



March 2021

# U.S. ASSISTANCE TO MEXICO

## State and USAID Should Strengthen Risk Management for Programs under the Mérida Initiative

# GAO@100 Highlights

Highlights of [GAO-21-335](#), a report to congressional requesters

## Why GAO Did This Study

In 2007 the U.S. and Mexico partnered under the Mérida Initiative to counter threats from Mexican criminal organizations, including drug cartels. The U.S. has provided Mexican security forces with technical support and equipment to strengthen Mexico's justice system and reduce corruption.

GAO was asked to review fraud risk management and vetting under the Mérida Initiative. This report examines, among other things, (1) the extent to which State and USAID have conducted fraud risk assessments for their programs under Mérida; (2) the extent to which State and USAID have controls to prevent, detect, and respond to fraud for these programs; and (3) the extent to which State has vetted recipients of U.S. assistance under Mérida. GAO reviewed documentation and data from U.S. agencies and interviewed U.S. agency officials at Embassy Mexico City and in Washington, D.C.

## What GAO Recommends

GAO recommends that State establish a time frame to complete a fraud risk assessment, implement an antifraud strategy, require staff to attend fraud awareness training, and assess and respond to the risk that Mexican non-security personnel in sensitive positions with security concerns are participating in programs. GAO also recommends that USAID complete a fraud risk assessment, implement an antifraud strategy, and require staff to attend fraud awareness training. State and USAID concurred with GAO's recommendations.

View [GAO-21-335](#). For more information, contact Chelsea Kenney at 202-512-2964 or [kenneyc@gao.gov](mailto:kenneyc@gao.gov).

March 2021

## U.S. ASSISTANCE TO MEXICO

### State and USAID Should Strengthen Risk Management for Programs under the Mérida Initiative

## What GAO Found

The U.S. has spent about \$3 billion in assistance to Mexico under the Mérida Initiative, a partnership created to help reduce violence in Mexico and mitigate effects of the drug trade. Programs under the Mérida Initiative involve a risk that U.S. assistance could be provided to individuals or organizations involved in contract fraud, human rights abuses, drug trafficking, or other crimes. However, the primary agencies behind these programs—the Department of State (State) and the U.S. Agency for International Development (USAID)—have not fully assessed the potential risks of fraud in their Mérida programs. Completing a fraud risk assessment is a key part of GAO's *A Framework for Managing Fraud Risks in Federal Programs* (Fraud Risk Framework), which agencies are required by Office of Management and Budget policy to follow. State has taken some initial steps, such as identifying potential fraud schemes that could pose risks to its Mérida programs, but has not established a time frame for completing its assessment. USAID has not yet started to conduct such an assessment, although officials said they plan to issue guidance that would direct staff to do so. Completing fraud risk assessments for their programs under the Mérida Initiative would better position State and USAID to fully mitigate any vulnerabilities to fraud.

State and USAID have some fraud controls for their Mérida programs, such as employee background checks and fraud hotlines. However, neither agency currently has an effective antifraud strategy—that is, one that reflects key elements of the Fraud Risk Framework and is important for communicating staff roles and responsibilities. State has issued an administrative notice, which outlines some initial steps to assess fraud risk; however, this notice does not meet the requirements of an effective antifraud strategy. USAID officials said they are in the process of developing an antifraud strategy for the entire agency. However, USAID officials were unable to demonstrate how the agency-wide strategy would include all key elements of a strategy tailored to USAID's program under the Mérida Initiative. Further, both agencies do not have mandatory fraud awareness training, without which their Mérida programs could be vulnerable to unnecessary fraud risks.

State vetted all Mexican security personnel and selected non-security personnel holding sensitive positions, such as judges and prosecutors, scheduled to participate in Mérida programs for human rights violations and other disqualifying crimes. However, after May 2017, Embassy Mexico City substantially scaled down vetting of Mexican non-security personnel holding sensitive positions. Embassy officials stated that before scaling down the practice they did not assess and respond to the risk that non-security personnel in sensitive positions with security concerns could then participate in Mérida programs. Without risk assessment and response efforts, State lacks reasonable assurance that non-security personnel in sensitive positions with security concerns are not participating in U.S.-funded Mérida programs.

This is a public version of a report that GAO issued in November 2020. Information that State deemed sensitive has been omitted.

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## Abbreviations

|           |   |
|-----------|---|
| 2017 SOP  | 2017 Mission Mexico Leahy and Local Vetting Standard Operating Procedures         |
| ADS       | Automated Directives System   |
| CBP       | U.S. Customs and Border Protection  |
| CPARS     | Contract Performance Assessment Reporting System                                  |
| CRS       | Congressional Research Service  |
| DDI       | disqualifying derogatory information  |
| DEA       | Drug Enforcement Administration   |
| DHS       | Department of Homeland Security   |
| DOJ       | Department of Justice   |
| ERM       | enterprise risk management  |
| EUM       | end-use monitoring  |
| FAA       | Foreign Assistance Act of 1961  |
| FAM       | Foreign Affairs Manual  |
| FAPIIS    | Federal Awardee Performance and Integrity Information System                      |
| FMFIA     | Federal Managers Financial Integrity Act of 1982                                  |
| FRDAA     | Fraud Reduction and Data Analytics Act of 2015                                    |
| GVHR      | gross violation of human rights   |
| INVESTc   | International Vetting and Security Tracking-cloud system                          |
| NADDIS    | Narcotics and Dangerous Drug Information System                                   |
| OMB       | Office of Management and Budget   |
| State     | Department of State   |
| State-INL | Department of State Bureau of International Narcotics and Law Enforcement Affairs |
| TTS       | Training Tracking System  |
| USAID     | United States Agency for International Development                                |

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March 1, 2021

### Congressional Requesters

Crime and violence perpetrated by transnational criminal organizations continue to raise security concerns on both sides of the U.S.-Mexico border. Violence has escalated as criminal organizations in Mexico have fought for control of the illicit drug market, smuggling routes into the United States, and other criminal enterprises. A 2019 Congressional Research Service (CRS) report estimates that since 2006, more than 150,000 people have been killed in Mexico as a result of organized crime.<sup>1</sup> As we previously reported, U.S. drug demand, illicit proceeds from bulk cash smuggling and trade-based money laundering, and weapons smuggling from the United States have fueled this violence.<sup>2</sup>

In October 2007, the United States and Mexico created the Mérida Initiative in order to reduce violence in Mexico, enhance the rule of law in that country, and mitigate the effects of the drug trade in the United States. Through this bilateral partnership, the United States has funded projects broadly related to the four original pillars of the Mérida Initiative: combating transnational criminal organizations, enhancing the rule of law and human rights, improving border security, and building strong and resilient communities.<sup>3</sup> The Department of State (State) and the United States Agency for International Development (USAID) administer foreign assistance programs under the Mérida Initiative. Since fiscal year 2008, the United States has allocated over \$3 billion for foreign assistance programs under the initiative.

Programs under the Mérida Initiative involve a continuing risk that U.S. assistance could be provided to individuals and organizations involved in

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<sup>1</sup>Congressional Research Service, *Mexico: Organized Crime and Drug Trafficking Organizations* (Washington, D.C.: Dec. 20, 2019).

<sup>2</sup>GAO, *U.S. Assistance to Mexico: State Department Could Improve Its Monitoring of Mérida Initiative Projects*, [GAO-20-388](#) (Washington, D.C.: May 12, 2020).

<sup>3</sup>Although agencies use different terms to describe their assistance, including programs, projects, and activities, we use the term “projects” to refer to assistance funded by the key U.S. agencies that is implemented directly by U.S. agencies or through awards made to project implementers, including contractors, international organizations, and grantees. In general, the term “project” refers to a set of activities that are designated and executed over a time frame to achieve a specific aim.

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contract fraud, human rights abuses, drug trafficking, or other crimes. According to a May 2019 report by the CRS, corruption is a problem at all levels of the Mexican government: 84 percent of Mexicans identify corruption as among the most pressing challenges facing the country.<sup>4</sup> In addition, according to a 2019 report by Human Rights Watch, Mexican security forces continue to commit torture, extrajudicial killings, and other crimes with impunity.<sup>5</sup> There is a risk that some of these security forces might receive U.S. foreign assistance under the Mérida Initiative.

You asked us to review U.S. agencies' management of fraud risks for their programs under the Mérida Initiative as well as their vetting of Mexican personnel who are nominated to participate in these programs. This report examines (1) the extent to which State and USAID have conducted fraud risk assessments for their programs under the Mérida Initiative; (2) the extent to which State and USAID have controls to prevent, detect, and respond to fraud for their programs under the Mérida Initiative; (3) the extent to which State has vetted recipients of U.S. assistance under the Mérida Initiative; and (4) the practices U.S. agencies have to share information on potential fraud risks and the results of vetting under the Mérida Initiative.

This report is a public version of a sensitive report that we issued in November 2020.<sup>6</sup> State deemed some of the information in our November report to be sensitive, which must be protected from public disclosure. Therefore, this report omits sensitive data and figures related to the results of vetting efforts. Although the information provided in this report is more limited, the report addresses the same objectives as the sensitive report and uses the same methodology.

To address these objectives, we reviewed relevant laws, regulations, agency policies and procedures, other agency documents, and prior GAO reports. For example, we reviewed relevant laws and policies, such as the Fraud Reduction and Data Analytics Act of 2015, as amended; the Payment Integrity Information Act of 2019; the Federal Managers

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<sup>4</sup>The May 2019 report by CRS also states that the costs of corruption in Mexico reportedly reach as much as 5 percent of gross domestic product each year.

<sup>5</sup>Human Rights Watch, *World Report 2019: Mexico* (New York: 2019).

<sup>6</sup>GAO, *U.S. Assistance to Mexico: State and USAID Should Strengthen Risk Management for Programs under the Mérida Initiative*, GAO-21-112SU (Washington, D.C.: Nov. 17, 2020).

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Financial Integrity Act of 1982, as amended (FMFIA);<sup>7</sup> GAO's *A Framework for Managing Fraud Risks in Federal Programs* (Fraud Risk Framework);<sup>8</sup> and Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.<sup>9</sup> In addition, we reviewed State and USAID documents and policies and procedures, such as the Department of State 2019 Agency Financial Report, the Embassy Mexico City 2017 Leahy and Local Vetting Standard Operating Procedures, the State *Foreign Affairs Manual* (FAM),<sup>10</sup> and the USAID Automated Directives System (ADS).<sup>11</sup> We also reviewed previous GAO reports on the Mérida Initiative.<sup>12</sup> We analyzed vetting data for fiscal years 2017 through 2019 from Embassy Mexico City's Training Tracking System (TTS), which documented the types, time frames, and outcomes of all the vetting efforts conducted by Embassy Mexico City's vetting unit during our scope.<sup>13</sup> Lastly, we interviewed State, USAID, Department of Homeland Security (DHS), and other officials at Embassy Mexico City, as well as State, USAID, DHS,

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<sup>7</sup>FMFIA amended the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports on the adequacy of the systems for internal accounting and administrative control of each executive agency. FMFIA requires an annual statement of assurance to be submitted by the head of each executive agency to the President and Congress on the status of the agency's system of management controls and whether the agency's system of management control conforms with GAO's *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 10, 2014).

<sup>8</sup>GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 28, 2015).

<sup>9</sup>Circular A-123, issued July 15, 2016, defines management responsibilities for enterprise risk management and internal controls. It also includes requirements on managing fraud risks in federal programs.

<sup>10</sup>The *Foreign Affairs Manual* (FAM) and associated *Handbook* are a comprehensive and authoritative source for the organizational structures, policies, and procedures that govern the operations of State's Foreign Service.

<sup>11</sup>The USAID Automated Directives System (ADS) contains the organizations and functions of USAID, along with the policies and procedures that guide the agency's programs and operations.

<sup>12</sup>GAO, *U.S. Assistance to Mexico: State and USAID Allocated over \$700 Million to Support Criminal Justice, Border Security, and Related Efforts from Fiscal Year 2014 through 2018*, [GAO-19-647](#) (Washington, D.C.: Sept. 10, 2019); and GAO, *U.S. Assistance to Mexico: State Department Could Improve Its Monitoring of Mérida Initiative Projects*, [GAO-20-388](#) (Washington, D.C.: May 12, 2020).

<sup>13</sup>We developed a methodology for analyzing these data, interviewed knowledgeable agency officials, performed manual data tests, developed and implemented a data reliability questionnaire, and consequently determined that these data were sufficiently reliable for our purposes in this report.

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Department of Justice (DOJ), and Department of Defense (DOD) officials in Washington, D.C. The State and USAID officials included representatives from each agency's office of the Chief Financial Officer; procurement officials responsible for oversight of grants, contracts, interagency agreements, and local contracts used in programs under the Mérida Initiative; as well as State and USAID program officials under the Mérida Initiative, among others. Appendix I contains a more detailed description of our objectives, scope, and methodology.

The performance audit upon which this report is based was conducted from April 2019 to November 2020 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. We subsequently worked with State from November 2020 to February 2021 to prepare this version of the original sensitive report for public release. This public version was also prepared in accordance with these standards.

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## Background

Through various Mérida Initiative projects, the United States provides Mexico's state and federal security forces with technical support and equipment to strengthen law enforcement institutions, professionalize the courts, and reduce corruption. State's Bureau of International Narcotics and Law Enforcement Affairs (State-INL) and USAID's Bureau for Latin America and the Caribbean allocate funding for and oversee the implementation of these projects. In addition, other agencies, such as DHS and DOJ, help implement some Mérida Initiative projects at the request of State-INL using State-INL funding. State and USAID provide grants to nongovernmental organizations and others, award contracts to private organizations, and enter agreements with other U.S. agencies and international organizations to implement Mérida Initiative projects.

State-INL and USAID allocate funding for Mérida Initiative projects under the following five U.S. government-wide foreign assistance funding categories: Civil Society, Counternarcotics, Good Governance, Rule of

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Law and Human Rights, and Transnational Crime.<sup>14</sup> U.S. agencies use these government-wide categories to broadly define foreign assistance programs for planning, budgeting, and reporting, which provides a common language to describe programs across agencies, countries, and regions.<sup>15</sup> During fiscal years 2014 through 2018, about 75 percent of the funding for programs under the Mérida Initiative came from State-INL, with USAID allocating the remainder.<sup>16</sup> The U.S. government provides no direct funding to the government of Mexico under the Mérida Initiative.

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## Requirement for Fraud Risk Management in Federal Programs

According to federal standards and guidance, managers of U.S. agencies are responsible for managing fraud risks and implementing practices for

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<sup>14</sup>Civil Society assistance focuses on empowering citizens to advance democratic values of citizen participation and government accountability. Counternarcotics assistance focuses on combating the production, trafficking, and cultivation of narcotics, and limiting the drug trade's public health risks. Good Governance assistance supports the political, economic, and administrative authority to manage a country's affairs at all levels in an inclusive, participatory, transparent, responsive, effective, and accountable manner. Rule of Law and Human Rights assistance supports the principle that all persons, institutions, and entities are accountable to laws and the principle that an individual's dignity is to be enjoyed by all regardless of race, color, sex, language, religion, national or social origin, property, birth, sexual orientation, gender identity, or other status. Transnational Crime assistance focuses on minimizing the adverse effects of transnational threats and criminal activities on the United States and its citizens.

<sup>15</sup>This is known as the Standardized Program Structure and Definitions. According to State-INL, the Rule of Law and Human Rights category combines two Standardized Program Structure and Definitions categories—(1) Rule of Law and (2) Citizen Security and Law Enforcement. In addition, the Rule of Law and Human Rights category was split into two categories in the Standardized Program Structure and Definitions starting in fiscal year 2018. Transnational Crime is the Transnational Threats and Crime category in the Standardized Program Structure and Definitions.

<sup>16</sup>According to USAID, USAID's program under the Mérida Initiative refers to USAID projects and their related activities under three USAID development objectives: Crime and Violence Prevention, Rule of Law, and Human Rights, as well as Transparency and Integrity as laid out in the FY 2014–2020 USAID/Mexico Country Development Cooperation Strategy. USAID's program under the Mérida Initiative refers to all of the projects and activities managed by USAID's technical office known as the Governance, Human Rights, and Citizen Security Office.

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addressing those risks in their programs.<sup>17</sup> *Standards for Internal Control in the Federal Government* calls for agency management officials to assess the internal and external risks their agencies face as they seek to achieve their objectives.<sup>18</sup> The internal control standards state that as part of this overall assessment, management should consider the potential for fraud when identifying, analyzing, and responding to risks in their programs.

To help managers combat fraud and preserve integrity in government agencies and programs, GAO identified leading practices for managing fraud risks and organized them into a conceptual framework called *A Framework for Managing Fraud Risks in Federal Programs*.<sup>19</sup> The Fraud Risk Framework encompasses control activities to prevent, detect, and respond to fraud, with an emphasis on prevention, as well as structures and environmental factors that influence or help managers achieve their objective to mitigate fraud risks (see fig. 1). The Fraud Risk Framework is aligned with Principle 8 (“Assess Fraud Risk”) of the *Standards for Internal Control in the Federal Government*. One of the leading practices identified in the Fraud Risk Framework is to conduct a fraud risk assessment that is tailored to risks at the program level.<sup>20</sup>

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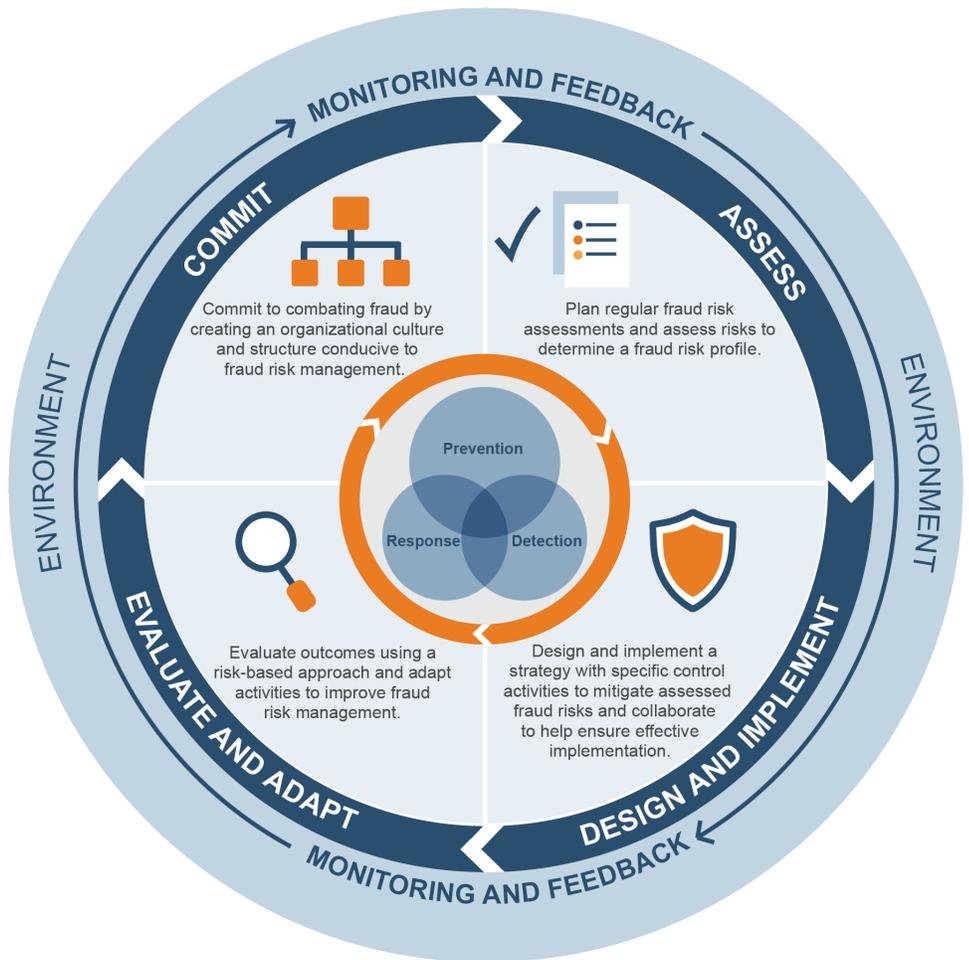
<sup>17</sup>Fraud and fraud risk are distinct concepts. Fraud—obtaining something of value through willful misrepresentation—is difficult to detect because of its deceptive nature. Fraud risk is a function of likelihood and impact, and exists when individuals have an opportunity to engage in fraud, have an incentive or are under pressure to commit fraud, or are able to rationalize committing fraud. Fraud risk management is a process for ensuring program integrity by continuously and strategically mitigating the likelihood and impact of fraud. When fraud risks can be identified and mitigated, fraud may be less likely to occur. Although the occurrence of fraud indicates that there is a fraud risk, a fraud risk can exist even if actual fraud has not occurred.

<sup>18</sup>[GAO-14-704G](#).

<sup>19</sup>[GAO-15-593SP](#).

<sup>20</sup>Further, the *Antifraud Playbook* (Playbook) was developed by the Chief Financial Officers Council and the U.S. Department of the Treasury Bureau of the Fiscal Service for use by the entire financial management community, including federal, state, and local agencies. The Playbook and accompanying appendixes are designed to provide practical guidance, leading practices, and helpful resources for agencies to establish or enhance their antifraud programs and meet the requirement of the Fraud Reduction and Data Analytics Act of 2015 and OMB Circular A-123. The Playbook states: “The playbook helps to clarify and operationalize the concepts put forward in other guidance including GAO’s Framework for Managing Fraud Risk in Federal Programs.” The Playbook, similar to the GAO Fraud Risk Framework, focuses on performing fraud risk assessments at the program level.

**Figure 1: A Framework for Managing Fraud Risks in Federal Programs**



Source: GAO. | GAO-21-335

Furthermore, Congress passed the Fraud Reduction and Data Analytics Act of 2015 (FRDAA),<sup>21</sup> in part, to improve federal agency administrative controls and procedures to assess and mitigate fraud risks. The law

<sup>21</sup>The Payment Integrity Information Act of 2019 became Public Law No. 116-117 on March 2, 2020. This law repeals FRDAA and restructures existing laws on improper payments to help agencies better identify and reduce the amount of money wasted due to improper payments. The law also reestablishes the requirement for agencies to follow leading practices established by the Fraud Risk Framework and emphasizes the *Standards for Internal Control in the Federal Government* principle to assess, evaluate, and mitigate fraud risks.

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required agencies to, among other things, establish financial and administrative controls that are aligned with the Fraud Risk Framework’s leading practices. In addition, OMB Circular A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*,<sup>22</sup> requires managers to follow the leading practices identified in the Fraud Risk Framework.<sup>23</sup>

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### Prohibition on U.S. Aid to Entities Tied to Human Rights Violations and Drug Trafficking

The Foreign Assistance Act of 1961, as amended (FAA), places several limitations on the provision of U.S. assistance to foreign entities. Section 620M of the FAA, commonly known as the State Leahy Law, prohibits the provision of U.S. assistance—such as assistance provided under the Mérida Initiative—to any unit of foreign security forces if the Secretary of State has credible information that such unit has committed a gross violation of human rights (GVHR).<sup>24</sup> In order to comply with this law, State policy requires State to, among other things, ensure that individuals designated to receive U.S. training, equipment, or other types of assistance, as well as their units, are vetted for evidence of GVHR.

Likewise, Section 487 of the FAA requires the President to take all reasonable steps to ensure that U.S. foreign assistance is not provided to any individual or entity involved either directly or indirectly in drug trafficking. To ensure compliance with the statute, the Secretary of State issued regulations in the Federal Register in July 1998 that, among other things, defined relevant terminology and clarified applicability to covered entities and enforcement procedures. The responsibility for implementing

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<sup>22</sup>OMB, Office of Management and Budget Circular No. A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control* (Washington, D.C.: July 15, 2016).

<sup>23</sup>We previously reported that federal agencies’ lack of available expertise to conduct fraud risk management activities was a challenge to implementing FRDAA. We also reported that agencies are at varying stages and have begun planning for and implementing fraud risk activities required by FRDAA. See GAO, *Fraud Risk Management: OMB Should Improve Guidelines and Working-Group Efforts to Support Agencies’ Implementation of the Fraud Reduction and Data Analytics Act*, [GAO-19-34](#) (Washington, D.C.: Dec. 4, 2018).

<sup>24</sup>According to State policy, because the law does not define “gross violation of human rights” for purposes of the Leahy statute, State looks to other parts of the FAA for guidance on the meaning of the term. Section 502B of the FAA defines gross violations of internationally recognized human rights to include torture or cruel, inhuman, or degrading treatment or punishment, prolonged detention without charges and trial, causing the disappearance of persons by the abduction and clandestine detention of those persons, and other flagrant denial of the right to life, liberty, or the security of a person (22 U.S.C. § 2304).

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the regulations was delegated to State-INL through an executive order and a State delegation of authority.

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## While State Has Taken Initial Steps, State and USAID Have Not Completed Fraud Risk Assessments for Their Programs under the Mérida Initiative

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### State and USAID Are Required to Conduct Fraud Risk Assessments for Their Mérida Initiative Programs

One of the leading practices identified in the Fraud Risk Framework is for agencies to conduct fraud risk assessments for their programs that are tailored to risks at the program level. OMB Circular A-123 has required federal agencies to follow the Fraud Risk Framework's leading practices since 2016.<sup>25</sup> In addition, *Standards for Internal Control in the Federal Government* requires agency managers to assess fraud risk and consider the potential for internal and external fraud when identifying, analyzing, and responding to risks in their programs. Accordingly, the requirement to conduct program-level fraud risk assessments applies to State and USAID programs under the Mérida Initiative. State officials agreed that the Fraud Risk Framework's leading practices are relevant to State's Mérida programs. The Fraud Risk Framework identifies five key elements of a fraud risk assessment:

1. Identify inherent fraud risks affecting the program.
2. Assess the likelihood and impact of inherent fraud risks.
3. Determine fraud risk tolerance.
4. Examine the suitability of existing fraud controls and prioritize residual fraud risks.

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<sup>25</sup>OMB Circular A-123 states: "Managers should adhere to these leading practices as part of their efforts to effectively design, implement, and operate an internal control system that addresses fraud risks. Managers are responsible for determining the extent to which the leading practices in the Framework are relevant to their program and for tailoring the practices, as appropriate, to align with the program's operations." The guidance further states that "'should' indicates a presumptively mandatory requirement except in circumstances where the requirement is not relevant for the Agency."

5. Document the program’s fraud risk profile.

**State Has Taken Initial Steps, but Has Not Established a Time Frame to Complete a Fraud Risk Assessment for Its Mérida Initiative Programs**

While State has taken some initial steps to identify potential fraud risks, it lacks a time frame for completing a full fraud risk assessment for its programs under the Mérida Initiative. According to State officials, in April 2019 State’s Bureau of the Comptroller and Global Financial Services hired a contractor to develop and implement a fraud risk assessment methodology to help State comply with OMB Circular A-123 and follow the Fraud Risk Framework’s leading practices for fraud risk management. State’s contractor completed a pilot project using its new fraud risk assessment methodology for State’s Bureau of International Narcotics and Law Enforcement Affairs. According to State-INL officials, during the State-INL bureau-level fraud risk assessment, State-INL performed work that helped State begin to assess fraud risks for its programs under the Mérida Initiative. Table 1 shows examples of initial steps State-INL has taken toward conducting a fraud risk assessment for State’s programs under the Mérida Initiative.

**Table 1: Initial Steps Taken by the Department of State (State) Toward Conducting a Fraud Risk Assessment for State’s Programs under the Mérida Initiative**

| Key elements of the fraud risk assessment  | Steps taken   |
|--|---|
| 1. Identify inherent fraud risks affecting the program.                                    | State Bureau of International Narcotics and Law Enforcement Affairs (State-INL) officials said they identified potential fraud schemes <sup>a</sup> including procurement fraud, corruption, and equipment theft <sup>b</sup> According to State-INL documentation, examples include the following: <ul style="list-style-type: none"> <li>• A State-INL Mexico partner accepts a bribe to provide a criminal organization with advance notice of upcoming drug interdiction operations.</li> <li>• A State-INL Mexico contractor submits a travel voucher with fictitious costs.</li> <li>• A host government law enforcement logistics officer reports that recent equipment provided is now broken, irreparable, and must be sold for scrap; but the officer sells the functional equipment to the company of a relative, who resells the equipment and splits the proceeds with the officer.</li> </ul> |
| 2. Assess the likelihood and impact of inherent fraud risks.                               | State-INL officials said they assessed the likelihood and impact of fraud scheme risks identified in element 1.   |
| 3. Determine fraud risk tolerance.   | State-INL officials said State was in the process of establishing a methodology to address fraud risk tolerances and thresholds.  |
| 4. Examine the suitability of existing fraud controls and prioritize residual fraud risks. | State-INL officials said State-INL management has discussed the suitability of existing management controls and identified program fraud risk for the fraud schemes identified. Officials also said they were considering control enhancements, but did not have a time frame for implementing corrective actions.  |
| 5. Document the program’s fraud risk profile.  | State-INL officials said they have not documented a fraud risk profile for State programs under the Mérida Initiative.  |

Source: GAO analysis of State information. | GAO-21-335

Note: The five key elements of a fraud risk assessment are outlined in *A Framework for Managing Fraud Risks in Federal Programs*, GAO-15-593SP (Washington, D.C.: July 28, 2015).

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<sup>a</sup>A fraud scheme is a process whereby a person knowingly obtains any benefit by means of false or fraudulent pretenses, representations, promises, or material omissions. During the first element of the fraud risk assessment process, managers and other relevant officials determine where fraud can occur and the types of internal and external fraud risks the program faces, such as fraud related to financial reporting, misappropriation of assets, corruption, and nonfinancial forms of fraud.

<sup>b</sup>This includes emerging fraud risks and consideration of where fraud can occur and the types of internal and external fraud risk the program faces.

State-INL officials told us that, given the scope of State-INL–funded programs in more than 80 countries and the funds involved, State-INL decided to conduct full fraud risk assessments for three country programs, including Mexico for the Mérida Initiative. While State-INL plans to complete a fraud risk assessment for its programs under the Mérida Initiative, it has not yet established a time frame for doing so. State officials said the agency lacked the expertise to complete the fraud risk assessment and has encountered delays in procuring contractor expertise. As a result, State has not established a time frame to complete the fraud risk assessment.<sup>26</sup>

Establishing a time frame for completing a fraud risk assessment for its programs under the Mérida Initiative should assist State management in its efforts to obtain information on its fraud vulnerabilities in a timely manner. State-INL officials told us that a case of potential fraud involving Mérida funds occurred in 2018 when a grantee overstated its labor costs on invoices submitted to State-INL for repayment. In addition, State-INL officials told us that State’s Office of Inspector General is continuing to investigate another case of potential fraud involving Mérida funds with a different grantee.<sup>27</sup> Both cases of potential fraud highlight the fraud vulnerabilities facing State’s programs under the Mérida Initiative. Without timely completion of the fraud risk assessment for State’s programs under the Mérida Initiative, these programs may continue to be vulnerable to unnecessary fraud risks, such as fictitious costs being submitted by contractors or grantees for repayment, among other fraud schemes,

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<sup>26</sup>We previously reported that federal agencies’ lack of available expertise to conduct fraud risk management activities was a challenge to implementing FRDAA. GAO, *Fraud Risk Management: OMB Should Improve Guidelines and Working-Group Efforts to Support Agencies’ Implementation of the Fraud Reduction and Data Analytics Act*, [GAO-19-34](#) (Washington, D.C.: Dec. 4, 2018).

<sup>27</sup>Both cases of potential fraud were initially identified by the grantee. The grantee initially approached State-INL regarding the suspected fraud and State-INL officials referred the grantee to report the suspected fraud through the State Office of Inspector General Hotline.

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potentially endangering State-INL's ability to achieve the objectives of its Mérida programs.

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## USAID Has Not Conducted a Fraud Risk Assessment for Its Mérida Initiative Program

As stated, federal agencies are required to follow the leading practices identified in the Fraud Risk Framework, which include performing fraud risk assessments at the program level.<sup>28</sup> USAID officials agreed that the Fraud Risk Framework's leading practices are relevant to its Mérida program. Federal internal control standards also require managers to assess fraud risk and consider the potential for internal and external fraud when identifying, analyzing, and responding to risks in their programs. In addition, USAID's Risk Appetite Statement, issued in 2018, directs USAID officials to implement rigorous safeguards against fraud and corruption.<sup>29</sup> The statement reads, "We respect our role as a steward of the resources<sup>30</sup> given to us by the American people, and take a zero-tolerance approach toward fraud, corruption, or violation of law that involve U.S. taxpayer funds."<sup>31</sup>

USAID has not conducted a fraud risk assessment for its program under the Mérida Initiative in accordance with the leading practices identified in

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<sup>28</sup>OMB Circular A-123 states: "Managers should adhere to these leading practices as part of their efforts to effectively design, implement, and operate an internal control system that addresses fraud risks. Managers are responsible for determining the extent to which the leading practices in the Framework are relevant to their program and for tailoring the practices, as appropriate, to align with the program's operations." The guidance further states that "'should' indicates a presumptively mandatory requirement except in circumstances where the requirement is not relevant for the Agency."

<sup>29</sup>OMB Circular A-123 states that "regardless of the governance structure developed, agency governance should include a process for considering risk appetite and tolerance levels. The concept of 'risk appetite' is key to achieving effective enterprise risk management, and is essential to consider in determining risk responses. Although a formally documented risk appetite statement is not required, agencies must have a solid understanding of their risk appetite and tolerance levels in order to create a comprehensive enterprise-level risk profile."

<sup>30</sup>For fiscal year 2020, as of May 27, 2020, USAID/Mexico's planned allocation was \$50 million. USAID's FY2021 Foreign Operations Congressional Budget Request for the Mérida Initiative was \$20.25 million.

<sup>31</sup>USAID's June 2018 Risk Appetite Statement states that USAID's overall acceptance of fiduciary risk is low, and states that USAID requires rigorous safeguards against fraud, corruption, or other diversions of funds and will assess and update its systems of audit, risk assessment, and internal control. Further, it reports, "this Statement is a critical component in USAID's overall effort to achieve effective Enterprise Risk Management." The 2018 and 2019 USAID Agency Financial Reports reported that USAID complies with *Standards for Internal Control in the Federal Government* and OMB Circular A-123, which includes the GAO Fraud Risk Framework.

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the Fraud Risk Framework.<sup>32</sup> While acknowledging that they have not conducted such an assessment, USAID officials said they assess a range of risks, including fraud risks, through their FMFIA<sup>33</sup> and enterprise risk management (ERM) processes.<sup>34</sup> According to USAID officials, the combined approach of following FMFIA and ERM processes provides USAID with cost-effective internal controls and risk assessment measures.

According to USAID officials, USAID has not yet started to conduct a fraud risk assessment for its program under the Mérida Initiative because USAID does not currently require that fraud risk assessments be conducted in accordance with the Fraud Risk Framework. According to the office of USAID's Chief Financial Officer, USAID plans to issue guidance that will direct staff across all USAID missions to conduct fraud risk assessments at the program level. However, USAID guidance notwithstanding, OMB Circular A-123 requires the agency to follow the Fraud Risk Framework's leading practices, which include conducting program-level fraud risk assessments. Accordingly, USAID is required to conduct a fraud risk assessment for its Mérida program.

Completing a fraud risk assessment for its program under the Mérida Initiative will assist USAID management in determining and addressing its fraud vulnerabilities in a timely manner, including assessing reported cases of potential fraud. USAID officials told us that a case of potential fraud involving Mérida funds was reported to USAID in 2018 involving a grantee that overstated labor costs on invoices submitted to USAID.<sup>35</sup> According to a USAID document, in another case of potential fraud also

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<sup>32</sup>The USAID/Mexico Country Development Cooperation Strategy for FY 2014–2020 reports that the Mérida Initiative and Global Climate Change are the two USAID programs for fiscal years 2014 to 2020 that USAID/Mexico will pursue.

<sup>33</sup>The Federal Managers Financial Integrity Act of 1982 amended the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports of the adequacy of the systems of internal control and administrative control of each executive agency, and for other purposes. USAID, like other federal agencies, is required to provide an annual statement of assurance on whether the agency has achieved the objectives of internal control, which include the effectiveness and efficiency of operations, compliance with regulations and applicable laws, and reliability of financial reporting.

<sup>34</sup>Risk management is a series of coordinated activities to direct and control challenges or threats to achieving an organization's goals and objectives. ERM is an effective agency-wide approach to addressing the full spectrum of the organization's external and internal risks by understanding the combined impact of risks as an interrelated portfolio.

<sup>35</sup>USAID said the agency was reimbursed for the total amount of this irregularity.

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reported to USAID in 2018, a contractor awarded a subcontract to an employee's immediate relative, but the relationship was not disclosed, in violation of conflict of interest reporting requirements.<sup>36</sup> Both cases of potential fraud were initiated after notifications were made to the USAID Office of Inspector General Hotline, and they highlight the potential fraud vulnerabilities facing USAID's program under the Mérida Initiative. Without performing a fraud risk assessment for its program under the Mérida Initiative in accordance with the leading practices identified in the Fraud Risk Framework, USAID may not be fully mitigating its vulnerabilities to fraud. Federal internal control standards state that agencies should use quality information to achieve their entity's objectives. If USAID does not have quality fraud risk assessment information to inform its risk management decisions and resource allocations, it may not be aware of and able to address its highest priority risks in its program under the Mérida Initiative.

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<sup>36</sup>According to USAID, the employee at the contractor who made the award was terminated.

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**State and USAID  
Have Some Controls  
to Prevent, Detect,  
and Respond to  
Fraud, but Do Not  
Have Effective  
Antifraud Strategies  
and Mandatory Fraud  
Awareness Training**

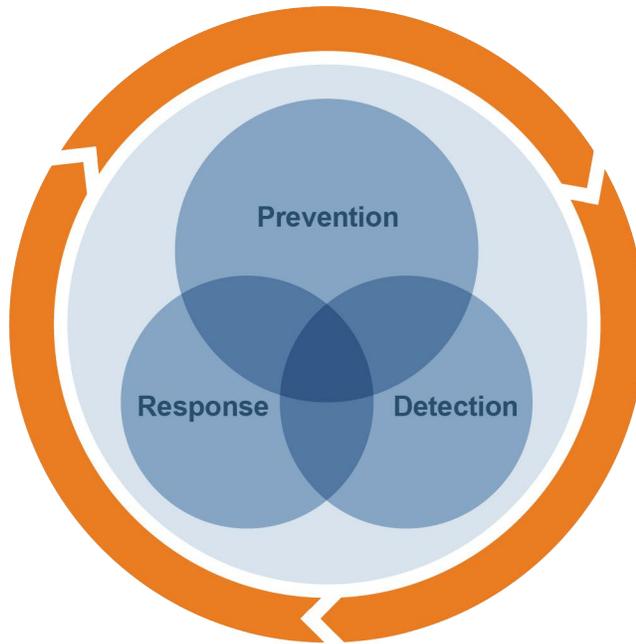
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**State and USAID Are  
Required to Have Controls  
to Prevent, Detect, and  
Respond to Fraud for  
Their Programs under the  
Mérida Initiative**

As noted, OMB Circular A-123 requires federal agencies to follow the Fraud Risk Framework's leading practices for preventing, detecting, and responding to fraud risks in their programs. The combination of prevention, detection, and response controls is at the core of the Fraud Risk Framework's design to manage fraud risks (see fig. 2). Agencies' improvement of prevention, detection, and response control activities in their programs is a continuous process.

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**Figure 2: Interdependent and Mutually Reinforcing Categories of Fraud Control Activities in GAO's *A Framework for Managing Fraud Risks in Federal Programs***



Source: GAO. | GAO-21-335

Fraud prevention controls are designed to prevent agencies from failing to achieve an objective or addressing risks in their programs. Examples of fraud prevention controls include an antifraud strategy, employee background checks, fraud awareness training, segregation of duties, standards of conduct, and transaction limits. Fraud detection controls are designed to discover when agencies are not achieving objectives or addressing risks before their operations have concluded, and to implement corrective actions so that the agencies achieve the objective or address the risks in their programs. Examples of detection controls include audits, document reviews, hotlines and other reporting mechanisms, and site visits. Response controls are designed for agencies to react to various types of fraud in their programs and to address allegations in a measured and consistent manner. Examples include investigations, prosecutions, disciplinary actions, suspensions and debarments, and payment recoveries.

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## State Has Some Controls to Prevent, Detect, and Respond to Fraud for Its Mérida Initiative Programs, but Does Not Have an Effective Antifraud Strategy and Mandatory Fraud Awareness Training

State has some controls to prevent, detect, and respond to fraud for its programs under the Mérida Initiative. State has implemented some fraud prevention controls, including requirements to conduct employee background checks, maintain segregation of duties among functional areas, and maintain employee policies on ethics and standards of conduct. State also has implemented fraud detection controls, including requirements to conduct audits,<sup>37</sup> conduct document reviews and site visits,<sup>38</sup> and establish and use fraud hotlines.<sup>39</sup> In addition, State has implemented fraud response controls, including requirements to conduct investigations,<sup>40</sup> enforce disciplinary action, prosecute individuals or organizations for allegations of fraud, implement suspensions and debarments, and seek payment recoveries in cases of fraud.

However, we found that State lacks an effective antifraud strategy and mandatory fraud awareness training for its programs under the Mérida Initiative. State's prevention controls would be strengthened by having an effective antifraud strategy and mandatory fraud awareness training for State's programs under the Mérida Initiative.

**Antifraud strategy.** State-INL has not developed, documented, and implemented an effective antifraud strategy for State programs under the Mérida Initiative, in accordance with the Fraud Risk Framework. The Fraud Risk Framework provides leading practices for agencies to follow, including developing and documenting an antifraud strategy at the program level. An antifraud strategy is important because agency officials use it to communicate staff roles and responsibilities, among other things, for managing a program's fraud risks. The Fraud Risk Framework states

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<sup>37</sup>Audits of grantees are required under the Single Audit Act, as applicable, and discretionary audits are permitted under the Office of Inspector General. Further, State-INL officials in Mexico City told us that in 2018 they established an internal audit function.

<sup>38</sup>We previously reported that, for most Mérida Initiative projects, State-INL did not generally follow the key practices for developing monitoring plans that identify projects' goals and objectives and address risks to achieving them, nor did State-INL consistently collect and assess project performance data. We recommended that State-INL establish procedures to verify that monitoring staff follow key practices, and State concurred. [GAO-20-388](#).

<sup>39</sup>In 2018, the State Office of Inspector General Hotline received two contacts on grants awarded under the Mérida Initiative.

<sup>40</sup>As of May 2020, the Department of State Office of Inspector General was investigating a case of potential fraud involving a Mérida Initiative program.

that an effective antifraud strategy reflects five key elements, as described in table 2.

**Table 2: Key Elements of an Antifraud Strategy in GAO’s A Framework for Managing Fraud Risks in Federal Programs**

|  |  |
|--|--|
| 1. Who is responsible for fraud risk management activities?            | Establish and document roles and responsibilities of those involved in fraud risk management activities, such as the antifraud entity and external parties responsible for fraud controls, and communicate the role of the Office of Inspector General to investigate potential fraud. |
| 2. What is the program doing to manage fraud risks?                    | Describe and document the program’s activities for preventing, detecting, and responding to fraud, as well as monitoring and evaluation. <sup>a</sup>  |
| 3. When is the program implementing fraud risk management activities?  | Create and document timelines for implementing fraud risk management activities, as appropriate, including monitoring and evaluations.   |
| 4. Where is the program focusing its fraud risk management activities? | Demonstrate and document links to the highest internal and external residual fraud risks outlined in the fraud risk profile.   |
| 5. Why is fraud risk management important?                             | Communicate the antifraud strategy document to employees and other stakeholders, and link antifraud efforts to other risk management activities, if any.   |

Source: GAO. | GAO-21-335.

<sup>a</sup>According to *Standards for Internal Control in the Federal Government*, control activities are the policies, procedures, techniques, and mechanisms that enforce managers’ directives to achieve the program’s objectives and address related risks. Broadly speaking, the antifraud strategy itself can be viewed as a preventive control activity, although it can inform other control activities, such as the content of fraud awareness training or the design of system edit checks. The antifraud strategy describes existing fraud control activities, as well as any new control activities a program may have planned or adopted to address any residual fraud risks.

In response to our request for its antifraud strategy, State provided us with an administrative notice issued by Embassy Mexico City and distributed to its employees in June 2020.<sup>41</sup> According to State officials, this document was not their actual antifraud strategy but a notice that laid out an abbreviated approach outlining some initial steps to assess fraud risk. Based on our review of this notice, we found that it does not fully address the first and second key elements of an antifraud strategy, nor does it address the third, fourth, and fifth key elements, in accordance with the Fraud Risk Framework. On the first key element, we found that State’s notice generally identifies management’s roles and responsibilities in fraud risk management activities, but does not identify external parties responsible for fraud controls, or communicate the importance of the Office of Inspector General to investigate potential fraud. On the second key element, we found that State’s notice describes a few State-INL

<sup>41</sup>State-INL, *Fraud, Standards of Ethical Conduct and Whistleblower Protection*, INL Management Policy INL-2020-04 (June 15, 2020).

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planned activities, but does not describe activities for preventing, detecting, and responding to fraud that have actually begun.

An effective antifraud strategy at the program level provides employees with an understanding of the strategy to mitigate potential fraud schemes. Until State develops, documents, and implements an antifraud strategy that fully addresses all key elements of the Fraud Risk Framework, State-INL staff at Embassy Mexico City may not be effectively managing fraud risks identified in State's programs under the Mérida Initiative.

**Mandatory fraud awareness training.** State-INL does not require fraud awareness training for all personnel involved with implementing State's Mérida Initiative programs. State-INL staff at Embassy Mexico City responsible for overseeing State programs under the Mérida Initiative told us there is no mandatory fraud awareness training for staff implementing and overseeing Mérida programs except for procurement representatives. State-INL staff at the embassy told us that a State contractor led a one-day fraud risk workshop in July 2019 that included some State-INL managers at the embassy, but that the workshop did not include all managers, employees, and stakeholders involved in implementing and overseeing State-INL Mérida programs. The Fraud Risk Framework emphasizes the importance of fraud prevention controls, including fraud awareness initiatives at the program level. The Fraud Risk Framework also states that it is a leading practice for agencies to require all employees to attend antifraud training upon hiring and on an ongoing basis thereafter, and to maintain records to track completion of training. In August 2020, a State-INL official told us that State-INL is starting to develop a fraud awareness training program. However, State-INL has not yet updated its policy and guidance to require managers, employees, and stakeholders with responsibility for implementing and overseeing State programs under the Mérida Initiative to attend fraud awareness training.<sup>42</sup> Mandatory training would help prepare State personnel responsible for Mérida programs to identify and respond to potential fraud. Considering the risks of State programs in Mexico, until State-INL requires mandatory fraud awareness training, managers and employees may not be able to properly prevent and detect potential fraud in State-INL Mérida programs.

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<sup>42</sup>For a relatively small portion of its workforce—specifically contracting officer representatives who are responsible for certain aspects of acquisition—State requires completion of fraud and abuse prevention training every 2 years.

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USAID Has Some Controls to Prevent, Detect, and Respond to Fraud for Its Mérida Initiative Program, but Does Not Have an Effective Antifraud Strategy and Mandatory Fraud Awareness Training

USAID has some controls to prevent, detect, and respond to fraud for its program under the Mérida Initiative. Specifically, USAID has implemented some fraud prevention controls, including requirements to conduct employee background checks, maintain segregation of duties among functional areas, and maintain employee policies on ethics and standards of conduct. USAID also has implemented fraud detection controls, including requirements to conduct audits, financial reviews, and site visits,<sup>43</sup> and establish and use fraud hotlines.<sup>44</sup> In addition, USAID has implemented fraud response controls, including requirements to conduct investigations, enforce disciplinary action, prosecute individuals or organizations for allegations of fraud, implement suspensions and debarments, and seek payment recoveries in cases of fraud.

However, we found that USAID lacks an effective antifraud strategy and mandatory fraud awareness training for its program under the Mérida Initiative. USAID's prevention controls would be strengthened with an effective antifraud strategy and fraud awareness training for USAID's program under the Mérida Initiative.

**Antifraud strategy.** USAID has not developed, documented, and implemented an effective antifraud strategy for its program under the Mérida Initiative. According to USAID officials, USAID does not have such a strategy because current USAID guidance does not require one. The Fraud Risk Framework identifies leading practices for agencies to follow, including developing and documenting an antifraud strategy at the program level. As stated, an effective antifraud strategy reflects the key elements outlined in the Fraud Risk Framework. An antifraud strategy is important because an agency uses it to communicate staff roles and responsibilities, among other things, for managing a program's fraud risks. Implementing an antifraud strategy at the program level is essential because each program has its own objectives, risks, and challenges. An effective antifraud strategy at the program level provides employees with a strategy to mitigate potential fraud schemes. According to USAID officials, USAID is in the process of developing an antifraud strategy for the entire agency. However, USAID officials could not provide us with

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<sup>43</sup>We previously reported that for its Mérida Initiative projects, USAID did not address risks in its project monitoring plans. We recommended that USAID ensure that monitoring plans address risks, and USAID concurred. [GAO-20-388](#).

<sup>44</sup>In 2018, the USAID Office of Inspector General Hotline received three contacts regarding grants under the Mérida Initiative program. One contact resulted in an employee termination and another in recovery of Mérida funds. The final one was closed with no action taken.

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information on time frames or milestones for its development and implementation. Further, USAID officials could not provide documentation showing that the antifraud strategy for the entire agency will include all the key elements of an effective antifraud strategy tailored to USAID's program under the Mérida Initiative. Until USAID completes a documented antifraud strategy for its Mérida program that reflects all key elements of the Fraud Risk Framework, USAID managers may not be effectively managing identified fraud risks.

**Mandatory fraud awareness training.** USAID does not require fraud awareness training for all personnel involved with implementing the agency's Mérida Initiative program. Managers, employees, and stakeholders with responsibility for implementing and overseeing USAID's program under the Mérida Initiative are not required to attend fraud awareness training because USAID does not have policy and guidance requiring such training.<sup>45</sup> According to USAID officials, fraud awareness training at USAID is very broad and USAID requires training for contracting officer representatives and agreement officer representatives in antifraud-related areas such as cybersecurity, privacy, conflicts of interest, and ethics. In addition, USAID officials said the USAID Office of the Chief Financial Officer provides periodic agency-wide communications on fraud awareness that cover aspects of the Fraud Risk Framework and reporting requirements for suspected fraud to the Office of Inspector General. Officials in USAID's Office of the Chief Financial Officer said they are developing enterprise risk management and internal control training that include fraud awareness, and are developing an agency-wide policy to require this training. A USAID official told us in August 2020 that USAID plans to develop fraud awareness training that will be scheduled to start in fiscal year 2021, as part of USAID's enterprise risk management and internal controls training. However, these plans are still preliminary and are under development. The Fraud Risk Framework states that it is a leading practice for agencies to require all employees to attend antifraud training upon hiring and on an ongoing basis thereafter, and to maintain records to track completion of training.

As previously discussed, two cases of potential fraud involving Mérida funds were reported to the USAID Office of Inspector General in 2018. It is important that USAID personnel responsible for overseeing USAID's program under the Mérida Initiative are aware of the potential fraud

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<sup>45</sup>For a relatively small portion of its workforce—specifically contracting officer representatives who are responsible for certain aspects of acquisition—USAID requires completion of acquisition and assistance management training every 2 years.

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vulnerabilities related to this program. Mandatory training would help prepare USAID personnel responsible for its Mérida program to identify and respond to potential fraud. Considering the risks of USAID's program in Mexico, until USAID requires mandatory fraud awareness training, managers and employees may not be able to properly prevent and detect potential fraud in USAID's Mérida program.

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**State Vetted All Security Personnel Scheduled to Participate in Mérida Programs but Did Not Assess the Risk of Reduced Vetting of Non-security Personnel in Sensitive Positions**

**State Has Policies and Procedures to Vet Mexican Personnel Scheduled to Participate in Mérida Programs for Evidence of Human Rights Violations and Other Criminal Activity**

State has developed policies and procedures to vet Mexican security personnel, including police and military service members, and non-security personnel holding sensitive positions, such as judges and prosecutors, who are scheduled to participate in U.S. assistance programs funded under the Mérida Initiative.<sup>46</sup> State vets these personnel for evidence of gross violations of human rights (GVHR) and other

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<sup>46</sup>According to State, security personnel are personnel who work in any organization or entity, such as police or military services, authorized by a state to use force—including, but not limited to, the power to search, detain, and arrest. Non-security personnel are personnel holding sensitive positions including prosecutors, judges, crime scene technicians, experts, and other key officials who do not have the authority to search, arrest, detain, or carry a weapon.

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disqualifying crimes, including drug trafficking.<sup>47</sup> If vetting uncovers evidence of these violations or other disqualifying crimes, the Mexican personnel cannot participate in U.S.-funded programs under the initiative. The Mexican personnel are nominated for vetting by U.S. agencies implementing Mérida Initiative programs, and their participation in U.S.-funded programs is dependent on the outcome of these vetting processes. State's vetting policies and procedures for Embassy Mexico City are outlined in the 2017 Mission Mexico Leahy and Local Vetting Standard Operating Procedures (2017 SOP) and State's 2017 Leahy Vetting Guide, as well as a State-INL diplomatic cable sent to all U.S. embassies and consular posts in July 1998.<sup>48</sup>

## Mexican Security Personnel

Section 620M of the Foreign Assistance Act of 1961, as amended, the State Leahy Law, prohibits assistance from being provided to units of foreign security forces if the Secretary of State has credible information that such unit has committed GVHR.<sup>49</sup> In order to comply with Section 620M, State has developed the Leahy vetting process to ensure that individuals designated to receive U.S. training, equipment, or other assistance are vetted, along with their units, for evidence of GVHR. The Leahy vetting process includes vetting security personnel, including police and military service members, who are scheduled to participate in U.S.-funded assistance programs for evidence of GVHR. For Mexican security personnel participating in Mérida Initiative programs, the Leahy vetting process starts when the U.S. agency responsible for implementing specific Mérida Initiative programs submits a vetting request to the Embassy Mexico City vetting unit. The nominating U.S. agency can submit vetting requests directly via the embassy's Training Tracking

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<sup>47</sup>According to State policy, because the law does not define "gross violation of human rights" for purposes of the Leahy statute, State looks to other parts of the FAA for guidance on the meaning of the term. Section 502B of the FAA states that gross violations of internationally recognized human rights include torture or cruel, inhuman, or degrading treatment or punishment, prolonged detention without charges and trial, causing the disappearance of persons by the abduction and clandestine detention of those persons, and other flagrant denial of the right to life, liberty, or the security of a person (22 U.S.C. § 2304).

<sup>48</sup>We used the 2017 SOP produced by Embassy Mexico City, the most recent version available during the time of our evaluation. According to State, the SOP has since been updated.

<sup>49</sup>Section 620M states that "no assistance shall be furnished under this chapter or the Arms Export Control Act to any unit of the security forces of a foreign country if the Secretary of State has credible information that such unit has committed a gross violation of human rights."

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System (TTS) or by emailing the required information to the vetting unit to be entered into TTS. TTS is used to track the vetting process and verify that individuals scheduled to participate in U.S. assistance programs have been vetted properly before this assistance is provided. The nominating U.S. agency must submit names for Leahy vetting no less than 35 business days prior to the date that assistance is scheduled to be provided.

When names are submitted, the vetting unit first verifies the accuracy of the case file information that has been entered into TTS. The vetting unit then assigns each Leahy vetting case a local tracking number and a separate tracking number in State's International Vetting and Security Tracking-cloud (INVESTc) system. The vetting unit then searches several local databases for evidence of GVHR or other disqualifying derogatory information (DDI).<sup>50</sup> If the submitted name clears these initial checks, the vetting unit then sends the case file information to Washington, D.C., where State headquarters performs open-source and classified searches for evidence of GVHR or other DDI. Once State headquarters makes its final determination, the decision is recorded in INVESTc and the system generates official final results. The vetting unit receives the results by email and can also retrieve them from INVESTc. The vetting unit then forwards these results to the U.S. nominating agency, typically within 1 business day.

## Mexican Non-security Personnel

Embassy Mexico City also established a "local vetting" policy to vet non-security personnel. This policy is not required by the FAA, was developed by Embassy Mexico City, and was designed to ensure that non-security Mexican personnel holding sensitive positions, such as judges and prosecutors, are properly vetted before U.S. foreign assistance is provided. Similar to Leahy vetting, the process begins when a nominating U.S. agency submits all relevant information to the vetting unit via TTS or email. However, for local vetting, the nominating U.S. agency must submit names no less than 20 business days prior to the date that assistance is scheduled to be provided. The vetting unit first verifies the accuracy of the information in TTS and assigns the name a local tracking number. The vetting unit then checks the name in several local databases. The vetting unit, in consultation with the nominating U.S. agency, decides to approve

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<sup>50</sup>Individuals can be disqualified from participating in U.S. assistance programs as a result of disqualifying derogatory information in addition to GVHR. Disqualifying derogatory information can include information related to drug trafficking, terrorism, corruption, criminal activity, or other similar behaviors.

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## Vetting for Drug Trafficking

or not approve the individual for participation in U.S.-funded assistance programs and notifies the nominating agency via email or TTS.

Section 487 of the FAA requires State to take all reasonable steps to ensure that no assistance is provided to or through individuals who are or have been involved, directly or indirectly, in drug trafficking or other drug crimes.<sup>51</sup> To ensure compliance with Section 487, State issued both implementing regulations and guidance to all U.S. diplomatic and consular posts, in July 1998, detailing steps to be taken to ensure that U.S. assistance is not provided to any individuals or entities known or suspected to have involvement in drug trafficking organizations. These regulations and guidance require posts to, among other things, establish a system for reviewing proposed recipients of U.S. foreign assistance for narcotics and drug trafficking information. The regulations and guidance also require proposed training participants to self-certify that they have not been involved in narcotics or drug trafficking in the previous 10 years.

According to State officials in Mexico City, in order to comply with the FAA and State's implementing regulations and guidance, Embassy Mexico City's Leahy and local vetting processes also include checks of the Drug Enforcement Administration's (DEA) Narcotics and Dangerous Drug Information System (NADDIS) database. We have previously reported that NADDIS contains information about drug offenders and alleged drug offenders; persons suspected of conspiring to commit, aid, or abet the commission of a drug offense; and other individuals related to, or associated with, DEA's law-enforcement investigations and intelligence operations, among other things.<sup>52</sup> In addition to these checks, State-INL requires recipients of foreign assistance in Mexico, regardless of whether the recipients are security personnel or non-security personnel, to sign a Participant Certification document to attest that they have not been an illicit trafficker of any drug or other controlled substance (see fig. 3).

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<sup>51</sup>Section 487 states that "the President shall take all reasonable steps to ensure that assistance under this chapter and the Arms Export Control Act is not provided to or through any individual or entity that the President knows or has reason to believe—(1) has been convicted of a violation of, or a conspiracy to violate, any law or regulation of the United States, a State or the District of Columbia, or a foreign country relating to narcotic or psychotropic drugs or other controlled substances; or (2) is or has been an illicit trafficker in any such controlled substance or is or has been a knowing assistor, abettor, conspirator, or colluder with others in the illicit trafficking in any such substance" (22 U.S.C. § 2291f).

<sup>52</sup>GAO, *Controlled Substances: DEA Should Take Additional Actions to Reduce Risks in Monitoring and Continued Eligibility of Its Registrants*, [GAO-16-310](#) (Washington, D.C.: June 21, 2016).

According to State documents, this requirement was established as part of the Mérida Initiative agreement between the United States and Mexico.

**Figure 3: Participant Certification for Narcotics Offenses and Drug Trafficking Used by Embassy Mexico City**

| PARTICIPANT CERTIFICATION<br>NARCOTICS OFFENSES AND DRUG<br>TRAFFICKING   | DECLARACION JURADA DEL PARTICIPANTE<br>DELITOS DE ESTUPEFACIENTES Y TRÁFICO DE<br>DROGAS   |
|---|--|
| <p>1. I hereby certify that within the last ten years:</p> <p>a. I have not been convicted of a violation of, or a conspiracy to violate, any law or regulation of the United States, or of any other country, concerning narcotics or psychotropic drugs or other controlled substances.</p> <p>b. I am not and have not been an illicit trafficker in any such drug or controlled substance.</p> <p>c. I am not and have not been a knowing assistor, abettor, conspirator, or colluder with others in the illicit trafficking in any such drug or substance.</p> <p>2. I understand that the United States Department of State (DOS) may terminate my training if it is determined that I engaged in the above conduct during the last ten years or during my DOS-funded training.</p> <p>Signature: _____<br/>Name: _____<br/>Date: _____</p> | <p>1. Por la presente declaro que en el transcurso de los últimos diez años:</p> <p>a. No he sido condenado por violar ninguna ley o reglamento de los Estados Unidos de América, o de cualquier otro país, en materia de estupefacientes o sustancias psicotrópicas u otras sustancias controladas, ni he conspirado para la comisión de tales violaciones.</p> <p>b. No soy ni he sido un traficante ilegal de cualquiera de estas drogas o sustancias controladas.</p> <p>c. No soy, ni he sido participe, instigador, conspirador o me he confabulado con otros en el tráfico ilícito de cualquiera de estas drogas o sustancias.</p> <p>2. Entiendo que el Departamento de Estado de los Estados Unidos (DOS) podrá dar por concluida mi capacitación si se determina que me involucré en las conductas descritas anteriormente durante los últimos diez años o durante mi capacitación financiada por el DOS.</p> <p>Firma: _____<br/>Nombre: _____<br/>Fecha: _____</p> |
| <p style="text-align: center;">NOTICE</p> <p>1. Pursuant to the agreements between the USG and the GOM, you are required to sign this Certification.</p> <p>2. If you make a false Certification you are subject to criminal prosecution under applicable laws.</p>   | <p style="text-align: center;">AVISO</p> <p>1. De conformidad con los acuerdos entre el GEUM y el GEUA, usted debe firmar esta declaración jurada.</p> <p>2. Si hiciera una declaración falsa, usted quedará sujeto a una acción penal de conformidad con las leyes aplicables.</p>  |

Source: State Department document. | GAO-21-335

## State Has Vetted All Mexican Security Personnel Scheduled to Participate in Mérida Programs but Did Not Assess the Risk of Reduced Vetting of Non-security Personnel in Sensitive Positions

Based on our review of Embassy Mexico City's TTS data, State conducted Leahy vetting of all security personnel scheduled to participate in U.S. assistance programs under the Mérida Initiative during fiscal years 2017 through 2019. Of those who underwent Leahy vetting, 96 percent were authorized to participate in Mérida Initiative programs and 4 percent were not authorized to participate in Mérida Initiative programs at that time. Embassy officials said the vetting data they provided include all individuals scheduled to participate in U.S.-funded Mérida programs during this time period. In addition, as part of the embassy's efforts to comply with Section 487 of the FAA, all of the individuals cleared through Leahy vetting were also checked through the DEA NADDIS database for

evidence of drug trafficking. The vetting unit found no evidence of disqualifying information among any of these individuals, according to embassy officials and data.

Based on our review of Embassy Mexico City’s TTS data, the embassy also locally vetted 8,012 non-security personnel scheduled to participate in U.S. assistance programs under the Mérida Initiative during fiscal years 2017 through 2019 (see table 3). Of those locally vetted, 7,992 were authorized to participate in Mérida Initiative programs and 20 were not authorized to participate in Mérida programs at that time. According to State, the individuals who were not authorized to participate in U.S. assistance programs as a result of local vetting were flagged for derogatory disqualifying information not related to gross violations of human rights. Derogatory disqualifying information includes information related to drug trafficking, terrorism, corruption, criminal activity, or similar activities. In addition, as part of the embassy’s efforts to comply with Section 487 of the FAA, the 7,992 individuals authorized to participate in U.S. assistance programs were also checked through the DEA NADDIS database for evidence of drug trafficking; the vetting unit cleared all 7,992 individuals.

**Table 3: Embassy Mexico City Local Vetting Results, Fiscal Years (FY) 2017–2019**

| Time period   | Non-security service personnel |                |              |
|---|--------------------------------|----------------|--------------|
|   | Authorized                     | Not authorized | Total        |
| Local vetting: October 1, 2016–<br>May 31, 2017                 | 7,916                          | 18             | <b>7,934</b> |
| Local vetting: June 1, 2017–<br>September 30, 2019 <sup>a</sup> | 76                             | 2              | <b>78</b>    |
| <b>Total local vetting, FY 2017–2019</b>                        | <b>7,992</b>                   | <b>20</b>      | <b>8,012</b> |

Source: GAO review of Embassy Mexico City’s Training Tracking System (TTS) data. | GAO-21-335

<sup>a</sup>After May 2017, the practice of vetting all non-security personnel holding sensitive positions was scaled down so that local vetting was conducted on an as-needed basis when the implementing agencies at the embassy determined a necessity.

However, according to State documents, after May 2017 the practice of vetting all non-security personnel holding sensitive positions was scaled down so that local vetting was conducted on an as-needed basis when the implementing agencies at the embassy determined a necessity. For instance, on an as-needed basis, State-INL officials at Embassy Mexico City said they nominate for local vetting individuals in key positions of authority for their programs. Before local vetting was scaled down, more than 90 percent of the individuals nominated for local vetting during fiscal

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years 2017 through 2019 were vetted from October 1, 2016, to May 31, 2017. In total, 7,934 individuals were vetted before local vetting was scaled down. After local vetting was scaled down, from June 1, 2017, to September 30, 2019, State locally vetted 78 individuals scheduled to receive U.S. assistance under the Mérida Initiative. Of those, 76 were authorized to participate in U.S. assistance programs and two were not authorized. During the period local vetting was scaled down, the embassy vetted roughly 3 individuals a month, on average. During the earlier period, from October 1, 2016, through May 30, 2017, the embassy vetted roughly 991 individuals per month, on average.

According to State documents, the U.S. Ambassador to Mexico decided to scale down local vetting after a nearly 75 percent increase in total vetting requests from fiscal years 2016 to 2017 and reductions in available staff in the vetting unit. According to State-INL officials at Embassy Mexico City, this increase was due, in part, to a shift in U.S. assistance priorities away from large equipment donations toward nationwide police training. This shift required vetting large numbers of law enforcement officials. After the scale-down of local vetting, Embassy Mexico City did not have mechanisms to address the risk that Mexican government officials in sensitive positions with derogatory disqualifying information were participating in U.S. assistance programs. However, *Standards for Internal Control in the Federal Government* requires agencies to identify, assess, and respond to risks to their program objectives. State-INL officials said they did not conduct a risk analysis to assess and respond to this risk before scaling down the local vetting program. Without risk assessment and response efforts, and in the absence of more robust local vetting, State lacks reasonable assurance that non-security personnel in sensitive positions—such as judges and prosecutors—with security concerns are not participating in U.S.-funded Mérida programs.

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## U.S. Agencies Have Some Practices That Can Help Them Share Information on Potential Fraud Risks and Vetting Results

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## U.S. Agencies Have Practices That Can Help Them Share Information on Potential Fraud Risks under the Mérida Initiative

Embassy Mexico City officials said the State staff there works closely with subject matter experts from other U.S. agencies to assess Mexican government requests for equipment or services under the Mérida Initiative. Through this coordination, other agencies can help State identify potential fraud risks in State Mérida projects. For example, when a Mexican police unit requests equipment or services related to work on the U.S. border, State staff members typically consult the U.S. Customs and Border Protection (CBP) staff at the embassy first to assess whether the Mexican agency has a legitimate need, and then to assess whether the equipment or services requested will meet this need.

According to embassy officials, in some cases subject matter experts from other agencies at the embassy have determined that requests for assistance from a Mexican government entity under the Mérida Initiative would not have filled a legitimate need. For example, CBP received a request from a Mexican police unit for small unmanned aircraft systems. After reviewing the unit's written request, CBP determined that the unit did not have a legitimate need for these systems to carry out its mission. In another example, a Mexican government entity requested X-ray machines under the Mérida Initiative. After reviewing the records of equipment previously provided to the entity under the Mérida Initiative, CBP personnel determined that State had already provided X-ray machines to the entity and directed the entity to use those machines. A request for assistance that does not fill a legitimate need could be an attempt by that entity to engage in fraud and hence is a potential fraud risk.

State and USAID officials said that once they assess the needs and design an activity to meet those needs, but before they award a contract for a Mérida project, they review a contractor's past performance on U.S. government contracts. State and USAID officials review past performance to help identify any potential fraud risks involving prospective contractors under the Mérida Initiative. State and USAID officials assess past performance by reviewing contractor evaluations in two U.S. government-wide databases: the Contract Performance Assessment Reporting System (CPARS) and the Federal Awardee Performance and

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Integrity Information System (FAPIS).<sup>53</sup> CPARS contains information entered by U.S. agencies on how contractors performed on prior U.S. government contracts. State and USAID officials at the embassy said they track contractor performance on Mérida projects and enter this information into CPARS, as required by federal regulations and State and USAID guidance. State and USAID officials also said they review contractors' past performance on U.S. government contracts recorded in FAPIS, as required by OMB guidance that has been codified in federal regulations.<sup>54</sup> FAPIS contains public information entered by U.S. agencies, as well as contractors, on how the parties performed on prior U.S. government contracts. FAPIS is distinct from CPARS because it contains publicly available information and allows contractors to enter information on how they performed. State and USAID officials said information in CPARS and FAPIS on poorly performing contractors can be a sign that these contractors may have previously attempted to engage in fraud on prior U.S. government contracts. As such, poor performance may indicate potential fraud risks involving these contractors.

After equipment has been delivered to Mexican government entities under Mérida project contracts, the State-INL staff at the embassy tracks delivered equipment through end-use monitoring (EUM) at post. Under EUM, the State-INL staff annually checks certain categories of equipment given to Mexican government entities under the Mérida Initiative to determine whether any of the equipment was misplaced, lost, or stolen.<sup>55</sup> The State-INL staff collaborates frequently with other agencies at the embassy, such as CBP and DEA, to collect and share information through EUM. Information on whether any equipment was misplaced, lost, or stolen by Mexican government entities can be used to help identify potential fraud risks under the Mérida Initiative, according to

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<sup>53</sup>According to USAID officials, for assistance awards (i.e., grants), another method that USAID uses to assist organizations in realizing Mérida objectives, there are no equivalents to CPARS and FAPIS. Instead, for grantees, USAID's agreement officer (AO) reviews terrorism and de-bar lists, such as the System for Award Management. For new awards to local organizations, the AO also conducts a Non-U.S. Organizations Pre-Award Survey for Cooperative Agreements or an Eligibility Checklist for Fixed Amount Awards.

<sup>54</sup>OMB guidance states that, prior to making a federal award, the awarding agency is required by 31 U.S.C. 3321 and 41 U.S.C. 2313 to review information available through any OMB-designated repositories of government-wide eligibility qualification or financial integrity information, such as FAPIS (2 C.F.R. § 200.205).

<sup>55</sup>According to State-INL Mexico City guidance, certain property purchased through a foreign assistance program is subject to EUM procedures, including any item valued at \$2,500 or greater, defense articles, and dual-use items, among others.

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State-INL officials at the embassy. During the annual EUM review process, equipment that is not in the correct location and accounted for could indicate potential fraud.

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### U.S. Agencies Have Practices That Can Help Share Information with One Another and with the Mexican Government on Vetting Results under the Mérida Initiative

According to State officials at Embassy Mexico City, TTS allows U.S. agencies at the embassy to help share Leahy vetting results for Mérida Initiative efforts. As previously discussed, TTS is an information technology data entry portal and data tracking system that was originally designed and developed by State-INL at the embassy. According to embassy officials, over time, the Embassy Mexico City vetting unit asked other nominating agencies at the embassy, such as DHS, DEA, and the Federal Bureau of Investigation, to use the same system for submitting nominees to the vetting unit. TTS tracks Mexican government personnel who have passed Leahy vetting in the past year, those who have been rejected, and those whose applications are pending or suspended. As such, by accessing information in TTS, U.S. agencies at the embassy are able to share and review the results of Leahy vetting conducted for other agencies at the embassy under the Mérida Initiative.

According to State officials at the embassy, State also has practices to help share information with Mexican authorities on the results of Leahy vetting under the Mérida Initiative. When nominated Mexican personnel scheduled to receive U.S. assistance under Mérida are rejected due to Leahy vetting, embassy officials contact the Mexican Foreign Ministry, in accordance with the legal requirement to inform the foreign government when assistance is withheld pursuant to Leahy vetting.<sup>56</sup> State officials said they also typically contact the Mexican government entity that originally submitted the names of the Mexican personnel for Leahy vetting. If a lower-ranking nominee is rejected, State usually asks the Mexican government entity to submit another name for Leahy vetting. If the new nominee passes Leahy vetting, that individual can participate in the U.S. assistance program. If a higher-ranking nominee in a leadership position with a Mexican government entity is rejected, State typically advises the entity that any units under that person's leadership are prohibited from receiving U.S. assistance under Mérida while that person remains in the unit. The State staff at the embassy then discusses with

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<sup>56</sup>The "duty to inform" requirement in the Leahy statute states that "in the event that funds are withheld from any unit pursuant to this section, the Secretary of State shall promptly inform the foreign government of the basis for such action and shall, to the maximum extent practicable, assist the foreign government in taking effective measures to bring the responsible members of the security forces to justice" (22 U.S.C. § 2378d(c)).

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the Mexican government entity the need for the person who failed Leahy vetting to be removed from any leadership positions.

In addition, State embassy officials said that on some occasions they have worked with Mexican government entities to allow for more opportunities for cleared individuals to receive future U.S. assistance under Mérida. For example, during visits with municipal, state, or federal Mexican government entities that work with U.S. agencies at the embassy, State officials often review the latest organizational charts for these entities. State officials note that sometimes Mexican personnel who previously failed Leahy vetting—and therefore were prohibited from participating in a U.S. assistance program under Mérida—subsequently left the Mexican government entity. State officials then coordinate with the entity to update State’s records on the personnel currently working for that entity. If a person who failed Leahy vetting was in a leadership position, establishing that this individual is no longer with the Mexican government entity can allow State to remove the entire unit’s prohibition on receiving U.S. assistance under Mérida.

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## Conclusions

State and USAID rely on contractors, grantees, other agencies, and international organizations to implement projects for their programs under the Mérida Initiative. Accordingly, oversight of these entities by State and USAID is critical to ensuring that State and USAID programs under the Mérida Initiative are managed for their associated fraud risks in order for them to achieve their objectives. Managing fraud risks, particularly those fraud risks associated with contractors and grantees, is a key oversight responsibility of U.S. agencies, including State and USAID. State and USAID are not meeting all of their fraud risk management responsibilities for implementing and overseeing their programs under the Mérida Initiative. Without completing required fraud risk assessments, requiring fraud awareness training, and developing and implementing effective antifraud strategies, State and USAID may be leaving their programs under the Mérida Initiative vulnerable to unnecessary fraud risks, with their staffs unable to properly prevent, detect, or respond to fraud risks. In addition, under U.S. law, State and USAID have a responsibility to ensure that recipients of U.S. foreign assistance under the Mérida Initiative are not involved in gross violations of human rights or narcotics trafficking. However, without additional risk assessment and response efforts—and in the absence of robust local vetting—Embassy Mexico City cannot ensure that U.S. assistance under the Mérida Initiative is not being provided to Mexican personnel in sensitive positions with human rights, drug tracking, or other criminal violations that could make them ineligible to receive U.S. foreign assistance.

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## Recommendations for Executive Action

We are making the following seven recommendations, four to State and three to USAID:

The Secretary of State should ensure that State-INL establishes a time frame for completing its fraud risk assessment for its programs under the Mérida Initiative. (Recommendation 1)

The Secretary of State should ensure that State-INL develops, documents, and implements an antifraud strategy for State-INL programs under the Mérida Initiative that adheres to leading practices in GAO's *A Framework for Managing Fraud Risks in Federal Programs*. (Recommendation 2)

The Secretary of State should ensure that State-INL updates its policies and guidance to require managers, employees, and stakeholders with responsibility for implementing and overseeing State programs under the Mérida Initiative to attend fraud awareness training upon hiring and then on a periodic basis. (Recommendation 3)

The Secretary of State should ensure that Embassy Mexico City assesses and responds to the risk that Mexican non-security personnel in sensitive positions with security concerns are participating in U.S.-funded programs under the Mérida Initiative. (Recommendation 4)

The Administrator of USAID should ensure that the USAID Bureau for Latin America and the Caribbean completes a fraud risk assessment for its program under the Mérida Initiative. (Recommendation 5)

The Administrator of USAID should ensure that the USAID Bureau for Latin America and the Caribbean develops, documents, and implements an antifraud strategy for USAID's program under the Mérida Initiative. (Recommendation 6)

The Administrator of USAID should ensure that the USAID Bureau for Latin America and the Caribbean updates its policies and guidance to require managers, employees, and stakeholders with responsibility for implementing and overseeing USAID's program under the Mérida Initiative to attend fraud awareness training upon hiring and then on a periodic basis. (Recommendation 7)

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## Agency Comments

We provided a draft of the sensitive report to State, USAID, DHS, DOJ, and the Department of Defense for review and comment. In their comments on the sensitive report, reproduced in appendixes II and III,

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State and USAID concurred with our recommendations. USAID stated that we underemphasized some steps the agency has taken to assess, mitigate, and prevent fraud. We are confident that we have accurately described USAID's reported actions, including examples of its fraud management policy and activities. State and DOJ also provided technical comments, which we incorporated as appropriate.

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As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the appropriate congressional committees, the Secretary of State, and the Acting USAID Administrator. In addition, the report will be 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) 512-2964 or [kenneyc@gao.gov](mailto:kenneyc@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 IV.



Chelsea Kenney  
Director, International Affairs and Trade

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*List of Requesters*

The Honorable Gary C. Peters  
Chairman  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Michael McCaul  
Ranking Member  
Committee on Foreign Affairs  
House of Representatives

The Honorable Joaquin Castro  
Chairman  
Subcommittee on International Development, International Organizations,  
and Global Corporate Social Impact  
Committee on Foreign Affairs  
House of Representatives

The Honorable Albio Sires  
Chairman  
Subcommittee on Western Hemisphere, Civilian Security, Migration, and  
International Economic Policy  
Committee on Foreign Affairs  
House of Representatives

The Honorable Ron Johnson  
United States Senate

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# Appendix I: Objectives, Scope, and Methodology

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This report examines (1) the extent to which the Department of State (State) and the United States Agency for International Development (USAID) have conducted fraud risk assessments for their programs under the Mérida Initiative; (2) the extent to which State and USAID have controls in place to prevent, detect, and respond to fraud for their programs under the Mérida Initiative; (3) the extent to which State has vetted recipients of U.S. assistance under the Mérida Initiative; and (4) the practices U.S. agencies have in place to share information on potential fraud risks and the results of vetting under the Mérida Initiative.

This report is a public version of a sensitive report that we issued in November 2020.<sup>1</sup> State deemed some of the information in our November report to be sensitive, which must be protected from public disclosure. Therefore, this report omits sensitive data and figures related to the results of vetting efforts. Although the information provided in this report is more limited, the report addresses the same objectives as the sensitive report and uses the same methodology.

The first two objectives of this report address State and USAID Mérida Initiative efforts to address fraud risk management in light of GAO's July 2015 *A Framework for Managing Fraud Risk in Federal Programs* (Fraud Risk Framework), which describes key components and leading practices for agencies to proactively and strategically manage fraud risks.<sup>2</sup> To address objectives 1 and 2, we reviewed relevant laws and regulations, such as the Fraud Reduction Data Analytics Act of 2015, the Payment Integrity Information Act of 2019, the Federal Managers Financial Integrity Act of 1982 (FMFIA), GAO's Fraud Risk Framework, and Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.<sup>3</sup> In addition, we reviewed State and USAID documents and guidance, such as the Department of State 2019 Agency Financial Report, the USAID 2019 Agency Financial Report, the State Foreign Operations Fiscal Year 2020 Congressional Budget Justification, and the State Foreign Operations

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<sup>1</sup>GAO, *U.S. Assistance to Mexico: State and USAID Should Strengthen Risk Management for Programs under the Mérida Initiative*, GAO-21-112SU (Washington, D.C.: Nov. 17, 2020).

<sup>2</sup>GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 28, 2015).

<sup>3</sup>Circular A-123, issued July 15, 2016, defines management responsibilities for enterprise risk management and internal controls. It also includes requirements on managing fraud risks in federal programs.

Fiscal Year 2021 Congressional Budget Justification, as well as the State *Foreign Affairs Manual* (FAM)<sup>4</sup> and the USAID Automated Directives System (ADS).<sup>5</sup> We also reviewed previous GAO reports on the Mérida Initiative, including *U.S. Assistance to Mexico: State and USAID Allocated over \$700 Million to Support Criminal Justice, Border Security, and Related Efforts from Fiscal Year 2014 through 2018* (GAO-19-647) and *U.S. Assistance to Mexico: State Department Could Improve Its Monitoring of Mérida Initiative Projects* (GAO-20-388). In addition, for both objectives, we interviewed State and USAID officials in Washington, D.C., and at Embassy Mexico City. These officials included representatives from the office of the Chief Financial Officer; procurement officials responsible for oversight of grants, contracts, interagency agreements, and local contracts used in programs under the Mérida Initiative; as well as program officials under the Mérida Initiative, among others.

For the first objective, we evaluated State and USAID efforts against leading practices in the Fraud Risk Framework for agencies to perform fraud risk assessments at the program level using basic five elements: (1) identify inherent fraud risk affecting the program; (2) assess the likelihood and impact of inherent fraud risks; (3) determine fraud risk tolerance; (4) examine the suitability of existing fraud controls and prioritize residual fraud risks; and (5) document the program's fraud risk profile. In addition, we requested information from State and USAID on the extent to which they performed efforts in regard to these five elements for their programs under the Mérida Initiative.

For the second objective, we identified relevant leading practices to prevent, detect, and respond to fraud listed in the Fraud Risk Framework. We then requested information from State and USAID officials on the extent to which State and USAID had these controls in place for their programs under the Mérida Initiative. As part of our efforts to collect information, we conducted interviews with State and USAID officials at Embassy Mexico City and at State and USAID headquarters with officials in each agency's office of the Chief Financial Officer; procurement officials responsible for oversight of grants, contracts, interagency agreements, and local contracts used in programs under the Mérida

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<sup>4</sup>The *Foreign Affairs Manual* and associated *Handbook* are a comprehensive and authoritative source for the organizational structures, policies, and procedures that govern the operations of State's Foreign Service.

<sup>5</sup>The USAID Automated Directives System (ADS) contains the organizations and functions of USAID, along with the policies and procedures that guide the agency's programs and operations.

Initiative; as well as program officials under the Mérida Initiative, among others. We also reviewed State and USAID documents, including the State FAM, USAID ADS, and State's and USAID's 2019 Agency Financial Reports, which include the mandated Fraud Reduction Reports, to determine the extent to which the agencies had controls in place to prevent, detect, and respond to fraud. We asked State and USAID officials for information on any cases of potential fraud submitted to their respective Office of Inspector General Hotlines involving State and USAID programs under the Mérida Initiative since January 1, 2017. We did not evaluate the effectiveness of individual fraud control activities we describe in the report.

For the third objective, to assess the extent to which State vets recipients of U.S. assistance under the Mérida Initiative, we reviewed State documentation in order to identify any policies or procedures for vetting Mexican security and non-security personnel participating in Mérida Initiative programs.<sup>6</sup> For example, we reviewed the Embassy Mexico City 2017 Leahy and Local Vetting Standard Operating Procedures to determine how Embassy Mexico City's vetting unit conducts Leahy and local vetting of Mexican security and non-security personnel scheduled to participate in Mérida Initiative programs. Likewise, we reviewed State guidance to diplomatic and consular posts worldwide on implementing the vetting requirements outlined in the implementing regulations for Section 487 of the Foreign Assistance Act of 1961, as amended (FAA). We also analyzed vetting data from Embassy Mexico City's Training Tracking System (TTS), which documented the types, time frames, and outcomes of all vetting efforts conducted by Embassy Mexico City's vetting unit during our scope. We interviewed knowledgeable agency officials, performed manual data tests, and developed a data reliability questionnaire and determined that these data were sufficiently reliable for our purposes in this report. Finally, we interviewed State and USAID officials at headquarters in Washington, D.C., as well as at Embassy Mexico City. For example, we spoke with Embassy Mexico City officials in order to determine how data were recorded in TTS to better understand how State ensures compliance with vetting requirements. In assessing the extent to which State vets recipients of U.S. assistance under the

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<sup>6</sup>According to State, security personnel are personnel who work in any organization or entity, such as police or military services, authorized by a state to use force, including, but not limited to, the power to search, detain, and arrest. Non-security personnel are personnel holding sensitive positions, including prosecutors, judges, crime scene technicians, experts, and other key officials who do not have the authority to search, arrest, detain, or carry a weapon.

Mérida Initiative, we compared State's actions to the vetting requirements outlined in agency policies and federal regulations.

For the fourth objective, to describe the practices that U.S. agencies have in place to share information on potential fraud risks and the results of vetting under the Mérida Initiative, we reviewed State and USAID documentation in order to identify such practices. For example, we reviewed documents such as the Embassy Mexico City 2017 Leahy and Local Vetting Standard Operating Procedures; the 2017 INL *End-Use Monitoring Standard Operating Procedures*; the *Foreign Affairs Handbook*; the OMB *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; as well as agency emails describing informal practices that U.S. agencies have followed to share information on potential fraud risks for programs under the Mérida Initiative. We also interviewed State, USAID, Department of Homeland Security (DHS), and other officials at Embassy Mexico City as well as State, USAID, DHS, Department of Justice, and Department of Defense officials at headquarters in Washington, D.C., to identify practices that State and USAID have in place to share information on potential fraud risks and the results of vetting under the Mérida Initiative.

The performance audit upon which this report is based was conducted from April 2019 to November 2020 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. We subsequently worked with State from November 2020 to February 2021 to prepare this version of the original sensitive report for public release. This public version was also prepared in accordance with these standards.

# Appendix II: Comments from the Department of State



United States Department of State  
*Comptroller*  
Washington, DC 20520

OCT 20 2020

Thomas Melito  
Managing Director  
International Affairs and Trade  
Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548-0001

Dear Mr. Melito:

We appreciate the opportunity to review your draft report, “U.S. ASSISTANCE TO MEXICO: State and USAID Should Strengthen Risk Management for Programs under the Merida Initiative” GAO Job Code 103468.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

Sincerely,

A handwritten signature in black ink, appearing to read 'William B. Davisson'.

William B. Davisson (Acting)

Enclosure:

As stated

cc: GAO – Chelsa Gurkin  
INL – Kirsten D. Madison  
OIG - Norman Brown

Department of State Comments on Draft GAO Report

**U.S. ASSISTANCE TO MEXICO: State and USAID Should strengthen Risk Management  
for Programs under the Merida Initiative**  
(GAO-21-112SU, GAO Code 103468)

Thank you for the opportunity to comment on the GAO draft report, "*U.S. Assistance To Mexico: State and USAID Should strengthen Risk Management for Programs under the Merida Initiative.*"

**Recommendation 1:** The Secretary of State should ensure that State-INL establishes a timeframe for completing its fraud risk assessment for its programs under the Merida initiative.

**Response (INL):** The Department agrees with this recommendation. INL is now undergoing the acquisition process to obtain contractor support for the Merida initiative program fraud risk assessment. We will provide a specific timeframe for completing the fraud risk assessment based upon the final acquisition award.

**Recommendation 2:** The Secretary of State should ensure that State-INL develops, documents, and implements an antifraud strategy for State-INL programs under the Merida Initiative that adhere to leading practices in GAO's a framework for managing fraud risks in federal programs.

**Response (INL):** The Department agrees with this recommendation. INL will develop, document, and implement an anti-fraud strategy for our programs under the Merida initiative. The anti-fraud strategy will incorporate leading practices identified in GAO's framework for managing fraud risks in federal programs.

**Recommendation 3:** The Secretary of State should ensure that State-INL updates its policies and guidance to require managers, employees, and stakeholders with responsibility for implementing and overseeing state programs under the Merida Initiative to attend fraud awareness training upon hiring and then on a periodic basis.

**Response (INL):** The Department agrees with this recommendation. INL will develop and implement a mandatory fraud awareness training program for current Merida initiative managers and employees, as well as new personnel upon hiring. The INL personnel will be required to complete fraud awareness training on an annual basis. INL will work with its stakeholders implementing and managing INL-funded Merida initiative programs to ensure their personnel take the INL fraud awareness training.

**Recommendation 4:** The Secretary of the State should ensure that Embassy Mexico City assesses and responds to the risk that Mexicans non-security personnel in sensitive positions with security concerns are participating in U.S. funded programs under Merida Initiative.

**Response (WHA):** The Department agrees with the recommendation. The Department is committed to ensuring its programs advance our strategic goals of a secure, prosperous, democratic hemisphere that embraces American values and leadership. The Department and

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**Appendix II: Comments from the Department  
of State**

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Embassy Mexico City will take the recommendation into consideration in reevaluating its practices for local vetting of non-security personnel.

# Appendix III: Comments from the United States Agency for International Development



Chelsa Gurkin  
Director, International Affairs and Trade  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20226

Re: U.S. Assistance to México: State and USAID Should Strengthen Risk Management for Programs under the Mérida Initiative (GAO-21-112SU)

Dear Ms. Gurkin:

I am pleased to provide the formal response of the U.S. Agency for International Development (USAID) to the draft report produced by the U.S. Government Accountability Office (GAO) titled, *U.S. Assistance to México: State and USAID Should Strengthen Risk Management for Programs under the Mérida Initiative* (GAO-21-112SU).

USAID is committed to preventing fraud and ensuring the effective spending of U.S. taxpayer dollars so our foreign-assistance programs achieve their intended purposes. For USAID's program under the Mérida Initiative, the GAO recommends that our Bureau for Latin America and the Caribbean (LAC) complete an assessment of fraud risk; develop, document, and implement an anti-fraud strategy; and require managers, employees, and stakeholders with responsibility for implementing and overseeing USAID-funded programs to attend fraud-awareness training upon hiring, and then on a periodic basis. USAID concurs with these recommendations.

However, while the GAO's recommendations focus on USAID's program under the Mérida Initiative, their scope extends beyond the work of a single country Mission. USAID's Office of the Chief Financial Officer (OCFO) in the Bureau for Management (M) and the LAC Bureau will support USAID's Mission in the United Mexican States to complete a fraud-risk assessment. USAID/México will work with M/CFO and the LAC Bureau to comply with the additional recommendations.

USAID is proud to be a leader among U.S. Government Departments and Agencies in addressing the complicated issue of risk. USAID was one of the first Agencies to implement an Enterprise Risk-Management (ERM) program, as outlined in [Office of Management and Budget Circular A-123](#). As the GAO acknowledges in its draft report, USAID's [Risk-Appetite Statement](#), published in 2018, affirms that USAID has a "zero-tolerance approach toward fraud, corruption, or violation of law that involve U.S. taxpayer funds." USAID has made important strides in complying with the leading practices established in the GAO's publication titled, *A Framework for Managing Fraud Risk in Federal Programs* (Fraud-Risk Framework). As documented in GAO-21-112SU, USAID is developing an Agency-wide fraud-risk plan, led by M/CFO, which will provide a framework for all USAID Missions to conduct fraud-risk assessments for all their programs.

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USAID shares the concerns of the GAO and Congress concerns regarding the particular challenges of combating corruption, impunity, human-rights abuses, drug trafficking, and other crimes in México that necessitate the work under the binational Mérida Initiative, while also mitigating the risk of fraud. USAID/México, which manages activities that contribute to the Mérida Initiative, exemplifies the Agency's careful efforts to mitigate risk and prevent fraud. The Mission adheres to USAID's policies for assessing internal and external risk, and proactively seeks related training for its staff.

In determining that USAID's practices do not align with the leading practices laid out by the Fraud-Risk Framework, GAO-21-112SU underemphasizes the proactive steps the Agency has taken to assess, mitigate, and prevent fraud. Further, in its discussion of training, the draft report does not acknowledge the fraud-awareness training USAID/México completed in 2018 with USAID's Office of the Inspector General. The resulting report leads the reader to believe that USAID/México did not address risk, when, in fact, the Mission not only routinely assessed risk, but also methodically applied the policies and procedures under the Agency's ERM program, and provided training to all its staff and implementing partners. Most recently, on September 2 and 9, 2020, USAID/México's Financial-Management Office held a mandatory, two-hour refresher training for Agreement Officer's Representatives and Contracting Officer's Representatives in the Mission (including those who are managing USAID's programs under the Mérida Initiative), one of the subjects of which was the prevention of fraud, waste, and abuse. USAID commits to continue improving our application of leading practices regarding fraud risk for our programs, including under the Mérida Initiative.

I am transmitting this letter and the enclosed comments from USAID for inclusion in the GAO's final report. Thank you for the opportunity to respond to the draft report, and for the courtesies extended by your staff while conducting this engagement. We appreciate the opportunity to participate in the complete and thorough evaluation of our support to the government and people of México through the Mérida Initiative.

Sincerely,

*Frederick M. Nutt*

Frederick M. Nutt *Oct. 14, 2020*  
Assistant Administrator  
Bureau for Management

Enclosure: a/s

**COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT ON  
THE DRAFT REPORT PRODUCED BY THE U.S. GOVERNMENT  
ACCOUNTABILITY OFFICE (GAO) TITLED, *U.S. Assistance to México: State and  
USAID Should Strengthen Risk Management for Programs under the Mérida Initiative*  
(GAO-21-112SU)**

The U.S. Agency for International Development (USAID) would like to thank the U.S. Government Accountability Office (GAO) for the opportunity to respond to this draft report. We appreciate the extensive work of the GAO's engagement team, and the specific findings that will help USAID achieve greater effectiveness in assessing and mitigating potential fraud risks.

USAID complies with relevant laws for the management of fraud risk, including the Federal Managers Financial Integrity Act (FMFIA) of 1982, as amended. The Agency also has made important strides in complying with the leading practices for managing fraud as laid out in the GAO's publication titled, *A Framework for Managing Fraud Risk in Federal Programs* (the "Fraud-Risk Framework"), as well as Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk-Management and Internal Control and Standards for Internal Control in the Federal Government* (the "Green Book"). For example, USAID has adopted the Enterprise Risk-Management (ERM) approach across the Agency. As noted in the GAO's report, USAID is in the process of developing an Agency-wide fraud-risk plan, led by the Office of the Chief Financial Officer (OCFO) within the Bureau for Management (M), which will respond to aspects of all three of the GAO's recommendations below.

USAID welcomes the opportunity to strengthen our efforts to prevent fraud in all our programs, including in the United Mexican States under the Mérida Initiative. However, while the GAO's recommendations target USAID's investments under the Mérida Initiative, their scope extends beyond the work of a single country Mission, and they have wider-reaching effects. As a result, the Agency's leadership is considering how to apply them beyond Latin America and the Caribbean.

**Recommendation:** The Administrator of USAID should ensure that the USAID Bureau for Latin America and the Caribbean completes a fraud-risk assessment for its program under the Mérida Initiative. (Recommendation 5)

**USAID's Response:** USAID concurs with this recommendation. In accordance with the GAO's recommendation and the Fraud-Risk Framework, M/CFO and the Bureau for Latin America and the Caribbean (LAC) will support USAID's Mission in México to complete a fraud-risk assessment for our programs under the Mérida Initiative. As the GAO acknowledged, USAID is developing an Agency fraud-risk plan, which will provide guidance for similar assessments of the risk of fraud across all our Missions.

In developing and implementing a fraud-risk assessment, USAID/México is well-positioned to build upon its existing efforts to identify, assess, and mitigate fraud risk under the Mérida Initiative, and to continue to be an effective steward of U.S. taxpayer resources. As documented in GAO-21-112SU, USAID uses a number of tools to combat fraud, including the Federal

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Managers' Financial Integrity Act (FMFIA); the Agency's Risk-Appetite Statement; fraud-awareness training; internal controls; pre-award consultation with Federal contracting databases, including the Contract Performance Assessment Reporting System (CPARS) and the Federal Awardee Performance and Integrity Information System (FAPIIS); pre-award surveys for local implementers; advice to implementers regarding reporting to the hotline maintained by the Office of the USAID Inspector General (OIG); audits and financial reviews; and site visits. Further, USAID proactively has addressed all fraud allegations not already handled by the OIG. In the section of GAO-21-112SU subtitled, "U.S. Agencies Have Practices That Can Help Them Share Information on Potential Fraud Risks under the Mérida Initiative," the GAO acknowledges that many of these practices, such as reviewing contractor evaluations in the CPARS and FAPIIS databases, can provide information on potential fraud risks; however, it neglects to include that analysis in the section subtitled, "USAID Has Not Conducted a Fraud Risk Assessment for its Mérida Initiative Program."

**Target Date:** 6/30/2021

**Recommendation:** The Administrator of USAID should ensure that the USAID Bureau for Latin America and the Caribbean develops, documents, and implements an anti-fraud strategy for USAID's program under the Mérida Initiative. (Recommendation 6)

**USAID's Response:** As described above, M/CFO is preparing an Agency plan on fraud risk informed by the GAO's Fraud-Risk Framework. This plan will provide guidance to help USAID's Bureaus and Missions develop regional and country-level anti-fraud strategies. Following the issuance of this Agency guidance, USAID's LAC Bureau will work with USAID/México to implement an anti-fraud strategy for USAID's program under the Mérida Initiative.

**Target Date:** 6/30/2021

**Recommendation:** The Administrator of USAID should ensure that the USAID Bureau for Latin America and the Caribbean updates its policies and guidance to require managers, employees, and stakeholders with responsibility for implementing and overseeing USAID's program under the Mérida Initiative to attend fraud-awareness training upon hiring and then on a periodic basis. (Recommendation 7)

**USAID's Response:** USAID welcomes this recommendation to ensure that our staff and partners have the training necessary to carry out our development mission and safeguard taxpayer dollars. Regarding USAID's programs under the Mérida Initiative, USAID/México has recognized the importance of anti-fraud training, even Agency policy has not required it universally, and proactively requested fraud awareness training from the Office of the USAID Inspector General (OIG). In 2018, the OIG administered training for all our staff in México City, and two additional training sessions for implementing partners in the North of México. More recently, on September 2 and 9, 2020, USAID/México's Financial-Management Office held a mandatory, two-hour refresher training for Agreement Officer's Representatives and Contracting Officer's Representatives in the Mission (including those who manage USAID's

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programs under the Mérida Initiative), one of the subjects of which was the prevention of fraud, waste, and abuse. In sum, managers, employees, and stakeholders with responsibility for implementing and overseeing USAID's programs that support the Mérida Initiative already have attended periodic fraud-awareness training, and we will continue to require them to continue to do so.

At an Agency level, on September 30, 2020, USAID's Bureau for Policy, Planning, and Learning scheduled a fraud-awareness training with the OIG for implementing partners, and, on October 6 and 9, 2020, it held similar fraud-awareness training for USAID staff. In addition, M/CFO is developing a holistic, five-day ERM class (which will cover internal controls and fraud risk) to follow our existing ERM 101 course. The fraud-risk component will be a full one-day session. USAID's LAC Bureau will encourage all its staff to attend these trainings.

To comply further with the spirit of the GAO's recommendation, USAID's LAC Bureau plans to work with M/CFO to adapt USAID/México's Spanish-language anti-fraud curriculum to develop a required fraud-awareness training for the region for both USAID's staff and stakeholders. The Bureau will require its staff to complete fraud-awareness training upon hiring, and periodically thereafter. It will also work with our Missions to require our implementing partners in México to attend fraud-risk training.

**Target Date: 6/30/2021**

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# Appendix IV: GAO Contact and Staff Acknowledgments

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## GAO Contact

Chelsa Kenney, (202) 512-2964 or [kenneyc@gao.gov](mailto:kenneyc@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Godwin Agbara (Assistant Director), Ian Ferguson (Analyst in Charge), Jeff Isaacs, Owen Starlin, Joseph Hackett, William Johnson, Debbie Chung, Chris Keblitis, Martin De Alteriis, Ashley Alley, Latesha Love, and Tonita Gillich made key contributions to this report.

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U.S. Government Accountability Office, 441 G Street NW, Room 7125,  
Washington, DC 20548

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Chuck Young, Managing Director, [youngc1@gao.gov](mailto:youngc1@gao.gov), (202) 512-4800  
U.S. Government Accountability Office, 441 G Street NW, Room 7149  
Washington, DC 20548

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## Strategic Planning and External Liaison

Stephen J. Sanford, Acting Managing Director, [spel@gao.gov](mailto:spel@gao.gov), (202) 512-4707  
U.S. Government Accountability Office, 441 G Street NW, Room 7814,  
Washington, DC 20548

