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March 2015

# INTERNATIONAL CASH-BASED FOOD ASSISTANCE

USAID Has  
Developed Processes  
for Initial Project  
Approval but Should  
Strengthen Financial  
Oversight

# GAO Highlights

Highlights of [GAO-15-328](#), a report to the Chairman, Committee on Foreign Relations, U.S. Senate

## Why GAO Did This Study

For over 60 years, the United States has provided assistance to food-insecure countries primarily in the form of food commodities procured in the United States and transported overseas. In recent years, the United States has joined other major donors in increasingly providing food assistance in the form of cash or vouchers. In fiscal year 2014, U.S.-funded cash and voucher projects in 28 countries totaled about \$410 million, the majority of which was for the Syria crisis, making the United States the largest single donor of cash-based food assistance. GAO was asked to review USAID's use of cash-based food assistance. In this report, GAO (1) reviews USAID's processes for awarding and modifying cash-based food assistance projects and (2) assesses the extent to which USAID and its implementing partners have implemented financial controls to help ensure appropriate oversight of such projects. GAO analyzed program data and documents for selected projects in Jordan, Kenya, Niger, and Somalia; interviewed relevant officials; and conducted fieldwork in Jordan, Kenya, and Niger.

## What GAO Recommends

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

View [GAO-15-328](#). For more information, contact Thomas Melito at (202) 512-9601 or [mellitot@gao.gov](mailto:mellitot@gao.gov).

March 2015

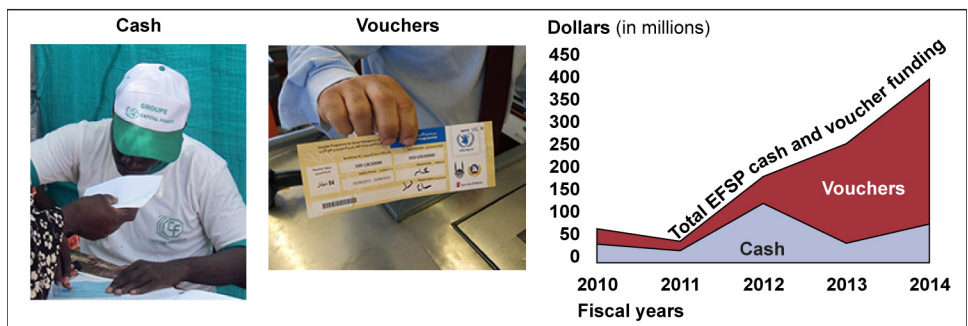
# INTERNATIONAL CASH-BASED FOOD ASSISTANCE

## USAID Has Developed Processes for Initial Project Approval but Should Strengthen Financial Oversight

### What GAO Found

The U.S. Agency for International Development (USAID) awards new cash-based food assistance grants under its Emergency Food Security Program (EFSP) through a competitive proposal review or an expedited noncompetitive process; however, USAID lacks formal internal guidance for modifying awards. In its review of 22 grant awards, GAO found that USAID made 13 through its competitive process, 7 through an abbreviated noncompetitive review, and 2 under authorities allowing an expedited emergency response. According to USAID, the agency follows a similar process for cost modification requests. Partners may propose cost or no-cost modifications for a variety of reasons, such as an increase in the number of beneficiaries or changing market conditions affecting food prices. In a review of 13 grant awards that had been modified, GAO found that 8 had cost modifications resulting in funding for all 13 awards increasing from about \$91 million to \$626 million. According to USAID, draft procedures for modifying awards are under review and will be incorporated into its guidance, but it could not provide a time frame. Until USAID institutes formal guidance, it cannot hold its staff and implementing partners accountable for taking all necessary steps to justify and document the modification of awards. GAO also found that though USAID requires partners to monitor market conditions—a key factor that may trigger an award modification—it does not provide guidance on when and how to respond to changing market conditions.

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



Source: GAO analysis of USAID data. | GAO-15-328

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

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## Abbreviations

AOR	Agreement Officer Representative
ADS	Automated Directives System
APS	Annual Program Statement
CBO	Country Backstop Officer
CFA	la Communauté financière d'Afrique ("African Financial Community")
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DG ECHO	Directorate General for Humanitarian Aid and Civil Protection
EFSP	Emergency Food Security Program
FAO	Food and Agriculture Organization
FFP	Office of Food for Peace
IDA	International Disaster Assistance
ISO	International Organization for Standardization
LRP	local and regional procurement
NGO	nongovernmental organization
OCO	Overseas Contingency Operations
OIG	Office of Inspector General
PIO	public international organization
SNAP	Supplemental Nutrition Assistance Program
State	U.S. Department of State
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
UNRWA	UN Relief and Works Agency for Palestinian Refugees in the Near East
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
VAM	Vulnerability Analysis and Mapping
WFP	World Food Programme

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March 26, 2015

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

Dear Mr. Chairman:

For over 60 years, the United States—the largest single donor of international food assistance—has provided assistance to food-insecure countries primarily in the form of food commodities purchased in the United States and transported overseas to be donated as in-kind aid. In recent years, however, the United States has joined other major donors in increasingly providing food assistance in the form of cash or vouchers distributed to food-insecure individuals so that they can purchase food in their local markets. The administration’s proposals for reforming U.S. food aid have called for a more expansive use of cash-based assistance.<sup>1</sup> To provide food assistance to address humanitarian crises around the world, the U.S. Agency for International Development (USAID), through its Office of Food for Peace (FFP), currently implements a cash-based program—the Emergency Food Security Program (EFSP)—with funding from the International Disaster Assistance account,<sup>2</sup> which in fiscal year 2014 was about \$410 million and totaled about \$991 million in fiscal years 2010 through 2014 for its targeted cash transfer and food voucher

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<sup>1</sup>Cash-based food assistance is generally for food purchased in the affected country or region through local and regional procurement (LRP), cash, or vouchers. We discussed LRP in a previous report, GAO, *International Food Assistance: Local and Regional Procurement Can Enhance the Efficiency of U.S. Food Aid, but Challenges May Constrain Its Implementation*, [GAO-09-570](#) (Washington, D.C.: May 29, 2009). In this report, cash-based food assistance refers to interventions to improve food security through providing beneficiaries with cash or vouchers that can be used to purchase food. We did not include LRP in this report. In a separate review, we are examining conditional food aid, which may involve vouchers given to beneficiaries. We plan to issue a report on that subject in late spring 2015.

<sup>2</sup>The International Disaster Assistance (IDA) account funds programs authorized by Chapter 9 of the Foreign Assistance Act of 1961, as amended (22 U.S.C. §491 *et seq.*), and receives appropriations pursuant to annual appropriations acts for Foreign Operations. Appropriations for fiscal years 2013 and 2014 included amounts designated by Congress for Overseas Contingency Operations (OCO) for the purpose of addressing humanitarian crises, including the Syria crisis.

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programs.<sup>3</sup> In addition, FFP manages the majority of U.S. international food assistance—primarily in-kind food aid commodities—authorized by Title II of the Food for Peace Act, which in fiscal year 2015 totaled about \$1.47 billion.<sup>4</sup> According to USAID, it uses cash-based food assistance when in-kind food aid cannot arrive in time to respond to an emergency and when food assistance delivered through cash transfers or voucher programs may be more appropriate than U.S. in-kind food aid because of local market conditions and beneficiaries’ preferences, among other factors.<sup>5</sup> The administration’s fiscal year 2016 budget proposed food assistance reforms that, according to USAID, provide certain flexibilities that would enable the U.S. government to reach up to 2 million more people in food crises around the world with the same level of resources authorized through both EFSP and Title II. Specifically, the administration proposed the authority to use up to 25 percent of Title II resources for flexible cash-based interventions, which according to USAID, have proven critical to effectively responding to complex and logistically challenging emergencies such as the humanitarian crises in Syria

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<sup>3</sup>EFSP also funds local and regional procurement projects, which totaled \$1.2 billion in fiscal years 2010 through 2014. In addition, the U.S. Department of State’s (State) Bureau of Population, Refugees, and Migration provides U.S. contributions to several multilateral organizations including the Office of the United Nations High Commissioner for Refugees (UNHCR), the UN Relief and Works Agency for Palestinian Refugees in the Near East (UNRWA), and the UN World Food Programme (WFP), among others. State allocates funding from the Emergency Refugee and Migration Assistance and the Migration and Refugee Assistance budget accounts. For example, over the past 4 years, the bureau supported cash-based food assistance activities as follows: in fiscal years 2010 and 2011, \$5 million and \$7.7 million, respectively, to WFP for in-kind food and vouchers to Iraqi refugees living in Syria; and in fiscal year 2014, \$1.2 million to WFP for repatriating refugees from the Republic of the Congo.

<sup>4</sup>Title II is reauthorized through the Farm Bill approximately every 5 years and is funded through the U.S. Department of Agriculture budget. Section 3001 of Pub. L. No. 110-246, the Food, Conservation, and Energy Act of 2008, changed the title of the underlying legislation from the Agriculture Trade Development Assistance Act of 1954, also known as P.L. 480, to the Food for Peace Act. Title II of the Food for Peace Act, administered by USAID, addresses donation of agricultural commodities for humanitarian purposes. (Other U.S. food assistance programs are administered through the U.S. Department of Agriculture, including Food for Peace Title I, Food for Progress, and the McGovern-Dole International Food for Education and Child Nutrition programs.) In this report, we refer to the Food for Peace Act as Title II.

<sup>5</sup>In this report, the term “recipients” refers to those who come into direct contact with food assistance program interventions, and the term “beneficiaries” refers to those who benefit directly and indirectly from the goods and services provided. For example, the head of household might be the recipient, but the dependent family members are considered beneficiaries.

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because of the ongoing civil war there and in the Philippines because of the aftermath of Typhoon Haiyan. According to the administration, this proposal and other reforms aim to provide a more agile and modern approach to U.S. food assistance, combining the continued purchase of food aid commodities procured in the United States with the flexibility of cash-based assistance.

You asked us to review USAID's use of cash-based food assistance interventions as part of our continuing audit work on international food assistance. In this report, we (1) review USAID's processes for awarding and modifying cash-based food assistance projects and (2) assess the extent to which USAID and its implementing partners have implemented financial controls to help ensure appropriate oversight of such projects.<sup>6</sup>

To address these objectives, we analyzed EFSP data and reviewed program documents provided by USAID and its implementing partners, including the United Nations (UN) Food and Agriculture Organization (FAO), the UN World Food Programme (WFP), and selected nongovernmental organizations (NGO).<sup>7</sup> To review USAID's processes for awarding and modifying cash-based food assistance projects, we reviewed USAID's program guidance and relevant directives, as well as grant proposals and agreements.<sup>8</sup> Given that EFSP cash-based projects are to monitor market conditions to detect significant changes that may warrant modifications to the project, we also analyzed price data for key staple commodities in selected markets in our case study countries of Jordan, Kenya, Niger, and Somalia. To assess the extent to which USAID and the implementing partners implemented financial controls, we reviewed documentation and reports related to the cash and voucher distributions in our case study countries, and assessed the controls they

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<sup>6</sup>To fully respond to this request, we will address program monitoring and evaluation of cash-based food assistance interventions in a follow-on review.

<sup>7</sup>For purposes of this report, we use the term "implementing partners" to refer to entities such as WFP, FAO, and NGOs that are awarded U.S. government grants to carry out food assistance activities overseas. WFP and FAO may contract with international and local NGOs as subawardees. These NGOs include international humanitarian aid organizations such as Catholic Relief Services, Mercy Corps, Save the Children, World Vision; international and local private voluntary organizations; and other entities.

<sup>8</sup>This review focused on cash and voucher interventions funded under EFSP. We did not include LRP funded through EFSP, which some consider to be a form of cash-based food assistance.



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have designed and implemented against their policies, procedures, guidance, and federal internal control standards and international principles and guidelines.<sup>9</sup> In Washington, D.C., we interviewed officials from the Department of State (State), the U.S. Department of Agriculture (USDA), and USAID. We also met with officials representing NGOs that were awarded USAID EFSP grants to serve as implementing partners in carrying out U.S. food assistance programs overseas or were WFP subawardees for USAID grants awarded to WFP (and in some cases were both). In Rome, we met with officials from the U.S. Mission to the United Nations, FAO, and WFP. We also met with the UN permanent representatives for three major donors—Canada, the European Union, and the United Kingdom. In addition, we selected for review four case study countries whose inhabitants or refugees were beneficiaries of EFSP grants (Jordan, Kenya, Niger, and Somalia) and conducted fieldwork in three countries (Jordan for Syrian refugees, Kenya, and Niger) where we met with officials from the U.S. missions, implementing partners, vendors, financial institutions, and beneficiaries, among others.<sup>10</sup> Our case study selection was based on several criteria, including size of EFSP funding, types of cash and voucher projects, and implementing partners.

We conducted this performance audit from February 2014 to March 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix I provides a detailed discussion of our objectives, scope, and methodology.

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## Background

USAID's cash-based food assistance program started in 2008 under the management of its Office of Foreign Disaster Assistance. In June 2010, management of the program was transferred to FFP. In 2014, FFP

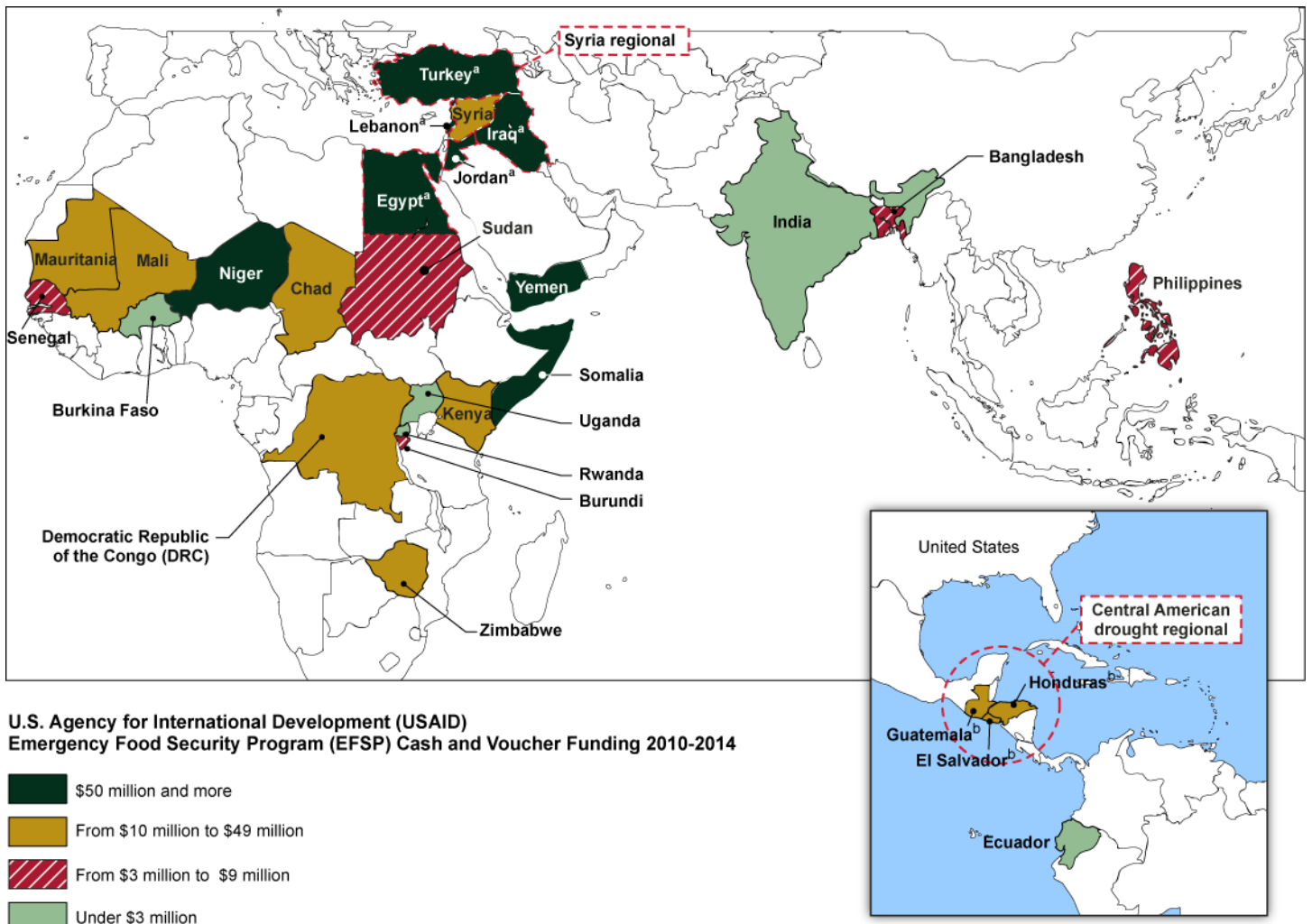
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<sup>9</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999); Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (September 1992) and *Internal Control—Integrated Framework* (May 2013); and International Organization for Standardization, *ISO 31000, Risk Management—Principles and Guidelines* (2009).

<sup>10</sup>We interviewed staff from USAID and its implementing partners in Nairobi who had responsibility for oversight of the EFSP-funded operations in both Kenya and Somalia.

provided funding for cash and voucher programs in 28 countries as shown on the map in figure 1. EFSP projects are implemented in some countries—for example, Somalia, Syria, and Yemen—with areas considered high risk based on security risk scores that the United Nations uses to assess the overall level of threat or danger.

**Figure 1: Countries in Which USAID Funded Cash and Voucher Projects through Emergency Food Security Program Funding in Fiscal Year 2014 and Their Levels of Such Funding for Fiscal Years 2010 through 2014**



Source: GAO analysis of USAID data; Map Resources (map). | GAO-15-328

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Notes: Funding from the International Disaster Assistance (IDA) account includes amounts designated by Congress for Overseas Contingency Operations (OCO). Specifically, according to data from USAID, the targeted food voucher program in Syria was funded with IDA, including amounts designated for OCO, in 2013 and was entirely funded with IDA funds designated for OCO in 2014.

<sup>a</sup>The Syria regional award includes countries in the region that are hosting Syrian refugees—namely, Egypt, Iraq, Jordan, Lebanon, and Turkey.

<sup>b</sup>A \$10 million EFSP grant was for assistance responding to the Central America drought in El Salvador, Guatemala, and Honduras.

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## U.S. Cash-Based Food Assistance Has Significantly Increased Since 2010, and the Majority of Aid Went to the Syria Region

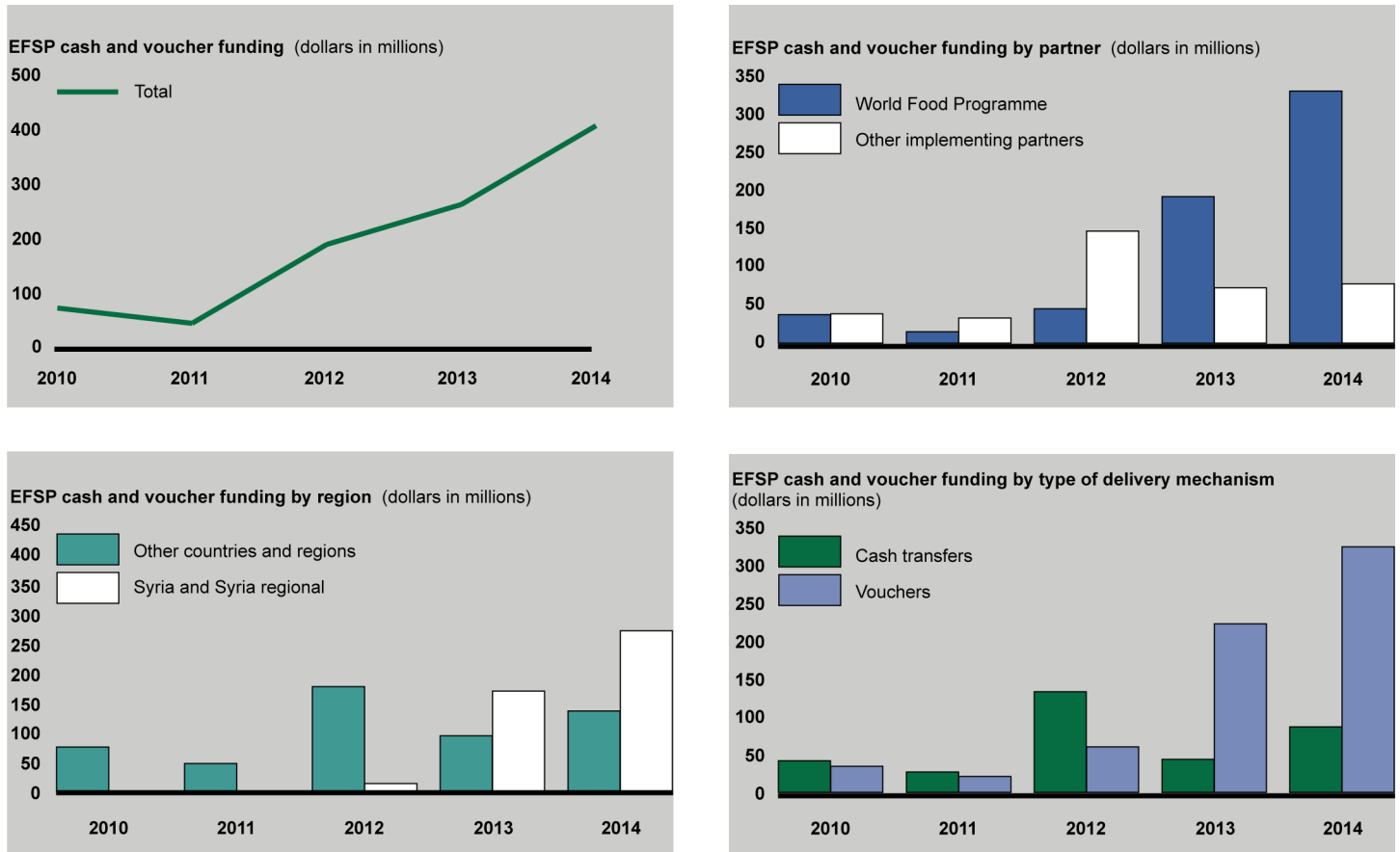
In fiscal years 2010 through 2014, USAID awarded EFSP grants totaling about \$991 million for cash-based food assistance. The following observations are shown in figure 2:

- Obligations for cash-based EFSP projects grew from \$75.8 million in fiscal year 2010 to \$409.5 million in fiscal year 2014—an increase of 440 percent over the 5-year period, the majority of which was in response to a large and sustained humanitarian crisis in Syria.<sup>11</sup>
- Of the \$409.5 million awarded by EFSP in fiscal year 2014, \$272.7 million (67 percent) was for the humanitarian crisis in Syria, including cash-based food assistance to Syrian refugees in the Syria region.
- WFP was the implementing partner for \$331.6 million (81 percent) of total EFSP obligations in fiscal year 2014, while NGOs and others were implementing partners for the remaining \$77.8 million (19 percent).
- Of the \$991 million in total grant funding obligated in fiscal years 2010 to 2014, \$330.6 million was for cash interventions and \$660.3 million for voucher interventions. The majority of the funding—\$621.7 million (or 63 percent)—was awarded to WFP, and \$369.3 million (or 37 percent) was awarded to other implementing partners.

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<sup>11</sup>These obligations included funds designated for OCO. The targeted food voucher program in Syria was funded with IDA, including amounts designated for OCO, in 2013 and was entirely funded with IDA funds designated for OCO in 2014, according to data from USAID. IDA obligations for cash transfer and voucher programs, including amounts designated for OCO, increased from \$75.8 million in fiscal year 2010 to \$136.9 million in fiscal year 2014.

**Figure 2: U.S. Agency for International Development (USAID) Emergency Food Security Program Cash-Based Grants in Fiscal Years 2010 through 2014—Total Funding by Year, Region, Implementing Partner, and Cash Transfer versus Voucher Projects**



EFSP Emergency Food Security Program  
 Source: GAO analysis of USAID data. | GAO-15-328

Note: Funding from the International Disaster Assistance (IDA) account includes amounts designated by Congress for Overseas Contingency Operations (OCO). The targeted food voucher program in Syria was funded with IDA, including amounts designated for OCO, in 2013 and was entirely funded with IDA funds designated for OCO in 2014, according to data from USAID.

## International Donors Have Recognized the Benefits of Cash-Based Food Assistance and Have Increasingly Supported It

Donors have recognized the potential benefits of cash-based assistance under certain conditions and have increased funding to support it. According to donor representatives, implementing partners, and academics, cash-based assistance can improve the food security of recipients in a more efficient manner than in-kind food aid. Targeted cash transfers or food vouchers can be distributed more quickly than food delivery, which requires procuring and shipping food commodities, a complex and lengthy process. The costs associated with cash-based

assistance might also be less than the cost of shipping food commodities from the United States to recipient countries. Additionally, according to some donor representatives and implementing partners, cash-based assistance can have the benefit of providing recipients with flexibility and dignity to choose the type of food they want to eat (see fig. 3). Furthermore, by increasing demand for food commodities through cash or vouchers, cash-based assistance can stimulate the local economy and support local producers and merchants.

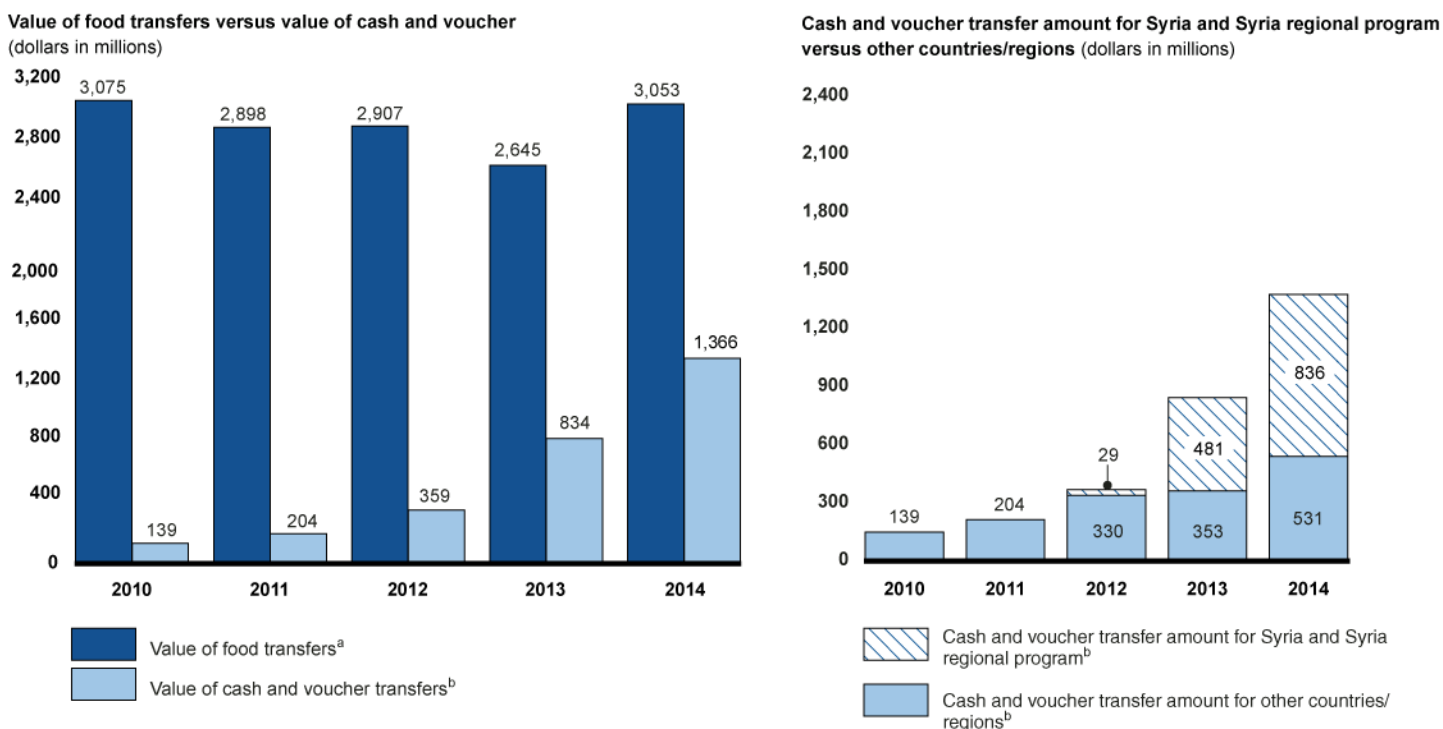
**Figure 3: Inside a Supermarket in Jordan, Whose Customers Included Syrian Refugees Receiving Cash-Based Food Assistance**



Source: GAO. | GAO-15-328

WFP has seen its cash and voucher programs significantly increase from \$139 million in 2010 to \$1.37 billion in 2014—with the largest increases occurring between 2012 and 2014 owing primarily to the civil war in Syria.<sup>12</sup> In 2014, funding for cash and voucher programs for the Syria regional emergency operation accounted for \$836 million or about 61 percent of WFP’s overall funding for cash and voucher programs (see fig. 4). However, other cash and voucher programs, excluding those for Syria, also experienced substantial increases over the same years, from \$139 million in 2010 to \$531 million in 2014.

**Figure 4: World Food Programme (WFP) Funding for Cash-Based Food Assistance, 2010 through 2014**



Source: GAO analysis of World Food Programme data. | GAO-15-328

Notes: For the chart on the right, the sum of cash and voucher transfer amount to Syria and Syria regional program and cash and voucher transfer amount to other countries/regions may be slightly different from the total value of cash and voucher transfers shown in the chart on the left due to rounding.

<sup>12</sup>The reported numbers on cash-based assistance in this paragraph reflect the amount of benefits for recipients, not the entire program costs, such as fees paid to banks and vendors, as well as the implementing partners’ operating costs.

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<sup>a</sup>“Value of food transfers” refers to the approved value of food commodities for distribution; these amounts do not include program costs and operating costs, according to WFP.

<sup>b</sup>Cash and voucher transfer amounts reflect the approved value of the cash and vouchers to be received by beneficiaries. These amounts do not include program costs, such as fees paid to banks and vendors, and other operating costs. WFP informed us that the related costs for cash and voucher, including delivery and other charges, amounted to \$127 million in 2014. Direct support costs are not calculated based on the transfer modality used, and are thus not included, according to WFP.

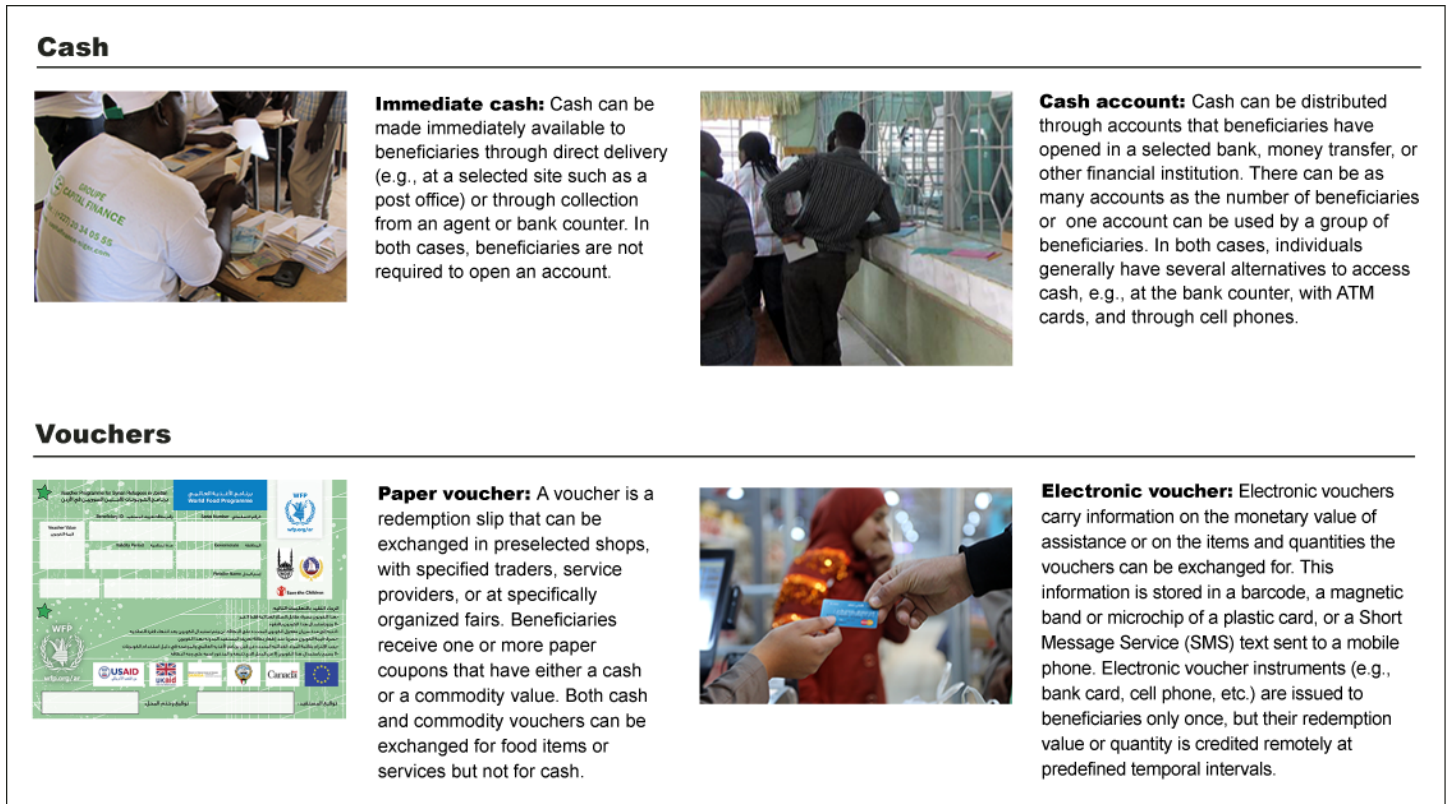
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## USAID’s Implementing Partners Use a Range of Mechanisms to Deliver Cash-Based Food Assistance

To deliver cash-based food assistance, USAID’s implementing partners employ a variety of mechanisms ranging from direct distribution of cash in envelopes to the use of information technologies such as cell phones and smart cards to redeem electronic vouchers or access accounts established at banks or other financial institutions. These assistance delivery mechanisms can be grouped into four types—two cash transfer mechanisms that provide money to targeted households with no restrictions on how or where the money is to be used, and two voucher-based mechanisms that entitle the holder to buy goods or services up to the cash value written on the voucher, typically for the purchase of approved items from participating vendors (see fig. 5). The cash and voucher transfers can be either (1) conditional transfers, where certain requirements are imposed on beneficiaries such as their participation in community work programs or attending training or going to school; or (2) unconditional transfers, whereby no requirements on beneficiaries are made, and the assumption is that beneficiaries will use the cash or vouchers to obtain food based on a household assessment of food access and availability. The value of cash and voucher transfers is generally based on a formula that attempts to bridge the gap between people’s food needs and their capacity to cover them.



**Figure 5: Types of Cash and Voucher Mechanisms Used to Deliver Cash-Based Food Assistance**



Source: GAO analysis of data from the U.S. Agency for International Development and the United Nations World Food Programme. | GAO-15-328

## Financial Oversight for Cash-Based Food Assistance Entails Assessing Risks and Implementing Control Activities

Financial oversight in cash-based food assistance programs includes managing program funds to ensure they are spent in accordance with grant agreements by, among other things, assessing financial risks and implementing controls to mitigate those risks, including controls to prevent theft and diversion of cash, counterfeiting of vouchers, and losses. In recent years, for example, implementing partners have been increasingly piloting the use of technology that they deem to have the additional benefit of mitigating some potential risks by better tracking beneficiaries and their purchases (see fig. 6). *Standards for Internal Control in the*



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*Federal Government*<sup>13</sup> provides the overall framework for establishing and maintaining internal control in federal programs. In addition, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) has issued an internal control framework that, according to COSO, has gained broad acceptance and is widely used around the world.<sup>14</sup> Both frameworks include the five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Internal control generally serves as a first line of defense in safeguarding assets, such as cash and vouchers.<sup>15</sup> In implementing internal control standards, management is responsible for developing the detailed policies, procedures, and practices to fit the entity's operations and to ensure they are built into and are an integral part of operations.

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<sup>13</sup>[GAO/AIMD-00-21.3.1](#). These internal control standards were revised in September 2014, and the revisions will become effective for fiscal year 2016.

<sup>14</sup>Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (1992). COSO was formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent, private sector initiative that studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for public companies and their independent auditors; the U.S. Securities and Exchange Commission and other regulators; and educational institutions. In 1992, COSO issued *Internal Control—Integrated Framework* to help businesses and other entities assess and enhance their internal control. Since that time, COSO's internal control framework has been recognized by regulatory standards setters and others as a comprehensive framework for evaluating internal control, including internal control over financial reporting. COSO updated its framework in May 2013 to enhance and clarify the framework's use and application.

<sup>15</sup>In 2004, COSO issued *Enterprise Risk Management—Integrated Framework* to help entities better deal with risk in achieving their objectives. It defines enterprise risk management as "a process, effected by an entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

**Figure 6: Use of Technology as a Control Mechanism in Delivery of Cash-Based Food Assistance**



Implementing partners, such as the World Food Programme (WFP) and nongovernmental organizations, are increasingly using advanced technology as an additional control measure in delivering assistance. For example, in 2013, an implementing partner and a global financial services company piloted the use of mobile vouchers with smartphone applications. E-vouchers can be cash or commodity vouchers and are transmitted to beneficiaries via mobile phone or smartcards, and are redeemed using mobile phones, computers, or point-of-sale (POS) devices. As shown in the photo, a POS device operated by a vendor is used to accept electronic vouchers and transmit transaction information

to a central database, with the beneficiary's identity verified using biometrics technology (fingerprint). WFP is using such a device for some of its cash-based food assistance programs, which has had the additional benefit of better tracking the commodities that beneficiaries are redeeming with their e-vouchers.

In addition, WFP is exploring the further use of biometrics technology (iris scanning) for the delivery of food assistance, possibly in conjunction with other entities that also are delivering other humanitarian assistance. For example, in Jordan, as an alternative to automated teller machine (ATM) cards, which can be used by multiple partners, the United Nations High Commissioner for Refugees is using ATMs with iris scanning to deliver humanitarian assistance to Syrian refugees.

Source: GAO. | GAO-15-328

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## USAID Has Developed Processes for Awarding EFSP Funds, but It Lacks Guidance for Staff on Modifying Awards and for Partners on Responding to Changing Market Conditions

USAID has developed processes for awarding cash-based food assistance grants;<sup>16</sup> however, it lacks formal internal guidance for its process to approve award modifications and provides no guidance for partners on responding to changing market conditions that might warrant an award modification. USAID awards new cash-based food assistance grants through either a competitive proposal review or an expedited noncompetitive process. We reviewed 22 proposals for new cash-based food assistance projects that were awarded and active as of June 1, 2014; we found that USAID made 13 of these awards through its competitive process, 7 through an abbreviated noncompetitive review, and 2 under authorities allowing an expedited emergency response. According to USAID officials, USAID follows a similar process in reviewing requests to modify ongoing awards, which implementing partners may propose for a variety of reasons, such as an increase in the number of beneficiaries within areas covered by an award or a delay in completing cash distributions. For our four case study countries, we reviewed 13 grant agreements made from January 2012 to June 2014 that had 41 modifications during that period, including 20 cost modifications that resulted in the total funding amount for the 13 grants increasing from about \$91 million to about \$626 million, which is about a 591 percent increase. According to USAID, its draft internal guidance for modifying awards is under review and will be incorporated into formal guidance in the future, but it could not provide a time frame for completing that process. In the absence of formal guidance on that process, USAID cannot hold its staff and its partners accountable for taking all necessary steps to justify and document the modification of awards. Additionally, we found that although USAID requires that partners implementing cash-based food assistance monitor market conditions, USAID does not provide clear guidance about how to respond when market conditions change—for example, when and how partners might adjust levels of assistance that beneficiaries receive. Without such guidance, USAID runs

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<sup>16</sup>See U.S. Agency for International Development, Bureau for Democracy, Conflict, and Humanitarian Assistance, Office of Food for Peace, *Annual Program Statement for International Emergency Food Assistance*, Opportunity Number APS-FFP-13-000001 available at <http://www.usaid.gov/sites/default/files/documents/1866/FY13%20USAID%20APS-FFP-13-000001.pdf>. USAID has published a draft annual program statement for fiscal year 2015 that is available at <http://www.usaid.gov/sites/default/files/documents/1866/Draft%20FFP%20APS%20for%20Public%20Comment.pdf>.

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the risk of beneficiaries' benefits being eroded by price increases or, if prices decrease, of partners' using scarce project funding inefficiently.

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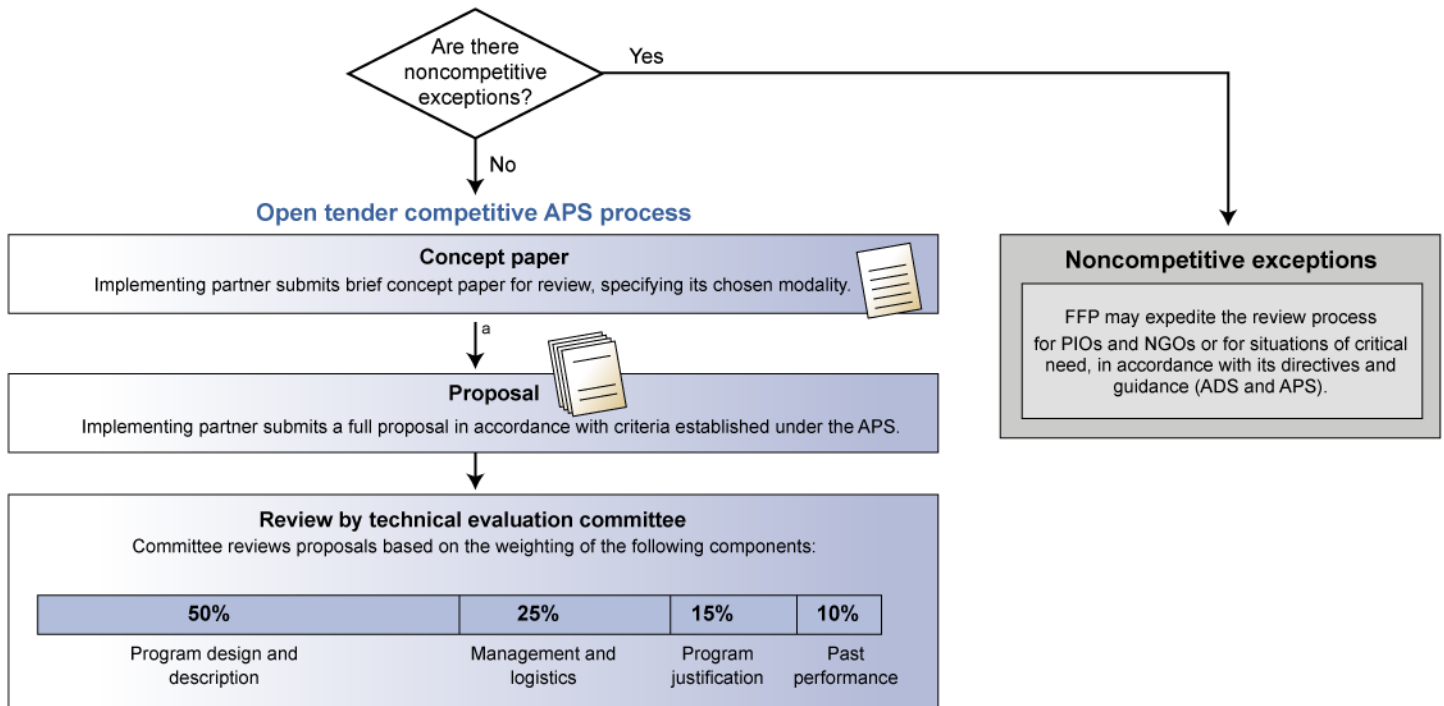
## USAID's Process for Awarding New Cash-Based Food Assistance Projects Was Consistent with Its Policies and Procedures

### USAID Program Guidance Outlines the EFSP Competitive Proposal Review Process and Noncompetitive Exceptions

USAID outlines its process for reviewing and deciding to fund proposals for cash-based food assistance projects in the Annual Program Statement (APS) for International Emergency Food Assistance (see fig. 7). According to USAID, the APS functions as guidance on cash-based programming by describing design and evaluation criteria for selecting project proposals and explaining the basic steps in the proposal review process. The APS also serves as a primary source of information for prospective applicants that apply for emergency food assistance awards using EFSP resources. While Title II in-kind food aid resources represent the majority of USAID's emergency food assistance funding, USAID's policy is that EFSP resources may be used when one or more of the following conditions apply:

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

**Figure 7: Process Established by U.S. Agency for International Development (USAID) for Reviewing Cash-Based Food Assistance Project Proposals**



- ADS** Automated Directives System
- APS** Annual Program Statement
- FFP** Food for Peace
- NGO** nongovernmental organizations
- PIO** public international organizations

Source: GAO analysis of USAID documents. | GAO-15-328

<sup>a</sup>FFP's review of the concept paper results in a go/no-go decision point.

The competitive proposal review process outlined in the APS includes at least three documented steps intended to ensure that the proposal is aligned with U.S. foreign assistance objectives and is technically sound:

1. Partners submit a brief concept paper. Partners initiate the review process by submitting a brief concept paper that describes the chosen program approach, and the relevant justification. Generally, an official at USAID headquarters and an FFP officer from the field review the concept paper to determine if the project is aligned with FFP's objectives and if the needed resources are available. Partners may

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change the proposed scope, assistance delivery mechanism—cash, vouchers, or commodities—or funding level based on FFP’s feedback.

2. Partners submit a full proposal addressing APS design criteria. If FFP decides to move forward with a proposed concept paper, it will invite partners to submit a proposal that addresses the design criteria outlined in the APS.
3. FFP assembles a technical evaluation committee to review and score the proposal. The committee includes at least two USAID officials, who review and score the content of the proposal to determine whether it sufficiently addresses the design criteria in the APS.

The APS describes four categories of project design and evaluation criteria: program justification; program design and description; management and logistics; and past performance. Applicants must justify their chosen delivery mechanism based on one or more of the following criteria: appropriateness, timeliness, or cost-effectiveness. The program design and description criteria cover several project design areas, including three identified as good practices in cash-based programming: (1) assessing beneficiary needs, (2) market analysis and impact, and (3) coordination with other entities. Management and logistics criteria establish the capabilities of the applicant to carry out the proposed program based on staffing, infrastructure, and logistical arrangements. Past performance criteria include accomplishments, quality of performance, and demonstrated expertise in implementing programs similar to the one proposed.

After its review, the technical evaluation committee may submit an issues letter to the partner, indicating areas where the proposal must be improved to receive a recommendation for funding. The partner then has the opportunity to address these issues and submit additional application information. This iterative process allows for dialog between FFP and the partner about how the project design can be improved. Once the committee is satisfied that the proposal meets the design criteria, it will recommend the proposal for funding.

There are exceptions to the competitive proposal review process, according to the APS and related guidance in USAID’s Automated Directives System (ADS).<sup>17</sup> According to the APS, USAID reserves the

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<sup>17</sup>The ADS is USAID’s main organization-wide guidance.

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right to make awards to public international organizations (PIO)<sup>18</sup> under different terms and conditions than those that apply to NGOs, including different documentation requirements prior to an award or included in an award. For example, when super typhoon Haiyan struck the Philippines in November 2013, FFP funded a WFP emergency operation using an abbreviated process for noncompetitive PIO grants. FFP officials said that this kind of abbreviated process for noncompetitive PIO grants allows for rapid emergency response. WFP, which is a PIO, receives a significant portion of the EFSP funding for cash and voucher programs—about 80 percent in fiscal year 2014. USAID maintains a list of PIOs, and ranks major PIOs like WFP and FAO as Category One partners based on the agency’s experience with these organizations and a determination as to their level of responsibility.<sup>19</sup> USAID officials stated that when it has predetermined the general suitability of a PIO, it can then review the PIO’s funding appeal document rather than a concept paper or proposal specifically written in response to the APS. Nevertheless, according to FFP officials, in considering funding appeals from PIOs, they review basic project aspects covered under the APS, such as planned scope, logistics, and targeting of beneficiaries. To document this process with the PIOs, FFP officials said they generally issue an action memo justifying the decision to review the proposal outside the competitive APS process and its evaluation of the PIO’s proposed project.

Additionally, in accordance with the ADS and USAID policy, the Director of FFP may issue a determination of noncompetition for any NGO implementing partner on a case-by-case or disaster-by-disaster basis.<sup>20</sup> This ADS policy, which applies to awards to carry out International Disaster Assistance under the Foreign Assistance Act or emergency assistance under the Food for Peace Act, states that FFP may issue such exceptions when it deems competition impracticable. In our case study

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<sup>18</sup>Public international organizations are international organizations composed principally of governments, such as UN agencies, and certain other organizations USAID designates.

<sup>19</sup>In determining that a PIO is responsible, USAID considers several factors, such as the PIO’s past operational performance with respect to U.S.-funded and other donor-funded projects; its history of compliance with the terms and conditions of funding agreements; its most recent audited financial statements; and its applicable policies and procedures. ADS 351maa, *USAID Policy Guidance on Delegated Cooperation and Responsibility Determinations Regarding Development Partners: Requirements and Resources*. A Mandatory Reference for ADS Chapters 308 and 351 (p4, section VI.A).

<sup>20</sup>ADS Chapter 303.3.6.5 b.(1).

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USAID Followed Its EFSP Competitive Proposal Review Process, or Used an Exception, in All 22 Cases We Reviewed

selection, for example, FFP issued a determination of noncompetition covering Syria for fiscal year 2014; the determination stated that full competition would not allow FFP to respond in a timely manner and that few partners had the capacity to access certain areas in Syria. According to FFP officials, USAID staff review a partner's program appeals documentation before deciding to fund a program noncompetitively.

According to USAID officials, the exceptions to the competitive proposal review process for EFSP grant awards enable FFP to respond to some crises more quickly, particularly when it is aware of partners that possess sufficient capacity for the project. For example, PIOs like WFP may already have an appeal for funding that satisfies EFSP design criteria. According to FFP officials, they can review a multilateral appeal in as little as a few days, and the APS design criteria continue to serve as guidance when they consider appeals from PIOs.

We found that FFP followed its APS process for reviewing and deciding to fund competitive cash-based EFSP project proposals, or used an allowed noncompetitive exception, in all 22 cases that we reviewed. The proposals we selected for review were all new cash-based projects that were awarded and active as of June 1, 2014.<sup>21</sup> The 22 awards totaled \$126.3 million; covered 14 countries in Africa, Asia, and the Middle East; and included 11 awards to NGOs and 11 awards to one PIO.

Of the 22 proposals we reviewed, we determined that USAID completed each required step in the APS competitive review process for 13.<sup>22</sup> In the remaining 9 proposals we reviewed, we found that USAID made 7 awards through an abbreviated noncompetitive review, and 2 awards under authorities allowing an expedited emergency response.<sup>23</sup>

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<sup>21</sup>"New" refers to projects receiving funds based on original grant proposals, as opposed to modifications of existing projects.

<sup>22</sup>Of the 13 proposals, 9 were subject to the three steps in the APS review process, and 4 were subject to each step except for the submission of a concept paper. USAID issued an amendment to the APS waiving the concept paper requirement for proposals for projects in Yemen during fiscal year 2013.

<sup>23</sup>Of these 9 proposals, FFP documented 6 exceptions for PIOs with an action memo to the award file, 1 exception for an NGO with a determination of noncompetition from the corresponding FFP Director, and 2 other exceptions for PIOs with an emergency declaration.



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## USAID Lacks Internal Formal Guidance for Modifying Awards and Lacks Any Guidance to Partners on Responding to Market Conditions

Modifications Can Greatly Increase Funding over Original Award Amounts, but USAID Has No Formal Guidance on Its Process for Modifying Awards

According to USAID officials, two main types of modifications may be made to a grant agreement—no-cost modifications and cost modifications. For our four case study countries, we reviewed 13 EFSP grant agreements from January 2012 to June 2014 that had a total of 41 modifications.<sup>24</sup>

**No-cost modifications.** Eleven of the 13 grant agreements had a total of 21 no-cost modifications. Some no-cost modifications extended the life of a program without additional cost, for instance when a project experienced unavoidable delays in completing cash or voucher distributions. Other no-cost modifications were largely due to administrative changes such as revising sections of the original agreement, or adding changes made to the standard provisions that USAID incorporates into grant agreements.<sup>25</sup>

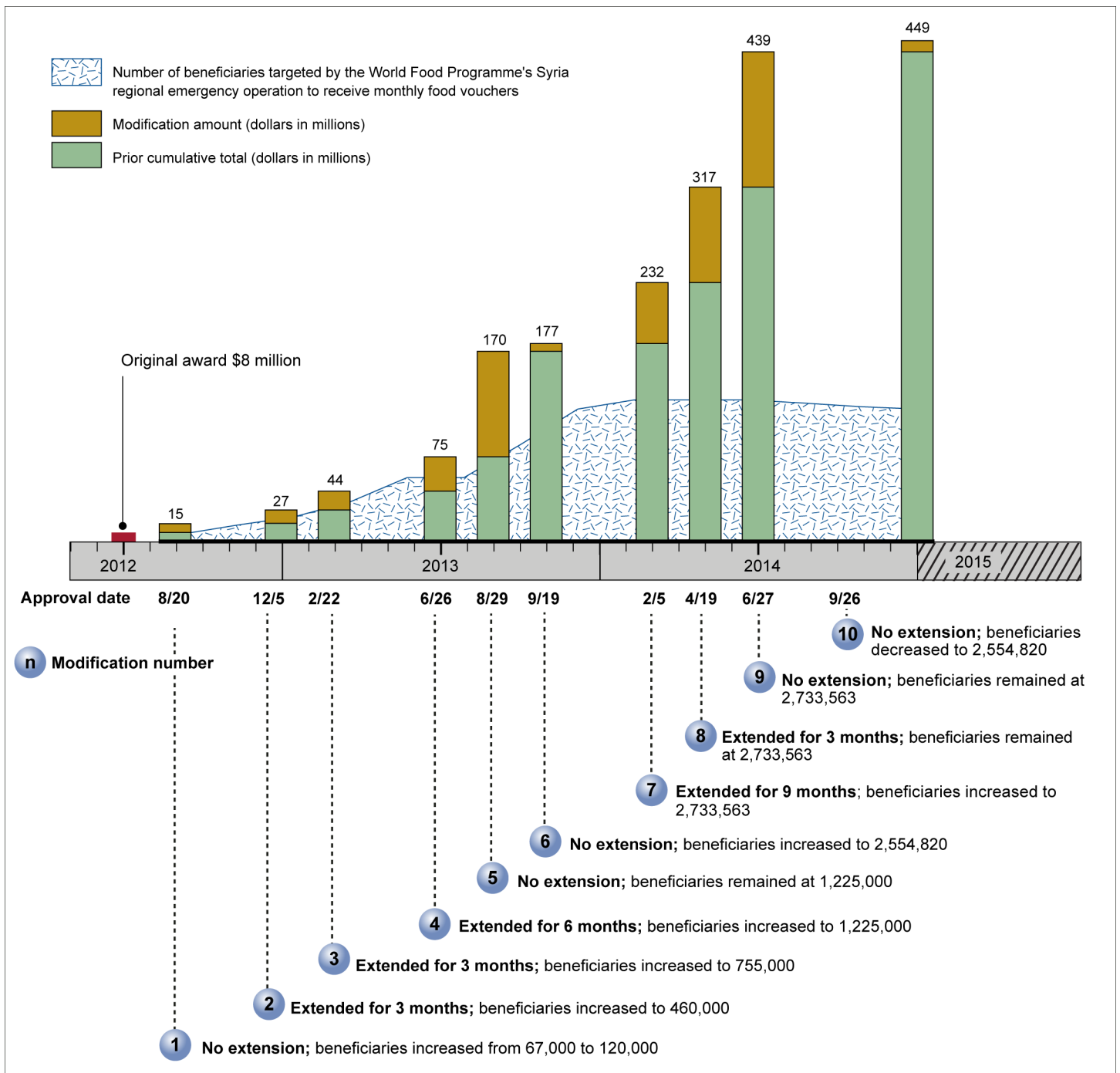
**Cost modifications.** Eight of the 13 grant agreements had a total of 20 cost modifications that increased funding for the 13 awards from an initial total of about \$91 million to about \$626 million, approximately a 591 percent increase. Ten of these cost modifications were made to 1 award, the Syria regional award, and totaled about \$441 million over the original grant of \$8 million (see fig. 8). The Syria regional award modifications amounted to about 82 percent of the total increase in funding for the cost modifications we reviewed.

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<sup>24</sup>Our analysis focuses on 13 EFSP awards with modifications from a sample of 21 grant awards; the remaining 8 awards had no modifications. For our sample, we selected all EFSP awards active from January 2012 through June 2014 for interventions in Niger, Somalia, Kenya, and the five countries included in the Syria regional award for refugees from the Syrian crisis. Some of those 21 grant awards were also active before and after the period mentioned.

<sup>25</sup>According to a USAID official, USAID does not require that all no-cost extensions of grant agreements be documented in an approved modification.

**Figure 8: Timeline of the Modifications Made to the Ongoing Syria Regional Award, from July 2012**



Source: GAO analysis of U.S. Agency for International Development data. | GAO-15-328

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Fourteen of the 20 cost modifications we reviewed were made to awards to PIOs, amounting to about \$502 million, or 94 percent of the total increase in funding for the 20 cost modifications we reviewed. Another 6 cost modifications we reviewed were made to awards to NGOs, amounting to about \$34 million. Cost modifications in the cases we reviewed were approved mainly for two reasons—to extend the duration of the project and to increase the number of beneficiaries being assisted. Fifteen of the 20 cost modifications extended the project by 2 to 12 months, while at least 6 modifications were due to increased number of beneficiaries. One cost modification extended the project by 6 months and added about \$10 million in unconditional cash transfers to a project that had been implementing distributions of locally and regionally procured food. This award is an example of a modification that changed an existing assistance delivery mechanism or added a new one.

Although the APS for International Emergency Food Assistance outlines the review process for new award proposals, neither the current 2013 APS nor the two previous versions provide clear guidance on the process for submission, review, and approval of modifications to existing awards.<sup>26</sup> According to USAID officials, USAID generally follows the process for new award proposals when reviewing proposals for cost modifications, although there is no formal guidance to inform modification decisions. USAID's procedures with regard to reviewing award modifications have been largely informal. According to USAID officials, documentation in each modification file may lack uniformity because of different preferences of agreement officer representatives (AOR) or their teams. For instance, the title of key documents may differ, such as the program justification which may be referred to as a concept note, proposal, program description, program narrative, or application. AORs may refer to draft procedural guidance on modifications, according to USAID officials, who also said a recently established Grants Management Services Team, housed within FFP's Policy and Technical Division, is reviewing the draft procedures as part of a broader effort to improve

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<sup>26</sup>USAID issued two previous program statements in 2010 and 2011, prior to the current APS issued in 2013. In March 2015, USAID noted that the public comment period for the draft APS for fiscal year 2015 had closed in February 2015 and final revisions were under way. USAID stated that in the final 2015 APS for International Emergency Food Assistance, it could further clarify that applicants requesting funded modifications to existing awards needed to follow procedures similar to those they would follow under the APS when requesting a new award.

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Changes in Market Conditions May Warrant Adjustments to Cash-Based Food Assistance Projects, but USAID Provides No Guidance on This to Partners

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guidelines for AORs.<sup>27</sup> However, USAID has no time frame for completing this process, and it is unclear when this enhanced guidance will be finalized. *Standards for Internal Control in the Federal Government* calls for policies, procedures, techniques, and mechanisms that enforce management's directives. Without formal guidance to establish the policies and procedures for modifying awards, USAID staff and its partners lack assurance as to whether they are taking all necessary steps to justify and adequately document the modification of awards.

USAID requires implementing partners of EFSP projects to collect and report market prices of key commodities during the implementation of the assistance. This is because increases in prices of key commodities may erode beneficiaries' benefits, whereas decreases in prices of key commodities may justify a reduction in the amount of cash distributed while maintaining the amount of food beneficiaries can purchase. We found significant changes in the price of key staple commodities in selected markets in Niger and Somalia but not in Jordan and Kenya. We also found that USAID's implementing partners responded differently to changing market conditions, and that USAID had not provided partners with clear guidance on when and how to modify cash-based food assistance projects in response to changing market conditions. In contrast, WFP's *Cash and Vouchers Manual* suggests that WFP's country offices consider setting cutoff limits for maximum acceptable price inflation and have a contingency exit plan to respond to the situation when acceptable price inflation limits are exceeded.

**During Cash-Based Food Assistance Projects, Prices of Some Key Staple Commodities Changed Significantly in Selected Markets in Two of Our Four Case Study Countries**

We analyzed data on the prices of key staple commodities in selected markets in our case study countries from fiscal years 2010 through 2014. We found that the prices of key cereal commodities in Niger and Somalia changed significantly without corresponding adjustments to all implementing partners' cash-based projects. We did not find similar food price changes in Jordan and Kenya.

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<sup>27</sup>We reviewed a copy of the draft guidance titled "FFPMIS [Food for Peace Management Information System] Emergency/Paper Packet Transition Process for EFSP Applications," which contains a section on administrative procedures for grant award modifications.

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**Niger.** In Ouallam, we found that the prices of key cereal commodities rose an average of around 25 percent from April to September 2012 (see fig. 9), a large increase compared with historical price trends.<sup>28</sup> We estimated that the increases in the prices of these cereals may have increased the cost of the beneficiaries' food basket by roughly 20 percent. During this period, USAID's implementing partner distributed 20,000 West African CFA francs per household (around \$38) to beneficiaries each month from May through September 2012.<sup>29</sup> The amount distributed to beneficiaries was not changed during the period of significant price increases. USAID's implementing partner stated that its staff found that regional food stocks remained sufficient in project areas and that beneficiaries were able to purchase the food they needed. In addition, USAID's implementing partner stated that the government of Niger and humanitarian agencies had previously agreed on the amount to be distributed to beneficiaries, and the partner did not want to unilaterally change that amount.

In Birnin Gaoure, we found that the price of millet, Niger's key staple commodity, increased 20 percent from March to September 2013, a large increase compared with historical price trends.<sup>30</sup> An implementing partner's Niger officials acknowledged the steep increases in cereal prices in 2013 and attributed them to a bad harvest and increased demand from Nigeria. During this period, the implementing partner increased the transfer rate from 25,000 West African CFA francs per household (around \$50) to 32,500 West African CFA francs per household (around \$65) to beneficiaries each month in May 2013 because of the increase in prices. The partner also monitored both the local market price for commodities and the cost of distributing these commodities. The implementing partner then considered switching from

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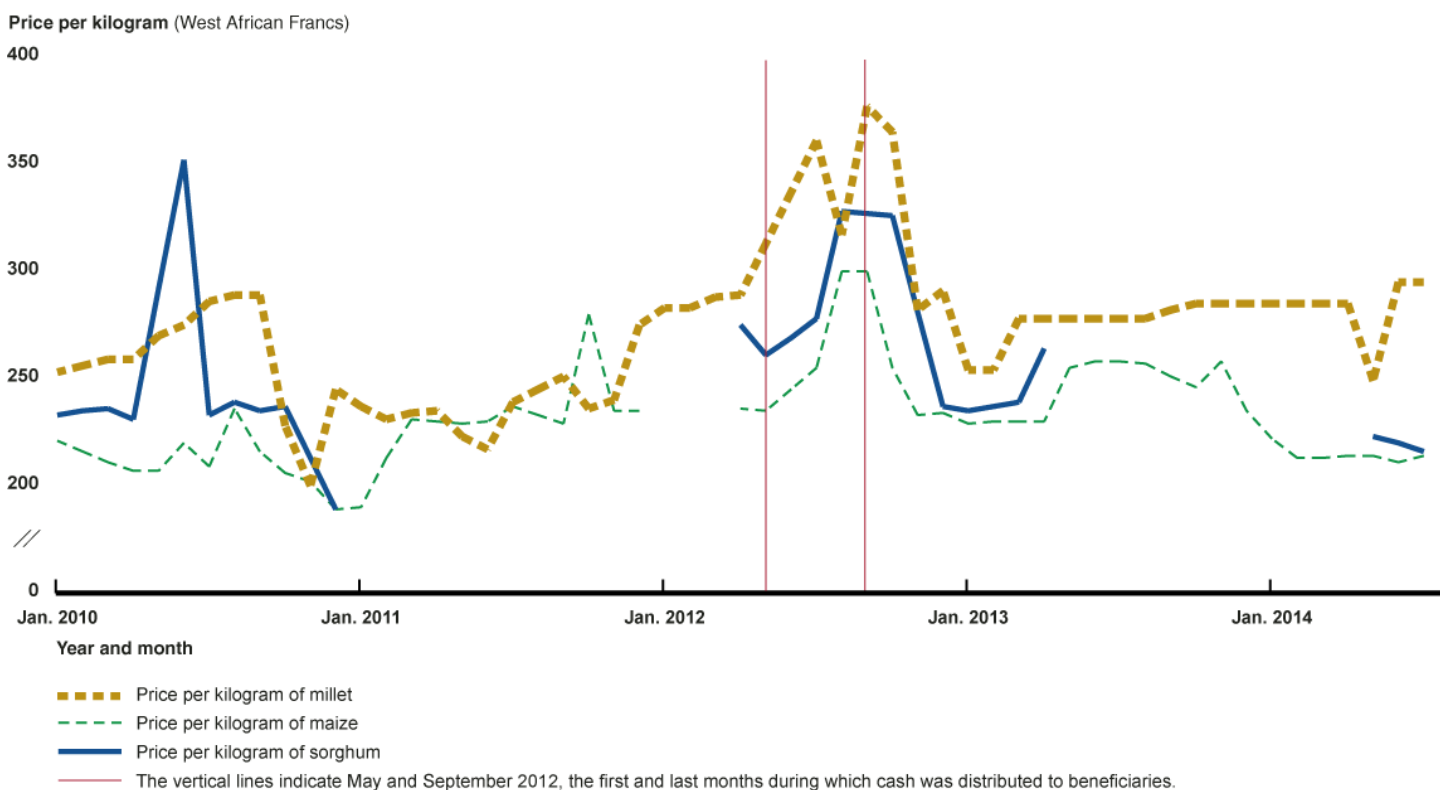
<sup>28</sup>We analyzed WFP's Vulnerability Analysis and Mapping (VAM) data. We found these increases to be consistent with USAID's implementing partner's data. In addition, using WFP's Alert for Price Spikes methodology, we found that for some months during this period, the price increases were much larger than would be predicted using historical price data.

<sup>29</sup>CFA stands for la Communauté financière d'Afrique (African Financial Community).

<sup>30</sup>Birnin Gaoure is the nearest market to Kobe Bery, an implementing partner's distribution site we visited during our fieldwork and for which data were available in WFP's VAM database. Using WFP's Alert for Price Spikes methodology, we found that for some months during this period, the price increases were much larger than would be predicted using historical price data.

distributing cash to in-kind food distributions when the price of commodities that beneficiaries purchased in local markets neared the cost of in-kind distributions. The implementing partner's Niger officials reported that they switched from cash to in-kind distributions in certain geographic areas but not in other areas where the prices of staple commodities did not reach the cost of in-kind distributions.

**Figure 9: Monthly Millet, Maize, and Sorghum Prices in Ouallam, Niger, January 2010 through July 2014**



Source: GAO analysis of World Food Programme Vulnerability Analysis and Mapping data. | GAO-15-328

**Somalia.** In Baydhaba, we found that the price of key cereal commodities increased significantly in mid-2011 (see fig. 10).<sup>31</sup> By September 2011,

<sup>31</sup>We analyzed data provided by FAO's Food Security and Nutrition Analysis Unit. Using WFP's Alert for Price Spikes methodology, we found that for some months during this period, the price increases were much larger than would be predicted using historical price data.

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the UN had declared famine in seven regions in Somalia, including Baydhaba.<sup>32</sup> In November 2011, USAID signed a grant agreement with its implementing partner to fund a cash-for-work project. By that time, however, the prices of these key cereal commodities had declined from their peaks earlier in 2011.<sup>33</sup> USAID's implementing partner provided \$72 per household each month during the period when prices of these key cereal commodities declined. The partner then increased the amount to \$96 per household each month in June 2013.<sup>34</sup> Our analysis also found that the price of red sorghum and white maize increased significantly in 2014 (also shown in fig. 10). From April to July 2014, the price of red sorghum increased by 77 percent and the price of white maize by 37 percent, large increases compared with historical price trends.<sup>35</sup> However, the implementing partner did not adjust the transfer rate during this period. The implementing partner cautioned that adjusting the transfer rate should be done in context of the wage rate in the labor market, the general volatility of commodity markets in Somalia, and food being only a part of the beneficiaries' expenditure basket. The implementing partner stated that starting in late February 2015 it would be testing a new methodology intended to establish the transfer rate at the subregional level based on the cost of commodities, the wage rate in the labor market,

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<sup>32</sup>According to USAID's implementing partner, the increase in the prices of key cereal commodities contributed to the deterioration of the food security situation for vulnerable people but was not a reason for declaring famine in and of itself. The UN declared famine based on the assessment that 4 million people were in crisis nationwide and malnutrition rates were reported to range from 30 percent to 50 percent in some areas of southern Somalia.

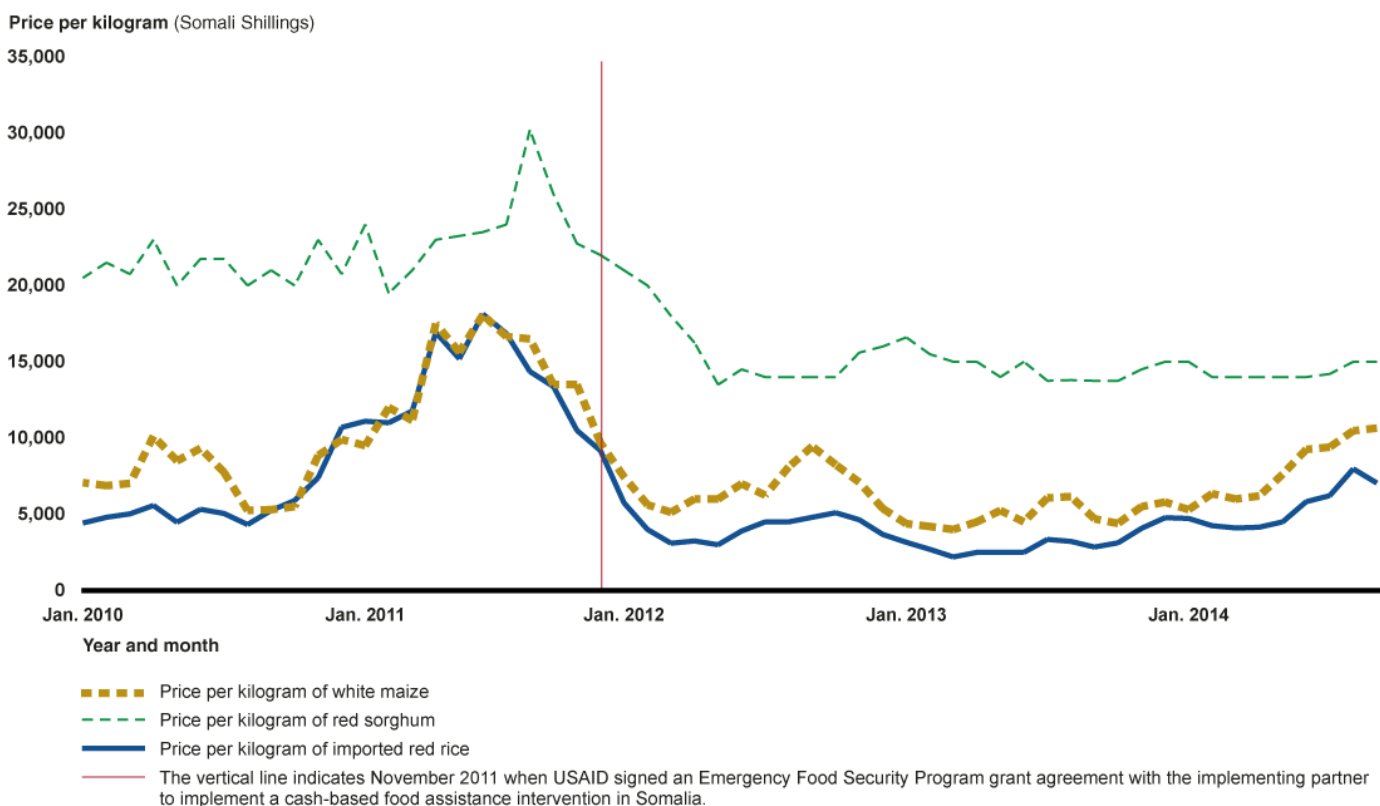
<sup>33</sup>From October 2011 to March 2012, the prices of these key cereal commodities decreased on average by around 51 percent in Baydhaba, which is consistent with price changes for these commodities in other markets in Somalia noted by the Humanitarian Policy Group's Cash and Voucher Monitoring Group in its report for September 2011 through March 2012. The Humanitarian Policy Group is a team within the Overseas Development Institute, a United Kingdom think tank on international development and humanitarian issues. Currently, the Humanitarian Policy Group's program of work is funded by USAID, Irish Aid, and 12 other aid agencies and NGOs.

<sup>34</sup>The implementing partner also adjusted the work required for participating households. During and after the famine, because of the nutritional status of the population, the partner decreased the work required to one-third of the normal workload. In November 2012, the partner increased the work required to two-thirds of the normal workload, and, in June 2013, to the normal workload.

<sup>35</sup>Using WFP's Alert for Price Spikes methodology, we found that for some months during this period, the price increases were larger than would be predicted using historical price data.

the available budget, and an assessment of the implications of adjusting the transfer rate by examining short- and long-term trends. Once established, the transfer rate would remain for approximately 2 to 3 months, comprising a round of distributions.

**Figure 10: Monthly Prices of White Maize, Red Sorghum, Imported Red Rice in Baydhaba, Somalia, January 2010 through September 2014**



Source: GAO analysis of data from the Food and Agriculture Organization's Food Security and Nutrition Analysis Unit. | GAO-15-328

**Jordan and Kenya.** In Jordan, we analyzed data from Jordan's Department of Statistics and found that the price of food in Jordan did not change significantly after an implementing partner started its project in July 2012.<sup>36</sup> In Kenya, the implementing partner established the transfer

<sup>36</sup>The national consumer price index for food items increased by 6 percent from the start of the project, in July 2012, to September 2014. This trend is consistent with trends reported in an implementing partner's monitoring reports.



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rate based on the value of the standard food basket; it reviewed prices every month and would change transfer amounts only in response to price fluctuations, in either direction, of more than 10 percent. In Taita Taveta, the site we visited in Kenya, the implementing partner informed us that the transfer value had not been adjusted since June 2013 because retail food prices had not changed more than 10 percent.

### **USAID Does Not Provide Guidance to Partners on When and How to Modify Programs in Response to Changing Market Conditions**

According to USAID officials, USAID does not have a standard for identifying significant price changes, since the definition of significance is specific to each country and region. In addition, we did not find guidance addressing modifications in response to changing market conditions in the APS for International Emergency Food Assistance. This lack of guidance has resulted in inconsistent responses to changing market conditions among different cash and voucher projects funded by USAID. For example, an implementing partner in Kenya predetermined, as part of its project design, when adjustments to cash transfer amounts would be triggered by food price changes, while an implementing partner whose project we reviewed in Niger relied on an ad hoc response. The implementing partner in Kenya established the cash and voucher transfer rate based on the value of the standard food basket; it reviewed prices every month but would change cash and voucher transfer amounts only in response to price fluctuations, in either direction, of more than 10 percent.

Without clear guidance about when and how implementing partners should modify cash-based food assistance projects in response to changing market conditions, USAID runs the risk of beneficiaries' benefits being eroded by price increases or inefficient use of scarce project funding when prices decrease.

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

USAID relies on its implementing partners to implement financial oversight of EFSP projects, but it does not require them to conduct comprehensive risk assessments to plan financial oversight activities—two key components of an internal control framework (see sidebar)—and provides little or no guidance to partners and its own staff on these two components. For case study projects we reviewed in four countries, we found that neither USAID nor its implementing partners conducted comprehensive risk assessments that address financial vulnerabilities that may affect cash-based food assistance projects, such as counterfeiting, diversion, and losses. Lacking comprehensive risk assessments of its projects, USAID staff would be hampered in developing financial oversight plans to help ensure that partners are implementing the appropriate controls, including financial controls over cash and vouchers to mitigate fraud and misuse of EFSP funds. We also found that USAID's partners had generally implemented financial controls over cash and voucher distributions but the partners' financial oversight guidance had weaknesses. Because of the limitations in their guidance, partners may neglect to implement appropriate controls in areas that are most vulnerable to fraud, diversion, and misuse of EFSP funding. In addition, we found that USAID's guidance to partners on financial control activities is limited. For example, USAID lacks guidance to aid implementing partners in estimating and reporting losses. With regard to USAID's oversight of its partners, in the projects we reviewed, we found that USAID staff were challenged by limited resources and access issues in high-risk areas. For example, USAID had two staff members in the field to oversee its Syria regional cash-based projects spread over five countries that had received approximately \$450 million in EFSP funding from July 2012 through December 2014. Furthermore, USAID has provided limited guidance to its field staff for overseeing financial controls put in place by implementing partners.

## Internal Control Framework

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



We focused on the risk assessment and control activities components to assess the extent to which the U.S. Agency for International Development and its implementing partners conduct financial risk assessments of cash and vouchers and implement appropriate controls.

Source: GAO; Committee of Sponsoring Organizations of the Treadway Commission. | GAO-15-328

## Neither USAID nor Its Implementing Partners Conducted Comprehensive Risk Assessments of the EFSP Projects We Reviewed

Though USAID Missions Conduct Country Risk Assessments, These Do Not Address Risks Specific to Cash-Based Food Assistance

### Risk Assessment



According to internal control standards prescribed for federal agencies, as well as those accepted by and widely used by organizations around the world, risk assessment involves

- comprehensively identifying risks associated with achieving program objectives;
- analyzing those risks to determine their significance, likelihood of occurrence, and impact; and
- determining actions or controls to implement to mitigate the risks.

According to the International Organization for Standardization's (ISO) *Risk Management—Principles and Guidelines*, the aim of risk identification is to generate a comprehensive list of risks based on those events that might create, enhance, prevent, degrade, accelerate, or delay the achievement of objectives.

Source: GAO; ISO; Committee of Sponsoring Organizations of the Treadway Commission (COSO). | GAO-15-328

USAID officials said that they conduct a risk assessment for all USAID's programs within a country and not separate risk assessments for EFSP projects. According to USAID, its country-based risk assessments focus primarily on the risks that U.S. government funds may be used for terrorist activities and on the security threat levels that could affect aid workers and beneficiaries; these risk assessments do not address financial vulnerabilities that may affect cash-based food assistance projects, such as counterfeiting, diversion, and losses.<sup>37</sup> A USAID official provided us with internal EFSP guidance to staff on the grant proposal and award process stating that an award would not be delayed if a risk-based assessment has not been conducted. For countries with ongoing conflicts and civil unrest, such as Somalia, USAID said that it performs a risk-based assessment for all of its program funding. USAID said that most of these assessments are sensitive and primarily focus on security risks.<sup>38</sup> For example, in Niger, FFP's 2014 risk analysis of its over \$75 million country portfolio, including Title II and EFSP, identified such risk factors as the distance to the project sites and security threats but contained no assessment of likely financial risks.

<sup>37</sup>For this review, a comprehensive risk assessment includes key elements of the risk management process such as risk identification, assessing the likelihood of the risk occurrence, its impact, the severity or risk level, mitigation plans, and risk owners that are reflected in a risk register. In addition, the identification of risk should be comprehensive and include security risks, as well as financial, political, market, and other risks.

<sup>38</sup>According to USAID, it has special organization processes in place in Somalia that are tied to risk assessment, for example, implementing partners meet regularly with USAID officials in Nairobi. In addition, according to USAID, the documentation for the grant award in Somalia contains special conditions stipulating that its implementing partners should take steps to minimize payments or benefits to terrorists groups and exercise enhanced due diligence.

## USAID Partners Did Not Conduct Comprehensive Risk Assessments of Their EFSP Projects

### Risk Assessment



The International Organization for Standardization (ISO) established an international risk management standard that discusses risk identification.

- A comprehensive list of risks should be generated based on events that affect the achievement of objectives.
- Comprehensive identification is critical. A risk not identified will not be included in further analysis.

Source: ISO. | GAO-15-328

USAID's 2013 APS for International Emergency Food Assistance requires EFSP implementing partners to indicate the controls in place to prevent diversion of cash, counterfeiting of food vouchers, and diversion of food voucher reimbursement funds. According to USAID officials, its partners have established records of effective performance in implementing cash and voucher projects and they understand the context of operating in these high-risk environments. As a result, these officials told us, USAID expects that its partners will conduct comprehensive risk assessments, including financial risk assessments, and develop appropriate risk mitigation measures for their cash-based food assistance projects. However, none of the partners implementing EFSP-funded projects in our four case study countries had conducted a comprehensive risk assessment based on their guidance or widely accepted standards during the period covered by our review.<sup>39</sup> USAID does not require its implementing partners to develop and submit comprehensive risk assessments with mitigation plans as part of the initial grant proposals and award process or as periodic updates, including when grants are modified.<sup>40</sup> USAID officials stated that most EFSP grant proposals and agreements do not contain risk assessments and mitigation plans. In addition, the implementing partners we reviewed had not consistently prioritized the identification or the development of financial risks that address vulnerabilities such as counterfeiting, diversion, and losses.

**Jordan and Kenya.** In fiscal year 2012, USAID's implementing partner for EFSP cash and voucher projects that we reviewed in Jordan and Kenya documented risk assessments and mitigation plans, but these were not comprehensive. While the 2012 risk assessment and mitigation

<sup>39</sup>The European Commission's Directorate General for Humanitarian Aid and Civil Protection (DG ECHO) provided funding to partners to implement cash-based food assistance projects. According to a study commissioned by DG ECHO, risk analysis provided by the partners remains fairly general in nature, focusing on risks such as adverse climate, political change, or the risks beneficiaries might not accept the agency's vulnerability criteria. The study found that in the case of cash and voucher projects, partners do not articulate the risks to the resources, fiduciary and accountability systems, or the possible security risk for the field staff. The study suggested that partners may be reluctant to share risk analysis if they fear that their transparency could lead to refusal of funding.

<sup>40</sup>As of January 2015, USAID's draft fiscal year 2015 APS required applicants for EFSP grants to conduct risk assessments as a requirement of their monitoring and evaluation plans. However, the risk assessment described in the draft fiscal year 2015 APS was a general risk assessment and did not specifically mention risks that address vulnerabilities endemic to cash and voucher distributions.

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plan for Jordan identified financial risks such as counterfeiting and diversion of vouchers and corruption, it did not address the likelihood, impact, and seriousness of these risks as required by its guidance. For example, in discussing the risk of counterfeiting of vouchers in Jordan, the implementing partner stated in its 2012 document that “Experience shows that shops are gaining significant business from the voucher program and hence not willing to jeopardize that by breaking the rules.” However, during our fieldwork in Jordan in July 2014, we learned that the implementing partner had discovered that several retail shops had been involved in fraudulent activities, and after receiving the results of an independent review, the partner decided not to renew its contracts with those shops. According to the implementing partner, monitoring of retail shops is now systematically in place to ensure that retailers respect the rules in the contract with the partner.<sup>41</sup>

As of December 2014, the risk registers maintained by the implementing partner for EFSP projects in Jordan and Kenya addressed key elements of the risk management process including identifying risk categories, likelihood of occurrence, impact and seriousness, mitigation actions currently in place, and mitigation actions needed. These registers described a number of potential risks, including a challenging funding environment, political interference in the project, increased levels of insecurity affecting the partner’s ability to reach the most vulnerable, and lack of specific staff expertise. However, as of December 2014, the risk registers for Jordan and Kenya did not identify and address financial risks, such as counterfeiting of vouchers and diversion and losses of cash and vouchers, which is contrary to the implementing partner’s financial directive for the use of cash and vouchers. The financial directive states that assessments should identify risks related to implementing food assistance programs from a multifunctional perspective, involving offices such as finance, program, logistics, and security, and that identified macro risks, such as financial, economic, political, and environmental

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<sup>41</sup>In 2013, this partner distributed about \$2.6 billion in food assistance, of which about \$500 million was for cash and vouchers. According to the partner’s audited financial statements, the partner reported fraud for all its programs in 2013 totaling \$444,349—from vendor fraud and from theft and misappropriation of food commodities, nonfood items, and cash involving the partner’s staff and third parties. The partner’s Office of Inspector General reported that as of December 31, 2013, \$4,382 of that amount had been recovered and \$359,000 was still under investigation. The OIG reported the remaining \$80,967 as a loss.

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risks, along with mitigating actions, shall be included in the country office operational risk analysis.

**Somalia.** Although the USAID implementing partner for the cash-for-work project we reviewed in Somalia conducted a risk assessment and in November 2011 developed a risk register that includes a number of potential risks, including potential financial risks, such as the risks of collusion and diversion of funds by the money vendor and subawardees, it did not prepare a comprehensive risk register with clear mitigation plans in accordance with its guidance and the international standards that it had adopted.<sup>42</sup> This partner's risk management guidance state that risk assessment would provide staff and supervising management with a shared, comprehensive view of the potential risks to the achievement of objectives, together with a prioritized mitigation action plan, among other things. However, this partner's risk register for its cash-for-work project in Somalia did not identify, for example, counterfeiting of vouchers as a potential risk. According to the partner, it has developed controls such as a management tool through which beneficiary vouchers are generated with unique serial codes, as well as the development of beneficiary registration with biometrics, such as fingerprinting to address issues identified in handling vouchers. In addition, the November 2011 cash-for-work risk register, which we received from this partner in November 2014, had not been updated since May 2012. In January 2013, this partner developed an operational risk management framework for south and central Somalia. While the framework included a number of planned measures to help ensure greater control, it has not been updated to conform to the partner's December 2013 guidance on risk management and to reflect a key change in its payment process for cash distribution.<sup>43</sup>

We determined that the implementing partner in Somalia periodically prepared a summary of its risk mitigation measures for its donors. The most recent summary we reviewed, dated November 2014, stated that the partner was regularly reviewing its activities in Somalia through a set

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<sup>42</sup>This partner developed a risk management guide in December 2013, which is based on the International Organization for Standardization's *Risk Management—Principles and Guidelines, ISO 31000*, 2009.

<sup>43</sup>The partner's officials informed us in November 2014 that under the current payment process its subawardees no longer provide to the money vendor both the cash vouchers and the list of beneficiaries to be paid. According to the partner's officials, this process mitigates the risk of collusion between the subawardees and the money vendor.

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of risk mitigation measures and was not starting any new activity without first reviewing risks and mitigation measures. However, the summary discussed the mitigation measures as stand-alone activities and did not link them to any identified risks. Moreover, the summary or the risk register did not prioritize the mitigation measures described based on its guidance, and the lack of detail left us uncertain as to the extent to which certain mitigation measures, such as the use of remote sensing and biometrics technology, were being implemented based on risk assessment.

**Niger.** In Niger, we found that the implementing partner of the cash transfer project we reviewed had guidance for staff on the risk management process and on developing a risk register; however, this partner had not conducted a comprehensive risk assessment that took into account the likelihood, impact, or severity of fraud, diversion, losses, or theft of cash for the cash transfer project it implemented in 2012. This implementing partner prepared a security and safety management plan, which focused on the risks to staff implementing its projects as well as beneficiaries and project visitors in Niger. During the implementation of the 6-month project we reviewed, this implementing partner informed us that one of its employees had stolen \$330 in cash intended for project beneficiaries. The partner reported that the cash had been repaid, the employee had been fired, and the donor had been notified. According to the implementing partner, the donor confirmed its satisfaction with the partner's handling of the incident. This partner said that, as a result of this incident, it had strengthened several of the controls that were in place, including a complaint mechanism, and it had conducted sensitization training for beneficiaries, communities, and staff, to help ensure that such incidents did not recur. However, the partner did not subsequently conduct a risk assessment and develop a risk register before it began implementing its 2014 EFSP cash and voucher projects in Niger. Figure 11 shows photographs from our site visits to cash transfer and cash-for-work projects in Niger.



**Figure 11: Cash Transfer and Cash-for-Work Project Sites in Niger**

**Cash transfer project**



Cash delivered in envelopes to beneficiaries at a project site.

**Cash-for-work project**



Beneficiaries created "half-moon" water catchments to rehabilitate arid land for growing millet.

Source: GAO. | GAO-15-328



# USAID Partners Generally Implemented Financial Controls for Projects We Reviewed, but Their Implementation and Related Guidance Had Certain Weaknesses

## Partners Generally Implemented Controls over Cash and Paper Voucher Distributions, Though with Certain Weaknesses

### Control Activities



According to internal control standards accepted by and widely used by organizations around the world, control activities include, among others:

- **Authorization.** Transactions are approved by a higher level of management.
- **Reconciliations.** Two or more data elements are compared and action is taken to address any differences.
- **Segregating duties.** Duties are divided among different people to reduce the risk of error or inappropriate or fraudulent actions.

Source: Committee of Sponsoring Organizations of the Treadway Commission (COSO). | GAO-15-328

We reviewed selected distribution documents for three implementing partners with projects that began around 2012 in our four case study countries (Jordan, Kenya, Niger, and Somalia). We examined the documents for conformance with the partners' financial oversight procedures, USAID's guidance, and relevant provisions of the grant agreements. Our review found that the three implementing partners had generally implemented financial controls over their cash and voucher distribution processes. For example, in Niger, we verified that there were completed and signed beneficiary payment distribution lists with thumb prints; field cash payment reconciliation reports that were signed by the partner, the financial service provider, and the village chief; and payment reconciliation reports prepared, signed, and stamped by the financial service provider. Additionally, we determined that these three implementing partners generally had proper segregation of financial activities between their finance and program teams.

Nonetheless, in Kenya, our review showed that in some instances, significant events affecting the cash distribution process were not explained in the supporting documentation. For example, we found that an implementing partner's total number of beneficiary households for a cash distribution project was different from the total number recorded by its subawardee.<sup>44</sup> No explanation for this was documented in reports provided by the implementing partner, nor was an explanation entered into the partner's data system. Although the explanation of how this discrepancy was resolved, according to the implementing partner, demonstrated that its controls worked effectively, we were unable to verify

<sup>44</sup> These subawardees—also referred to as subgrantees—are usually international or local NGOs that have a presence in the country or locations within it where cash-based projects are being implemented.

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this information because the data records and reports we reviewed contained no explanatory notes.<sup>45</sup>

**USAID's Reporting Requirements for Implementing Partners of Its Emergency Food Security Program**

In accordance with the U.S. Agency for International Development's (USAID) 2011 and 2013 Annual Program Statement (APS) for Emergency Food Security Program (EFSP) and EFSP grant agreements, USAID's implementing partners are required to submit certain reports to USAID within established time frames, including the following:

- **financial report (SF 425)** within 30 days of the end of each calendar quarter and a final financial report within 90 days of the end of the program;
- **quarterly performance reports** within 30 days after the end of each quarter, except when reporting period ends before 45 days from the effective date of the award or less than 1 month from estimated completion date of the award and the award will not be extended; and
- **a final program report** within 90 days of the end of the program.

Source: USAID 2011 and 2013 APS and grant awards | GAO-15-328

Additionally, to determine whether the three implementing partners were in conformance with USAID's 2011 and 2013 APS and with grant award requirements, we reviewed key financial information in project reports from the partners, including their Federal Financial Reports, quarterly performance reports, and final program reports.<sup>46</sup> Our review found that in most instances the implementing partners had submitted these reports within the required time frames and that these reports contained the key reporting elements required by the grant award. However, in some instances, we were unable to determine whether the quarterly reports were submitted timely because USAID was unable to provide us with the dates it received these reports from the implementing partners. According to USAID officials, USAID does not have a uniform system for recording the date of receipt for quarterly progress reports and relies on FFP officers to provide this information; however, individual FFP officers have different methods for keeping track of the reports and the dates on which they were received. These various record-keeping methods made it difficult for USAID to provide us with the information required for us to determine if the implementing partners had submitted the project reports on time.

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<sup>45</sup>The implementing partner later explained to us that its internal controls had enabled the partner and the bank to discover a discrepancy in identification numbers collected by the subawardee and the bank, which led to the creation of over 300 duplicate accounts. Before the cash transfers began, the duplicate accounts were made temporarily inactive until the subawardee could double-check the household account identification numbers and correct them. Once that was done, the implementing partner removed the duplicate accounts with incorrect identification numbers and activated cash transfers to the affected households, including payment in arrears.

<sup>46</sup>The Federal Financial Report, also known as Standard Form 425, is used by grant recipients to report expenditures of federal funds and other financial data.

**Examples of Two Kinds of Cash Transfers to Beneficiaries of Food Assistance Projects**



This beneficiary of a food assistance project in Kenya is receiving her benefits in cash at a bank.



This distribution of cash in a village in Niger was part of a food assistance project funded by the U.S. Agency for International Development (USAID).

Source: USAID (top) and GAO (bottom). | GAO-15-328

Though all partners generally implemented financial controls over their cash and paper voucher distributions that we reviewed, we found that the partner in Somalia faced several challenges in implementing the project as a whole. The implementing partner put several mitigation actions in place to improve financial oversight, but we found that weaknesses in controls still existed. In October 2011, before USAID provided its initial EFSP funds, the implementing partner received allegations of fraud, which resulted in its Office of Inspector General (OIG) initiating several investigations.<sup>47</sup> During the implementation of the project, the OIG conducted multiple fraud investigations involving subawardees' and money vendors' non- or under-implementation of cash-for-work activities and money vendors' violations of contractual terms of disbursement, including claiming fees for services not rendered. Letters of agreement with the partner's subawardees and money vendors stipulated that these entities should avoid corrupt and fraudulent activities.<sup>48</sup> According to the implementing partner, its OIG investigated the allegations and concluded that the financial loss to USAID was approximately \$237,000; according to the partner, it recovered about \$188,000, resulting in a total financial loss of about \$49,000 to USAID. However, in one case, the OIG concluded that because of security restrictions, it was unable to confirm the financial loss. In addition, two new investigations that began in 2014 involving one of the money vendors were still ongoing as of December 2014, making it premature to conclude whether there was any financial loss and whether USAID funds were affected.

The implementing partner in Somalia suspended the cash-for-work project in all locations from May to October 2012 because of the fraud allegations and investigative findings. During the suspension of the project, the partner said that it expanded and added other mitigation measures to help ensure greater controls, such as expanding a call center in Nairobi to verify payment to beneficiaries and conduct post-distribution surveys. However, many beneficiaries in south central

<sup>47</sup>The partner had been implementing the cash-for-work project in Somalia prior to EFSP funding. In November 2011, USAID provided about \$19 million to this partner and about an additional \$31 million in June 2012. The \$50 million grant covered the period from November 2011 through September 2014.

<sup>48</sup>We reviewed letters of agreement for two of the partner's subawardees and its three money vendors. The partner contracted with subawardees to oversee the cash-for-work project and with money vendors to pay the beneficiaries. The money vendors charged a fee ranging from 3.8 to 4.5 percent of the total amount of cash paid to the beneficiaries.

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Implementing Partners'  
Financial Oversight Guidance  
Had Weaknesses That Could  
Hinder Effective  
Implementation of Controls

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Somalia, a high-risk area, had unreliable phone connectivity or did not own phones.<sup>49</sup> This implementing partner also said that it provided systematic training to its subawardees, including training on fraud prevention measures and post-distribution assessment. Prior to December 2014, post-distribution assessments were being done by the same subawardees who were overseeing the cash-for-work project, which is not considered good practice according to internal control standards. For the project we reviewed, the implementing partner reported that it would prefer to use independent third parties to conduct the post-distribution assessment where security and access made that possible but cited accessibility limitations and cost as reasons it had not done so.<sup>50</sup> According to this implementing partner, as of January 2015, a third-party monitoring entity had begun a post-distribution assessment for the current phase of the project in south central Somalia, and the partner's field monitors were conducting the post-distribution assessment in northern Somalia.

Implementing partners in the case study countries we reviewed had developed some financial oversight guidance for their cash and voucher projects, but we found gaps in the guidance that could hinder effective implementation of financial control activities. One implementing partner developed a financial procedures directive in 2013 that requires, among other things, risk assessments, reconciliations, and disbursement controls. For example, the directive required the country office's finance officer to reconcile bank accounts used for cash and voucher transfers on a monthly basis. It also required that undistributed cash and unredeemed

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<sup>49</sup>According to the implementing partner's August 2014 post-distribution assessment survey, about 50 percent of the beneficiaries in south central Somalia routinely had poor, bad, or no wireless phone connectivity. This assessment also showed that about 45 percent of beneficiaries in south central Somalia did not have phones.

<sup>50</sup>The United Nations Monitoring Group on Somalia and Eritrea reported in October 2014 that humanitarian access in many parts of Somalia remained fragile. The group reported that enhanced investigations into humanitarian diversion and its impact compelled UN entities, NGOs, and donors to increase their due diligence and monitoring and develop new risk management tools. However, according to the report, the realities of uneven quality of access to project sites and continuing insecurity and fluidity of authority, coupled with persistent remote management practices, resulted in continued diversion of humanitarian assistance by government staff, terrorists, humanitarian agencies' staff, private contractors, and criminal entities. See United Nations Security Council, *Report of the Monitoring Group on Somalia and Eritrea pursuant to Security Council resolution 2111 (2013): Somalia*, S/2014/726 (Oct. 13, 2014), accessed February 27, 2015, [http://www.un.org/ga/search/view\\_doc.asp?symbol=S/2014/726](http://www.un.org/ga/search/view_doc.asp?symbol=S/2014/726).

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vouchers be reconciled, receipted, and recorded before financial closure of a project. The directive specified disbursement controls, such as requirements for a certified and approved distribution plan and two authorized signatures before payments are released. The directive also instructed country offices to assess the financial strength of the financial service provider. However, the directive lacked guidance on how to estimate and report losses.<sup>51</sup> The implementing partner told us it was in the process of developing guidance for cash and voucher losses, which it planned to complete by December 2015.

A second implementing partner that had been implementing USAID's cash-based projects since November 2011 and since about 2007 for other donors had also developed policies and guidance for some key financial control procedures. For example, it developed policy in November 2012 and guidelines in April 2013 for cash-based food assistance projects, as well as guidance on fraud control, sanctions procedures, and due diligence procedures. The guidelines included requirements for the implementing partner's service providers. For example, the service providers were required to maintain and document financial records and certification of proper use of funds. However, other guidance was lacking, including guidance on estimating and reporting losses. Furthermore, in October 2014, the implementing partner's external auditor recommended that the implementing partner should formalize its policy framework on internal control and design a mechanism to monitor, assess, and report on the overall effectiveness of the internal control system to reinforce accountability and transparency. The external auditor considers such actions fundamental, meaning that they are imperative to ensure that the implementing partner is not

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<sup>51</sup>Other cash-based assistance programs have procedures to measure improper payments, which include losses. For example, the Supplemental Nutrition Assistance Program (SNAP), formerly known as the federal Food Stamp Program, is a domestic federal program that supplements low-income individuals and households with benefits to purchase allowable food items. Under Section 2 of the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012, federal agencies must identify programs susceptible to significant improper payments and estimate the annual amount of improper payments. In fiscal year 2014, SNAP, a \$76 billion program, reported an improper payment rate of 3.2 percent (or \$2.4 billion), which represents payments that should not have been made or were for an incorrect amount, and payments that were not supported by sufficient documentation. SNAP improper payments can include benefits distributed in error due to administrative as well as recipient errors, not all of which can be attributed to fraud, among other reasons.

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exposed to high risks.<sup>52</sup> The auditor also noted that in May 2014, it had found significant progress in the implementation of the partner's enterprise risk management, including formal adoption of a corporate risk policy and the integration of risk management into the activities of the field offices.

A third implementing partner had been implementing cash and voucher projects for USAID since the EFSP program began in 2010. It developed field financial guidance in 2013 that provides standardized policies and procedures for financial management and accounting in the partner's field offices. However, the implementing partner acknowledged that the field manual does not address financial procedures specifically for voucher projects. According to this implementing partner's staff, the country teams had each designed financial procedures for vouchers with input from its headquarters. In October 2014, this implementing partner, in conjunction with a global financial services corporation, developed an *E-Transfer Implementation Guide* that covered various processes, tools, and checklists for assessing the capacity of e-transfer services providers and procuring e-voucher systems. Further, this implementing partner is in the process of developing an enterprise risk management framework.

When implementing partners for EFSP projects have gaps in financial guidance and limitations with regard to the oversight of cash-based food assistance projects, the partners may not put in place appropriate controls for areas that are most vulnerable to fraud, diversion, and misuse of EFSP funding.

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### Limited Staff Resources, Security Constraints, and Lack of Guidance Hindered USAID's Financial Oversight of EFSP Projects

According to USAID officials, Washington-based country backstop officers (CBO) perform desk reviews of implementing partners' financial reports and quarterly and final program reports and share this information with FFP officers in the field; in addition, both the Washington-based CBOs and FFP officers in-country conduct field visits. However, we found that the ability of the CBOs and FFP officers to consistently perform financial oversight in the field may be constrained by limited staff resources, security-related travel restrictions and requirements, and a lack of specific guidance on conducting oversight of cash transfer and

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<sup>52</sup>According to this implementing partner, it plans to establish an internal control framework by summer 2015.

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food voucher programs.<sup>53</sup> Field visits are an integral part of financial oversight and a key control to help ensure management's objectives are carried out. They allow CBOs and FFP officers to physically verify the project's implementation, observe cash disbursements, and conduct meetings with the beneficiaries of the grant and the staff of the organizations implementing the grant to determine whether the project is being implemented in accordance with the grant award. According to the CBOs and FFP officers, the frequency of field visits for financial oversight depends on staff availability and security access.

In the four case study countries selected for our review, limited staff resources restricted FFP officers' ability to perform on-site visits. According to USAID, in each of three of our four case study countries, a single FFP officer had oversight responsibility for the EFSP projects we reviewed. For the fourth case study country—Jordan, representing the Syria regional award for projects in five countries—the FFP officer was responsible for overseeing EFSP projects in that country as well as in Egypt and Lebanon.<sup>54</sup> In addition to FFP officers, according to USAID headquarters officials, CBOs in Washington were assigned to assist FFP officers in Jordan, Kenya, Niger, as well as the FFP officer for Somalia during the period of our review. The CBOs in Washington worked with field-based FFP officers and local staff to manage projects. The FFP officers responsible for the EFSP grants in our four case study countries told us that because of their large portfolios and conflicting priorities, they performed limited site visits for the projects that we reviewed. In Kenya, the FFP officer told us that her portfolio covered 14 counties, and the cash-based food assistance project we reviewed was just one component. Owing to the demands of all her projects, she had been able to perform limited site visits for the projects we reviewed. According to the implementing partner for the cash-for-asset project that we visited in Kenya, the FFP officer visited the site once, toward the end of the 10-month award period that we reviewed. For the Syria regional award, because of limited staffing and embassy security restrictions in Beirut, the FFP officer based in Jordan had visited the EFSP projects in Lebanon

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<sup>53</sup>CBOs have the primary responsibility for oversight of EFSP grants. They manage these programs within their geographic portfolios and also serve as agreement officer representatives for those awards.

<sup>54</sup>According to the same USAID headquarters official, during the period covered by our review, a second FFP officer based in Turkey was responsible for oversight of EFSP Syria regional award projects in that country and Iraq.

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twice during the past 2 years—once in 2013 and 2014. All four FFP officers responsible for EFSP grants in our four case study countries emphasized that they would have liked to have additional staff because of the importance of conducting site visits to observe operations for which they had an oversight responsibility.

The often volatile security situations in our four case study countries and surrounding areas also limited USAID's ability to perform financial oversight in the field. FFP officers we spoke with noted that U.S. government security personnel had restricted travel in certain areas of their host countries for prolonged periods. For example, the elections in 2013 meant that travel in Kenya was restricted for security reasons during several months of the pre- and post-election season. Additionally, following the 2013 Westgate shopping mall attack in Nairobi and other terrorist incidents around the country, the coastal areas of Kenya were declared off limits for routine field visits. As a result, at the time of our visit in the fall of 2014, the FFP officer had not visited the cash-for-work program for over a year in the coastal areas of Kenya. In Somalia, travel to and within the country was highly restricted. For the project in Somalia that we reviewed, USAID relied on the implementing partner to perform oversight in-country. The implementing partner's access to certain areas of the country was sometimes restricted; however, because of security concerns, the degree of accessibility varied over time. For example, in September 2014, about 40 percent of the households in Somalia were inaccessible to the implementing partner, whereas in the first 2 weeks of February 2015, 27 percent of the households were inaccessible. Additionally, the implementing partner did not have an independent third-party entity to perform oversight in restricted areas of the country. However, according to the implementing partner, it uses satellite imagery and aerial photographs to verify rehabilitation of cash for work activities. Because of security concerns, FFP staff had not been able to conduct any site visits in person in Somalia as of October 2014, the time of our field visit. In addition to access restrictions, routine security requirements such as armed escorts sometimes made it difficult for USAID staff to coordinate field visits. For example, in Niger, FFP program staff could not visit project sites without armed escorts, which can comprise up to 18 soldiers. The armed escorts were required because of security concerns arising from conflicts in neighboring countries. The coordination and the cost of the armed escorts, which could reach several hundred dollars per visit, made it difficult for staff to visit project sites. Faced with travel restrictions and security requirements, several FFP officers we visited reported they were overseeing cash and voucher projects in inaccessible areas indirectly through communication with implementing partners and in



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some instances hiring independent third-party oversight entities to make site visits.

Because of staff limitations and security-imposed constraints, FFP officers primarily rely on implementing partners' reports from the field and regular meetings with them, either in person or by teleconference, to determine whether a project is being executed as intended. However, USAID's guidance to its FFP officers and its implementing partners on financial oversight and reporting is limited. For example, FFP staff in Niger stated that they have had insufficient guidance and training on financial oversight of cash-based food assistance projects. Furthermore, the FFP officers told us that USAID is not prescriptive in the financial oversight procedures it expects from its implementing partners. Additionally, they noted that USAID has not set a quantitative target for site visits by FFP officers. FFP officers in our four case study countries told us that they use a risk-based approach to select which sites to visit. For example, in Kenya, the FFP officer chooses project sites based on acute need, investment, and risk. In Niger, the FFP officers have a plan based on a risk assessment to visit projects periodically. Moving forward, USAID is developing or putting into place several processes to help its staff conduct financial oversight of EFSP programs. Examples include developing policy and guidance for financial oversight and reporting and hiring additional staff in Kenya to focus specifically on overseeing the Kenya cash and food distribution program. By increasing its in-house staff capacity, FFP officers hope to increase the number of field visits. USAID plans to have these processes in place by the end of 2015. Also, realizing the importance of performing oversight in high-risk areas, USAID recently awarded a contract to a third party for Somalia that will provide independent information about the implementation of projects funded by FFP and Office of Foreign Disaster Assistance, including periodic physical verification of project activities.

Although USAID has taken steps to address concerns over its financial oversight of cash and voucher programs, limited staff resources, security restrictions, and lack of guidance hamper USAID's ability to identify problems with cash and voucher distributions. Without systematic financial oversight of the distribution of cash and voucher activities in the field, USAID is hampered in providing reasonable assurance that its EFSP funds are being used for their intended purposes.

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## Conclusions

Cash-based food assistance, including the flexible options of delivering benefits through cash transfers or vouchers, is an important addition to

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USAID's tools for addressing emerging food shortages. Cash and vouchers can be distributed more quickly than food and provide recipients with significant dietary diversity, among other advantages. Like its implementing partners and other major food assistance donors, USAID has significantly expanded its use of cash-based food assistance over the past 5 years. However, cash and voucher options present a new set of policy and financial control challenges that USAID needs to recognize and address. Cash-based food assistance may be the most appropriate option in certain situations, but this option requires additional layers of analysis in terms of decision making, starting with the decision as to which mechanism for delivering the assistance is best for a given situation. Cash-based assistance requires the availability of timely and reliable market information to know when and how modifications to the project may be warranted in response to changing market conditions. In addition, cash and vouchers present a very different set of financial control challenges from overseeing the procurement and distribution of a physical commodity.

The success of USAID's use of cash-based interventions depends on having appropriate mechanisms in place to ensure that grant proposals are sound, that those partners who are implementing projects have a good understanding of the underlying market conditions and the flexibility to make adjustments when prices change dramatically, and that proper financial controls and oversight are in place. We found that USAID followed its grant approval process. However, a significant number of grants we reviewed were modified after their initial approval, often with large increases in the resources committed. Yet USAID does not have formal guidance for reviewing and approving these modifications and thus does not know whether USAID staff are taking all necessary steps to justify the modification of awards. Efforts to review procedures and improve formal guidance for modifying awards have lagged behind the actual implementation of projects, without a time frame for completing those efforts and when enhanced guidance will be finalized. Moreover, USAID lacks formal guidance clearly delineating when and how implementing partners are to modify cash-based food assistance projects in response to changing market conditions, and thus it runs the risk that beneficiaries' benefits may be eroded by significant price increases or that implementing partners may use scarce project funding inefficiently if prices decrease.

While USAID relies on its implementing partners to oversee and ensure the financial integrity of cash-based assistance, the agency does not provide its partners with essential operational policy guidance on how

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they should conduct financial oversight, nor does it have the resources to monitor the implementing partners' efforts. As we noted in this report, several instances of malfeasance have already surfaced in this program. It is essential that USAID learn from these circumstances and implement the necessary changes, including ensuring that comprehensive risk assessments are conducted and that implementing partners are given sufficient guidance and oversight.

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## Recommendations for Executive Action

To strengthen its management of cash-based food assistance projects and help ensure improved oversight of these projects, we recommend that the USAID Administrator take the following five actions:

1. Expedite USAID's efforts to establish formal guidance for staff reviewing modifications of cash-based food assistance grant awards.
2. Develop formal guidance to implementing partners for modifying cash-based food assistance projects in response to changes in market conditions.
3. Require implementing partners of cash-based food assistance projects to conduct comprehensive risk assessments and submit the results to USAID along with mitigation plans that address financial vulnerabilities such as counterfeiting, diversion, and losses.
4. Develop policy and comprehensive guidance for USAID staff and implementing partners for financial oversight of cash-based food assistance projects.
5. Require USAID staff to conduct systematic financial oversight of USAID's cash-based food assistance projects in the field.

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## Agency Comments

We provided a draft of this product to USAID for comment. USAID provided written comments on the draft, which are reprinted in appendix II. USAID also provided technical comments, which we incorporated throughout our report, as appropriate.

In its written comments, USAID concurred with our recommendations. USAID agreed that it should formalize guidance for staff reviewing modifications of cash-based food assistance grant awards and stated that it is taking steps to do so. USAID also agreed to develop formal guidance to implementing partners on appropriate adjustments to adapt programming of cash-based food assistance projects in response to changing market conditions. In response to our recommendation to require implementing partners to conduct comprehensive risk

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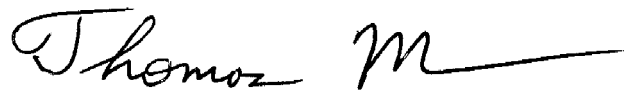
assessments and submit the results to USAID with mitigation plans, USAID stated that while it expected applicants to address risk and risk mitigation within its application, it will formalize this requirement. With regard to our recommendation to develop policy and comprehensive guidance for USAID staff and implementing partners for financial oversight of cash-based food assistance, USAID stated that it will work with its implementing partners to improve financial oversight of cash-based food assistance projects, both through engagement on implementing partners' policy, legal frameworks, and guidelines and through the development of guidance for USAID staff and implementing partners. Furthermore, to improve FFP officers' capacity to oversee cash-based food assistance projects, USAID stated that it is developing training materials and will continue to explore the use of third-party monitoring contracts where security and access prevent in-person monitoring.

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

If you or your staff have any questions about this report, please contact me at (202) 512-9601 or [melitot@gao.gov](mailto:melitot@gao.gov). Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.

Sincerely yours,

A handwritten signature in black ink that reads "Thomas M" followed by a long horizontal flourish.

Thomas Melito  
Director, International Affairs and Trade

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# Appendix I: Objectives, Scope, and Methodology

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Our objectives were to (1) review the U.S. Agency for International Development's (USAID) processes for awarding and modifying cash-based food assistance projects and (2) assess the extent to which USAID and its implementing partners have implemented financial controls to help ensure appropriate oversight of such projects.

To address both objectives, we analyzed Emergency Food Security Program (EFSP) data provided by USAID and its implementing partners, which include public international organizations (PIO) such as the World Food Programme (WFP), the United Nations (UN) Food and Agriculture Organization (FAO), as well as selected nongovernmental organizations (NGO). In Washington, D.C., we interviewed officials from the Department of State (State), the U.S. Department of Agriculture (USDA), and USAID. We also met with officials representing NGOs that were awarded USAID EFSP grants to serve as implementing partners in carrying out U.S. food assistance programs overseas or were the subawardees for USAID grants awarded to the PIOs. In Rome, we met with officials from the U.S. Mission to the United Nations, FAO, and WFP. We also met with the UN permanent representatives for three major donors—Canada, the European Union, and the United Kingdom. We also selected four case study countries that receive EFSP grants for review—Jordan for the Syria region, Kenya, Niger, and Somalia—and conducted fieldwork in three of these countries (Jordan, Kenya, and Niger) where we met with officials from the U.S. missions, implementing partners, vendors, financial institutions, and beneficiaries, among others. We selected these four countries on the basis of several factors including the level of USAID EFSP funding, the types of modalities and mechanisms used to transfer the assistance, implementing partners, security concerns and risks, and logistics and budget constraints. We cannot generalize our findings from these four countries to the other countries where USAID has funded cash-based food assistance projects. We interviewed staff from USAID and its implementing partners in Niger and Jordan, as well as staff based in Nairobi who had responsibility for oversight of the EFSP-funded operations in Kenya and Somalia.

To provide context and background, we analyzed data from USAID and WFP to identify trends in U.S. funding for cash-based food assistance. These data include approved EFSP awards from USAID and cash and voucher amount from WFP by year. In addition, we reviewed studies, evaluations, and other documents on cash-based food assistance—its benefits and challenges—as well as various tools that USAID and its implementing partners use to facilitate their determination of the

appropriate assistance delivery mechanism to address a given food insecurity situation.

To address our first objective regarding USAID's processes for awarding and modifying cash-based food assistance projects, we reviewed USAID's Annual Program Statements (APS), grant proposals, and agreements; grant modifications; various directives and guidance, including guidance on concept notes; evaluation committee reviews; and scoring of proposals.<sup>1</sup> Specifically, to determine whether USAID followed the process established in its guidance for reviewing and deciding to fund project proposals, we reviewed all 22 cash-based projects that were newly awarded and active as of June 1, 2014, making them subject to the requirements in the latest APS issued in May 2013. These awards covered 14 countries in Africa, Asia, and the Middle East; 11 of them went to nongovernmental organizations, and 11 went to public international organizations. For these 22 award files, we reviewed FFP's files to determine whether it had documented the required program decision steps outlined in the APS for competitive proposals: the partner's concept paper, the partner's full proposal, and the evaluation committee's review. For grants awarded under an expedited noncompetitive review process, we reviewed the Office of Food for Peace's (FFP) files to determine whether they contained the appropriate action memo or memo of exception to competition. During our analysis, we found two instances in which there were no action memos or memos of exception to competition but the awards were justified under authorities in USAID's main organization-wide guidance for expediting awards during emergencies, and we report these as a separate category.

In addition, to determine the types of award modifications and the reasons for these modifications, we reviewed 21 EFSP grant awards that were awarded and active as of January 2012 to June 2014 for the four case study countries. This selection is not generalizable to the universe of all ESFP awards. A significant portion of FFP resources is approved through cost modifications, so a further review of these modifications was done, including numerous modifications for the Syria regional award. To assess the reliability of the cost modification data, we reviewed and analyzed funding data on USAID's modification assistance awards and

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<sup>1</sup>USAID has issued three Annual Program Statements for International Emergency Food Assistance—2010, 2011, and 2013.

found the data to be sufficiently reliable for our purposes. We also determined from a list prepared by FFP's independent management contractor the types of documents (such as the program justification, action memo, and technical evaluation report) that FFP submitted to the contractor for the cost modifications we reviewed. We also examined a version of draft guidance that USAID said it is currently reviewing as part of an effort to improve, consolidate, and streamline procedures for processing cost modifications, among other things.

Furthermore, to identify periods of changing market conditions, we analyzed data on the price of key staple commodities in five selected markets in our case study countries from fiscal years 2010 through 2014. These markets were selected as illustrative examples of changes in the prices of key staple commodities, the effect on beneficiaries near those markets, and USAID's implementing partners' responses, if any. These markets are not meant to be representative of all other markets in our case study countries or all other markets near areas served by USAID's implementing partners' projects. We used data on prices from WFP's Vulnerability Analysis and Mapping division, FAO's Food Security and Nutrition Analysis Unit, and Jordan's Department of Statistics. To assess the reliability of these data, we compared these data with data provided by USAID's implementing partners, if available, and found the data to be sufficiently reliable for our purposes. We adapted WFP's Alert for Price Spikes methodology to identify significant changes in the prices of key staple commodities.<sup>2</sup> We reviewed USAID and its implementing partners' project documents and interviewed implementing partner officials to assess how USAID's implementing partners responded to any significant changes in the prices of key staple commodities. To the extent information was available, we calculated the effect of significant changes

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<sup>2</sup>WFP's Alert for Price Spikes methodology detects abnormally high levels of local food prices for selected staple commodities. For periods during which implementing partners distributed cash and vouchers, we compared the prices of selected commodities against the long-term seasonal trend of the commodities' price series at selected markets. For price series for which we could not readily apply WFP's Alert for Price Spikes methodology (we could not reject a unit root), we also applied WFP's Alert for Price Spikes methodology to the changes in the commodities' prices instead. We also applied WFP's Alert for Price Spikes methodology to identify abnormally low levels of local food prices for selected staple commodities. Some price series had months for which data were missing. For these months without data, we linearly interpolated the prices. In doing so, we likely reduced the volatility of the price series and increased the likelihood of identifying abnormally high or low levels of local food prices for selected staple commodities.

in the prices of key staple commodities on the cost of the beneficiaries' food baskets.

To address our second objective regarding the extent to which USAID and its implementing partners have implemented financial controls to help ensure appropriate oversight of cash based food assistance projects, we obtained the grant funding data from the grant award agreements and compared them with the funding data provided by USAID and determined that the data were sufficiently reliable for our purposes. To select the projects in our case study countries, we used a range of criteria, including the grant award date, type of delivery mechanism, and funding level (see table 1).

**Table 1: Emergency Food Security Program Grants Awarded in Fiscal Year 2012 for Selected Case Studies**

Country	Emergency	Date awarded	Completion date	Funding level	Type of delivery mechanism
Kenya	Drought	8/23/12	6/30/13	\$10,500,000	Cash transfer (cash-for-assets) Beneficiaries used bank issued cards to obtain cash at the financial institution or at automated teller machines (ATM)
Niger	Drought	4/30/12	9/15/12	\$3,997,507	Cash transfer (unconditional cash and cash-for-work) Financial institution delivered cash to the distribution sites
Somalia	Drought/famine	11/8/11	9/30/14	\$49,968,438 <sup>a</sup>	Cash transfer (cash-for-work) Beneficiaries visited money vendor locations with payment vouchers to obtain cash. In some cases, the money vendor delivered cash to beneficiaries.
Syria regional	Conflict	7/31/12	12/31/14	\$449,300,000	Paper vouchers Implementing partners provide vouchers to beneficiaries in camps and villages. The beneficiaries use the vouchers to obtain food from implementing partners' approved vendors.

Source: U.S. Agency for International Development (USAID). | GAO 15-328

<sup>a</sup>In November 2011, USAID provided \$19.2 million to this partner and an additional \$30.7 million in June 2012. The approximately \$50 million grant covered the period from November 2011 through September 2014.

For each project, we selected at least one distribution date that fell within the period between when the grant was awarded and when the project was completed. For example, for Jordan, the grant was awarded in July 2012 and ended in December 2014. We selected two paper voucher distributions, one that occurred in January 2013 for a governorate and



one that occurred in April 2014 for a refugee camp.<sup>3</sup> Conclusions about the areas selected for our review, like those for our case study countries, are not generalizable to all areas in the selected countries or to the broader universe of the implementing partners' operations. We then assessed for each project selected distribution documentation and for the grant key reports (quarterly and final financial reports, quarterly performance reports, and final program reports) against the requirements listed in relevant grant agreements; USAID Annual Program Statements for 2011 and 2013; and the implementing partners' financial policies, procedures, and guidance in place at the time of the distributions. For example, in Kenya, we reviewed planned and actual beneficiary payment distribution lists as well as reconciliation reports prepared by the implementing partner and its financial service providers in order to determine whether there were proper authorizations and segregation of duties. Additionally, we assessed whether USAID's required reporting of key reports was completed and submitted to USAID on a timely basis.

In addition, to determine the extent to which USAID and implementing partners have established financial policies and procedures for cash-based food assistance interventions, we reviewed and assessed the policies, procedures, manuals and guidelines representing current procedures (in place during 2014) and procedures in place during 2012, the time period for our case studies, against internal control-related criteria. For USAID, we identified the *Standards for Internal Control in the Federal Government* as the source of primary criteria.<sup>4</sup> The Federal Managers' Financial Integrity Act of 1982 requires each executive agency, including USAID, to establish internal controls in accordance with *Standards for Internal Control in the Federal Government*. For the implementing partners, we identified the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) internal control frameworks as the primary criteria.<sup>5</sup> According to COSO, its 1992 framework has gained broad acceptance and is widely used around the

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<sup>3</sup>A governorate is an administrative division of a country such as a region that is usually headed by a governor.

<sup>4</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

<sup>5</sup>Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (September 1992), and *Internal Control—Integrated Framework* (May 2013).

world. It is recognized as a leading framework for designing, implementing, and conducting internal control and assessing the effectiveness of internal control. COSO updated its framework in May 2013 to enhance and clarify the framework's use and application. These internal control standards and frameworks describe the five components of internal control—control environment, risk assessment, control activities, information and communication, and monitoring. To address our objective, we focused on the control activities and risk assessment components in order to assess the entities' financial oversight of cash-based food assistance projects. We did not assess the processes and procedures against the other internal control components. To determine the extent to which USAID and its implementing partners conducted comprehensive risk assessments, we reviewed their risk registers, if available, and other documents against their guidance and other standards, such as the international risk management standards published by the International Organization for Standardization (ISO), a worldwide federation of national standards bodies (ISO member bodies). This International Standard (ISO 31000) *Risk Management—Principles and Guidelines* provides principles and generic guidelines on risk management.

We conducted this performance audit from February 2014 to March 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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



Thomas Melito  
Director, International Affairs and Trade  
U.S. Government Accountability Office  
Washington, DC 20548

MAR 13 2015

Dear Mr. Melito:

I am pleased to provide the U.S. Agency for International Development (USAID)'s formal response to the Government Accountability Office (GAO) draft report entitled "International Cash-Based Food Assistance: USAID Has Developed Processes for Initial Project Approval but Should Strengthen Financial Oversight" (GAO-15-328).

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

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Angelique M. Crumbly". The signature is stylized and overlaps the printed name below it.

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

Enclosure: a/s

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**USAID COMMENTS ON GAO DRAFT REPORT**

No. GAO-15-328

USAID appreciates the opportunity to comment on GAO's draft report entitled "International Cash-Based Food Assistance: USAID Has Developed Processes for Initial Project Approval but Should Strengthen Financial Oversight."

Over the past 60 years, USAID's Office of Food for Peace (FFP) has developed comprehensive systems for the award, management, and oversight of in-kind food assistance. Since the Emergency Food Security Program first provided FFP with the flexibility to respond to humanitarian crises with cash-based food assistance, we have used these new modalities to more efficiently and effectively enable populations in need to access food close to home. These carefully targeted resource transfers allow beneficiaries significantly affected by conflict or natural disaster to access life-saving food assistance from local markets, thereby reducing suffering and supporting early recovery. We welcome GAO's review of these activities, and value their contribution to our continuing efforts to improve the procedures and programming of cash-based food assistance.

To strengthen USAID's management and oversight of cash-based food assistance projects, the GAO issued five recommendations to USAID:

**Recommendation 1:** We recommend that the USAID Administrator take action to expedite USAID's efforts to establish formal guidance for staff reviewing modifications of cash-based food assistance grant awards.

**Response:** While the modification process is generally smooth and well understood by both FFP and its implementing partners, FFP agrees that it should be formalized. FFP's Grants Management Services Team is developing written guidance on the review and approval of modifications to awards. As background, FFP reviews all requests for modifications to grant awards to ensure that the modification is appropriate to and necessary for the emergency response. In order to maintain consistency, all award modifications are subject to the same clearance process as the original award through FFP Senior Management prior to final approval and signature by the Agreement Officer.

**Recommendation 2:** We recommend that the USAID Administrator take action to develop formal guidance to implementing partners for modifying cash-based food assistance projects in response to changes in market conditions.

**Response:** FFP will develop formal guidance to implementing partners on appropriate adjustments to adapt programming in response to changing market conditions. As background, FFP emergency food assistance programs operate in complex market environments, often suffering from price shocks due to natural disaster or conflict. As noted in the report, partners are required to monitor food prices and often build a response to food price fluctuations into their program design. In addition, FFP staff review implementing partner's price monitoring submissions and will discuss changes in market conditions and recommend adjustments to programming, as necessary. FFP staff also relies on the Famine Early Warning Systems

- 3 -

Network (FEWS Net) price and food availability data, which has grown increasingly sophisticated in recent years, to triangulate information. Determining when and how to shift programming is highly context specific, as the case studies in the report show.

**Recommendation 3:** We recommend that the USAID Administrator take action to require implementing partners of cash-based assistance projects to conduct comprehensive risk assessments and submit the results to USAID along with mitigation plans that address financial vulnerabilities such as counterfeiting, diversion, and losses.

**Response:** As noted in the report, FFP is in the process of revising the International Emergency Food Assistance Annual Program Statement, the solicitation mechanism for cash-based food assistance awards. While FFP previously expected applicants to address risk and risk mitigation within its application, it will take this opportunity to formalize that requirement.

**Recommendation 4:** We recommend that the USAID Administrator take action to develop policy and comprehensive guidance for USAID staff and implementing partners for financial oversight of cash-based food assistance projects.

**Response:** All non-governmental organizations implementing cash-based food assistance programming are required to conform to audit requirements set forth in 2 C.F.R. 200 as well as meet the standards outlined in USAID's Automated Directive System (ADS) 303.3.9 and Procurement Executive Bulletin 2005-12. FFP will work with implementing partners to improve financial oversight of cash-based food assistance projects, both through engagement on implementing partners' programmatic policy, and legal frameworks and guidelines and USAID's development of reference materials for USAID staff and implementing partners.

**Recommendation 5:** We recommend that the USAID Administrator take action to require USAID staff to conduct systematic financial oversight of USAID's cash-based food assistance projects in the field.

**Response:** USAID remains committed to strong oversight of all projects, including cash-based food assistance. FFP staff, both in Washington and abroad, prioritizes award management and the successful implementation of life-saving cash-based food assistance programming. FFP is developing training products to improve FFP Officer's capacity to oversee cash-based food assistance programming. However, security and access constraints are likely to continue to preclude in-person monitoring of some humanitarian assistance programming by USAID staff. USAID/FFP will continue to explore the use of third party monitoring contracts where appropriate.

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Thomas Melito (202) 512-9601 or [melitot@gao.gov](mailto:melitot@gao.gov)

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## Staff Acknowledgments

In addition to the individual named above, Rathi Bose, Carol Bray, Ming Chen, Tina Cheng, Beryl H. Davis, David Dayton, Martin De Alteriis, Mark Dowling, Etana Finkler, Fang He, Teresa Abruzzo Heger, Joy Labez, Dainia Lawes, Kimberly McGatlin, Diane Morris, Valerie Nowak, Barbara Shields, and Daniel Will made key contributions to this report.

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# Related GAO Products

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*International Food Aid: Better Agency Collaboration Needed to Assess and Improve Emergency Food Aid Procurement System.* [GAO-14-22](#). Washington, D.C.: March 26, 2014.

*International Food Aid: Prepositioning Speeds Delivery of Emergency Aid, but Additional Monitoring of Time Frames and Costs Is Needed.* [GAO-14-277](#). Washington, D.C.: March 5, 2014.

*Global Food Security: USAID Is Improving Coordination but Needs to Require Systematic Assessments of Country-Level Risks.* [GAO-13-809](#). Washington, D.C.: September 17, 2013. E-supplement [GAO-13-815SP](#).

*International Food Assistance: Improved Targeting Would Help Enable USAID to Reach Vulnerable Groups.* [GAO-12-862](#). Washington, D.C.: September 24, 2012.

*World Food Program: Stronger Controls Needed in High-Risk Areas.* [GAO-12-790](#). Washington, D.C.: September 13, 2012.

*International Food Assistance: Funding Development Projects through the Purchase, Shipment, and Sale of U.S. Commodities Is Inefficient and Can Cause Adverse Market Impacts.* [GAO-11-636](#). Washington, D.C.: June 23, 2011.

*International School Feeding: USDA's Oversight of the McGovern-Dole Food for Education Program Needs Improvement.* [GAO-11-544](#). Washington, D.C.: May 19, 2011.

*International Food Assistance: Better Nutrition and Quality Control Can Further Improve U.S. Food Aid.* [GAO-11-491](#). Washington, D.C.: May 12, 2011.

*International Food Assistance: A U.S. Governmentwide Strategy Could Accelerate Progress toward Global Food Security.* [GAO-10-212T](#). Washington, D.C.: October 29, 2009.

*International Food Assistance: USAID Is Taking Actions to Improve Monitoring and Evaluation of Nonemergency Food Aid, but Weaknesses in Planning Could Impede Efforts.* [GAO-09-980](#). Washington, D.C.: September 28, 2009.



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*International Food Assistance: Local and Regional Procurement Can Enhance the Efficiency of U.S. Food Aid, but Challenges May Constrain Its Implementation.* [GAO-09-570](#). Washington, D.C.: May 29, 2009.

*International Food Security: Insufficient Efforts by Host Governments and Donors Threaten Progress to Halve Hunger in Sub-Saharan Africa by 2015.* [GAO-08-680](#). Washington, D.C.: May 29, 2008.

*Foreign Assistance: Various Challenges Impede the Efficiency and Effectiveness of U.S. Food Aid.* [GAO-07-560](#). Washington, D.C.: April 13, 2007.



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