, the mission did not validate whether the training had improved the internal systems of these entities or increased ministry staff members' ability to implement projects. According to mission officials, the mission did not conduct any validations because of changing policy from USAID headquarters. Two versions of USAID policy on the use of partner-country systems appeared over the course of 8 months, with a third revision pending at the time of the review. Mission officials said they had put off validations and reassessments so that they could form a Partner Government System team that met requirements outlined in the USAID agency-wide policy. The team would then help determine which government implementing entities should be part of the validation process, and which should be scheduled for reassessments. As a result of this delay, the mission did not establish the Partner Government System team until 3 years after ASP began. OIG recommended that the mission take the appropriate steps to ensure that it can validate the implementing partners' capacity-building activities with the partner-government entities. The mission agreed with the OIG recommendations and has taken some steps to address these issues.

In a separate review of the ASP, OIG also found that (1) the program had not met first-year targets and had not completed all preaward

²⁵OIG, No. G-391-14-002-P.

assessments and capacity-building programs planned and (2) program planning was insufficient because the mission had not developed the results framework—an outline of the mission’s goals, objectives, expected results, and performance indicators—or the preliminary performance management plan—a tool for planning and managing the process of assessing and reporting progress toward achieving assistance objectives—until a year after the start of the program.²⁶ The mission agreed with OIG’s recommendations and responded with steps it plans to take to address these issues.

²⁶OIG, G-391-12-009-P.

Appendix IV: Comments from the U.S. Agency for International Development



David Gootnick
Director, International Affairs and Trade
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Gootnick:

I am pleased to provide USAID's formal response to the Government Accountability Office (GAO) draft report entitled: "FOREIGN ASSISTANCE: USAID Has Taken Steps to Safeguard Government-to-Government Funding but Could Further Strengthen Accountability" (GAO-15-377).

This letter, together with the enclosed USAID comments, is provided for incorporation as an appendix to the final report.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this audit review.

Sincerely,

A handwritten signature in blue ink, appearing to read "Angelique M. Crumbly".

Angelique M. Crumbly
Assistant Administrator
Bureau for Management
U.S. Agency for International Development

Enclosure: a/s

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USAID COMMENTS ON GAO DRAFT REPORT
No. GAO-15-377

We recommend that the USAID Administrator take the following five actions to improve accountability for G2G assistance:

Recommendation 1: Develop an action plan to improve the timeliness of risk assessments so that these assessments can better inform project planning.

USAID Response: USAID agrees with this recommendation to develop an action plan to continue improving the timeliness of risk assessments in order that these assessments can better inform project planning. During the course of this audit, USAID issued the release of the third edition of the Automated Directive System 220 on July 28, 2014, which included several refinements to the assessment process. This revised policy includes:

- A detailed Public Financial Management Risk Assessment Framework (PFMRAF) manual, a mandatory reference providing guidance on planning and managing the PFMRAF process;
- Streamlining the mandatory questionnaire/Stage 2, which can be further tailored to the stated objective of the G2G assistance activity;
- The incorporation of feedback from multiple stakeholders and subject matter experts, to include the World Bank and other donors;
- A provision that allows Missions to rely upon Joint Donor Assessments to the degree applicable and which meet minimum USAID and Congressional (Sec 7031) requirements; and
- The integration of the Stage 2 assessment and the Approval for the Use of Partner Government Systems (AUPGS) into the project design process and Project Appraisal Document.

Since the third edition of the Automated Directive System 220, the latest Stage 2 assessments, completed in three countries, had an average time of less than five months (see attached PFMRAF status using the third edition of ADS 220 as of April 17, 2015). This is something that we will continue to monitor going forward. To complement the third edition of ADS 220, the PFMRAF training course was revised and implemented (three classes delivered to date with over 60 participants total), which emphasizes scalability of the questionnaire, use of other donor assessments, and planning as key to a more timely assessment, as well as linkages between Stage 2 Risk Assessment and Project Design.

We have identified further improvement opportunities based on lessons learned and action to improve is currently underway:

- 3 -

- Feedback from the missions' application of the PFMRAF is also being addressed in the Agency's overall enhancement of project design policy and guidance (revision of ADS 201) to increase efficiency, effectiveness, and integrating other analyses to fill gaps and avoid redundancy among multiple risk assessments (scheduled to be completed by December 31, 2015);
- Improving PFMRAF tracking and monitoring of Stage 2, beginning with the Statement of Work (SOW) until finalization of the report (Completion date May 15, 2015); and
- Implementing additional prioritized actions focused on improving PFMRAF timeliness and simplification with planned completion dates (see Annex 1 for details).

Given the actions already completed prior to the delivery of this draft report, plus the actions currently scheduled that we believe meet the recommendation's requirement of an action plan, we believe this recommendation has been fully satisfied. We therefore request GAO consider either (1) removing this recommendation due to it already having been completed, or (2) indicating in the published report that the required actions have been completed and the recommendation is considered closed.

Recommendation 2: Develop an action plan to ensure that the monitoring (not M&E) plans for G2G assistance activities incorporate risk mitigation measures.

USAID Response: USAID agrees with this recommendation to ensure that monitoring plans for G2G assistance activities incorporate risk mitigation measures.

A completed risk mitigation plan is a requirement of the AUPGS, which is now integrated into the PAD and is a mandatory provision of the bilateral agreement.

In addition to these safeguards and as discussed below, USAID will produce guidance recommending monitoring and evaluation approaches to assess the effects of G2G assistance on partner country capacity, ownership, and sustainability (see response to recommendation number 5 below for additional details). This will include guidance to ensure that the implementation and monitoring plans for G2G and related assistance in a given project design incorporate the key risk mitigation measures. This guidance is planned to be completed by December 31, 2015.

To complement these efforts, M Bureau is currently strengthening its tracking and monitoring system (TRACS) of PFMRAF. TRACS is the Agency wide system which meets the needs of Missions and Washington (M/OAA/CAS and M/CFO/APC) for: tracking all vendor audits, financial reviews, assessments, audit related information, and audit documents, and providing audit reports, audit inventories, and audit plans. TRACS is currently being modified to allow tracking of USAID PFMRAF Stage 2 final risk mitigation plans. Once the modifications are completed, it will be mobilized to the field for Agency-wide implementation and final risk mitigation plans will be entered in TRACS and monitored throughout the life of the applicable G2G agreements (estimated completion date of the modifications are December 31, 2015).

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Given the above planned actions currently scheduled, we believe this meets the recommendation's requirement of an action plan, so we believe that this recommendation has been fully satisfied. We therefore request GAO consider either (1) removing this recommendation due to it already having been completed, or (2) indicating in the published report that the required actions have been completed and the recommendation is considered closed.

Recommendation 3: Disseminate information to missions regarding best practices for coordinating risk assessments with other donors.

USAID Response: USAID agrees with this recommendation and is taking steps to address it. As mentioned above in USAID's response to recommendation number one, USAID is collaborating and harmonizing with other donors on joint risk assessments and mitigation plans and integrated and/or joint capacity development efforts. To immediately address this recommendation, USAID will ensure all new PFMRAF Stage 2 SOWs include a statement requesting that USAID and/or the assessor (i.e. contractor) identify any other applicable donor risk assessments completed and rely upon them as permitted under ADS 220.3.3.2b prior to commencing work. This will include modifying the guidance on Stage 2 SOWs to include this requirement.

The M/CFO is also coordinating with the Public Expenditure Framework Analysis (PEFA) Secretariat and World Bank in sharing our assessment schedules in order to increase opportunities for collaboration and harmonizing joint assessments. We also plan to coordinate with other key donors in sharing and performing joint assessments, as applicable. Lastly, we will periodically disseminate information to our USAID missions regarding best practices (e.g. the USAID/Senegal joint assessments with the World Bank and other donors, and participating in country specific Public Financial Management Donor Working Groups) for coordinating risk assessments with other donors.

Recommendation 4: Identify the factors contributing to late submission of required audits and develop a strategy to improve on-time audit submission and follow-up.

USAID Response: USAID agrees with the recommendation and has already taken actions to begin addressing it. One of the major contributing factors to late submission of required financial audits was the USAID's inability to effectively track and monitor the annual financial audit plan Agency-wide. As mentioned above, USAID has taken actions to improve the tracking and monitoring of required financial audits by making modifications to TRACS. This system also tracks all vendor audits, audit related information, and audit documents, and provides audit reports, audit inventories, and audit plans. In addition, it automatically provides updates of audit plan implementation and generates delinquency letters when audits are not done on time which will be tracked by both the Mission and M/CFO. TRACS is currently in the process of being deployed for field use.

Other key contributing factors are due to the capacity, capability and experience of the locally approved auditing firms and Supreme Audit Institutions (SAI) to perform the full requirements of USAID financial audits. M/CFO will follow-up with the Missions and IG to identify fully the

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pertinent issues and challenges of the capacities, capabilities and experiences of the locally approved auditing firms and SAIs to perform timely and quality audits.

Once M/CFO fully identifies the contributing factors for late submission of required audits, it will develop a strategy for incorporating the above to improve on-time financial audit submission and follow-up.

Recommendation 5: Develop and disseminate guidance on assessing the effects of G2G assistance on partner-country capacity, ownership, and sustainability, including through the identification of indicators and evaluation approaches.

USAID Response: USAID agrees with this recommendation to develop and disseminate guidance on assessing the effects of G2G assistance on the capacity and effectiveness of partner country systems, ownership and sustainability and is taking steps to address it.

Sustainability and country ownership, which are the intended outcomes of investments in Local Solutions, are conceptualized, prioritized and measured differently across the Presidential initiatives and earmarks. Appropriate measures and evaluation approaches for these outcomes are sector specific. Therefore, we are working through all of our major initiatives to ensure that there are relevant measures and that the effectiveness of our direct investments in local systems – governments, civil society, and private sector – are gauged against these.

Where Missions have determined that use of government systems is a relevant tool for achieving their objectives, USAID will produce comprehensive guidance recommending monitoring and evaluation approaches to assess the effects of G2G assistance on partner-country capacity, ownership, and sustainability by December 31, 2015.

During the audit period, USAID initiated a working group to identify relevant indicators and evaluation approaches for this based on a survey of existing tools, indicators and methodologies. In this context, USAID is reviewing available tools that measure performance of governments at the national and local levels and is surveying methods used by Missions. The working group will collect preferred tools and methods, identify what data from those tools speak to improving government systems or broader local systems, and establish what those tools explain about capacity developed, more effective systems, ownership, and sustainability. Missions will be able to select recommended tools and approaches that are best suited to their programmatic focus and development objectives, in accordance with monitoring and evaluation guidance contained in the ADS 203.

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Annex 1

- Implementing additional prioritized actions focused on improving PFMRAF timeliness and simplification with planned completion dates:
 - Undertake a more structured, in-depth analysis for PFMRAF timelines to fully understand root causes for any current delays, identify and take action on process improvement opportunities, and improve communications between M/CFO and field Missions (to be completed by August 2015);
 - Enhance, simplify and harmonize Stage 2 reports and attachments which include good practices and suggest maximum of 15-20 pages. Draft guidance has been issued, and USAID/W and field feedback has been received (Guidance to be issued by June 1, 2015);
 - Improve guidance on Stage 2 SOWs including good practices from our field missions (plan to complete a draft by June 30, 2015);
 - Improve guidance and support for Stage 2 contractors, especially during planning and monitoring processes and with first-time contractors. For example, USAID/Pakistan, in coordination with Local Solutions Team, piloted a workshop with Stage 2 contractors and Government of Pakistan participants from the SAI and the Ministry of Finance to accelerate the Stage 2 process. This will be documented as a good practice. We will further build upon these efforts with a first-time Stage 2 contractor in Haiti (to be completed August 2015);
 - Identify and obtain good practices and challenges to further simplify the PFMRAF questionnaire based on the type of projects and activities, whether we are working at the national and sub-national level, and the funding mechanism (i.e., Fixed Amount Reimbursable or Cost Reimbursement) – completed October 30, 2015; and,
 - Further collaborate & harmonize with Donors on:
 - Joint risk assessments and mitigation plans; and
 - Integrated and/or joint capacity development efforts

Currently scheduled to partner with PEFA Secretariat, World Bank and other development partners on a PEFA assessment (the PEFA can inform specific sections of the Stage 1 Rapid Appraisal Checklist). USAID has also coordinated with World Bank to share Stage 2 assessments and joint assessments. USAID/Senegal is currently performing a second joint Stage 2 assessment which includes five donors at the sub-national/regional level (Above actions to be completed by October 2015).

Attachment: PFMRAF status using the third edition of ADS 220 as of April 17, 2015

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

David Gootnick, (202) 512-3149 or gootnickd@gao.gov

Staff Acknowledgments

In addition to the contact named above, Jim Michels (Assistant Director), Todd M. Anderson, Martin De Alteriis, Jesse Elrod, W. Stephen Lowrey, Grace Lui, Kim McGatlin, Shirley Min, and Nikole Solomon made key contributions to this report. Additional technical assistance was provided by Amanda Bartine, Tina Cheng, David Dayton, José Peña, and Cristina Ruggiero.

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