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September 2015

# FOREIGN AID

## U.S. Assistance for the West Bank and Gaza for Fiscal Years 2012-2014

# GAO Highlights

Highlights of [GAO-15-823](#), a report to congressional committees

## Why GAO Did This Study

Since 1993, the U.S. government has committed more than \$5 billion in bilateral assistance to the Palestinians in the West Bank and Gaza. Assistance to the Palestinians is a key part of the United States' commitment to a negotiated two-state solution to promote peace in the Middle East. USAID is primarily responsible for administering ESF assistance for the West Bank and Gaza.

Congress included a provision in three appropriations acts for GAO to review funds provided through the ESF for the bilateral West Bank and Gaza Program. This report (1) examines the status of USAID's allocations, obligations, and expenditures of ESF assistance to the Palestinians for fiscal years 2012, 2013, and 2014 and (2) assesses the extent to which USAID complied with key legal requirements and its antiterrorism policies and procedures for cash transfers to the PA and its creditors.

GAO reviewed laws and financial data provided by USAID's West Bank and Gaza mission in Tel Aviv, Israel. GAO also reviewed USAID's policies and procedures for cash transfers to the PA and its creditors and interviewed USAID, State, and PA officials about ESF assistance.

## What GAO Recommends

GAO is not making recommendations in this report.

View [GAO-15-823](#). For more information, contact David B. Gootnick at 202-512-3149 or [gootnickd@gao.gov](mailto:gootnickd@gao.gov).

September 2015

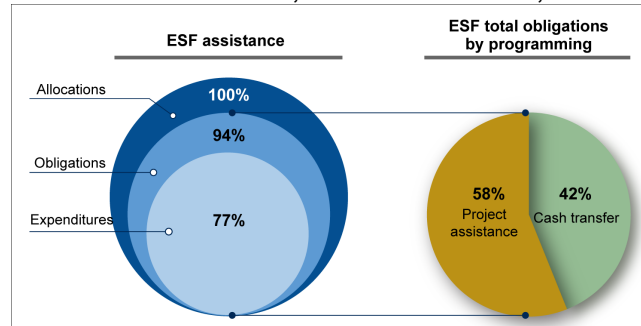
## FOREIGN AID

### U.S. Assistance for the West Bank and Gaza for Fiscal Years 2012-2014

## What GAO Found

As of June 30, 2015, the U.S. Agency for International Development (USAID) had allocated about \$1.1 billion of Economic Support Fund (ESF) assistance for the West Bank and Gaza for fiscal years 2012 through 2014, had obligated about \$1 billion (94 percent), and had expended about \$874 million (77 percent). Project assistance in five development sectors—for example, the water resources and infrastructure sector and the democracy and governance sector—accounted for approximately \$619 million of the obligated funds, and cash transfer assistance to the Palestinian Authority (PA) and its creditors accounted for \$448 million. Of this amount, \$348 million went directly to the PA and then to its creditors and \$100 million went directly to its creditors—two Israeli fuel companies, and six hospitals in East Jerusalem—through a line of credit.

**U.S. Agency for International Development (USAID) Economic Support Fund (ESF) Assistance for the West Bank and Gaza, Fiscal Years 2012-2014, as of June 2015**



Source: GAO analysis of USAID data. | GAO-15-823

GAO found that USAID complied with key requirements included in annual appropriations acts and with its antiterrorism policies and procedures for providing cash transfers to the PA and its creditors. Annual appropriations acts contain various requirements for providing cash transfers to the PA and its creditors, such as ensuring that Congress is notified prior to obligating funds for cash transfers and that funds provided for cash transfers are maintained by the PA in a separate account. For fiscal years 2013 and 2014—the fiscal years in which the PA received cash transfers—GAO examined USAID's determinations of compliance and found that USAID ensured compliance with these key legal requirements. GAO also found that USAID complied with its existing antiterrorism policies and procedures. These policies and procedures require that all PA creditors receiving cash transfer funds are vetted—that is, that the creditors' names and other identifying information are checked against the federal Terrorist Screening Center database and other information sources to determine whether they have links to terrorism. In fiscal years 2013 and 2014, the PA signed cash transfer agreements that affirmed its commitment to prevent the use of transferred funds for financing terrorism. USAID commissioned external audits of funds provided under the fiscal year 2013 cash transfer agreements and did not identify any material instances of PA noncompliance with the agreements or with applicable laws and regulations. USAID reported that, as of June 30, 2015, it had not yet commissioned an external audit that would review the cash transfer agreement for fiscal year 2014.

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# Contents

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Letter		1
	Background	3
	USAID Obligated \$1 Billion in ESF Assistance to the West Bank and Gaza for Fiscal Years 2012-2014	4
	USAID Ensured Compliance with Key Legal Requirements and Its Antiterrorism Policies and Procedures for Providing Cash Transfers to the PA and Its Creditors	8
	Agency Comments	13
Appendix I	Objectives, Scope, and Methodology	14
Appendix II	USAID Project Assistance in the West Bank and Gaza for Fiscal Years 2012-2014	16
Appendix III	GAO Contacts and Staff Acknowledgements	20
Tables		
	Table 1: USAID's Allocations, Obligations, and Expenditures of Economic Support Fund Assistance for the West Bank and Gaza, Fiscal Years 2012-2014, as of June 2015	5
	Table 2: USAID Compliance with Key Legal Requirements for Cash Transfers to the Palestinian Authority (PA) and Its Creditors, Fiscal Years 2013 and 2014	10
	Table 3: USAID Vetting of Palestinian Authority Creditors for Cash Transfer Assistance, Fiscal Years 2013 and 2014	12
	Table 4: USAID's Total Obligations of Funds Allocated from the Economic Support Fund for the West Bank and Gaza in Fiscal Years 2012-2014 as of June 2015, by Development Sector	16
Figure		
	Figure 1: Economic Support Fund Obligations by USAID for the West Bank and Gaza, Fiscal Years 2012-2014, as of June 2015	6

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## Abbreviations

State	Department of State
ESF	Economic Support Fund
USAID	U.S. Agency for International Development
PA	Palestinian Authority

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September 22, 2015

The Honorable Lindsey Graham  
Chairman  
The Honorable Patrick J. Leahy  
Ranking Member  
Subcommittee on State, Foreign Operations, and Related Programs  
Committee on Appropriations  
United States Senate

The Honorable Kay Granger  
Chairwoman  
The Honorable Nita Lowey  
Ranking Member  
Subcommittee on State, Foreign Operations, and Related Programs  
Committee on Appropriations  
House of Representatives

Since 1993, the U.S. government has committed more than \$5 billion in bilateral assistance to the Palestinians in the West Bank and Gaza.<sup>1</sup> Assistance to the Palestinians is a key part of the United States' commitment to a negotiated two-state solution to promote peace in the Middle East. According to the Department of State (State), this assistance, primarily appropriated through the Economic Support Fund (ESF), promotes the economic and political foreign policy interests of the United States by supporting Middle East peace negotiations and financing economic stabilization programs. The U.S. Agency for International Development (USAID) is primarily responsible for administering ESF assistance for the West Bank and Gaza.<sup>2</sup>

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<sup>1</sup>CRS, *U.S. Foreign Aid to the Palestinians*, RS22967 (Washington, D.C.: July 3, 2014). In 1993, the government of Israel and the Palestine Liberation Organization signed the Oslo Peace Accords, which called for the withdrawal of Israeli forces from parts of the West Bank and Gaza and affirmed the Palestinian right to self-government within those areas. This bilateral assistance includes funds appropriated through the Economic Support Fund and International Narcotics Control and Law Enforcement accounts.

<sup>2</sup>Funds obligated for ESF generally remain available for obligation for 2 fiscal years. Funds obligated for ESF during the initial period of availability will remain available for obligation for an additional 4 years from the date on which the availability of such funds would otherwise have expired. Obligated funds remain available for expenditure for 5 years after the extended period of availability for obligation.

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For fiscal years 2012, 2013, and 2014, Congress included a provision in three appropriations acts for GAO to review the treatment, handling, and uses of all funds provided through the ESF (ESF assistance) for the bilateral West Bank and Gaza Program.<sup>3</sup> In this report—our first in response to these provisions—we (1) examine the status of USAID’s allocations, obligations, and expenditures of ESF assistance to the Palestinians for fiscal years 2012, 2013, and 2014 and (2) assess the extent to which USAID complied with key legal requirements and with its antiterrorism policies and procedures for cash transfers to the Palestinian Authority (PA) and its creditors. We plan to issue a separate report focused on the extent to which USAID has complied with its antiterrorism policies and procedures for contracts, grants, and cooperative agreements in the West Bank and Gaza.

To address our objectives, we reviewed appropriations legislation, related budget justification documents, and financial data that USAID provided. We also reviewed relevant USAID documents, including notifications to Congress regarding the obligation of allocated funds. In addition, we interviewed USAID and State officials in Washington, D.C.; USAID officials in Tel Aviv, Israel, and in Jerusalem; and PA Ministry of Finance officials in the West Bank. In addition, to address our first objective, we used data showing USAID’s obligations and expenditures of ESF assistance for the West Bank and Gaza in fiscal years 2012, 2013, and 2014. We also reviewed USAID’s financial data system and its procedures for entering financial information into the system and determined that these data were sufficiently reliable for the purposes of this report. Moreover, to address our second objective, we reviewed key legal requirements, as well as USAID’s antiterrorism policies and procedures, for cash transfers to the PA and its creditors. We also reviewed USAID’s determinations of its compliance for each fiscal year that it provided cash transfers to the PA and its creditors. For additional details about our scope and methodology, see appendix I.

We conducted this performance audit from December 2014 to September 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

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<sup>3</sup>Consolidated Appropriations Act, 2012, Pub. L. No.112-74, §7039(e), Dec. 23, 2011; Consolidated and Further Continuing Appropriations Act, 2013, Pub. L. No. 113-6, §1101(a)(6), Mar. 26, 2013; and Consolidated Appropriations Act, 2014, Pub. L. No.113-76, §7039(e), Jan. 17, 2014.

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

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## Background

The West Bank and Gaza cover about 2,400 square miles and have a combined population of about 4.6 million people.<sup>4</sup> The PA and Israel administer areas in the West Bank, and the Hamas-controlled *de facto* authorities control Gaza.<sup>5</sup> Since June 2007, USAID has adjusted U.S. assistance to Gaza to comply with U.S. law and policy.<sup>6</sup> According to USAID officials, the agency coordinates closely with the PA.

The U.S. government's foreign assistance program in the West Bank and Gaza is designed to

- improve security conditions on the ground while reinforcing Palestinian respect for the rule of law;
- promote the development of a strong private sector-driven economy;
- aid the provision of quality health and education services;
- provide critical infrastructure programming to improve water, sanitation, and road networks;
- support humanitarian assistance needs; and

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<sup>4</sup>The West Bank has a land area of 2,263 square miles and a population of about 2.8 million. Gaza has a land area of 139 square miles and a population of about 1.8 million.

<sup>5</sup>After the death of Yasser Arafat, then president of the PA, in 2004, divisions between Fatah and Hamas appeared. In January 2005, the Palestinian people elected Mahmoud Abbas, an Arafat deputy, Fatah member, and supporter of the peace strategy, to be president of the PA. In January 2006, Palestinian elections resulted in a Hamas majority in the Palestinian Legislative Council. In June 2007, Hamas—a U.S.-designated foreign terrorist organization—forcibly took control as the *de facto* government of Gaza. To avoid further division, in 2014, Fatah and Hamas formed a unity government of technocrats, according to USAID officials. However, USAID officials stated that there have been recent discussions to dissolve this government.

<sup>6</sup>Provisions in U.S. annual appropriations acts have prohibited funding for assistance to Hamas, any Hamas-controlled entity, or any power-sharing government of which Hamas is a member or that results from an agreement with Hamas and over which Hamas exercises undue influence, though under certain conditions, assistance may be provided to such a power-sharing government. See Consolidated Appropriations Act, 2012, Pub. L. No. 112-74, §7040(f), Dec. 23, 2011; Consolidated and Further Continuing Appropriations Act, 2013 Pub. L. No. 113-6, §1101(a)(6), Mar. 26, 2013; and Consolidated Appropriations Act, 2014, Pub. L. No. 113-76, §7040(f), Jan. 17, 2014.

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- support the development of PA institutional capacity to operate transparently, effectively, and efficiently.<sup>7</sup>

We have previously reported on the status of ESF assistance to the Palestinians and USAID's antiterrorism policies and procedures in the West Bank and Gaza.<sup>8</sup>

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## USAID Obligated \$1 Billion in ESF Assistance to the West Bank and Gaza for Fiscal Years 2012-2014

As of June 30, 2015, USAID had obligated about \$1 billion—94 percent—and expended about \$874 million—77 percent—of approximately \$1.1 billion in allocations of ESF assistance for the West Bank and Gaza for fiscal years 2012, 2013, and 2014.<sup>9</sup> Our analysis of funding data shows the following.

- **Fiscal year 2012.** USAID obligated almost 100 percent and expended 90 percent of the nearly \$396 million allocated.
- **Fiscal year 2013.** USAID obligated 100 percent and expended 97 percent of the nearly \$367 million allocated.
- **Fiscal year 2014.** USAID obligated 82 percent and expended 44 percent of the nearly \$370 million allocated.

Table 1 shows USAID's allocations, obligations, and expenditures of ESF assistance for the West Bank and Gaza for fiscal years 2012 through 2014.

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<sup>7</sup>Department of State, *Congressional Budget Justification: Foreign Operations Appendix 3, Fiscal Year 2016* (Washington, D.C.: 2015).

<sup>8</sup>GAO, *Foreign Assistance: U.S. Assistance to the West Bank and Gaza for Fiscal Years 2010 and 2011*, [GAO-12-817R](#) (Washington, D.C.: July 13, 2012); *Foreign Assistance: U.S. Assistance to the West Bank and Gaza for Fiscal Years 2008 and 2009*, [GAO-10-623R](#) (Washington, D.C.: May 14, 2010); and *Foreign Assistance: Measures to Prevent Inadvertent Payments to Terrorists under Palestinian Aid Programs Have Been Strengthened, but Some Weaknesses Remain*, [GAO-09-622](#) (Washington, D.C.: May 19, 2009).

<sup>9</sup>All numbers have been rounded to the nearest whole number. An obligation is a definite commitment that creates a legal liability of the U.S. government for the payment of goods and services ordered or received. For example, agencies incur obligations when placing orders, signing contracts, awarding grants, or taking other actions that require the government to make payments. Expenditures are amounts paid by federal agencies to liquidate government obligations.



**Table 1: USAID’s Allocations, Obligations, and Expenditures of Economic Support Fund Assistance for the West Bank and Gaza, Fiscal Years 2012-2014, as of June 2015**

Thousands of U.S. dollars

Fiscal year	Allocations (A)	Total obligations (B)	Expenditures (C)	Unobligated balance (A-B)	Obligated balance (B-C)
2012	\$395,699	\$395,538 <sup>a</sup>	\$357,083	— <sup>a</sup>	\$38,456
2013	366,727	366,717 <sup>b</sup>	355,514	— <sup>b</sup>	11,203
2014 <sup>c</sup>	370,000	304,370 <sup>d</sup>	161,176	65,623 <sup>d</sup>	143,193
<b>2012-2014<sup>c</sup></b>	<b>\$1,132,426</b>	<b>\$1,066,625<sup>abd</sup></b>	<b>\$873,773</b>	<b>\$65,623<sup>abd</sup></b>	<b>\$192,852</b>

Source: GAO analysis of U. S. Agency for International Development (USAID) data. | GAO-15-823

<sup>a</sup>Does not include fiscal year deobligations totaling \$161,000. According to agency officials, after deobligating funds, USAID does not always reallocate them for assistance for the West Bank and Gaza. In this case, the deobligated funds were not reallocated for assistance to the West Bank and Gaza.

<sup>b</sup>Does not include fiscal year deobligations totaling \$10,000.

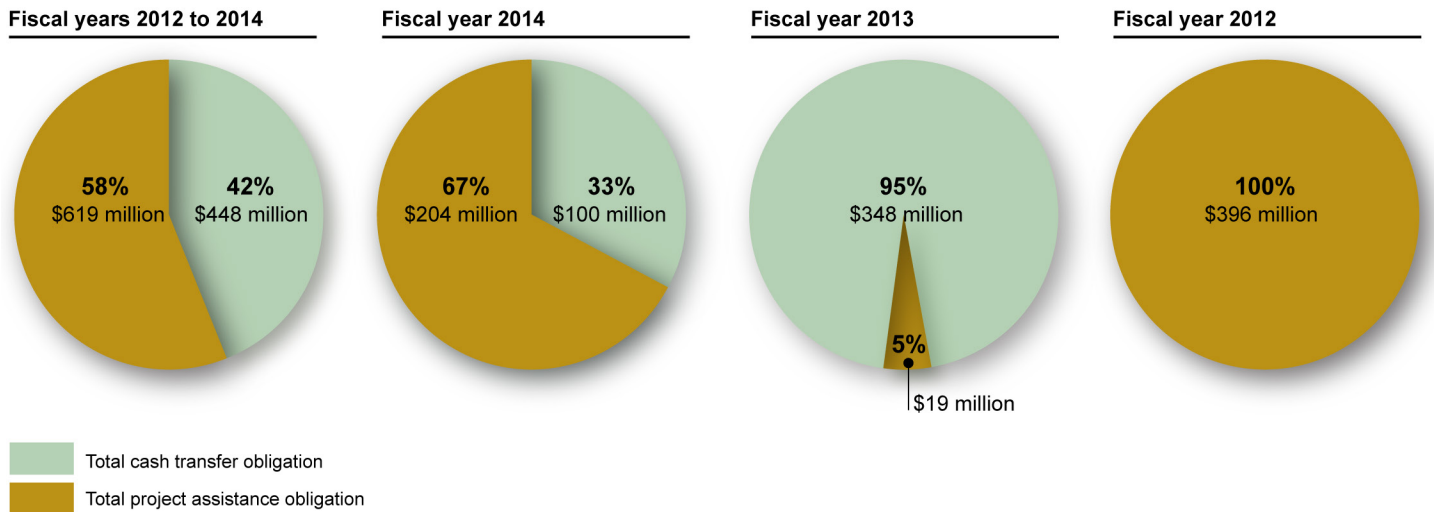
<sup>c</sup>Two congressional committees, in the Senate and the House, respectively, placed congressional holds on about \$84 million of the fiscal year 2014 funds.

<sup>d</sup>Does not include fiscal year deobligations totaling \$7,000.

USAID’s obligations of ESF assistance for the West Bank and Gaza included about \$619 million as project assistance and \$448 million as cash transfers to the PA and its creditors (see fig. 1).<sup>10</sup>

<sup>10</sup>USAID provides direct budget support to the PA through cash transfers that are used to service debt to commercial suppliers and commercial banks. State cable 205189 (August 1994) regarding cash transfer assistance discusses direct payments of debt to creditors to avoid the accrual of interest. USAID has made direct payments to host government creditors under other bilateral assistance programs that it administers—for example, programs providing assistance to Pakistan, Kenya, and Haiti.

**Figure 1: Economic Support Fund Obligations by USAID for the West Bank and Gaza, Fiscal Years 2012-2014, as of June 2015**



Source: GAO analysis of USAID data. | GAO-15-823

Note: The U.S. Agency for International Development (USAID) reprogrammed \$200 million of its fiscal year 2012 Economic Support Fund (ESF) allocation from cash transfer assistance to project assistance in the West Bank and Gaza. According to agency officials, USAID reprogrammed these funds because congressional holds were not released in time for it to obtain a presidential waiver that would permit the use of cash transfer assistance to the Palestinian Authority. As a result, USAID used the majority of its fiscal year 2013 ESF allocation to provide cash transfer assistance.

Project assistance accounted for about \$426 million, or 49 percent of USAID’s total expenditures of ESF assistance for the West Bank and Gaza for the 3 fiscal years. USAID reported providing project assistance primarily among five development sectors: water resources and infrastructure, democracy and governance, health and humanitarian assistance, private enterprise, and education (see app. II for details). As of June 30, 2015, USAID had obligated and expended its ESF allocations for project assistance as follows:

- **Fiscal year 2012.** USAID obligated 100 percent and expended 90 percent of approximately \$396 million allocated for project assistance.
- **Fiscal year 2013.** USAID obligated 100 percent and expended 40 percent of \$19 million allocated for project assistance.
- **Fiscal year 2014.** USAID obligated 76 percent and expended 23 percent of \$270 million allocated for project assistance. According to USAID officials, the relatively low rate of expenditure of the

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fiscal year 2014 allocation for project assistance resulted from congressional holds on ESF assistance for the West Bank and Gaza that delayed USAID's obligation of the funds.

Cash transfer assistance accounted for \$448 million, or 51 percent, of USAID's total expenditures of ESF assistance for the West Bank and Gaza for the 3 fiscal years. USAID obligated and expended 100 percent of the \$448 million that it allocated for cash transfers to the PA and its creditors. The expenditure rate for the cash transfers was higher than the rate for project assistance because, according to USAID documents, funds provided through cash transfers are expended within 2 days, while project assistance funds are expended throughout the years when the project is active.<sup>11</sup>

- **Fiscal year 2012.** USAID did not provide cash transfers for fiscal year 2012, because, according to agency officials, congressional holds were not released in time for USAID to obtain a presidential waiver permitting the use of cash transfer assistance to the PA.
- **Fiscal year 2013.** In February and August 2013, USAID transferred \$200 million and \$148 million, respectively, to the PA single treasury account, which was used to pay the PA's creditors. Of these amounts, about \$167 million was applied to a line of credit at the Bank of Jordan that the PA had incurred for fuel debt and about \$181 million was paid to two Israeli fuel companies.<sup>12</sup>
- **Fiscal year 2014.** In November 2014, USAID transferred \$100 million directly to PA creditors. Of this amount, \$25 million was applied to a line of credit at the Bank of Jordan that the PA had incurred for medical referral debts at six hospitals in East Jerusalem.<sup>13</sup> In addition, \$75 million was paid to the two Israeli fuel companies. According to USAID, as of August 31, 2014, the

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<sup>11</sup>USAID has established a standard procedure for cash transfer assistance to the PA and its creditors. This procedure ensures that PA creditors receive cash transfer funds no more than 48 hours after USAID transfers these funds to the PA's single treasury account.

<sup>12</sup>The two Israeli fuel companies were Paz Oil Company Ltd. and Haifa (Oil) Refineries–Bazan Group.

<sup>13</sup>The six hospitals were Augusta Victoria Hospital, Makassed Charitable Hospital, Palestinian Red Crescent Society Hospital, Princess Basma Center, St. Joseph Hospital, and St. John Eye Hospital.

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PA had a budget deficit of at least \$1.05 billion and a bank debt of \$1.91 billion for cash obtained through the PA's existing lines of credit. USAID reported that its cash transfers to the PA enabled the PA to meet its financial obligations, including obligations to the two oil companies in fiscal years 2013 and 2014 and the six hospitals in fiscal year 2014.

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## USAID Ensured Compliance with Key Legal Requirements and Its Antiterrorism Policies and Procedures for Providing Cash Transfers to the PA and Its Creditors

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### USAID Ensured Compliance with Key Legal Requirements

USAID must ensure compliance with the following requirements, stated in the annual appropriations acts, for providing cash transfers to the PA and its creditors.<sup>14</sup>

- Congressional notifications to the Committees on Appropriations are required for cash transfers to the PA and its creditors.<sup>15</sup> According to annual appropriations acts, funds cannot be obligated until 15 days after Congress has been notified of the cash transfers.

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<sup>14</sup>Consolidated Appropriations Act, 2012, Pub. Law No.112-74, Dec. 23, 2011; Consolidated and Continuing Further Appropriations Act of 2013, Pub. L. No. 113-6, Mar. 26, 2013; and Consolidated Appropriations Act, 2014, Pub. L. No.113-76, Jan. 17, 2014.

<sup>15</sup>Pub. L. No. 112-74, §§ 7026(b)(3) and 7039(f), Dec. 23, 2011; Pub. L. No. 113-6, § 1101(a)(6), Mar. 26, 2013; Pub. L. No. 113-76, §§ 7026(b)(3) and 7039(f), Jan. 17, 2014.

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- The PA is required to maintain cash transfer funds in a separate account and not commingle them with any other funds.<sup>16</sup>
  - Cash transfer funds cannot be provided to the PA without a certification by the President of the United States to Congress that waiving such prohibition is important to the national security interests of the United States and an accompanying report to Congress detailing the justification for the waiver.<sup>17</sup>
  - If the Presidential waiver authority is exercised, the Secretary of State must also certify and report to the Committees on Appropriations that (1) the PA has established a single treasury account for all PA financing and all financing mechanisms flow through this account; (2) no parallel financing mechanisms exist outside the treasury account; (3) the PA has established a single comprehensive civil service roster and payroll; and (4) the PA is acting to counter incitement of violence against Israelis and is supporting activities aimed at promoting peace, coexistence, and security cooperation with Israel.<sup>18</sup>
  - Certain criteria for direct government-to-government assistance, such as ensuring that the PA Ministry of Finance has sufficient systems to manage cash transfer funds, must be met before cash transfer funds can be provided to the PA.<sup>19</sup>

As described in table 2, our review of USAID documents found that USAID ensured compliance with these key legal requirements for cash transfers that it made to the PA in fiscal years 2013 and 2014. As already noted, no cash transfers were made in fiscal year 2012.

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<sup>16</sup>Pub. L. No. 112-74, § 7026(b)(1), Dec. 23, 2011; Pub. L. No. 113-6, § 1101(a)(6), Mar. 26, 2013; Pub. L. No. 113-76, § 7026(b)(1), Jan. 17, 2014.

<sup>17</sup>Pub. L. No. 112-74, § 7040(a)-(d), Dec. 23, 2011; Pub. L. No. 113-6, § 1101(a)(6), Mar. 26, 2013; Pub. L. No. 113-76, § 7040(a)-(d), Jan. 17, 2014.

<sup>18</sup>Pub. L. No. 112-74, § 7040(e), Dec. 23, 2011; Pub. L. No. 113-6, § 1101(a)(6), Mar. 26, 2013; Pub. L. No. 113-76, § 7040(e), Jan. 17, 2014.

<sup>19</sup>Pub. L. No. 112-74, § 7031(a), Dec. 23, 2011; Pub. L. No. 113-6, § 1101(a)(6), Mar. 26, 2013; Pub. L. No. 113-76, § 7031(a), Jan. 17, 2014.

**Table 2: USAID Compliance with Key Legal Requirements for Cash Transfers to the Palestinian Authority (PA) and Its Creditors, Fiscal Years 2013 and 2014**

Key legal requirements	USAID actions	Compliance	
		FY 2013	FY 2014
Congressional notification <sup>a</sup>	Our review of USAID’s congressional notifications for cash transfers to the PA and its cash transfer agreements with the PA for fiscal years 2013 and 2014 found that USAID transmitted the notifications at least 15 days and 42 days, respectively, before signing the agreements.	✓	✓
Separate account <sup>b</sup>	Our review of USAID’s cash transfer agreements with the PA, implementation letters signed by the PA, and action memorandums found that for fiscal year 2013, USAID included the single account requirements in the agreements and implementation letters and requested that the PA’s creditors confirm receipt of the cash transfers. For fiscal year 2014, we found that USAID requested that the PA’s creditors confirm receipt of the cash transfers only because no funds were provided directly to the PA.	✓	✓
Presidential waiver and accompanying report to Congress <sup>c</sup>	Our review of the dates when USAID transmitted Presidential waivers and accompanying reports to Congress found that for fiscal year 2013, USAID transmitted the waiver and report for the first cash transfer on April 26, 2012, and for the second cash transfer on July 29, 2013. For fiscal year 2014, USAID submitted an action memorandum to the USAID Administrator on Oct. 21, 2014, stating that the requirement did not apply because no funds were provided directly to the PA.	✓	N/A
Secretary of State certification and accompanying report to Congress <sup>d</sup>	Our review of the dates when State transmitted certifications and accompanying reports to Congress found that for fiscal year 2013, State transmitted the certification and report for the first cash transfer on April 26, 2012, and for the second cash transfer on July 29, 2013. For fiscal year 2014, USAID submitted an action memorandum to the USAID Administrator on Oct. 21, 2014, stating that this requirement did not apply because no funds were provided directly to the PA.	✓	N/A
Assessment of PA Ministry of Finance <sup>e</sup>	Our review of the dates and findings of external auditor assessments of the PA Ministry of Finance found that for fiscal years 2013 and 2014, USAID received these reports on April 11, 2012; April 23, 2012; May 22, 2013; and Nov. 1, 2014, before signing cash transfer agreements with the PA. <sup>f</sup> These reports concluded that the PA Ministry of Finance’s assertions about its systems to manage cash transfer funds were fairly stated in all material respects.	✓	✓

Source: GAO analysis of U.S. Agency for International Development (USAID) documents. | GAO-15-823

Legend: FY = fiscal year, N/A = not applicable.

<sup>a</sup>Pub. L. No. 112-74, §§ 7026(b)(3) and 7039(f), Dec. 23, 2011; Pub. L. No. 113-6, § 1101(a)(6), Mar. 26, 2013; Pub. L. No. 113-76, §§ 7026(b)(3) and 7039(f), Jan. 17, 2014.

<sup>b</sup>Pub. L. No. 112-74, § 7026(b)(1), Dec. 23, 2011; Pub. L. No. 113-6, § 1101(a)(6), Mar. 26, 2013; Pub. L. No. 113-76, § 7026(b)(1), Jan. 17, 2014.

<sup>c</sup>Pub. L. No. 112-74, § 7040(a)-(d), Dec. 23, 2011; Pub. L. No. 113-6, § 1101(a)(6), Mar. 26, 2013; Pub. L. No. 113-76, § 7040(a)-(d), Jan. 17, 2014.

<sup>d</sup>Pub. L. No. 112-74, § 7040(e), Dec. 23, 2011; Pub. L. No. 113-6, § 1101(a)(6), Mar. 26, 2013; Pub. L. No. 113-76, § 7040(e), Jan. 17, 2014.

<sup>e</sup>Pub. L. No. 112-74, § 7031(a), Dec. 23, 2011; Pub. L. No. 113-6, § 1101(a)(6), Mar. 26, 2013; Pub. L. No. 113-76, § 7031(a), Jan. 17, 2014.

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<sup>i</sup>El Wafa Company (correspondents of the Mazars Group), *United States Agency for International Development (USAID) West Bank And Gaza Mission Assessment of the Palestinian Authority -Ministry of Finance (PA-MOF), Attestation Report No. 1, "Examination of the PA-MOF's Procurement Policies & Systems and Employment and Utilization of Capable Staff"* (Ramallah, West Bank.: Apr. 11, 2012); El Wafa Company, *United States Agency for International Development (USAID) West Bank And Gaza Mission Financial Assessment of the Palestinian Authority -Ministry of Finance (PA-MOF), Attestation Report No. 2, "Examination of the PA Single Treasury Account and Civil Service Roster and Payroll"* (Ramallah, West Bank.: Apr. 23, 2012); El Wafa Company, *United States Agency for International Development (USAID) West Bank And Gaza Mission Financial Assessment of the Palestinian Authority -Ministry of Finance, Attestation Report, "Examination of the Palestinian Authority's Single Treasury Account and Civil Service Roster and Payroll"* (Ramallah, West Bank.: May 22, 2013); PricewaterhouseCoopers, *Financial Assessment of the Palestinian Authority Ministry of Finance (MOF), Attestation Report for the United States Agency for International Development (USAID) West Bank and Gaza Mission (Ramallah, West Bank: Nov. 10, 2014).*

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## USAID Complied with Its Antiterrorism Policies and Procedures

For fiscal years 2013 and 2014, USAID complied with its existing procedures to help ensure that cash transfer funds did not inadvertently provide support to entities or individuals associated with terrorism, in accordance with U.S. law.<sup>20</sup> These procedures require that USAID vet all PA creditors that are to receive cash transfer funds—that is, that USAID check recipients' names and other identifying information against the federal Terrorist Screening Center database and other information sources to determine whether the recipients have links to terrorism. According to these procedures, each PA creditor must be vetted if more than 12 months have passed since the creditor was last vetted and approved to receive any awards including cash transfer funds. We found that for fiscal years 2013 and 2014, USAID vetted each PA creditor that received cash transfer funds, completing the vetting within 12 months before signing its cash transfer agreements with the PA (see table 3).

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<sup>20</sup>Mission Order 21 cites several legal authorities for its antiterrorism procedures. These include (1) Executive Order 13,224 (66 Fed. Reg. 49079, Sept. 23, 2001), which blocks property and prohibits transactions with persons who commit, threaten to commit, or support terrorism; (2) sections 2339A and 2339B of Title 18 of the U.S. Code, which prohibit the provision of material support or resources for terrorist acts or to designated foreign terrorist organizations; and (3) Executive Orders 12,947 (60 Fed. Reg. 5079, Jan. 23, 1995) and 13,099 (63 Fed. Reg. 45167, Aug. 20, 1998), which prohibit transactions with terrorists who threaten to disrupt the Middle East peace process.

**Table 3: USAID Vetting of Palestinian Authority Creditors for Cash Transfer Assistance, Fiscal Years 2013 and 2014**

<b>Fiscal year</b>	<b>Creditor</b>	<b>Vetting date</b>	<b>Cash transfer agreement date</b>
2013	Paz Oil Company	April 27, 2012	February 19, 2013
	Bank of Jordan	April 27, 2012	February 19, 2013
	Paz Oil Company	May 8, 2013	August 13, 2013
	Bank of Jordan	May 16, 2013	August 13, 2013
	Haifa (Oil) Refineries–Bazan Group	May 14, 2013	August 13, 2013
2014	Paz Oil Company	May 6, 2014	November 5, 2014
	Bank of Jordan	April 11, 2014	November 5, 2014
	Haifa (Oil) Refineries–Bazan Group	April 17, 2014	November 5, 2014
	Augusta Victoria Hospital	March 31, 2014	November 5, 2014
	Makassed Charitable Hospital	October 10, 2014	November 5, 2014
	Palestinian Red Crescent Society Hospital	March 25, 2014	November 5, 2014
	Jerusalem Princess Basma Center for Disabled Children	April 2, 2014	November 5, 2014
	St. John Eye Hospital	March 25, 2014	November 5, 2014
	St. Joseph Hospital	March 26, 2014	November 5, 2014

Source: GAO analysis of U.S. Agency for International Development (USAID) data. | GAO-15-823

In fiscal years 2013 and 2014, the PA signed cash transfer agreements that affirmed its commitment to prevent the use of transferred funds for financing terrorism. According to these agreements, the PA stated that it would take all possible measures to ensure that none of the grant proceeds are used to provide support to any individual or organization that advocates, plans, sponsors, engages in or has engaged in, or is associated with, terrorism, armed hostilities, or other acts of violence, or any entity effectively controlled by such individual or organization.

In addition, USAID has commissioned external audits to verify the PA’s compliance with these cash transfer agreements and applicable laws and regulations, such as those that seek to ensure that none of the cash transfer funds were used, directly or indirectly, to provide support to individuals or entities associated with terrorism. For fiscal year 2013,



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USAID commissioned external audits of the funds it provided to the PA under cash transfer agreements for debt that the PA owed to the Bank of Jordan and fuel suppliers.<sup>21</sup> According to the audit reports, the external auditors did not find any material instances of noncompliance with the cash transfer agreements, implementation letters, or the applicable laws and regulations. For fiscal year 2014, as of June 30, 2015, USAID had not yet commissioned an external audit to review the cash transfer agreement and provision of funds to the PA's creditors.

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## Agency Comments

We provided a draft of this report to State and USAID for review and comment. State had no comments, and USAID provided technical comments that we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Administrator of USAID, and the Secretary of State. In addition, the report is 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](mailto:gootnickd@gao.gov). Contact points for our Offices 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 III.



David B. Gootnick  
Director, International Affairs and Trade

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<sup>21</sup>Ernst & Young, *Audit of the Statement of Deposits and Releases of USAID Resources Managed by the Palestinian Authority Through the Ministry of Finance under Cash Transfer Grant Agreement Number 294-CT- 00-13-00001-00, for the Period from February 19, 2013 to May 20, 2013* (Ramallah, West Bank.: Dec. 26, 2013); and *Audit of the Statement of Deposits and Releases of USAID Resources Managed by the Palestinian Authority Through the Ministry of Finance under Cash Transfer Grant Agreement Number 294-CT- 00-13-00002-00, for the Period from August 13, 2013 to November 10, 2013* (Ramallah, West Bank.: Dec. 26, 2013).

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# Appendix I: Objectives, Scope, and Methodology

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This report (1) examines the status of the U.S. Agency for International Development's (USAID) allocations, obligations, and expenditures of Economic Support Fund (ESF) assistance to the Palestinians for fiscal years 2012, 2013, and 2014 and (2) assesses the extent to which USAID complied with key legal requirements and its antiterrorism policies and procedures for cash transfers to the PA and its creditors.

To address our first objective, we reviewed appropriations legislation, related budget justification documents, and financial data provided by USAID in Tel Aviv, Israel. USAID provided data on obligations and expenditures of all ESF assistance for the West Bank and Gaza as of June 30, 2015, from annual allocations for fiscal years 2012, 2013, and 2014. We also reviewed relevant USAID documents, including notifications to Congress regarding the use of appropriated funds. In addition, we interviewed USAID and State officials in Washington, D.C., and conducted fieldwork in Tel Aviv, Israel, Jerusalem, and the West Bank.

To determine whether the data were sufficiently reliable for purposes of this report, we requested and reviewed information from USAID officials about their procedures for entering contract and financial information into USAID's data system. We also requested and reviewed information from USAID officials in Washington, D.C., about the underlying financial data system. We determined that the USAID data were sufficiently reliable for the purposes of this report. For the project information included in this report, we relied on data that USAID provided, showing its obligations of fiscal years 2012, 2013, and 2014 ESF assistance for West Bank and Gaza. For illustrative purposes, we chose projects that according to USAID (1) represented the largest financial obligation in each sector and (2) contained obligations from at least one of the allocations for the 3 fiscal years. USAID provided descriptions of each project.

To address our second objective, we reviewed key legal requirements as well as USAID's antiterrorism policies and procedures for cash transfers to the PA and its creditors. USAID provided copies of its determinations of compliance for each fiscal year when it provided cash transfers to the PA and its creditors. We reviewed the audit reports prepared by the external auditors that USAID commissioned. We also interviewed PA Ministry of Finance officials in the West Bank.

We conducted this performance audit from December 2014 to September 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

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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: USAID Project Assistance in the West Bank and Gaza for Fiscal Years 2012-2014

This appendix provides information about the status of funds allocated to the five separate development sectors administered by USAID in the West Bank and Gaza. Using funds allocated from the ESF appropriations in fiscal years 2012 through 2014, USAID obligated a total of almost \$619 million across five development sectors, as shown in table 4. To describe a cross section of these projects, we updated information about projects on which we previously reported.<sup>1</sup> These projects were among the largest financial obligations in each sector. We obtained the following information from USAID's contracts with the respective implementing partners for the development projects discussed below.

**Table 4: USAID's Total Obligations of Funds Allocated from the Economic Support Fund for the West Bank and Gaza in Fiscal Years 2012-2014 as of June 2015, by Development Sector**

Thousands of U.S. dollars

Development sector	Obligations, FY 2012	Obligations, FY 2013	Obligations, FY 2014	Total obligations, FY 2012-2014
Water resources and infrastructure	\$242,470	\$10,000	\$105,839	\$ 358,309
Democracy and governance	40,180	—	25,985	\$ 66,165
Health and humanitarian assistance	45,499	—	37,365	\$ 82,864
Private enterprise	32,000	—	9,400	\$ 41,400
Education	22,050	—	18,500	\$ 40,550
Program support	13,339	8,717	7,281	\$ 29,337
<b>Total</b>	<b>\$395,538</b>	<b>\$18,717</b>	<b>\$ 204,370</b>	<b>\$ 618,625</b>

Source: GAO analysis of U. S. Agency for International Development (USAID) data. | GAO-15-823

Legend: FY = fiscal year

Note: Program support funds are used for all development sectors.

<sup>1</sup>See GAO, *Foreign Assistance: U.S. Assistance to the West Bank and Gaza for Fiscal Years 2010 and 2011*, [GAO-12-817R](#) (Washington, D.C.: July 13, 2012); *Foreign Assistance: U.S. Assistance to the West Bank and Gaza for Fiscal Years 2008 and 2009*, [GAO-10-623R](#) (Washington, D.C.: May 14, 2010); and *Foreign Assistance: U.S. Assistance to the West Bank and Gaza for Fiscal Years 2005 and 2006*, [GAO-07-443R](#) (Washington, D.C.: Mar. 5, 2007).

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## Water Resources and Infrastructure

The water resources and infrastructure sector received the largest share—about 58 percent—of USAID’s project assistance obligations of ESF allocations in fiscal years 2012 through 2014 in the West Bank and Gaza. USAID obligated about \$358 million for seven projects in the sector and had expended about \$223 million as of June 30, 2015. The Infrastructure Needs Program Phase II, a project that includes contracts to provide engineering and construction management services and construction activities, received the largest ESF obligation in the sector. In September 2010, USAID awarded a construction management contract to U.S.-based Black and Veatch.<sup>2</sup> USAID also began awarding task orders to U.S. contractors—International Relief Development; APCO/ArCon Construction and Services; CDM Constructors Inc.; and the Morganti Group—for construction activities. USAID obligated a total of \$197 million for these contracts as of June 30, 2015. According to USAID, infrastructure in the West Bank and Gaza suffers from years of neglect and lack of investment. The primary objective of the USAID Infrastructure Needs Program Phase II is to focus on the rehabilitation and construction of roads, schools, water, and wastewater projects.

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## Health and Humanitarian Assistance

The health and humanitarian assistance sector received the second largest share—just over 13 percent—of USAID’s project assistance obligations of ESF allocations in the West Bank and Gaza in fiscal years 2012 through 2014. USAID obligated almost \$83 million for six health and humanitarian assistance projects and had expended about \$59 million as of June 30, 2015. In March 2013, USAID obligated \$55 million—its largest ESF obligation in the sector—for a 3-year grant to the World Food Program to develop and implement the Assistance to Vulnerable Groups in the West Bank and Gaza project.<sup>3</sup> According to USAID, the primary objective of the project is to focus on food security, including meeting food needs, enhancing food consumption, and increasing the dietary diversity of the most vulnerable and food-insecure nonrefugee population.

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<sup>2</sup>USAID defines a contract as a mutually binding legal instrument in which the principal purpose is the acquisition of property or services for the direct benefit or use of the federal government or host country. Contracts include task orders.

<sup>3</sup>USAID defines a grant as a legal instrument used where the principal purpose is the transfer of money, property, services, or anything of value to the recipient in order to accomplish a public purpose of support or stimulation authorized by federal statute and where substantial involvement by USAID is not anticipated.

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## Democracy and Governance

The democracy and governance sector received the third largest share—less than 11 percent—of USAID’s project assistance obligations of ESF allocations in fiscal years 2012 through 2014 in the West Bank and Gaza. USAID obligated about \$66 million for six democracy and governance projects and had expended about \$58 million as of June 30, 2015. In September of 2010, USAID obligated \$34 million—its largest ESF obligation in the sector—for a 5-year cooperative agreement with Mercy Corps, a U.S. nonprofit organization to develop and implement the Palestinian Community Assistance Program.<sup>4</sup> According to USAID, the project will address infrastructure recovery needs through improvements in community infrastructure and housing, economic recovery, and development through the creation of income generation and business development opportunities and will address social recovery needs through improvements in food security, education, health, and psychosocial needs.

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## Private Enterprise

The private enterprise sector received the second smallest share—about 7 percent—of USAID’s project assistance obligations of ESF allocations in fiscal years 2012 through 2014 in the West Bank and Gaza. USAID obligated about \$41 million for three private enterprise projects and had expended almost \$35 million as of June 30, 2015. In December of 2011, USAID obligated \$29 million for a 5-year contract with Development Alternatives International, an international development firm, to design and implement the Competitiveness Project. According to USAID, the project’s goal is to strengthen the competitiveness and export potential of at least four sectors essential to the future prosperity of the Palestinian economy: agriculture and agribusiness, stone and marble, tourism, and information technology.

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## Education

The education sector received the smallest share—less than 7 percent—of USAID’s project assistance obligations of ESF allocations in fiscal years 2012 through 2014 in the West Bank and Gaza. USAID obligated almost \$41 million for eight education projects and had expended almost \$27 million as of June 30, 2015. In March of 2013, USAID awarded \$11 million for a 4-year cooperative agreement with the America-Mideast Educational and Training Services Inc., a U.S. nonprofit organization, to design and implement the School Support Program. According to USAID,

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<sup>4</sup>USAID defines a cooperative agreement as a legal instrument used where the principal purpose is the transfer of money, property, services, or anything of value to a recipient to accomplish a public purpose of support or stimulation authorized by federal statute and where substantial USAID involvement is anticipated.

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the program will provide support to private and public schools in East Jerusalem as well as marginalized areas of the West Bank. According to USAID, the program's primary goal is to improve access to quality education and mitigate challenges to youth development in marginalized areas of the West Bank.

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# Appendix III: GAO Contacts and Staff Acknowledgements

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## GAO Contact

David B. Gootnick, (202) 512-3149 or [GootnickD@gao.gov](mailto:GootnickD@gao.gov)

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## Staff Acknowledgements

In addition to the contact named above, Judith McCloskey (Assistant Director), Brian Egger (Analyst-in-Charge), Ria Bailey-Galvis, Bryan Bourgault, and Ashley Alley made key contributions to this report. Jeffrey Isaacs, Justin Fisher, Reid Lowe, Tina Cheng, and Martin De Alteriis provided additional assistance.



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