United States Government Accountability Office

Report to the Chairman, Committee on Agriculture, House of Representatives

March 2017

INTERNATIONAL FOOD ASSISTANCE

USAID Has Controls for Implementation and Support Costs but Should Strengthen Financial Oversight

GAO-17-224

GAO Highlights

Highlights of GAO-17-224, a report to the Chairman, Committee on Agriculture, House of Representatives

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INTERNATIONAL FOOD ASSISTANCE

USAID Has Controls for Implementation and Support Costs but Should Strengthen Financial Oversight

Why GAO Did This Study

In recent years, USAID has awarded about $1.4 billion annually for international food assistance projects under Title II of the Food for Peace Act (Title II). This funding has traditionally been used to provide U.S.-purchased commodities to food-insecure beneficiaries overseas. Section 202(e) of the Food for Peace Act authorizes USAID to also provide funding to cover project implementation costs, which have typically included administrative expenses such as implementing partner staff salaries. The Agricultural Act of 2014 (2014 Farm Bill) increased the amount of 202(e) funding USAID can use for implementation costs from 13 to 20 percent of the annual Title II appropriation and also expanded the eligible uses of these funds. USAID's utilization of these new authorities presents potential oversight challenges.

GAO was asked to review Title II implementation costs. This report examines (1) any changes in USAID's use of Title II funding to implement and support projects since the 2014 Farm Bill and (2) USAID's financial oversight of this funding for selected projects. GAO analyzed USAID funding data for fiscal years 2012 through 2015 (the most recent available), reviewed USAID and partner documents, and interviewed officials. GAO conducted financial reviews of a nongeneralizable sample of seven Title II projects, selected on the basis of project funding and implemented modalities.

What GAO Recommends

GAO is making five recommendations to USAID—for example, to conduct financial reviews, collect monitoring data, and assess risks. USAID concurred with the recommendations.

View GAO-17-224. For more information, contact Thomas Melito at (202)512-9601 or MelitoT@gao.gov

What GAO Found

The U.S. Agency for International Development (USAID) has used most of the 2014 Farm Bill's increase in authorized funding for section 202(e) of the Food for Peace Act to provide cash transfers, food vouchers, and locally or regionally procured food—modalities not previously supported through Title II. Of the additional authorized funding that the agency utilized, USAID obligated 75 percent in fiscal year 2014 and 96 percent in fiscal year 2015 for these modalities. In addition, to better meet beneficiaries' needs, USAID has increasingly used funds from accounts authorized by the Foreign Assistance Act, along with 202(e) funding, to implement and support projects—costs that 202(e) funding has typically covered. Also, in some cases, USAID has used funds from those accounts along with 202(e) funding to provide cash transfers, food vouchers, or local or regional procurement in a single project.

Warehouse Workers Packaging Food Aid for Beneficiaries in Haiti

Source: GAO. | GAO-17-224

USAID and its partners have various controls for financial oversight of Title II funding used for implementation and support costs; however, GAO found certain deficiencies in USAID's oversight. USAID reviews partners' detailed planned budgets for these costs and high-level quarterly financial reports, according to USAID officials, but it generally has not conducted systematic, targeted financial reviews of partners' actual spending on these costs. While GAO found that partners' internal controls generally included policies and procedures to help ensure proper use of funds, GAO's limited, nongeneralizable financial transactions testing identified instances of misspending, such as charging a 202(e) cost to one project that should have been charged to another. Also, USAID has not obtained key monitoring data from partners related to these costs that could identify areas needing additional financial oversight. Moreover, USAID does not require partners to conduct comprehensive assessments of financial and fraud risks for cash transfers and food vouchers in development projects, although it requires risk assessments for emergency projects. GAO found that partners for selected development projects provided broad discussions of risk to USAID but did not provide comprehensive risk assessments. As a result, USAID is limited in its ability to ensure that partners are spending funds as planned.

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Abbreviations

202(e)	Section 202(e) in Title II of the Food for Peace Act
ADS	Automated Directives System
COSO	Committee of Sponsoring Organizations of the Treadway Commission
EFSP	Emergency Food Security Program
FFP	Office of Food for Peace
IDA	International Disaster Assistance account
ITSH	internal transportation, storage, and handling
NGO	nongovernmental organization
OIG	Office of Inspector General
OMB	Office of Management and Budget
PIO	public international organization
SF-425	Federal Financial Report, Standard Form 425
UN	United Nations
USAID	U.S. Agency for International Development
WFP	World Food Program

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
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March 9, 2017

The Honorable Mike Conaway
Chairman
Committee on Agriculture
House of Representatives

Dear Mr. Chairman:

The United States is the world's largest donor of international food assistance, spending about $2.5 billion annually to serve beneficiaries through various programs across the globe. The U.S. Agency for International Development (USAID) provides much of this assistance—about $1.5 billion worth in fiscal year 2016—through its Title II Food for Peace program (Title II).[1] USAID generally has used Title II funds to provide U.S. in-kind food aid (i.e., food commodities purchased in the United States and transported overseas) through development assistance projects meant to address long-term chronic hunger and through emergency projects intended to address the food needs of vulnerable populations affected by conflicts or natural disasters, such as droughts and floods. To implement Title II projects, USAID enters into cooperative agreements with implementing partners that design and implement food aid activities and distribute the food aid. Nongovernmental organizations (NGO) implement Title II development projects, and the World Food Program (WFP)—a United Nations (UN) agency and the largest humanitarian organization combating hunger—implements most Title II emergency projects.[2]

Under the Food for Peace Act, USAID is authorized to spend some of the funds appropriated annually to Title II on various costs associated with

[1]Title II of the Food for Peace Act authorizes USAID's provision of Title II food aid. Title II expenditures are reauthorized through the Farm Bill approximately every 5 years and are funded through a U.S. Department of Agriculture appropriation. 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 the provision of U.S. agricultural commodities for humanitarian and development purposes. In addition to providing food aid through Title II, USAID funds food assistance projects and activities from accounts authorized by the Foreign Assistance Act of 1961, as amended.

[2]In this report, "implementing partners" refers to NGOs and WFP.

the administration, implementation, and support of both development and emergency food assistance. Specifically, USAID is authorized to provide Title II funds to implementing partners to cover internal transportation, storage, and handling (ITSH) costs incurred in both carrying out food assistance activities and storing and distributing U.S. in-kind food aid after it arrives in the destination countries.[3] In addition, pursuant to Section 202(e) of the Food for Peace Act, USAID is authorized to spend a proportion of Title II funds—in this report, "202(e) funding"—to cover the costs its partners incur while administering activities, such as staff salaries and project materials necessary to implement Title II projects.[4] The Agricultural Act of 2014 (2014 Farm Bill), enacted in February 2014, increased the proportion of the annual Title II appropriation that USAID is authorized to spend as 202(e) funding from 13 percent—about $191 million—to 20 percent—about $293 million in fiscal year 2016—and expanded the eligible uses of 202(e) funding from those allowed by the 2008 Farm Bill.[5]

You asked us to review USAID's use and oversight of Title II funding, in light of the 2014 Farm Bill's increase of 202(e) funding and expansion of authority for USAID to spend this funding to implement and support Title II. This report examines (1) any changes in USAID's use of Title II funding to implement and support projects since the enactment of the 2014 Farm Bill and (2) USAID's financial oversight of Title II funding used to implement and support selected projects.

To address these objectives, we reviewed USAID data, policies, guidance, and procedures as well as implementing partners' application and award documentation for selected projects, including project budgets.[6] We interviewed USAID and partner officials both in Washington, D.C., and during fieldwork in Haiti, Malawi, and Zimbabwe.

[3]All emergency projects are eligible for ITSH funding; however, only development projects in least developed countries that meet the poverty and other eligibility criteria established by the International Bank for Reconstruction and Development for financing under the International Development Association qualify for ITSH funding.

[4]See 7 U.S.C. § 1722(e). In this report, "project" refers to individual grants or cooperative agreements made by USAID to implementing partners.

[5]Specifically, the 2014 Farm Bill authorized USAID to use 202(e) funds to support implementing partners, not only by assisting them in establishing Food for Peace Act programs as had been previously authorized, but also in enhancing such programs. Pub. L. No. 113-79. § 3002.

[6]App. III provides additional information on our selected Title II projects.

To examine any changes in USAID's use of Title II funding to implement and support projects since the 2014 Farm Bill, we reviewed USAID development and emergency Title II funding data for fiscal years 2012 through 2015—the most recent available data at the time of our review—as well as implementing partner award documents for selected projects. We analyzed these data and documents to determine the amount of 202(e) funding USAID has provided for costs to implement and support Title II projects; the amount of funding and number of projects distributing cash transfers, food vouchers, or locally or regionally procured food since the 2014 Farm Bill was enacted; and the most common types of assistance modalities. We also reviewed other funding sources, such as foreign assistance funding from the Development Assistance and International Disaster Assistance (IDA) accounts, to identify countries and projects receiving funding from multiple sources. To assess the reliability of these data, we reviewed documentation and interviewed USAID officials to identify and rectify any missing or erroneous data. We determined that the data and information were sufficiently reliable to compare project funding obligations and amounts (metric tonnage) of food assistance provided.

In addition, to examine USAID's financial oversight of funding to implement and support selected projects, we reviewed USAID's policies, guidance, and procedures for financial oversight and monitoring of 202(e) and ITSH funding, including funding for cash transfers, food vouchers, and locally or regionally procured food. We selected seven projects for more in-depth review—four development and three emergency projects—and fieldwork locations on the basis of factors such as level of Title II funding, region, and types of assistance implemented with 202(e) funding since fiscal year 2014. Because we judgmentally selected projects and locations for fieldwork, our findings cannot be generalized. For the selected development projects, we reviewed and compared funding data and information provided in applications, award agreements, approved annual budgets, quarterly and annual reports, expenditure reports (known as SF-425s), and relevant audits, among other documentation, to identify any significant issues or discrepancies in implementing partners' financial oversight and monitoring of 202(e) and ITSH spending. We reviewed selected implementing partners' internal controls, disbursement processes, and support documentation such as invoices and receipts for a judgmental sample of transactions.[7] For selected WFP emergency projects, we reviewed WFP policies, procedures, and guidance related to financial oversight and monitoring of food assistance projects; WFP's external and internal audits; and project documentation.

We conducted this performance audit from October 2015 to March 2017 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.

Background

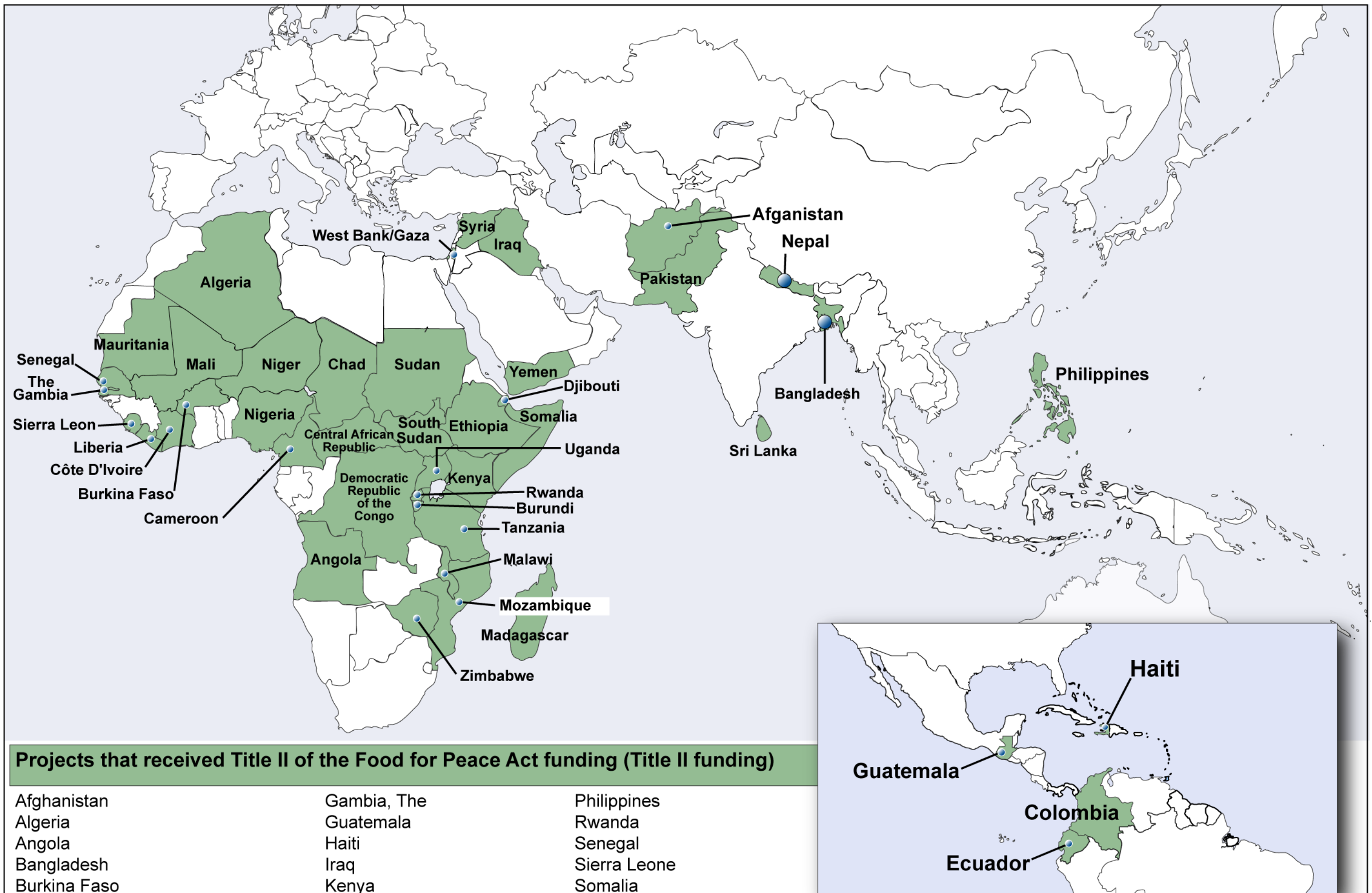
USAID International Food Assistance

Through its Title II program, USAID has traditionally provided its implementing partners with U.S. in-kind food aid, which its partners distribute to beneficiaries in need overseas.[8] Figure 1 shows the locations of projects that received Title II funding in fiscal years 2012 through 2015.

[7]To identify any internal controls and financial management issues, we reviewed a nongeneralizable sample of 80 transactions from financial information provided by implementing partners for four selected Title II development projects. Specifically, we performed detailed transaction testing of expenditures of 202(e) or ITSH funds, using samples of approximately 20 transactions for each project for fiscal years 2014 and 2015, including a mixture of larger and smaller transactions for traditional implementation costs as well as cash transfers, food vouchers, and local and regional procurement. We tested each selected transaction to determine whether the costs were (1) accurate, (2) allowable, (3) reasonable, (4) approved, (5) adequately reviewed, and (6) supported by sufficient documentation. App. I provides additional details on our objectives, scope, and methodology.

[8]The Food for Peace Act defines the term "agricultural commodity" as any agricultural commodity, or products thereof, produced in the United States. See 7 U.S.C. § 1732(2).

Figure 1: Locations of International Food Assistance Projects Funded through Title II of the Food for Peace Act, Fiscal Years 2012-2015



Projects that received Title II of the Food for Peace Act funding (Title II funding)

Afghanistan
Algeria
Angola
Bangladesh
Burkina Faso
Burundi
Cameroon
Central African Republic
Chad
Colombia
Côte D'Ivoire
Democratic Republic of the Congo
Djibouti
Equador
Ethiopia
Gambia, The
Guatemala
Haiti
Iraq
Kenya
Liberia
Madagascar
Malawi
Mali
Mauritania
Mozambique
Nepal
Niger
Nigeria
Pakistan
Philippines
Rwanda
Senegal
Sierra Leone
Somalia
South Sudan
Sri Lanka
Sudan
Syria
Tanzania
Uganda
West Bank/Gaza
Yemen
Zimbabwe

Sources: GAO analysis of U.S. Agency for International Development (USAID) data; Map Resources (map). | GAO-17-224

Congress has historically amended or reauthorized Title II program authorizations through farm bills enacted about every 5 years. To cover the costs associated with carrying out Title II projects, Congress authorizes USAID to provide implementing partners 202(e) and ITSH funding, with certain restrictions. Specifically, the 2014 Farm Bill increased the total amount of 202(e) funding USAID can provide from 13 percent to 20 percent of funds made available to implement Title II of the Food for Peace Act. The 2014 Farm Bill continued to allow USAID to use 202(e) funding to cover administrative-type costs but expanded the eligible uses of this funding beyond those authorized by the 2008 Farm Bill or previous farm bills, allowing the use of 202(e) funding to enhance existing projects. According to USAID, this provision permits the agency to use 202(e) funding to implement cash transfers, food vouchers, and local or regional procurement[9] in Title II projects.[10] Title II also authorizes USAID to use ITSH funding to cover costs that partners incur while moving and storing U.S. in-kind food aid after it reaches a destination country.[11] (Fig. 2 shows images from a video depicting examples of USAID's uses of 202(e) and ITSH funding for Title II projects.)

[9]According to USAID, cash transfers provide money that beneficiaries can use to purchase food, while food vouchers can be redeemed for food. Local procurement is the purchase of commodities sourced in the country where they will be distributed, and regional procurement is the purchase of commodities sourced in the same continent as the country where they will be distributed. Authority to engage in local and regional procurement is also provided under 7 U.S.C. 1726c. In this report, local procurement includes "twinning"—that is, according to WFP, the matching of in-kind food aid from one donor with a cash contribution from another donor to cover the costs associated with distributing the in-kind food.

[10]According to USAID, both before and after the 2014 Farm Bill, the agency has also used a portion of 202(e) funds to implement certain development activities in food aid projects, such as irrigation systems and school construction.

[11]See app. II for more information on ITSH obligations.

Figure 2: Warehouse Workers Packaging Food Aid for Beneficiaries in Haiti

Source: GAO. | GAO-17-224

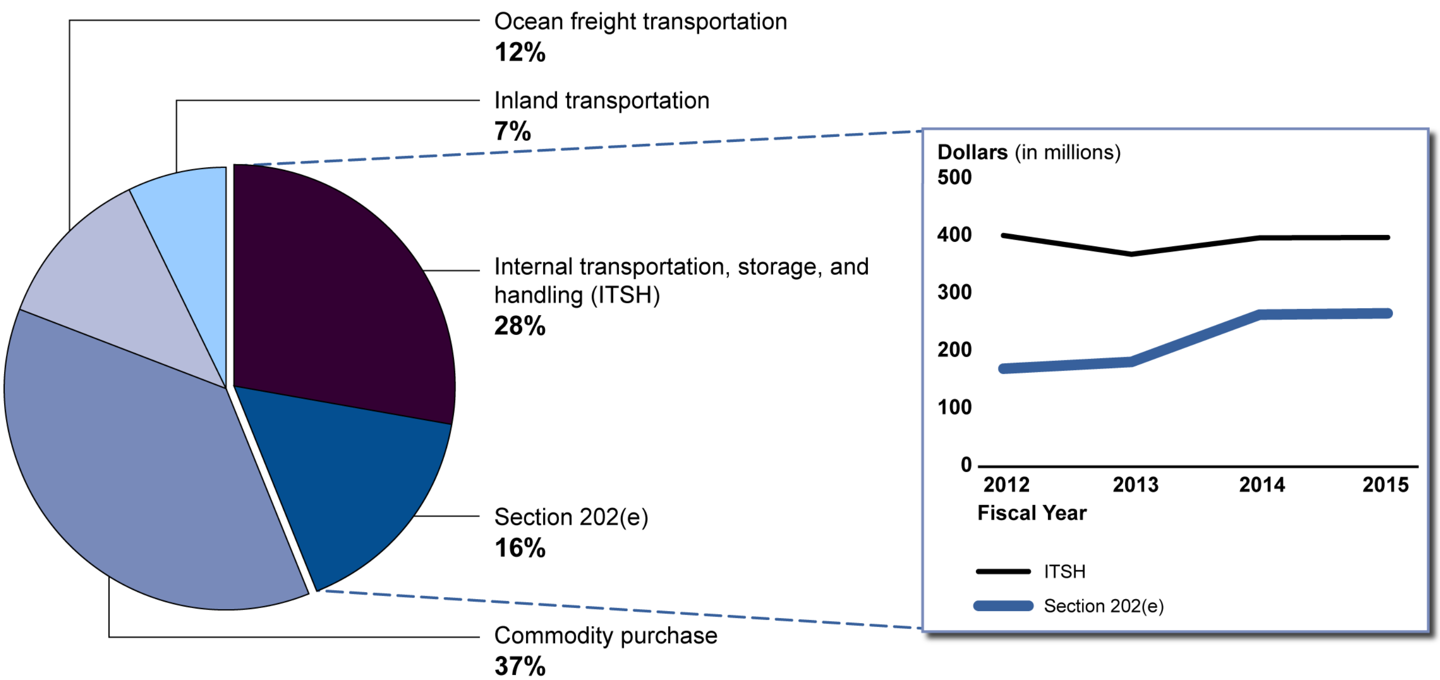
Note: The images shown are from a video about implementation and support costs associated with the U.S. Agency for International Development's (USAID) provision of food aid through the Food for Peace program. To view the video, go to www.gao.gov/products/GAO-17-224.

In fiscal years 2012 through 2015, USAID obligated about $5.567 billion in Title II funding for its development and emergency projects. As figure 3 shows, USAID obligated about 44 percent of total Title II funding to 202(e) and ITSH during that period to cover the costs of implementing and supporting these projects. These obligations comprised about $889 million of 202(e) funding (16 percent of total Title II funding) and about $1.575 billion of ITSH funding (28 percent of Title II funding).[12] USAID data for fiscal years 2012 through 2015 show that the agency provided about 4.5 million metric tons of food commodities. USAID obligated the remainder of Title II funding to cover the costs of

[12]In addition to obligating these amounts, USAID obligated about $24.1 million in 202(e) funding and about $180.1 million in ITSH funding from the Bill Emerson Humanitarian Trust in fiscal years 2014–2015. As reauthorized by the 2014 Farm Bill, this trust is an authority that allows USAID's Office of Food for Peace to respond to unanticipated food crises abroad when other Title II resources are not available.

- purchasing the commodities in the United States (37 percent),
- transporting the commodities from the United States as ocean freight (12 percent), and
- transporting the commodities inland from the foreign port of entry to their destination in the country or to the border of another, landlocked country (7 percent).

Figure 3: USAID Title II Obligated Funding, Fiscal Years 2012-2015



Source: GAO analysis of U.S. Agency for International Development (USAID) funding data. | GAO-17-224

Notes: ITSH funding is provided to cover the costs of transporting, storing, and handling U.S. commodities in the destination country. Section 202(e) funding is provided under Section 202(e) of the Food for Peace Act to support eligible organizations in the provision of Title II agricultural commodities.

In addition to obligating the amounts shown for Section 202(e) and ITSH funding, the U.S. Agency for International Development (USAID) obligated about $24.1 million in 202(e) funding and about $180.1 million in ITSH funding to support commodity distributions received from the Bill Emerson Humanitarian Trust in fiscal years 2014–2015. As reauthorized by the 2014 Farm Bill, this trust is an authority that allows USAID's Office of Food for Peace to meet emergency humanitarian food needs in developing countries when other Title II resources are not available.

Title II also authorizes USAID to allow its implementing partners to monetize U.S.-sourced in-kind food aid—that is, to sell U.S.-donated commodities in local markets to generate funds for implementing the projects. However, according to USAID officials, it generally no longer encourages its implementing partners to monetize.[13] Instead, according to USAID, it provides 202(e) funding, as authorized by the 2014 Farm Bill, and funding authorized by the Foreign Assistance Act of 1961 directly to its implementing partners to offset the revenue partners previously received from monetizing commodities.

USAID uses funding from accounts authorized by the Foreign Assistance Act to operate multiple programs to combat food insecurity in development and emergency situations worldwide.

- *Development Assistance funding.* According to USAID documentation, the agency draws on its Development Assistance account—as authorized under section 103 of the Foreign Assistance Act of 1961, as amended—for community-level development activities to complement Title II projects and to reduce the need for monetization. According to USAID officials, these funds can be used alongside Title II funding and may fund many of the same types of items and activities covered by Title II 202(e) and ITSH. USAID provided about $62 million from its Development Assistance account in fiscal year 2015 to complement Title II projects.
- *International Disaster Assistance funding.* USAID's Office of Food for Peace uses the agency's IDA account, authorized by the Foreign Assistance Act of 1961, as amended, to fund the Emergency Food Security Program (EFSP). According to USAID, it provides most of its assistance for cash transfers, food vouchers, and local and regional purchases of food through EFSP to assist beneficiaries facing immediate food insecurity. According to USAID, it provided about $1.01 billion in fiscal year 2015 on EFSP projects implementing cash

[13]According to USAID, the agency allows monetization in one country, Bangladesh, to fulfill its statutory requirement that a minimum of 15 percent of the aggregate value in tonnage of development Title II commodities be made available annually for monetization by implementing partners. We have previously reported on the inefficiencies and adverse market impacts of monetization. See GAO, *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).

transfer, food voucher, local and regional procurement, and other activities.[14]

USAID Guidance on Eligible Uses of 202(e) and ITSH Funds

In 2014, USAID issued an information bulletin to its implementing partners outlining the 2014 Farm Bill's changes to 202(e) and USAID's policy regarding eligible and ineligible uses of 202(e) and ITSH funding.[15] The bulletin states that 202(e) funding may be used for activities to establish and enhance Title II projects, including cash transfers, food vouchers, and local and regional procurement of food—modalities previously not authorized for Title II projects—as well as for traditional implementation costs such as the partner's staff salaries, project overhead, project materials, and equipment, among others. USAID also instructs partners that ITSH funding is available only for in-country costs directly associated with the storage, movement, and distribution of U.S. in-kind commodities. In addition to outlining the eligible and ineligible uses for 202(e) and ITSH funding, and consistent with U.S. government-wide guidance issued by the Office of Management and Budget (OMB) concerning federal awards outlined in 2 C.F.R. § 200, the bulletin instructs partners that these funds must be reasonable and allocable.

Financial Risks and Oversight for International Food Assistance

Food assistance projects are subject to numerous financial risks, including risks associated with costs to implement and support projects providing food commodities, cash transfers, or food vouchers.[16] USAID requires its partners ensure that aid reaches its intended beneficiaries

[14]According to USAID, IDA/EFSP funds are sometimes used when USAID's in-kind food aid cannot arrive in time or other forms of assistance are more appropriate due to local market conditions. EFSP's goal is to reinforce market linkages in recipient and neighboring countries and to support private sector capacity to meet the needs of beneficiaries For more information on EFSP, see GAO, *International Cash-Based Assistance: USAID Has Developed Processes for Initial Project Approval but Should Strengthen Financial Oversight,* GAO-15-328 (Washington, D.C.: Mar. 26, 2015) and GAO, *International Cash-Based Assistance: USAID Has Established Processes to Monitor Cash and Voucher Projects, but Data Limitations Impede Evaluation,* GAO-16-819 (Washington, D.C.: Sept. 20, 2016).

[15]Food for Peace Information Bulletin 14-01 (Aug. 15, 2014). Congress did not provide new authorities for the use of ITSH funding in the 2014 Farm Bill. See app. II for additional information on USAID's use of Title II funding for ITSH costs in fiscal years 2012 through 2015.

[16]Commodity assistance includes both in-kind and locally or regionally procured food.

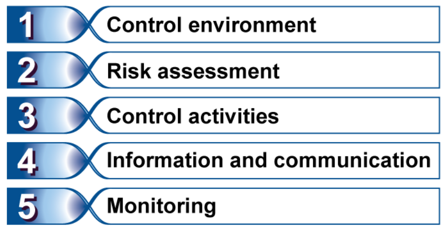
and that costs are reasonable, necessary, and allowable.[17] Financial oversight of international food assistance projects includes managing program funds to ensure they are spent in accordance with award agreements by, among other things, assessing financial risks and implementing controls to mitigate those risks.

The internal controls framework prescribed for federal agencies and widely used by international organizations comprises five components (see fig. 4).[18] These controls apply to the tracking of costs to implement and support projects providing commodities, cash transfers, or food vouchers. For projects that include cash transfers and food vouchers, controls may include steps to prevent the negative impact on market prices as well as to prevent theft and diversion of cash or counterfeiting of vouchers.

[17]In this report, "award" refers to an assistance mechanism through which USAID transfers funds to an implementing partner. According to USAID, awards include both grants and cooperative agreements.

[18]GAO's *Standards for Internal Control in the Federal Government* 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, including by U.S. NGOs and by international organizations such as WFP. 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. This framework introduced the concept of principles related to five components of internal control. GAO revised the standards—previously published in 1999—and adapted these principles in September 2014; the revised standards were effective beginning in fiscal year 2016. See GAO, *Standards for Internal Control in the Federal Government,* GAO/AIMD-00-21.3.1 and GAO-14-704G (Washington, D.C.: November 1999 and September 2014, respectively); Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (2013).

Figure 4: Components of Internal Control Framework Prescribed for Federal Agencies and Widely Used by International Organizations



Source: GAO based on Committee of Sponsoring Organizations of the Treadway Commission. | GAO-17-224

USAID Used Most of 202(e) Funding Increase for Cash Transfers, Food Vouchers, and Local and Regional Procurement and Used Multiple Funding Sources with Title II

In fiscal years 2014 and 2015, USAID used most of the increased proportion of Title II funds authorized by the 2014 Farm Bill for 202(e) to provide cash transfers, food vouchers, and local or regional procurement, modalities the agency did not previously support through Title II. USAID has also used funding from other accounts to complement Title II projects. USAID obligations of 202(e) funding increased from about $171 million in fiscal year 2012 to about $268 million in fiscal year 2015. Obligations of 202(e) funding for cash transfers, food vouchers, and local and regional procurement in fiscal years 2014 and 2015 constituted 75 percent and 96 percent, respectively, of the additional authorized 202(e) funding that the agency utilized for those years. USAID has used funds from accounts authorized by the Foreign Assistance Act, along with Title II funding, to implement and support projects. Moreover, it has increasingly used funding from these accounts to cover the same types of costs as are covered by 202(e) and in some cases has used funding from these accounts as well as Title II to provide cash transfers, food vouchers, or local or regional procurement within a single project.

USAID Used Most of the Increase in 202(e) Funding to Provide Cash Transfers, Food Vouchers, and Locally and Regionally Procured Commodities in Title II Projects

USAID used most of the 2014 Farm Bill's increase in authorized 202(e) funding (from 13 percent to 20 percent of total Title II appropriations) to provide cash transfers, food vouchers, and locally or regionally procured food for beneficiaries—modalities the agency did not previously support through Title II.[19] USAID obligations of 202(e) funding rose from $171 million in fiscal year 2012 to $268 million in fiscal year 2015. As table 1 shows, in fiscal year 2014, USAID's obligations for these modalities comprised 75 percent of the additional 202(e) amount it obligated under the 2014 Farm Bill; in fiscal year 2015, USAID's obligations for these modalities comprised 96 percent of the additional obligated amount. Specifically, USAID obligated $73.7 million in 202(e) funding in fiscal year 2015 for cash transfers, food vouchers, and local or regional procurement—that is, 96 percent of the additional $77 million of 202(e) funding available to the agency authorized by the 2014 Farm Bill.

[19]According to USAID, it has used cash transfers and food vouchers in projects where markets are working, enabling the agency to prioritize in-kind aid for nutrition interventions or where markets are less functional. USAID reported that it has used local or regional procurement to become more cost-effective and timely in responding to food insecurity.

Table 1: USAID Title II Appropriations, Farm Bill Spending Limits, and 202(e) Obligations, Fiscal Years 2014-2015

Dollars in millions

	2014	2015
Title II appropriation	1,466	1,466
13 percent of annual Title II appropriations (maximum 202(e) funding authorized under the 2008 Farm Bill, but no longer in effect)	191	191
20 percent of annual Title II appropriations (maximum 202(e) funding authorized under the 2014 Farm Bill)	293	293
USAID 202(e) actual obligation	266	268
USAID 202(e) obligation above the prior 13 percent spending limit contained in 2008 Farm Bill	75	77
202(e) obligation for cash transfers, food vouchers, and local or regional procurement	56.6	73.7
Percentage of additional 202(e) obligation used for cash transfers, food vouchers, and local or regional procurement	75	96

Legend: 202(e) = funding provided under Title II, Section 202(e), of the Food for Peace Act.

Source: GAO analysis of appropriations for the U.S. Agency for International Development (USAID) Title II and USAID data. | GAO-17-224

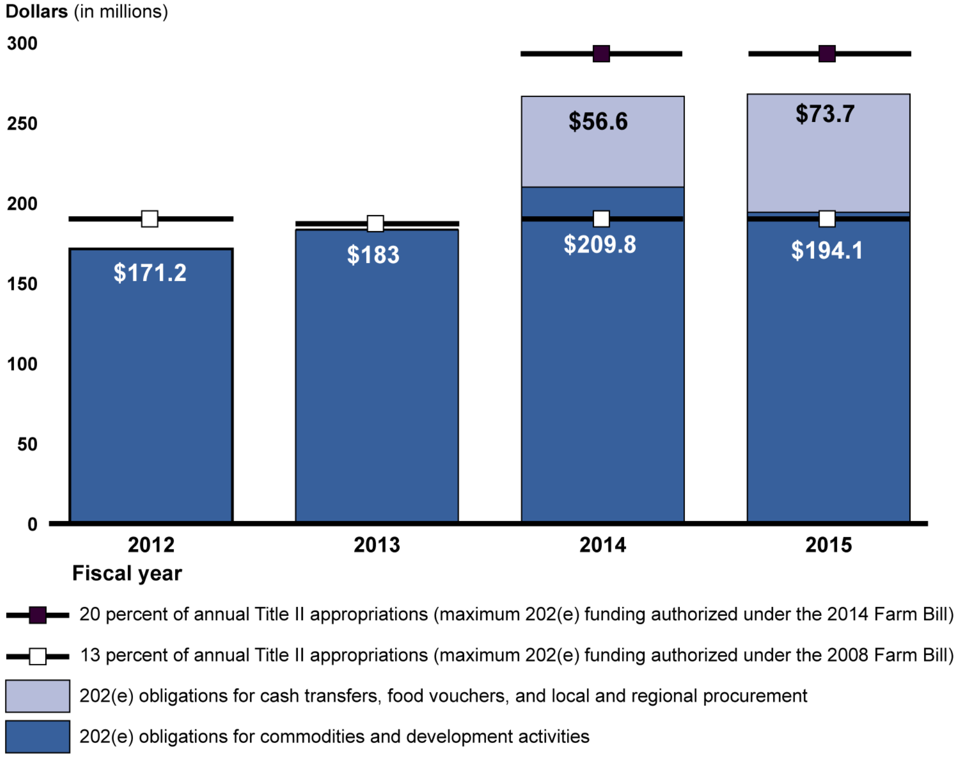
Notes: The 2008 and 2014 Farm Bills authorized USAID to spend 13 percent and 20 percent, respectively, of annual Title II appropriation s to implement section 202(e) of the Food for Peace Act.

According to USAID officials, USAID 202(e) obligations include funding for development activities, such as funding for activities to reduce monetization.

In addition to obligating the amounts of 202(e) funding shown, USAID obligated about $24.1 million in 202(e) funding to support commodity distributions from the Bill Emerson Humanitarian Trust in fiscal years 2014-2015. As reauthorized by the 2014 Farm Bill, this trust is an authority that allows USAID's Office of Food for Peace to respond to unanticipated food crises abroad when other Title II resources are not available.

As figure 5 shows, USAID obligations of 202(e) funding in fiscal years 2012 and 2015—including the portion of 202(e) funding provided for cash transfers, food vouchers, and local or regional procurement beginning in 2014—were within the applicable 202(e) spending limits designated by the 2008 (13 percent) and 2014 (20 percent) Farm Bills. In both fiscal years 2014 and 2015, the 202(e) obligations were lower than the 20 percent appropriation limit of $293 million. During this period, 202(e) obligations for commodity and development activities fluctuated slightly. In addition, 202(e) obligations for cash transfers, food vouchers, and local and regional procurement increased from about 21 percent of total 202(e) obligations in fiscal year 2014 to about 28 percent in fiscal year 2015.

Figure 5: USAID Title II 202(e) Obligations to Implement and Support Various Assistance Modalities, Relative to Legislated Spending Limits, Fiscal Years 2012-2015



Source: GAO analysis of U.S. Agency for International Development (USAID) data. | GAO-17-224

Notes: The 2008 and 2014 Farm Bills authorized USAID to spend 13 percent and 20 percent, respectively, of annual Title II appropriations to implement section 202(e) of the Food for Peace Act [202(e)]. For fiscal years 2014-2015, this graph shows the 20 percent maximum amount of 202(e) funding authorized under the 2014 Farm Bill in comparison with the 13 percent maximum amount that would have been in place had the 2008 Farm Bill limit on 202(e) funding remained in force.

According to USAID officials, USAID 202(e) obligations for commodities and development activities includes funding to reduce monetization.

In addition to obligating the amounts of 202(e) funding shown, USAID obligated about $24.1 million in 202(e) funding to support commodity distributions from the Bill Emerson Humanitarian Trust in fiscal years 2014-2015. As reauthorized by the 2014 Farm Bill, this trust is an authority that allows USAID's Office of Food for Peace to respond to unanticipated food crises abroad when other Title II resources are not available.

As table 2 shows, of the approximately $130 million of 202(e) funding that USAID obligated for cash transfers, food vouchers, and local and regional procurement in fiscal years 2014 and 2015, the majority was obligated for local and regional procurement. USAID's obligations of 202(e) funding for local and regional procurement accounted for about 66 percent of its total obligations of 202(e) funding for the three modalities in fiscal years 2014 and 2015. Cash transfers and food vouchers accounted for approximately 25 percent and 9 percent, respectively, of USAID's obligations during this period.

Table 2: USAID Obligations of 202(e) Funding for Cash Transfers, Food Vouchers, and Locally and Regionally Procured Commodities in Title II Projects, Fiscal Years 2014-2015

Food assistance modality	Number of projects	Amount obligated
Local and regional procurement	24	$86.1 million
Cash transfers	11	$32.4 million
Food vouchers	4	$11.8 million
Total obligated		**$130.3 million**

Legend: 202(e) = funding provided under Title II, Section 202(e), of the Food for Peace Act.

Source: GAO analysis of U.S. Agency for International Development (USAID) data. | GAO-17-224

Note: USAID obligated 202(e) funding for cash transfers, food vouchers, or local and regional procurement of food to six Title II development projects ($9.3 million) and 32 emergency projects ($121 million). Four projects implemented with Title II emergency funding included more than one food assistance modality.

USAID has obligated 202(e) funding for some Title II projects that provided cash transfers, food vouchers, or locally or regionally procured food but no U.S.-sourced, in-kind food aid. Before 2014, USAID obligated Title II funding for projects that provided food commodities grown, purchased, and shipped from the United States and obligated 202(e) funding to cover the partners' costs associated with administering these projects.[20] According to USAID officials, multiple Title II projects can make up a Title II country program. In order to allow for the use of 202(e) funding for cash transfers, food vouchers, or locally or regionally procured food, a Title II country program must include U.S. in-kind commodities, though each individual project within the Title II country program is not required to include U.S. in-kind commodities, according to those officials. In fiscal years 2014 and 2015, USAID obligated a total of about $29.6 million for 202(e)-funded cash transfers, food vouchers, or local and regional procurement in seven projects (four emergency projects and one development project in fiscal year 2014, and two emergency projects in fiscal year 2015) that did not include U.S.in-kind commodities. For example, USAID obligated about $2.2 million in 202(e) funding in fiscal

[20]According to USAID officials, prior to fiscal year 2014, the agency did not fund cash transfers, food vouchers, or local and regional procurement with 202(e) funding.

year 2014 for a Title II emergency project in Haiti that provided cash transfers to beneficiaries, with no U.S. in-kind food aid. In fiscal year 2015, USAID provided about $2 million for an emergency project implemented by the United Nations Children's Fund in Niger that provided locally and regionally procured food and no U.S.in-kind food aid. In addition, in fiscal year 2015, USAID awarded $45 million in 202(e) funding for a 5-year Title II development project in Mali that did not include planned U.S. in-kind food aid.[21]

According to USAID, it has also used the increase in 202(e) funding, as well as funding from other sources, to reduce monetization in Title II projects. In 2011, we reported that USAID loses, on average, 24 cents on every dollar spent through the process of monetization.[22] According to USAID officials, the use of 202(e) funds has allowed for a reduction in the use of monetization in development projects, enabling the agency to pay directly for the cost its partners incur and to increase the efficiency and effectiveness of its food assistance projects. Table 3 shows USAID's use of monetization in Title II development projects in fiscal years 2012 through 2015.

Table 3: USAID Monetization in Title II Development Projects, Fiscal Years 2012-2015

	2012	2013	2014	2015
Total metric tonnage of U.S. in-kind food aid	438,360	251,130	196,321	410,233
Metric tonnage monetized	230,870	74,130	58,052	74,630
Number of projects monetizing	25	6	3	3
Number of countries where USAID monetized	13	4	1	1

Legend: Title II = Title II of the Food for Peace Act.

Source: GAO analysis of U.S. Agency for International Development (USAID) data. | GAO-17-224

Note: Monetization is the sale of U.S. in-kind food aid (i.e., U.S.-donated commodities) in local markets to generate funds for implementing food aid projects.

[21]In fiscal year 2015, USAID distributed U.S. in-kind food as part of separate Title II projects in both Niger and Mali. For example, according to USAID officials, USAID has provided Title II emergency funding to WFP in Mali for general food distribution to severely food insecure households. According to USAID officials, the agency complements this WFP project with Title II and other funding sources to provide cash transfers and food vouchers in areas where markets are functioning and food is available.

[22]In June 2011, we reported on the inefficiencies and adverse market impacts of monetization. See GAO-11-636.

According to USAID, in fiscal year 2014, the agency saved $21 million by providing funds directly to implementing partners instead of using monetization. For example, for fiscal year 2014, USAID approved an approximately $13 million increase in the budgeted amount of 202(e) funding to be provided to an implementing partner in Zimbabwe to replace monetization. We found that the implementing partner used the 202(e) funding to support activities such as livestock management and water resources management (see fig. 6). According to USAID, the use of 202(e) funding in place of monetization will save the agency almost $10 million over the course of the 5-year project.

Figure 6: Development Assistance Activity Supported with 202(e) Funding in Zimbabwe

Legend: 202(e) funding = funding provided under Title II, Section 202(e), of the Food for Peace Act.

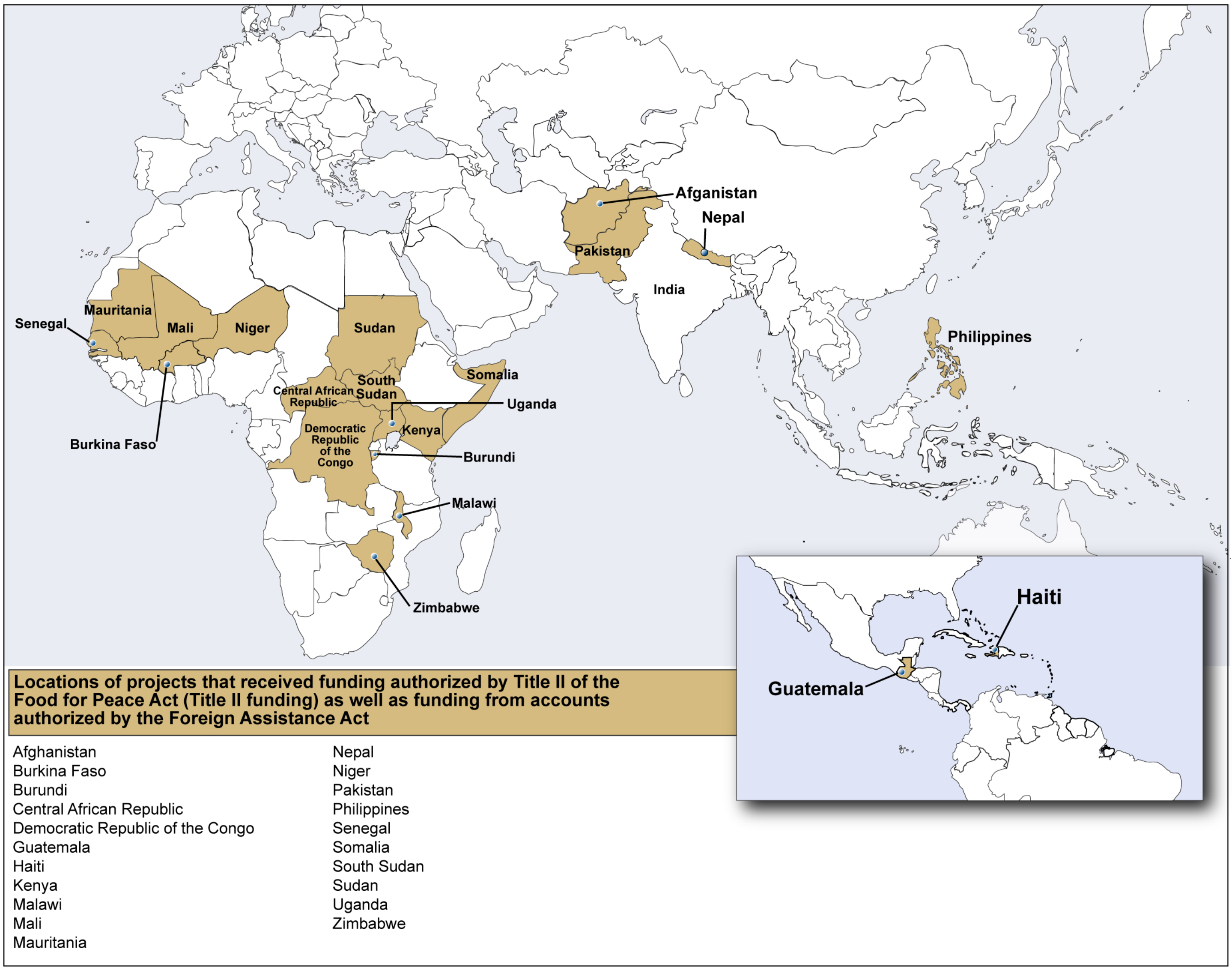
Sources: GAO analysis of U.S. Agency for International Development (USAID) documents; GAO (photos). | GAO-17-224

Cattle exiting dip tank that beneficiaries used to immerse livestock in liquid pesticides.

USAID Has Used Funding Authorized by the Foreign Assistance Act Along with Title II Development and Emergency Projects

Our review of USAID funding data shows that USAID has used funds from two accounts authorized by the Foreign Assistance Act along with Title II food assistance projects. Since fiscal year 2013, the agency has increasingly obligated funds from the Development Assistance account to cover many of the same types of implementation costs as 202(e) funding and to help reduce monetization. USAID has also used both Development Assistance funds and 202(e) funding to provide food vouchers or local or regional procurement in two Title II development projects. In addition, USAID has used funds from the IDA account as well as 202(e) funding to provide cash transfers or local and regional procurement in a number of emergency projects. Figure 7 shows the locations of projects where USAID used Title II funding along with funding from the two accounts authorized by the Foreign Assistance Act.

Figure 7: Locations of USAID Food Assistance Projects That Received Both Title II Funding and Funding Authorized by the Foreign Assistance Act in Fiscal Year 2014 or 2015



Sources: GAO analysis of U.S. Agency for International Development (USAID) data; Map Resources (map). | GAO-17-224

Note: This figure shows the locations of projects managed by USAID's Office of Food for Peace. Other USAID bureaus and offices, including missions, may also provide funding authorized by the Foreign Assistance Act for food assistance projects in countries with Title II–funded projects.

With regard to funding for development projects, according to USAID officials, the agency uses funding from the Development Assistance account for many of the same types of implementation costs for Title II development projects that 202(e) funding covers, including implementing partners' staff salaries, office and program supplies, and equipment, among other expenses. USAID provides Development Assistance account funds along with Title II development funding for projects either through a single award or through separate awards. According to USAID, it provides these funds in part to reduce monetization in Title II development projects by paying directly for the costs its partners incur.[23] As table 4 shows, USAID obligations from the Development Assistance account in support of Title II projects increased from $25 million in fiscal year 2013 to $62 million in fiscal year 2015.

Table 4: USAID Obligations from Development Assistance Account in Support of Title II Development Projects, Fiscal Years 2013-2015

	2013	2014	2015
Development Assistance account obligations	$25 million	$57 million	$62 million
Number of Title II development projects	6	10	12

Legend: Title II = Title II of the Food for Peace Act.

Source: GAO analysis of U.S. Agency for International Development (USAID) data. | GAO-17-224

Notes: According to USAID, it did not obligate Development Assistance funds to support Title II projects in fiscal year 2012.

In fiscal year 2015, USAID obligated a total of $11 million in Development Assistance funds to two projects in Nepal; however, because these projects did not receive Title II funding, we excluded them from our analysis.

For example, in fiscal year 2014, USAID began a 5-year, $60 million development project in Malawi, budgeting $40 million in Development Assistance funding and $20 million in Title II funding, including $4 million in 202(e). USAID's implementing partner used Development Assistance funds for support costs such as staff salaries, office supplies, and veterinary kits as well as for local procurement of food that it provided to

[23]According to USAID officials, the agency uses Development Assistance funding in countries where it also implements Feed the Future activities. Feed the Future is the U.S. government's global hunger and food security initiative that seeks to partner with governments, donors, the private sector, and civil society in selected countries to ensure sustainable progress against global hunger. As of January 2017, Feed the Future operated in 19 countries. For more information, see GAO, *Global Food Security: USAID Is Improving Coordination but Needs to Require Systematic Assessments of Country-Level Risks*, GAO-13-809 (Washington, D.C.: Sept. 17, 2013).

beneficiaries in exchange for their labor to build community assets (see fig. 8).

Figure 8: Title II Development Project Providing Tree Seedlings for Erosion Control, Malawi

Legend: Title II = Title II of the Food for Peace Act.

Source: GAO. | GAO-17-224

In addition, since fiscal year 2014, USAID has used both Development Assistance funds and 202(e) funding to provide food vouchers or local procurement in Title II development projects in two countries. In Haiti, USAID obligated over $4 million in 202(e) funding and budgeted about $3 million in Development Assistance account funds to provide food vouchers in a Title II development project in fiscal years 2014 through 2015.[24] According to USAID officials, the 202(e)-funded and Development Assistance account–funded food vouchers targeted different regions in

[24]Development Assistance funding for this modality represents budgeted or planned funding. USAID was not able to provide a breakdown of Development Assistance obligations by modality for this project as of January 2017.

Haiti and thus the beneficiaries did not overlap. USAID officials added that this was the first time USAID had used Development Assistance account funds for food vouchers in a Title II food assistance project. In Malawi, USAID used about $378,000 in 202(e) funding and budgeted about $161,000 in Development Assistance account funds in fiscal year 2015 to procure 325 metric tons of local commodities as part of a Title II development project.[25]

With regard to funding for emergency food assistance, USAID's implementation of the new 202(e) authorities to enhance existing Food for Peace programs provided by the 2014 Farm Bill has resulted in USAID's use of both 202(e) funding and IDA account funds to provide either cash transfers, food vouchers, or local or regional procurement in the same emergency food assistance projects. Before the 2014 Farm Bill was enacted, some emergency projects received both Title II funding for U.S. in-kind commodities and funds from the IDA account's EFSP for either cash transfers, food vouchers, or locally or regionally procured food. Our review of USAID funding data shows that USAID used Title II U.S. in-kind food aid along with ESFP-funded cash transfers, food vouchers, or locally or regionally procured food in some emergency food assistance projects. For example, in fiscal year 2012, USAID obligated about $134 million in EFSP funds to 10 emergency food assistance projects for which it also obligated Title II funding for U.S. in-kind food aid. However, with its expanded Title II authorities, USAID obligated a total of about $56 million in 202(e) funding along with $140 million in EFSP funds to provide cash transfers, food vouchers, or locally or regionally procured food in nine WFP-implemented projects in fiscal years 2014 and 2015. For example, a WFP emergency operation in Malawi used both $3 million in 202(e) funding along with $2.5 million in EFSP funds for the local procurement of commodities in fiscal year 2015. According to USAID officials, the agency designs country programs using multiple funding sources to best meet the

[25]According to the implementing partner, the budgeted amount was not expended in fiscal year 2015.

needs of the beneficiaries and comply with the restrictions placed on each funding source.[26]

USAID Has Various Controls for Financial Oversight of Title II Implementation and Support Costs, but Its Oversight Has Certain Deficiencies

USAID and its partners have various internal controls for financial oversight of implementation and support costs funded by 202(e) and ITSH in selected Title II development and emergency projects, although we found certain deficiencies in control activities, information and communication, and risk assessment. USAID's and implementing partners' internal controls for Title II project implementation and support costs include reviews of planned budgets and high-level spending, reviews of audit reports, and periodic monitoring data, according to USAID and partner officials. Nevertheless, we identified deficiencies that affect USAID's ability to reasonably ensure that aid reaches the intended beneficiaries and that funding is used for allowable and approved purposes.[27] First, regarding control activities, USAID generally does not conduct systematic, targeted financial reviews of partners' actual Title II spending to implement and support projects. Our limited, nongeneralizable financial transactions testing identified instances where partners had not correctly recorded 202(e) and ITSH spending. Second, regarding information and communication, USAID lacks key monitoring data related to these costs that could identify areas needing additional financial oversight and inform future decisions. Third, also related to information and communication, USAID has not consistently updated guidance and systems to help ensure that partners for Title II development and emergency projects do not use ITSH funds to cover implementation costs for local and regional procurement of commodities, which is not an allowable use of these funds. Fourth, regarding risk

[26] According to USAID officials, USAID often relies on both EFSP and 202(e) funding to provide sufficient emergency resources in a given country. Given that 202(e) funding is limited (as are overall program resources), EFSP resources are necessary to ensure continuity and prevent gaps in funding. Funding under 202(e) is often used in countries where USAID is using a blended modality approach. For example, in the Central African Republic, USAID has provided 202(e) funds for local and regional procurement and food vouchers to prevent pipeline breaks until Title II in-kind food aid arrives, which can take 8-9 months.

[27] The internal controls framework prescribed for federal agencies and widely used by international organizations comprises five components: control environment, risk assessment, control activities, information and communication, and monitoring. Each component includes several principles, which represent the requirements necessary to establish an effective internal control system. See GAO/AIMD-00-21.3.1; GAO-14-704G; Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (2013).

assessment, USAID does not require Title II development project partners to conduct comprehensive assessments of financial, fraud, and other risks that can affect cash transfers and food vouchers funded by 202(e), although the agency has established such a requirement for emergency projects.

USAID Has Various Internal Controls for Implementation and Support Costs of Title II Projects

USAID and its implementing partners have various controls for financial oversight of Title II project implementation and support costs funded by 202(e) and ITSH.[28] The internal controls framework prescribed for federal agencies and widely used by international organizations notes that the establishment of effective internal controls can help agencies achieve desired results through the effective stewardship of resources.[29] Examples of USAID's and implementing partners' internal controls for Title II project implementation and support costs include the following:

- **Reviews of planned budgets.** USAID officials told us that they review implementing partners' detailed planned budgets for costs to implement and support Title II projects, which describe how the partners plan to spend U.S. funds in the future.[30] Specifically, according to USAID, it reviews planned budget breakdowns and explanatory narrative submitted by partners for Title II project implementation and support costs, including partner staff salaries and fringe benefits; transport, shipping, and handling costs; subaward budgets; cash transfer, food voucher, and local and regional

[28]USAID's Automated Directives System (ADS) contains agency-wide policies and procedures for internal control as well as for making awards to both NGOs and public international organizations (PIO). Our three selected Title II emergency projects were implemented by WFP, which USAID has designated as a category 1 PIO. USAID officials indicated that, in accordance with ADS ch. 308, USAID may make awards to a category-1 PIO, such as WFP, without conducting pre-award audits or regularly reviewing audit and financial information. As a result, USAID officials noted that the agency generally relies on WFP to conduct financial oversight of Title II funding to implement and support emergency projects awarded to WFP. For additional details from our review of WFP's financial oversight of Title II funding to implement and support projects, see app. IV.

[29]See GAO-14-704G; Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework*.

[30]USAID officials noted that USAID Agreement Officers' Representatives generally review and approve detailed project budgets annually for multiyear Title II development projects. They review budgets at the application approval stage for Title II emergency projects, which are generally awarded for 1 year. USAID officials also added that they review budgets when they make modifications to emergency awards.

procurement costs; other project activity costs; and other direct and indirect costs.

- **Reviews of spending.** To monitor actual spending, USAID officials, including agreement officers' representatives, told us that they rely primarily on each partner's quarterly financial report, known as the SF-425. Implementing partners are required to report high-level expenditures for 202(e) and ITSH quarterly in the SF-425, according to USAID officials. The officials noted that they follow up with a partner if spending reported in the SF-425 is inconsistent with the annual approved amount.
- **Reviews of audit reports.** According to USAID officials, USAID's Office of Food for Peace generally reviews the results of partners' annual single audits as well as findings of the USAID Office of Inspector General's (OIG) periodic audits.[31] Single audits include an organization-wide review of an entity's financial statements, a schedule of the expenditure of federal awards, and review of related internal controls. Single audit findings can be used by agencies to identify areas warranting additional financial oversight.[32] For example, USAID officials informed us that the agency modified the terms of one partner's letter of credit as a result of single audit findings, which

[31]For projects awarded prior to December 2014, U.S. nonprofit organizations that expended $500,000 or more in federal awards within their fiscal year were required to have a single (i.e., organization wide) or program-specific financial audit conducted by an external auditor for that year in accordance with OMB Circular A-133. In December 2014, OMB issued new guidance, effective for fiscal years beginning on or after December 26, 2014, in the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; this guidance increased the threshold from $500,000 to $750,000, as permitted by the Single Audit Act. This requirement does not apply to international organizations, including WFP. Three of our selected Title II development projects were awarded to U.S. nonprofit organizations prior to December 2014. Our fourth selected Title II development project was implemented by a foreign NGO and was reimbursement-based. USAID officials indicated that they may review support documentation for all expenditures under reimbursement-based awards to NGOs; reimbursement-based awards may require the implementing partner to submit receipts and other support documentation to justify expenditures.

[32]GAO, *Single Audit: Opportunities Exist to Improve the Single Audit Process and Oversight*, GAO-09-307R (Washington, D.C.: Mar. 13, 2009) and GAO, *Single Audit Analysis: Federated States of Micronesia and the Republic of the Marshall Islands,* GAO-16-550T (Washington, D.C.: September 20, 2016).

included material weaknesses.[33] Specifically, USAID stipulated that the partner must request payment for incurred expenses in lieu of advance payments. According to USAID officials, the Office of Food for Peace also reviews periodic audit reports completed by the OIG that may address financial internal controls related to 202(e) and ITSH spending. According to USAID officials, in response to USAID OIG findings of partners' misspending, the Office of Food for Peace hired an external auditor to conduct financial reviews for two Title II projects.

- **Partners' internal controls.** USAID officials noted that USAID generally relies on its partners to implement financial oversight in Title II projects.[34] Our financial reviews of selected Title II development projects found that partners' internal controls generally included (1) policies to prevent the commingling of U.S. government funds, (2) policy manuals to instruct employees on the proper use of U.S. government funds, and (3) procedures to segregate incompatible financial duties. Partner officials also cited examples of various steps they are taking to implement internal controls, such as using mobile services providers for cash transfers, which can enhance the traceability of funding, and maintaining warehouse records for commodity receipt, storage, and distribution.

[33]Single audits conducted in fiscal years 2013 through 2015 of USAID implementing partners responsible for our selected Title II development projects had findings that included material weaknesses (i.e., nonachievement of internal control principles and related components that is significant enough to be externally reported) and significant deficiencies (i.e., internal control deficiencies that are less severe than material weaknesses yet important enough to merit the attention of those charged with governance) in internal controls as well as corrective actions planned to address the findings. Specifically, three of our four selected Title II development projects were subject to the single audit. Single audits for one project found material weaknesses and significant deficiencies in internal controls related to financial reporting. For another project, audits found significant deficiencies related to internal controls and subpartner monitoring. For the third project, audits did not identify material weaknesses or significant deficiencies but questioned various unallowable indirect costs. The fourth project was implemented by a foreign NGO, which was required to have an annual independent external audit; its most recent audit found significant deficiencies in internal controls related to financial reporting and support documentation.

[34]In accordance with federal regulations, all NGO partners must establish and maintain effective internal controls over federal awards to provide reasonable assurance that the awards are managed in compliance with federal statutes, regulations, and award terms and conditions. These internal controls should be in compliance with GAO *Standards for Internal Control in the Federal Government*. See 2 CFR 200.303, GAO/AIMD-00-21.3.1, and GAO-14-704G.

- **Periodic monitoring data for Title II emergency projects.** To help inform USAID about potential issues, such as substantial increases or decreases in costs, USAID requires partners for Title II projects to report some information and data on implementation and support costs. For example, NGO partners for Title II emergency projects providing cash transfers, food vouchers, and local and regional procurement report quarterly and annual data comparing planned with actual activities, which may help inform USAID about the status and progress of these activities. Such information can also be used to help identify areas needing additional oversight.

USAID Generally Does Not Conduct Systematic, Targeted Financial Reviews

Although USAID reviews partners' quarterly SF-425 reports of high-level expenditures for 202(e) and ITSH, USAID generally does not conduct systematic, targeted reviews of partners' spending on these costs.[35] As a result, USAID is limited in its ability to provide reasonable assurance that partners' spending for Title II implementation and support costs is in compliance with law and in accordance with approved budgets. In addition, USAID may be unaware of potential gaps in partners' internal controls, which could result in misspending of funding to implement and support Title II projects. USAID's ADS notes that the USAID award agreement officer is responsible for oversight of the financial management aspects of awards to NGOs to confirm that activities funded conform to the terms and conditions of the award, through review of reports, correspondence, site visits, or other appropriate means.[36] In addition, the internal controls framework prescribed for federal agencies and widely used by international organizations calls for control activities,

[35]For the purposes of our review, we defined a systematic, targeted financial review as a review by management that verifies actual incurred costs compared to planned budgets; verifies that implementing partners appropriately documented transactions and internal controls; and provides reasonable assurance that financial transactions were properly executed, valid, accurate, and timely. Such targeted reviews may vary in scope and frequency, depending on factors such as identified risks to a project or prior audit findings. See GAO/AIMD-00-21.3.1 and GAO-14-704G.

[36]The agreement officer designates an agreement officer's representative to assist with award monitoring and administration; see ADS ch. 303. A country backstop officer assists the agreement officer's representative. USAID relies on WFP to conduct financial oversight of Title II funding to implement and support emergency projects awarded to WFP, a category 1 PIO. For additional details from our review of WFP's financial oversight of Title II funding to implement and support projects, see app. IV.

Internal Controls Component: Control Activities

According to internal controls standards prescribed for federal agencies, management should design control activities to achieve objectives and respond to risks. Control activities are the actions management established through policies and procedures to achieve objectives. For financial management, common control activity categories include the following:

- proper execution of transactions
- accurate and timely recording of transactions
- appropriate documentation of transactions and internal control
- reviews by management at the activity level

Sources: GAO; Committee of Sponsoring Organizations of the Treadway Commission (COSO). | GAO-17-224

which commonly include reviews by management to ensure achievement of objectives and to respond to risk.[37]

USAID officials, including agreement officers' representatives, told us that to monitor NGO partners' actual spending for implementation and support costs, they generally rely on reviews of partners' quarterly financial (SF-425) reports. However, in accordance with U.S. government regulation, the SF-425 reports provide only the partners' total expenditures for 202(e) and ITSH costs in the relevant quarter; the reports do not provide detailed information on the actual nature of the expenditures.[38]

While USAID's Office of Food for Peace reviews partners' single audits and OIG reports—which can identify areas warranting additional financial oversight—these audits are not designed to annually assess financial oversight for each Title II project.[39] For example, USAID modified the terms of one partner's letter of credit in response to single audit findings, which included material weaknesses and significant internal control deficiencies. However, USAID did not require the partner to submit receipts or any other support documentation for expenditures.[40] Additionally, according to USAID officials, USAID's OIG typically reviews just one or two country food security programs each year, and these

[37]See GAO-14-704G; Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework*.

[38]According to 2 C.F.R. § 200.327, unless otherwise approved by OMB, federal awarding agencies may solicit only the standard, OMB-approved government-wide data elements for collection of financial information.

[39]Single audits are designed to review an entity's major programs.

[40]According to USAID officials, USAID modified the terms of this partner's letter of credit as a result of single audit findings, including material weaknesses and significant deficiencies. The officials added that USAID held periodic meetings with the partner to discuss the partner's compliance improvement plans and related progress, although as of January 2017, the most recent meeting for which USAID was able to provide us with documentation took place in July 2015. In addition, we found that USAID approved a subaward to this partner for one of our other selected projects and that this partner received an advance under this subaward, even though USAID had modified the terms of the partner's letter of credit as a primary award recipient (i.e., recipient of a direct award from USAID). According to USAID officials, USAID did not inform the primary partner that the agency had modified the terms of the subaward recipient's letter of credit. The internal controls framework prescribed for federal agencies calls for management to communicate quality information externally through reporting lines so that external parties can help the entity achieve its objectives and address related risks. This should include information relating to the entity's events and activities that impact the internal controls system. See GAO/AIMD-00-21.3.1 and GAO-14-704G.

reviews do not typically address every Food for Peace project ongoing in a country.[41] We found that in fiscal years 2012 through 2016, USAID's OIG conducted an audit relevant to two of the four Title II development projects we reviewed.[42] Although the Office of Food for Peace has hired an external auditor to conduct financial reviews for two Title II projects since fiscal year 2012 in response to USAID OIG recommendations, the external auditor has not reviewed most projects. Also, officials at two of the three USAID missions responsible for our selected Title II development projects implemented by U.S. NGOs told us that they generally do not conduct systematic, targeted financial reviews, including transaction testing, as part of their Title II project monitoring.[43]

Our limited, nongeneralizable financial transactions testing identified issues such as inaccurate accounting, insufficient support documentation, and misspending of 202(e) and ITSH funding in 14 of the 60 transactions we reviewed (representing $304,854 of $1,086,226 in expenditures) for fiscal years 2014 and 2015 for three of the four selected Title II development projects.[44] These findings raise questions about whether the partners have sufficient controls in place to ensure that they spend 202(e) and ITSH funding as planned. For example, for one project, we found a 202(e) charge of $6,543 for fuel that should have been charged to another project. For another project, we found an ITSH charge of $6,449 for the movement of stones for cash-for-assets activities, which is not an

[41] In fiscal year 2015, USAID had 99 ongoing development and emergency projects that received Title II funding.

[42] One of these two reviews addressed our selected project that was implemented by a foreign NGO. The other review addressed a project that we did not select for our review, but it addressed a prior, related project implemented by the same partner in the same country as our selected project.

[43] Officials at the third mission informed us that as a result of the recent USAID's OIG audit findings relevant to projects implemented by one partner in that country, the mission planned to include Title II projects in its periodic financial reviews.

[44] We reviewed 20 additional transactions for our fourth selected project, implemented by a foreign NGO, which is reimbursement based. As part of its reimbursement process, the partner submits monthly financial reports to USAID, which include actual expenses incurred and corresponding transaction identifying numbers, as well as related support documentation, including invoices and receipts. Our review of selected transactions for 202(e) and ITSH for this partner showed that expenditures were accurate, allowable, reasonable, and approved.

allowable use of ITSH.[45] Also, for two transactions for two projects, employees incorrectly charged time to 202(e) and ITSH that was not in accordance with approved budgets. After we informed implementing partner officials of these findings, the officials stated that they were taking steps to correct the errors we identified, such as providing additional training to staff.

USAID Lacks Key Monitoring Data for Some Title II Projects

USAID has not collected complete and consistent monitoring data on an ongoing basis for Title II development projects and some Title II emergency projects. As a result, USAID lacks information that could help inform budget decisions and financial oversight of spending for implementation and support costs within and across food assistance projects. The internal controls framework prescribed for federal agencies and widely used by international organizations calls for the use of quality information to achieve objectives, which may include identifying information requirements, obtaining relevant and reliable data, and processing data into quality information to make informed decisions.[46]

Internal Controls Component: Information and Communication

1. Control environment
2. Risk assessment
3. Control activities
4. **Information and communication**
5. Monitoring

According to internal controls standards prescribed for federal agencies, management should use quality information to achieve an entity's objectives. Key attributes that contribute to the operating effectiveness of this principle include identifying information requirements, obtaining relevant and reliable data in a timely manner, and processing data into quality information to make informed decisions.

Sources: GAO; Committee of Sponsoring Organizations of the Treadway Commission (COSO). | GAO-17-224

Our review of available monitoring reports submitted by the implementing partners for the seven selected Title II development and emergency projects for fiscal years 2014 through 2016 found that some reports contained incomplete and inconsistent data and information for 202(e) cash transfers, food vouchers, and local and regional procurement as well as for ITSH.[47]

- USAID has not required partners for Title II development projects to report on the status and progress of cash transfers, food vouchers, and local and regional procurement funded by 202(e) on a quarterly basis. Nonetheless, implementing partners for the four development projects we reviewed indicated that they were collecting these data on

[45]Cash-for-assets activities require beneficiaries to work at constructing community assets, such as roads or irrigations schemes, in exchange for food assistance provided in the form of cash transfers or food vouchers.

[46]See GAO-14-704G; Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework.*

[47]Two of our selected Title II development projects included cash transfers, one included food vouchers, and one included local and regional procurement in fiscal years 2014-2016. Two of our selected WFP projects included Title II funding for cash transfers, and all three projects included Title II funding for local and regional procurement during this time period.

an ongoing basis. However, we found that the partners reported inconsistent data to USAID. For example, annual reports for the selected project that included 202(e)-funded food vouchers provided information on the frequency and number of months of food voucher distributions, but quarterly reports for the project did not consistently include this information. In addition, the project's quarterly and annual reports did not include updates on certain data elements, including the actual number of vouchers redeemed and the actual cost of food vouchers. Further, the quarterly reports, but not the annual reports, for one of our two selected projects including 202(e)-funded cash transfers provided updates on the total actual cost of cash transfers and the value, frequency, and number of months that cash transfers were provided. For our other selected project that included cash transfers, the most recent annual report provided only annual data on the number of months that cash transfers were provided and the actual number of cash transfer beneficiaries.[48] In October 2016, USAID updated reporting guidance, specifying requirements for Title II development projects to provide annual data on cash transfers, food vouchers, and local and regional procurement.[49] However, USAID does not require partners for Title II development projects to provide quarterly updates for these data, which could help inform USAID about potential issues on a more frequent basis. In contrast, USAID requires this information and data in quarterly and annual reporting for Title II emergency projects implemented by NGOs.[50]

[48]Additionally, quarterly and annual reports for the selected project that included 202(e) funding for local and regional procurement provided updates on the type of locally and regionally procured commodity and quantity distributed in metric tons. However, the reports provided no information on the quantity approved for each period (for comparison with the quantity procured and delivered), cost per metric ton, or impact on the procurement market.

[49]According to USAID, the agency began including language in cooperative agreements with NGOs at the end of fiscal year 2015 that requires Title II development projects to report on cash transfers, food vouchers, and local and regional procurement beginning in fiscal year 2016. The cooperative agreements do not specify the data and information that are required; the agreements refer implementing partners to USAID guidance. In October 2016, USAID added specific reporting requirements to its annual reporting guidance for implementing partners for Title II development projects to provide annual data on cash transfers, food vouchers, and local and regional procurement.

[50]USAID's Annual Program Statement for International Food Assistance for 2015 requires that implementing partners for Title II emergency projects providing cash transfers, food vouchers, and local and regional procurement report quarterly and annual data comparing planned with actual activities, which could help inform USAID about the status and progress of these activities. USAID's Annual Program Statement applies to NGOs implementing Title II and EFSP emergency food assistance projects.

- While, according to USAID, it generally relies on WFP to conduct financial oversight of Title II funding it receives, the agency has established requirements for WFP to report periodic project monitoring data related to its expenditures of 202(e) funding for cash transfers, food vouchers, and local and regional procurement and of ITSH funding.[51] However, USAID generally has not collected complete and consistent data related to these expenditures from WFP. Our review of periodic monitoring reports that WFP submitted to USAID for the three selected Title II emergency projects—in Malawi, South Sudan, and Zimbabwe—found that the reports provided the required information for local and regional procurement on the types and volumes (in metric tons) of commodities procured.[52] However, the reports for only one of the projects provided the required information on commodity cost and market price analysis, and none of the reports we reviewed provided the required safety or quality assurance inspection results.[53] Further, USAID has not obtained any of the

[51]USAID reporting requirements relevant to spending of 202(e) funding of cash transfers, food vouchers, and local and regional procurement and of ITSH funds for WFP emergency projects that receive Title II funding are generally included in transfer authorizations and amendments for the projects we reviewed. For example, USAID requires annual reporting of data such as the actual number and value of cash transfers and vouchers used and distributed to beneficiaries. In addition, USAID requires periodic price information for key staples and commodities relevant to cash transfers and food vouchers 4 weeks before the project begins, monthly during the project's implementation, and 4 weeks after the project's completion. For ITSH, USAID requires WFP to provide an assessment of ITSH costs detailing information used to formulate the ITSH rate within 30 days of signing the agreement. In addition, USAID requires WFP to provide, at least every 6 months, an accounting of ITSH costs supported by the agreement and revised estimates based on review of actual costs. Although USAID officials acknowledged that they generally had not collected and reviewed complete and consistent information and data from WFP on 202(e) spending for cash transfers, food vouchers, and local and regional procurement and on ITSH spending, they noted that they communicate informally with WFP on an ongoing basis regarding project activities. WFP officials added that WFP provides quarterly SF-425 reports for each project that provide the total amount of funds spent on ITSH costs in the relevant quarter. However, these reports do not provide detailed information on the actual nature of the expenditures.

[52]We selected three WFP emergency projects that received Title II funding in fiscal years 2014 through 2016: WFP Protracted Relief and Recovery Operation 200692 in Malawi, which included Title II funding for local and regional procurement; WFP Emergency Operation 200659 in South Sudan, which included Title II funding for local and regional procurement; and WFP Protracted Relief and Recovery Operation 200453 in Zimbabwe, which included Title II funding for cash transfers and for local and regional procurement.

[53]Although one of our selected WFP projects provided information on locally and regionally procured commodity cost, this information did not include the required comparison of commodity costs to costs in USAID's commodity calculator. USAID's commodity calculator is a tool that USAID provides to implementing partners to determine the costs of Title II in-kind food aid provided in projects.

required information or data on ITSH costs from WFP for the three selected projects, although such costs can be significant.[54]

USAID Has Provided Inconsistent Guidance Regarding Use of ITSH Funds for Local and Regional Procurement

Internal Controls Component: Information and Communication

1. Control environment
2. Risk assessment
3. Control activities
4. **Information and communication**
5. Monitoring

According to internal controls standards prescribed for federal agencies, management should externally communicate necessary quality information to achieve an entity's objectives. Appropriate methods of external communication may enable external parties to help an entity achieve its objectives and address risks.

Sources: GAO; Committee of Sponsoring Organizations of the Treadway Commission (COSO). | GAO-17-224

Although USAID has limited the use of ITSH funds for Title II projects to costs directly associated with providing U.S. in-kind commodities, it has not provided consistent guidance to implementing partners or updated certain systems to help ensure that ITSH funds are not used to cover costs related to local and regional procurement. As a result, USAID cannot have reasonable assurance that partners are spending, and accounting for, ITSH funds in compliance with its policy and the Food for Peace Act. The internal controls framework prescribed for federal agencies and widely used by international organizations calls for management to externally communicate necessary information to ensure achievement of objectives.[55] Moreover, a key attribute of this principle states that agency management should communicate with, and obtain quality information from, external parties, so that those parties can help the agency achieve its objectives and address risks.

Although USAID issued guidance prohibiting the use of ITSH funds for local and regional procurement in 2014, it had not updated other relevant guidance and systems as of December 2016. Pursuant to the Food for Peace Act, USAID may pay transportation costs incurred in moving U.S.-sourced food commodities from ports of entry to storage and distribution sites as well as associated costs for storage and distribution.[56] According to USAID, it has traditionally advised its partners to use ITSH funding to cover all movement and storage costs for the U.S. in-kind food aid authorized by Title II. With the increased authority granted in the 2014 Farm Bill, USAID began allowing its partners to provide locally and regionally procured food commodities through Title II projects, many of which also provided U.S. in-kind food aid. For example, in fiscal years 2014 and 2015, one Title II development project and 22 Title II emergency projects used Title II funding for local and regional

[54]For example, the selected WFP project in South Sudan incurred $110 million in ITSH costs including costs for air-lifts of food aid to populations in need and $120 million from the Commodity Credit Corporation to cover additional ITSH costs associated with the drawdown of commodities from the Bill Emerson Humanitarian Trust, according to USAID officials.

[55]See GAO-14-704G; Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework*.

[56]See 7 U.S.C. § 1736a.(c)(1)(B), 7 U.S.C. § 1736(b)(6).

procurement as well as U.S. in-kind food aid. In the same years, 21 WFP projects used Title II funding for U.S in-kind food aid as well as ESFP funding for local and regional procurement (9 of the 21 received both Title II and EFSP funding for local and regional procurement).[57] In 2014, USAID issued guidance, in the form of a Food for Peace information bulletin, outlining the eligible and ineligible uses of ITSH funds. This guidance required that partners use ITSH funds only to cover costs directly associated with the movement, storage, and distribution of U.S. in-kind food aid. The guidance also advised partners that 202(e) funds may be used to cover movement and storage costs associated with locally or regionally procured commodities that enhance a Food for Peace program. However, as of December 2016, other USAID guidance and systems were not aligned with the 2014 information bulletin's prohibition against using ITSH funds for costs related to local and regional procurement. Examples include the following:

- As of November 2016, USAID's supplemental budget guidance for development programs stated that USAID prefers that partners use ITSH funding for all internal transportation, distribution, and storage costs.[58]
- USAID's fiscal year 2016 request for applications for development projects in the Democratic Republic of the Congo, Ethiopia, and Liberia stated that if the applicant requested local or regional procurement as part of its project, the partner must also report on ITSH funding for the locally or regionally procured commodities.
- The fiscal year 2016 request for applications also directed USAID's implementing partners to enter data in the Food for Peace information management system on the amount of funds spent in transporting and storing locally or regionally procured commodities as ITSH.

According to USAID officials, although partners may use 202(e) funding to pay for costs related to local and regional procurement, the Food for Peace information management system does not clearly show that 202(e)

[57]According to USAID officials, partners have provided both U.S. in-kind food aid and locally or regionally procured commodities within a single project with the aim of improving overall program impact and to better address participants' needs.

[58]This supplemental budget guidance instructs partners that if discrepancies exist between it and USAID policy, the policy takes precedence. However, it does not specify that ITSH cannot be used to transport or store locally or regionally procured commodities, and therefore relies on implementing partner staff knowledge of the Food for Peace Act and USAID policy.

funding should be used rather than ITSH funding. USAID officials told us that the agency was in the process of updating guidance to clarify the use of 202(e) funding related to local and regional procurement costs. However, as of January 2017, USAID had not completed these updates.

USAID Does Not Require Risk Assessments for Cash Transfers and Food Vouchers in Development Projects despite Requiring Them in Emergency Projects

Internal Controls Component: Risk Assessment

1 Control environment
2 **Risk assessment**
3 Control activities
4 Information and communication
5 Monitoring

Source: GAO-17-224

According to internal controls standards prescribed for federal agencies, 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.

The identification and analysis of risks from both external and internal sources related to achieving defined objectives form a basis for designing risk responses.

Sources: GAO; Committee of Sponsoring Organizations of the Treadway Commission (COSO). | GAO-17-224

USAID does not require implementing partners for Title II development projects to conduct and document comprehensive risk assessments and mitigation plans for cash transfer and food vouchers funded by 202(e) despite requiring risk assessments for these modalities in emergency projects implemented by NGOs.[59] As a result, USAID may be impeded in its efforts to determine whether development project partners have adequate controls in place to manage risks associated with these modalities. OMB guidance for federal agencies emphasizes the importance of risk management as a key component of internal control for improving the accountability and effectiveness of federal programs.[60] In addition, the internal controls framework prescribed for federal agencies and widely used by international organizations calls for the identification and analysis of risks from both external and internal sources related to achieving defined objectives, as a basis for designing risk responses.[61]

While USAID requires applicants to provide some discussion of potential risks in award applications for Title II development projects, it does not require them to provide a comprehensive assessment of risks associated with cash transfers and food vouchers. USAID requests for applications for Title II development projects for fiscal years 2014 through 2016 generally state that application packages should include discussion of potential risks and contextual factors that could affect project success. In contrast, USAID requires applicants for Title II and EFSP emergency food assistance projects that provide cash transfers and food vouchers to

[59]Cash transfers and food vouchers are associated with different risks than U.S. in-kind food assistance, such as risks related to the potential diversion of cash, counterfeiting of food vouchers, and diversion of food voucher reimbursement funds. We have previously reported that a comprehensive risk assessment should address security risks as well as financial, fraud, political, market, and other risks; the risk assessment should also include mitigation plans and identify risk owners, reflected in a risk register. See GAO-15-328.

[60]OMB's updated Circular A-123 requires agencies to evaluate fraud risk and use a risk-based approach for financial and administrative control activities to mitigate fraud risks. See OMB Circular No. A-123. In addition, GAO's Fraud Risk Framework identified practices for managing fraud risks; see GAO, *A Framework for Managing Fraud Risks in Federal Programs*, GAO-15-593SP (Washington, D.C.: July 28, 2015). .

[61]See GAO-14-704G; Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework*.

provide an analysis of risks related to proposed modalities and relevant mitigation measures, including an analysis of potential risks related to fraud, corruption, and mismanagement as well as security risks.[62]

Our review of three selected Title II development projects that provided 202(e) funding for cash transfers or food vouchers found that none of the implementing partners had submitted a comprehensive assessment of the risks of using those modalities. Although none of these projects had planned to provide cash transfers or food vouchers funded by 202(e) at the application stage, USAID approved the use of 202(e) funding for those modalities through award modifications. We found that award documentation submitted by partners for the three projects generally included some broad discussion of risks, such as security or weather risks. However, the documentation did not address financial or fraud risks related to cash transfers or food vouchers funded by 202(e).

Conclusions

Since the 2014 Farm Bill was enacted, USAID has increased 202(e) funding for implementation costs in Title II food assistance projects and expanded the uses of this funding to support cash transfers, food vouchers, and local and regional procurement of commodities. At the same time, USAID has obligated funding authorized under the Foreign Assistance Act in addition to that authorized by Title II, in some cases using multiple funding sources to support similar costs and activities within the same food assistance project. USAID's spending of significant and growing amounts of funding from different sources to implement and support Title II projects heightens the importance of effective financial oversight to ensure the correct and effective use of this funding. However, without conducting systematic, targeted reviews of Title II development

[62]Under the Annual Program Statement (March 2015), which applies to Title II emergency projects, applicants are required to include an assessment of the risk of fraud or diversion and controls in place to prevent any diversion of cash, counterfeiting of food vouchers, and diversion of food voucher reimbursement funds. While WFP implements the majority of Title II emergency projects, according to USAID officials, the Annual Program Statement does not apply to WFP, a category 1 PIO. We reviewed WFP internal controls in 2012 and reviewed WFP internal controls for cash transfers and food vouchers provided through USAID's EFSP in 2015, making several recommendations for USAID and WFP to strengthen internal controls related to risk management for emergency food assistance projects. We subsequently found that USAID and WFP had both taken some steps to respond to these recommendations. See GAO, *World Food Program: Stronger Controls Needed in High-Risk Areas*, GAO-12-790 (Washington, D.C.: Sept. 13, 2012); GAO-15-328. For additional details from our review of WFP's assessment of risks for selected projects, see app. IV.

and emergency projects, USAID has limited ability to ensure that partners' expenditures of 202(e) and ITSH funding comply with law and align with approved budgets. In addition, without collecting complete and consistent monitoring data on partners' use of 202(e) funding for cash transfers, food vouchers, and local and regional procurement and of ITSH funding, USAID lacks information that could help inform its financial oversight. Further, until it ensures that its guidance and systems communicate consistent information about allowable uses of ITSH funding in Title II projects, USAID lacks reasonable assurance that its partners will spend, and account for, these funds correctly. Finally, without requiring comprehensive risk assessments and mitigation plans for the use of cash transfers and food vouchers in Title II development projects, and taking steps to ensure that partners carry out the assessments, USAID cannot determine whether its partners are adequately addressing financial, fraud, and other risks. Taking steps to improve its financial oversight of Title II funding to implement and support food assistance projects will better position USAID to ensure the effective use of available U.S. resources to address both long-term and emergency food needs of vulnerable populations around the world.

Recommendations for Executive Action

To enhance USAID's financial oversight of implementing partners' spending to implement and support Title II development and emergency projects, we recommend that the USAID Administrator take the following five actions:

1. Develop, document, and implement a process for periodically conducting systematic, targeted financial reviews of Title II development and emergency projects. Such reviews should include efforts to verify that actual costs incurred for these projects align with planned budgets.
2. Ensure that its requirements for implementing partners to provide monitoring data on an ongoing basis on the use of 202(e) funding for cash transfers, food vouchers, and local and regional procurement are consistent for Title II development and emergency projects.
3. Take steps to ensure that it collects complete and consistent monitoring data from implementing partners for Title II development and emergency projects on the use of 202(e) funding for cash transfers, food vouchers, and local and regional procurement as well as data on the use of Title II funding for ITSH costs, in accordance with established requirements.

4. Update key guidance and systems to consistently reflect allowable uses of ITSH funds in Title II development and emergency projects.
5. Establish a requirement for Title II development project partners to conduct and document comprehensive risk assessments and mitigation plans for cash transfers and food vouchers funded by 202(e), and take steps to ensure that implementing partners adhere to the requirement.

Agency Comments and Our Evaluation

We provided a draft version of this product to USAID for comment. USAID provided official comments, which are reprinted in appendix V, as well as technical comments, which we incorporated as appropriate.

In its official comments, USAID concurred with our recommendations. For example, regarding our recommendation to develop, document, and implement a process for periodically conducting systematic, targeted financial reviews of Title II development and emergency projects, USAID stated that it is exploring options to develop a process for conducting financial reviews. USAID added that this process will include the development of additional guidance and training relevant to the management of food assistance awards, to help ensure that actual costs align with planned budgets. In addition, USAID stated that it has taken steps to implement our recommendation to establish a requirement that Title II development project partners conduct and document comprehensive risk assessments for cash transfers and food vouchers funded by 202(e) and to take steps to ensure that partners adhere to the requirement. Specifically, USAID stated that it added a risk assessment requirement to the fiscal year 2017 request for applications for development projects in Uganda, which USAID issued February 17, 2017.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Administrator of USAID. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

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

Sincerely yours,

Thomas Melito, Director
International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

We examined (1) any changes in the U.S. Agency for International Development's (USAID) use of Title II funding to implement and support projects since the enactment of the 2014 Farm Bill and (2) USAID's financial oversight of Title II funding used to implement and support selected projects.

To address these objectives, we analyzed USAID Title II Food for Peace (Title II) funding data and policies, guidance, and procedures documents and interviewed USAID and implementing partner officials in Washington, D.C., and in Haiti, Malawi, and Zimbabwe. We reviewed additional documentation, including partner application and award documentation, and annual and comprehensive project budgets for seven selected projects—four development and three emergency projects—that received Title II funding in fiscal years 2014 through2016. We selected these seven projects on the basis of factors such as the highest level of funding and types of modalities implemented with 202(e) funding, geographic diversity, and project timeframe. Specifically, we focused on projects that were ongoing in fiscal year 2016 and that included 202(e) funding for cash transfers, food vouchers, or local and regional procurement.[1] In Haiti, Malawi, and Zimbabwe, we visited project sites and observed ongoing activities; inspected food storage warehouses; reviewed implementing partners' systems for managing and storing commodities; and met with beneficiaries who received U.S. in-kind assistance or cash transfers, food vouchers, or locally and regionally procured commodities. We selected countries for fieldwork to ensure that we included (1) different geographic locations, (2) both emergency and development projects, and (3) examples of cash transfers, food vouchers, and local and regional procurement that were funded by 202(e). Since we judgmentally selected projects and locations for fieldwork, our findings cannot be generalized.

To address our first objective, we analyzed USAID development and emergency Title II funding data for fiscal years 2012 through 2015, including annual project level data on total obligations and obligations for internal transportation, storage, and handling (ITSH); 202(e) costs;

[1]Six of our seven selected projects were ongoing in fiscal year 2016. Although the seventh project ended in fiscal year 2015, we selected it because it received the largest amount of 202(e) and internal transportation, shipping, and handling (ITSH) obligations in fiscal years 2014 through 2016, based on USAID funding data provided at the time of our project selection, and it represented our only selected World Food Program (WFP) Emergency Operation.

commodity costs; ocean freight costs and inland transportation costs; cash transfers; food vouchers; and local and regional procurement.[2] To assess the reliability of these data, we reviewed related documentation, including data presented in USAID's and the Department of Agriculture's (USDA) annual *United States International Food Assistance Report*; interviewed, and reviewed written responses from, USAID agency officials; and electronically tested for outliers and potential errors. We determined that the data and information were sufficiently reliable to compare project funding obligations and amounts (metric tonnage) of food assistance provided. In addition, we reviewed implementing partner award documents for the selected projects, including detailed and comprehensive budget documents, quarterly and annual results reports, and award agreements. We analyzed these data and documents to determine the amount of 202(e) funding USAID has provided for costs to implement and support Title II projects; the amount of funding and number of projects using cash transfers, food vouchers, and local and regional procurement; and the most common types of modalities. We also reviewed non-Title II funding sources, such as foreign assistance funding from the Development Assistance and International Disaster Assistance (IDA) accounts, to identify countries and projects receiving funding from multiple sources. We did not assess partners' studies on cost savings or efficiencies gained through reducing monetization.

To address our second objective, we reviewed USAID's policies, guidance, and procedures for financial oversight and monitoring of 202(e) and ITSH funding as of fiscal year 2016, including relevant chapters of USAID's Automated Directives System (ADS), which outlines the agency's operational policy. We also reviewed partner award documentation for the seven selected projects. For selected development projects, we reviewed and compared funding data and information provided in applications, award agreements, award modifications, approved budgets, quarterly and annual reports, expenditure reports (SF-425s) for both 202(e) and ITSH expenditures, and relevant audits, among other documentation, to identify significant issues or discrepancies in implementing partners' financial oversight and monitoring of 202(e) and ITSH spending. We reviewed monitoring data and information provided in quarterly and annual reports for 202(e) cash transfers, food vouchers, and local and regional procurement activities implemented during the period of our review.

[2]Title II funding data for fiscal year 2016 were not finalized at the time of our review.

For our selected development projects, we reviewed the implementing partners' internal controls and risks by reviewing policy manuals and procedures to see if partners had implemented key policies and procedures to (1) prevent comingling of U.S. funds, such as unique accounting codes; (2) separate bank accounts; (3) instruct employees on proper use of U.S. funds; (4) segregate financial duties; (5) document bank reconciliations; (6) monitor subpartners' use of program funding, including subpartner financial risk and capacity assessments; (7) maintain proper documentation to support subpartner expenditures; (8) conduct cost and price analysis; (9) account for staff time; (10) conduct annual audits; (11) conduct risk assessments and mitigation plans to address financial risks and fraud; and (12) reconcile SF-425s to the general ledger. The financial information we reviewed included general ledger downloads from the implementing partners' accounting systems, bank account statements, and other information generated by accounting systems. We focused our financial review primarily on compliance with internal control standards related to monitoring of program funds and to reviewing certain control activities.

We also reviewed development partners' disbursement processes and reviewed a nongeneralizable sample of 80 transactions from financial information provided by implementing partners to identify potential internal controls and financial management issues. We performed detailed expenditures transaction testing on expenditures of 202(e) or ITSH funds in fiscal years 2014 and 2015, using samples of 20 transactions for each of our four selected development projects, including a combination of larger and smaller transactions for traditional implementation costs as well as cash transfers, food vouchers, and local and regional procurement. We tested each selected transaction to determine whether the costs were (1) accurate, (2) allowable, (3) reasonable, (4) approved, (5) adequately reviewed, and (6) supported by sufficient documentation. We compared the selected transactions with the amounts budgeted in partners' annual approved budgets to verify that expenditures were (1) spent using the funding stream budgeted for the expense and (2) not in excess of the budgeted amount. For each entity we selected for transaction testing, we reviewed the transactions against supporting documentation such as travel orders and authorizations, receipts and invoices, time and attendance reports, and billing reports. Since we judgmentally selected transactions, our findings cannot be generalized.

Additionally, for selected World Food Program (WFP) emergency projects, we reviewed WFP policies, procedures, and guidance related to financial oversight and monitoring of food assistance projects; WFP's external and internal audits; project funding and support documentation, including transfer agreements, amendments, budget revisions, and standard project reports. We reviewed monitoring data and information provided in periodic reports for 202(e) cash transfers, food vouchers, and local and regional procurement activities implemented during the period of our review. We also performed walk-throughs with WFP officials of preselected 202(e) and ITSH transactions. Because WFP is a public international organization (PIO), we did not audit its expenditures or its internal control systems.

We conducted this performance audit from October 2015 to March 2017 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: USAID Internal Transportation, Storage, and Handling Funding

The Food for Peace Act authorizes the U.S. Agency for International Development (USAID) to pay for costs to transport, store, and distribute Title II agricultural commodities (i.e., U.S. in-kind) overseas.[1] To cover these costs that partners incur while moving, storing, and distributing Title II U.S. in-kind food aid after it reaches a destination country, USAID provides the partners with funds that it categorizes as internal transportation, storage, and handling (ITSH) funding. In fiscal years 2012 through 2015, USAID provided about 28 percent of total Title II funding to cover ITSH costs (about $1.575 billion), which supported about 4 million metric tons of commodities during that timeframe.[2]

Since 2012, USAID's obligations for ITSH costs have varied, ranging from about $371 million to about $405 million (see table 5). The amount of commodities USAID has provided in its Title II program also varied within this period, ranging from a high of about 1.2 million metric tons in fiscal year 2012, to a low of 873,414 metric tons in fiscal year 2014. Likewise, the amount of ITSH funding USAID has obligated per metric ton of commodities (i.e., ITSH rate) ranged from a high of $457 in fiscal year 2014, to a low of $338 in fiscal year 2012. According to USAID officials, increases in the ITSH rate were due to increased commodity storage and transport costs, food prices, the shift to specialized nutrition products, decreases in monetization, and security challenges, among other factors.

[1]7 USC § 1736(b)(6) (emergency assistance), 7 USC § 1736a(c)(1)(B) (nonemergency assistance).

[2]Metric tons of commodities do not include monetized commodities. According to USAID, no ITSH costs are associated with monetization.

Table 5: USAID Title II ITSH Obligations, Fiscal Years 2012-2015

Fiscal year	Project type	ITSH obligation (dollars in thousands)	Metric tons of commodities	Average ITSH cost per metric ton (dollars)	Number of active Title II projects
2012	Emergency	349,463.2	988,337	354	55
	Development	55,053.70	207,490	265	41
Total		**404,516.9**	**1,195,827**	**338**	**96**
2013	Emergency	326,422.40	856,810	381	50
	Development	44,307.30	177,000	250	34
Total		**370,729.70**	**1,033,810**	**359**	**84**
2014	Emergency	365,022.20	735,145	497	59
	Development	34,356.20	138,269	248	31
Total		**399,378.40**	**873,414**	**457**	**90**
2015	Emergency	330,059.37	576,885	572	64
	Development	70,040.04	335,603	209	35
Total		**400,099.41**	**912,488**	**438**	**99**
Total 2012-2015		**1,574,724.41**	**4,015,539**		

Legend: ITSH = internal transportation, storage, and handling; Title II = Title II of the Food for Peace Act.

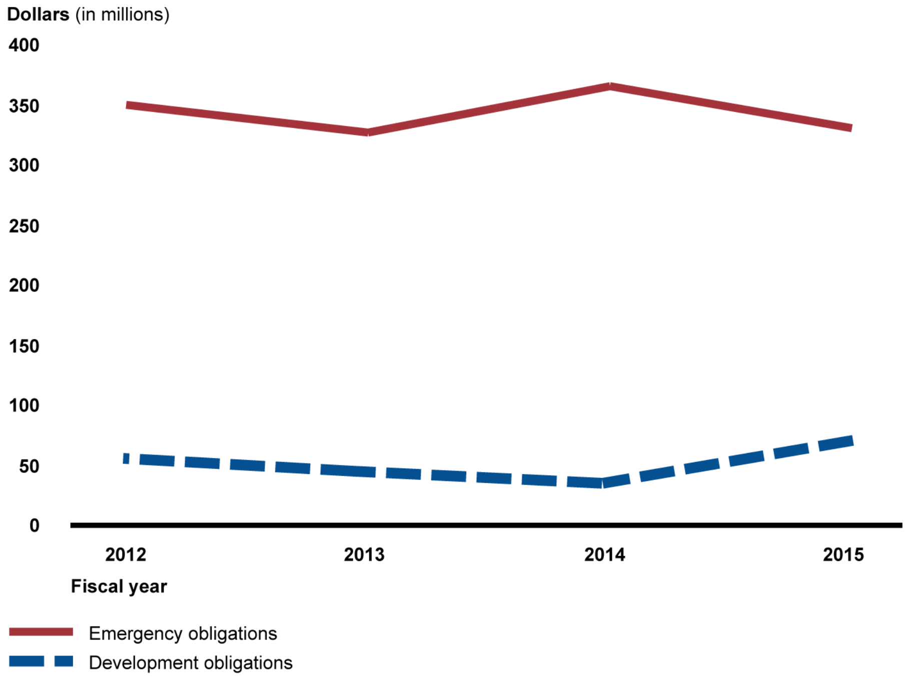
Source: GAO analysis of U.S. Agency for International Development (USAID) data. | GAO-17-224

Notes: Obligations of internal transportation, storage, and handling (ITSH) funding are provided to cover the costs of transporting, storing, and handling U.S. commodities overseas. In addition to the amounts shown for Title II ITSH costs, in fiscal years 2014 and 2015, $180.1 million in ITSH funding was made available from the Bill Emerson Humanitarian Trust to two World Food Program emergency projects in South Sudan. As reauthorized by the 2014 Farm Bill, this trust is an authority that allows USAID's Office of Food for Peace to meet emergency humanitarian food needs in developing countries when other Title II resources are not available.

Metric tons of commodities do not include monetized commodities. According to USAID, there are no ITSH costs associated with monetization.

While USAID makes ITSH funding available in both development and emergency projects, emergency projects comprised the majority of ITSH funding in fiscal years 2012 through 2015 (see fig. 9). According to USAID officials, conflict and lack of in-country infrastructure can greatly increase ITSH costs, particularly in emergency projects. For example, according to USAID, in South Sudan, the World Food Program (WFP)—USAID's implementing partner—distributed food assistance to beneficiaries during the country's armed conflict and was forced to deliver some food via airdrops to conflict-impacted areas. When food could be moved over land, trucking companies charged a premium due to the high risk their drivers faced. Because of these factors, in June 2015, WFP agreed to an ITSH cost of $1,087.50 per metric ton of food. In comparison, in a country such as Malawi, which did not experience security concerns and where WFP distributed emergency food assistance to beneficiaries affected by severe drought conditions, WFP's ITSH cost in August 2015 was $97.87 per metric ton.

Figure 9: USAID Title II Development and Emergency Projects' ITSH Obligations, Fiscal Years 2012-2015



Legend: ITSH = internal transportation, storage, and handling; Title II = Title II of the Food for Peace Act.

Source: GAO analysis of U.S. Agency for International Development (USAID) data. | GAO-17-224

Appendix III: Selected Title II Projects

Ethiopia

Selected Development Project Profile

USAID Title II development project: August 2011 to July 2016[1]

U.S. Agency for International Development (USAID) obligated Title II funding for U.S. in-kind (i.e., U.S.-donated) commodities, including wheat, split peas, and vegetable oil, in fiscal years 2014 and 2015. During this period, USAID also obligated Title II 202(e) funding for cash transfers to landless youth beneficiaries in exchange for their labor on public works projects. These public work projects included terracing hillsides to create farmland. Table 6 shows USAID obligations for this development project.

Table 6: USAID Obligations for Development Project in Ethiopia, Fiscal Years 2014-2015

Title II total[a]	$70,238,560
U.S. commodities (94,320 MT)	$28,535,900
ITSH	$6,847,170
202(e)	$19,901,300
Fiscal year 2014: cash transfers	$4,460,320
Fiscal year 2015: cash transfers	$1,858,250

Legend: Title II = Title II of the Food for Peace Act; MT = metric tons; ITSH = internal transportation, storage, and handling; 202(e) = funding authorized by Title II, Section 202(e), of the Food for Peace Act.

Source: GAO analysis of U.S. Agency for International Development (USAID) funding data. | GAO-17-224

[a]The total shown for Title II obligations includes not only the obligations shown for commodities, ITSH, and 202(e) but also ocean freight and inland transport.

[1]Although this project began before fiscal year 2014 and continued into fiscal year 2016, we show data only for fiscal years 2014 and 2015 to focus on changes in USAID's use of Title II funding since the 2014 Farm Bill. Title II funding data for fiscal year 2016 were not finalized at the time of our review.

Haiti

Selected Development Project Profile

USAID Title II development project: August 2013 to September 2017[2]

USAID obligated Title II funding to the project for U.S. in-kind food aid, including lentils, bulgur, fortified cereal, and vegetable oil, in fiscal years 2014 and 2015. In fiscal years 2014 and 2015, USAID obligated Title II emergency 202(e) funding to support food vouchers for beneficiaries affected by drought. In addition, USAID obligated $18.8 million from its Development Assistance account for this project. Of this amount, about $3.1 million was budgeted to support food vouchers that the partner provided to beneficiaries as part of its efforts to develop a long-term social safety net in Haiti. Table 7 shows USAID obligations for this development project.

Table 7: USAID Obligations for Development Project in Haiti, Fiscal Years 2014-2015

Title II total[a]	$16,503,600
U.S. commodities (6,110 MT)	$3,504,800
ITSH	$3,750,200
202(e)	$8,065,100
Fiscal year 2014: food vouchers	$4,065,100
Development Assistance account total	$18,782,320
Fiscal year 2014: Food vouchers[b]	$32,118
Fiscal year 2015: Food vouchers	$3,021,636

Legend: Title II = Title II of the Food for Peace Act; MT = metric tons; ITSH = internal transportation, storage, and handling; 202(e) = funding authorized by Title II, Section 202(e), of the Food for Peace Act.

Source: GAO analysis of U.S. Agency for International Development (USAID) funding data. | GAO-17-224

[a]The total shown for Title II obligations includes not only the obligations shown for commodities, ITSH, and 202(e), but also ocean freight and inland transport.

[b]Development Assistance funding for this modality represents budgeted or planned funding; USAID was not able to provide a breakdown of Development Assistance obligations by modality for this project as of January 2017.

[2]Although this project began before fiscal year 2014 and was ongoing at the time of our review, we show data from only fiscal years 2014 and 2015 to focus on changes in USAID's use of Title II funding since the 2014 Farm Bill. Title II funding data for fiscal year 2016 were not finalized at the time of our review.

Malawi

Selected Development Project Profile

USAID Title II development project: September 2014 to September 2019

In fiscal year 2015, USAID obligated Title II funding for U.S. in-kind food aid such as fortified corn and soybean blend and vegetable oil. In addition, USAID obligated Title II 202(e) funding for the local procurement of commodities such as maize flour, salt, and soybeans for beneficiaries with immediate food needs after severe flooding. According to USAID, it will obligate over 65 percent of funding for the project from the Development Assistance account, including funding for some project implementation costs and local procurement of commodities to support food-for-assets activities. Table 8 shows USAID obligations for this development project.

Table 8: USAID Obligations for Development Project in Malawi, Fiscal Year 2015

Title II total[a]	$5,914,020
U.S. commodities (3,470 MT)	$2,420,600
ITSH	$928,400
202(e)	$1,257,920
Local procurement	$377,520
Development Assistance account	$8,000,000
Local procurement[b]	$160,680

Legend: Title II = Title II of the Food for Peace Act; MT = metric tons; ITSH = internal transportation, storage, and handling; ; 202(e) = funding authorized by Title II, Section 202(e), of the Food for Peace Act.

Source: GAO analysis of U.S. Agency for International Development (USAID) funding data. | GAO-17-224

Note: The project began implementing activities on September 29, 2014.

[a]The total shown for Title II obligations includes not only the obligations shown for commodities, ITSH, and 202(e) but also ocean freight and inland transport.

[b]Development Assistance funding for this modality represents budgeted or planned funding; USAID was not able to provide a breakdown of Development Assistance obligations by modality for this project as of January 2017.

Selected Emergency Project Profile

World Food Program (WFP) project implemented with USAID Title II emergency funding: Protracted Relief and Recovery Operation (PRRO) 200692: December 2014 through March 2017

In fiscal years 2014 and 2015, USAID obligated Title II funding to this WFP PRRO for U.S. in-kind food aid—split yellow peas, lentils, sorghum, and vegetable oil, and obligated 202(e) funding for the local procurement of commodities such as maize, maize meal, and pulses. In addition, USAID obligated Title II 202(e) funding for the transport, storage, and distribution of 3,494 metric tons of maize that the government of Malawi locally procured and donated, which allowed WFP to transport, store, and distribute the food. Table 9 shows USAID obligations for this emergency project.

Table 9: USAID Obligations for Emergency Project in Malawi, Fiscal Years 2014-2015

Title II total[a]	$28,138,700
U.S. commodities (12,190 MT)	$10,141,700
ITSH	$3,698,800
202(e)	$9,561,400
Fiscal year 2014: Local procurement	$5,000,000
Fiscal year 2015: Twinning[b]	$1,000,000
Local procurement	$2,000,000
EFSP	$2,500,000
Fiscal year 2015: Local procurement	$2,500,000

Legend: Title II = Title II of the Food for Peace Act; MT = metric tons; ITSH = internal transportation, storage, and handling;; 202(e) = funding authorized by Title II, Section 202(e), of the Food for Peace Act. EFSP = Emergency Food Security Program.

Source: GAO analysis of U.S. Agency for International Development (USAID) funding data. | GAO-17-224

[a]The total shown for Title II obligations includes not only the obligations shown for commodities, ITSH, and 202(e), but also ocean freight and inland transport.

[b]According to the World Food Program (WFP), twinning is the matching of in-kind food aid from one donor with a cash contribution from another donor to cover the costs associated with distributing the in-kind food aid. In fiscal year 2015, USAID obligated $1 million to cover WFP's costs associated with distributing food donated by the government of Malawi.

South Sudan

Selected Emergency Project Profile

WFP project implemented with USAID Title II emergency funding: Emergency Operation (EMOP) 200659: January 2014 through September 2015

In fiscal years 2014 and 2015, USAID obligated Title II funding to EMOP 200659 for U.S. in-kind food aid, including lentils, split peas, sorghum, and vegetable oil. USAID also obligated $4 million in Title II 202(e) funding for locally and regionally procured maize and fortified cereal along with $10.3 million in Emergency Food Security Program (EFSP) funds for regionally procured food for this project. Table 10 shows USAID obligations for this emergency project.

Table 10: USAID Obligations for Emergency Project in South Sudan, Fiscal Years 2014-2015

Title II total[a]	$179,835,520
U.S. commodities (49,470 MT)	$25,482,800
ITSH	$109,810,390
202(e)	$17,380,430
Fiscal year 2014: Local procurement	$4,000,000
ESFP	$10,314,580
Fiscal year 2014: Regional procurement	$10,314,580

Legend: Title II = Title II of the Food for Peace Act; MT = metric tons; ITSH = internal transportation, storage, and handling; 202(e) = funding authorized by Title II, Section 202(e), of the Food for Peace Act. EFSP = Emergency Food Security Program.

Source: GAO analysis of U.S. Agency for International Development (USAID) funding data. | GAO-17-224

[a]The total shown for Title II obligations includes not only the obligations shown for commodities, ITSH, and 202(e), but also ocean freight and inland transport. In addition, USAID made available about $120.3 million in ITSH funding and $14.5 million in 202(e) funding from the Bill Emerson Humanitarian Trust. As reauthorized by the 2014 Farm Bill, this trust is an authority that allows USAID's Office of Food for Peace to meet emergency humanitarian food needs in developing countries when other Title II resources are not available.

Zimbabwe

Selected Development Project Profile

USAID Title II development project: June 2013 to June 2018[3]

In fiscal years 2014 and 2015, USAID obligated Title II funding for the project for U.S. in-kind food aid, including sorghum, lentils, and vegetable oil. In addition, USAID obligated Title II 202(e) funding for cash transfers to beneficiaries in exchange for building or rehabilitating assets, such as a livestock dip tank and dams that improve their community's resilience to shocks. This project also used 202(e) funding for development activities, such as providing $150 household asset vouchers to 1,000 vulnerable beneficiaries in exchange for their participation in training in fiscal year 2015. These vouchers could be used for the purchase of agriculture inputs and supplies, such as seeds, livestock, wheelbarrows, and plows. The project's other activities included using 202(e) funding for agricultural input and livestock fairs to facilitate market access for rural beneficiaries in order to reduce food insecurity. Table 11 shows USAID obligations for this development project.

Table 11: USAID Obligations for Development Project in Zimbabwe, Fiscal Years 2014-2015

Title II total[a]	$17,761,140
U.S. commodities (4,290 MT)	$2,264,300
ITSH	$1,206,340
202(e)	$12,703,410
Fiscal year 2014: Cash transfers	$60,000
Fiscal year 2015: Cash transfers	$708,000

Legend: Title II = Title II of the Food for Peace Act; MT = metric tons; ITSH = internal transportation, storage, and handling; 202(e) = funding authorized by Title II, Section 202(e), of the Food for Peace Act.

Source: GAO analysis of U.S. Agency for International Development (USAID) funding data. | GAO-17-224

[a]The total shown for Title II obligations includes not only the obligations shown for commodities, ITSH, and 202(e), but also ocean freight and inland transport.

[3]Although this project began before fiscal year 2014 and was ongoing at the time of our review, we show data from only fiscal years 2014 and 2015 to focus on changes in USAID's use of Title II funding since the 2014 Farm Bill. Title II funding data for fiscal year 2016 were not finalized at the time of our review.

Selected Emergency Project Profile

WFP project implemented with USAID Title II emergency funding: Protracted Relief and Recovery Operation (PRRO) 200453: May 2013 to June 2016[4]

In fiscal years 2014 and 2015, USAID obligated Title II funding to PRRO 200453 for U.S. in-kind food aid, including peas, sorghum, and vegetable oil. In addition, USAID obligated Title II 202(e) funding along with EFSP funds to this project for regionally procured commodities such as maize and peas from Zambia and Malawi and for cash transfers to beneficiaries in exchange for their work on assets such as dams and irrigation schemes. Table 12 shows USAID obligations for this emergency project.

Table 12: USAID Obligations for Emergency Project in Zimbabwe, Fiscal Years 2014-2015[a]

Title II total[b]	$17,281,500
U.S. commodities (11,260 MT)	$4,126,000
ITSH	$4,879,000
202(e)	$4,319,800
Fiscal year 2014: Cash transfers;	$2,250,000
Regional procurement	$750,000
ESFP	$7,500,000
Fiscal year 2014: Regional procurement;	$2,108,690
Cash transfers	$891,310
Fiscal year 2015: Cash transfers	$4,500,000

Legend: Title II = Title II of the Food for Peace Act; MT = metric tons; ITSH = internal transportation, storage, and handling; 202(e) = funding authorized by Title II, Section 202(e), of the Food for Peace Act. EFSP = Emergency Food Security Program.

Source: GAO analysis of U.S. Agency for International Development (USAID) funding data. | GAO-17-224

[a]According to USAID officials, the agency provided some Title II development funding for this project beginning in fiscal year 2015. The information in this table includes both development and emergency funding for fiscal year 2015.

[b]The total shown for Title II obligations includes not only the obligations shown for commodities, ITSH, and 202(e), but also ocean freight and inland transport.

[4]Although this project began before fiscal year 2014 and continued through fiscal year 2016, we show data from only fiscal years 2014 and 2015 to focus on changes in USAID's use of Title II funding since the 2014 Farm Bill. Title II funding data for fiscal year 2016were not finalized at the time of our review. According to USAID officials, the agency provided some Title II development funding for this project beginning in fiscal year 2015.

Appendix IV: Financial Oversight of Title II Funding to Implement and Support WFP Emergency Food Assistance Projects

The U.S. Agency for International Development (USAID) makes most of its Title II emergency awards to the World Food Program (WFP). In accordance with USAID's Automated Directives System (ADS), USAID has designated WFP as a category 1 public international organization (PIO) on the basis of its review of WFP and United Nations (UN) documents and reports, including strategy, policy, and audit documents related to WFP's internal controls procedures, financial resources and risk management.[1] USAID officials indicated that, in accordance with the ADS, USAID may make awards to a category 1 PIO without conducting pre-award audits or regularly reviewing audit and financial information. As a result, USAID officials noted that the agency generally relies on WFP to conduct financial oversight of implementation costs in Title II emergency projects awarded to WFP.

WFP's Office of Evaluation is responsible for evaluations to provide information on the quality and effectiveness of WFP's policies, strategies, operations, and efficiency of their implementation. WFP's Office of the Inspector General (OIG) is responsible for providing assurance on governance, policy, risk, resources, operations and accountability, and internal controls, including through internal audit and investigation, to ensure the effective and efficient use of the resources of WFP and the safeguarding of its assets. WFP also has an external auditor that is appointed by, and reports to, WFP's Executive Board and is responsible for auditing WFP's accounts and for carrying out performance audits of WFP's operations.[2] According to the annual reports of WFP's OIG for 2014 and 2015, the oversight work of the OIG did not disclose any significant weaknesses. Moreover, in 2015, WFP's Finance Committee reported that the external auditor's review of WFP's financial statements for 2014 revealed no material weaknesses or errors. We found that WFP conducted 42 internal audits in 2014 and 2015 as well as several external audits, with a range of findings and recommendations. For example, audits identified instances in which a country office did not verify services performed by third parties before paying for services and also identified inconsistent or suboptimal rates of completion of risk assessments by country offices, particularly for cash transfers and food vouchers. The majority of internal audits reached satisfactory or partially satisfactory

[1]USAID's ADS contains agency-wide policies and procedures for internal control, as well as for making awards to PIOs.

[2]According to USAID officials, as a member of WFP's Executive Board, the U.S. government participates in advisory committees to provide WFP guidance on financial matters as well as on governance, risk management, and internal controls.

conclusions, and WFP generally reported implementing, or taking some steps to implement, the audits' recommendations.[3]

We reviewed WFP's policies and procedures for financial internal controls and found that they generally reflect Committee of Sponsoring Organizations of the Treadway Commission (COSO) principles.[4] We also reviewed support documentation—such as purchase orders, payment requests, and reconciliation documents—for one or two transactions preselected by WFP involving 202(e) cash transfers, food vouchers, local and regional procurement, or internal transportation, storage, and handling (ITSH) funding for each of the three emergency projects we reviewed. For example, in Zimbabwe, WFP officials walked us through support documentation and discussed the approval process for a 202(e) cash transfer transaction for our selected WFP project in Zimbabwe. Support documentation included WFP's agreement with the mobile service provider for the cash transfers to beneficiaries; the purchase requisition (including a breakout of actual cash distributed to beneficiaries and associated costs, such as fees paid to the mobile provider); the purchase order; the distribution plan by district and month; distribution lists (including names and account numbers for beneficiaries); and the actual payment request and corporate payment report, as well as reconciliation documentation. We determined that for the purposes of our review, documentation that WFP provided for these preselected

[3]WFP also reported issuing six investigation reports during the period 2014-2016 relevant to fraud or misuse in the countries where our selected WFP projects were implemented (one report (published in 2016) for WFP/Malawi, five reports for WFP/South Sudan (published in 2014-2016), and none for WFP/Zimbabwe).

[4]The Committee of Sponsoring Organizations for the Treadway Commission's (COSO) *Internal Control—Integrated Framework* (updated in 2013) has been recognized by regulatory standard setters as a comprehensive framework for evaluating internal controls, including internal controls over financial reporting. We previously reviewed WFP internal controls in 2012, as well as WFP internal controls for cash-based food assistance provided through USAID's Emergency Food Security Program (EFSP) in 2015. While our prior reports found that the design of WFP's internal controls related to risk management generally reflected COSO principles and that WFP had generally implemented financial controls over cash and voucher distributions, the reports included several recommendations for USAID and WFP to strengthen internal controls-related risk management for emergency food assistance projects. We have subsequently found that USAID and WFP have both taken actions to develop guidance and requirements related to risk management and third-party monitoring for emergency food assistance. See GAO, *World Food Program: Stronger Controls Needed in High-Risk Areas*, GAO-12-790 (Washington, D.C.: Sept. 13, 2012); and GAO, *International Cash-Based Food Assistance: USAID Has Developed Processes for Initial Project Approval but Should Strengthen Financial Oversight*, GAO-15-328 (Washington, D.C.: Mar. 26, 2015).

transactions showed that expenses were accurate and allowable and had adequate levels of review and approval.

Further, in reviewing three WFP projects for our current report, we found that WFP country offices had compiled required risk assessments and mitigation plans relevant to the three projects. Specifically, the three WFP country offices developed higher-level risk assessments that addressed risks to strategic or operational objectives of WFP country operations, such as risks related to political instability, poor road infrastructure, or erratic weather. In addition, one of the country offices, in South Sudan, also developed a more in-depth assessment that addressed 66 programmatic risks, including risks related to internal controls; financial risks; and potential fraud, waste, or abuse. According to WFP, it requires country offices to develop only the higher-level assessments, and country offices may choose to also develop more in-depth assessments. In addition, we reviewed WFP sectoral capacity assessments related to cash transfers, food vouchers, and local and regional procurement for the selected projects. These assessments evaluate the capacities and associated risks of cooperating partners, financial institutions, and markets as well as retailers for cash transfers, food vouchers, and local and regional procurement. WFP noted that it consults with local governments in developing these assessments. WFP also noted that it uses the assessments to inform the choice of program delivery modality, particularly examining logistics, financial, and information and communications technology in determining the appropriateness and feasibility of using cash transfers, food vouchers, and local and regional procurement and mobile technology in its projects.

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

USAID
FROM THE AMERICAN PEOPLE

FEB 2 3 2017

Mr. Thomas Melito
Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: INTERNATIONAL FOOD ASSISTANCE: USAID Has Controls for Implementation and Support Costs but Should Strengthen Financial Oversight (GAO-17-224)

Dear Mr. Melito:

I am pleased to provide the United States Agency for International Development's (USAID) formal response to the U. S. Government Accountability Office (GAO) draft report entitled, *"INTERNATIONAL FOOD ASSISTANCE: USAID Has Controls for Implementation and Support Costs but Should Strengthen Financial Oversight"* (GAO-17-224).

This letter and the enclosed USAID comments are 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 while conducting this GAO engagement.

Sincerely,

Angelique M. Crumbly
Acting Assistant Administrator
Bureau for Management

Enclosure: a/s

USAID COMMENTS ON GAO DRAFT REPORT
No. GAO-17-224

USAID appreciates the opportunity to comment on GAO's draft report entitled "INTERNATIONAL FOOD ASSISTANCE: USAID Has Controls for Implementation and Support Costs but Should Strengthen Financial Oversight."

Since Congress made changes to the Food for Peace Act, Section 202(e) authorities in the Agricultural Act of 2014, USAID has sought to use 202(e) funds to more efficiently and effectively achieve our food security goals. We have used these new authorities to enhance our Title II programs globally by procuring food locally and regionally, when appropriate, to allow us to reach more people in need with the same amount of funds and by providing food vouchers or cash transfers to promote dietary diversity and reinforce market recovery by supporting local merchants. We have also used the new authorities to reduce our need to monetize in our development programs, resulting in cost savings that we can invest into reaching more hungry people.

As the GAO report highlights, USAID uses resources from multiple accounts to meet global humanitarian and development food security needs, requiring us to adhere to distinct requirements depending on the source of funding. We acknowledge there are opportunities for greater consistency across these funding mechanisms that would increase the efficiency and effectiveness of our food assistance programs and simplify reporting and accountability requirements for our implementing partners. We look forward to working with Congress to explore possible improvements through the next Farm Bill.

We appreciate GAO's recognition that we have a number of controls in place to ensure the appropriate use of our implementation and support costs across the budget and program cycle. USAID has developed systems and guidance to explain the changes in Section 202(e) authorities to staff and our implementing partners – including through our USAID/Food for Peace (FFP) Information Bulletin on Eligible Uses of 202(e) and internal transportation, storage and handling (ITSH) and our Annual Program Statement for International Emergency Food Assistance – and to support consistency in their application. Given that these authorities are relatively new, it has taken time to transition and update our policies and processes. We plan to continue to further strengthen and improve our oversight of these funds.

There are five recommendations for USAID, set forth on page 35 of the draft report, as follows:

Recommendation 1: To enhance USAID's financial oversight of implementing partners' spending to implement and support Title II development and emergency projects, we recommend that the USAID Administrator develop, document and implement a process for periodically conducting systematic, targeted financial reviews of Title II development and emergency projects. Such reviews should include efforts to verify that actual costs incurred for these projects align with planned budgets.

- **Response:** USAID concurs with the recommendation. USAID currently relies on partners' financial reports and audit findings to provide financial oversight of activities, in line with established agency policy. We are exploring options to develop a process for conducting financial reviews through a number of actions. USAID/FFP will start by developing additional grants guidance for agreement officer's representatives (AORs) and USAID/FFP officers concerning establishing and maintaining internal controls in federal programs based on GAO's *Standards for Internal Control in the Federal Government*. USAID/FFP will include components from this new grants guidance training for AORs and USAID/FFP officers to feature at the USAID/FFP Food Assistance Managers' Course, a training available to USAID/FFP staff to provide guidance on managing food assistance awards. In addition, USAID/FFP will update its Pipeline Resource and Estimate Proposal (PREP) guidance to require partners to provide an expenditure report and financial pipeline as part of their annual PREP submission. Lastly, USAID/FFP plans to have its Program Operations Division undertake a regular review of ITSH expenditures to ensure costs align with planned budgets.

Recommendation 2: To enhance USAID's financial oversight of implementing partners' spending to implement and support Title II development and emergency projects, we recommend that the USAID Administrator ensure that its requirements for implementing partners to provide monitoring data on an ongoing basis on the use of 202(e) funding for cash transfers, food vouchers, and local and regional procurement are consistent for Title II development and emergency projects.

- **Response:** USAID concurs with the recommendation. Currently, USAID requires implementing partners carrying out Title II development activities to report on cash, vouchers, and local and regional procurement actuals on an annual basis. We also require quarterly updates from our development partners to keep apprised of progress and ensure our funding is meeting its intended objectives. USAID will update the development award template so that reporting on cash transfer, food vouchers and local and regional procurement is consistent with emergency activities as outlined in the Annual Program Statement for International Emergency Food Assistance.

Recommendation 3: To enhance USAID's financial oversight of implementing partners' spending to implement and support Title II development and emergency projects, we recommend that the USAID Administrator take steps to ensure that it collects complete and consistent monitoring data from implementing partners for Title II development and emergency projects on the use of 202(e) funding for cash transfers, food vouchers, and local and regional procurement as well as data on the use of Title II funding for ITSH costs, in accordance with established requirements.

- **Response:** USAID concurs with the recommendation. As part of USAID's continuing efforts to improve monitoring, evaluation, and compliance, USAID/FFP is planning to solicit Program Support Officers for each geographic team to ensure existing processes and procedures are fully adhered to, including the receipt, completeness, and compliance with reporting required under awards, which will be consistent with agency guidance in regards to the Federal hiring freeze. We also are working to enhance training for USAID/FFP staff and improve compliance with existing reporting requirements across all of our implementing partners' awards, including through accountability in staff performance evaluations.

Recommendation 4: To enhance USAID's financial oversight of implementing partners' spending to implement and support Title II development and emergency projects, we recommend that the USAID Administrator update key guidance and systems to consistently reflect allowable uses of ITSH funds in Title II development and emergency projects.

- **Response:** USAID concurs with the recommendation. It has always been the policy of USAID that ITSH can only be used to support Title II in-kind commodities and cannot be used to support the implementation of local and regional procurement, cash transfer or food vouchers programs. In both the draft FY 2017 Request for Applications (RFA) for Development Food Security Activities in Uganda issued in December 2016 and the final RFA issued in February 2017, USAID included language to clarify that when locally and regionally procured commodities are requested through the FFP Management Information System (FFPMIS) although the associated transportation, storage, and distribution costs are tabulated in the ITSH column, this is simply denoting the funds necessary for these costs and that the actual costs are funded with Section 202(e) resources. USAID is exploring whether changes can be made through FFPMIS to further clarify this distinction, though these changes come with a financial cost that will need to be assessed. USAID will also update guidance on appropriate uses of ITSH in the Food for Peace Information Bulletin 14-01 and 16-01 that outline eligible uses of Section 202(e) and ITSH as well as award requirements for local, regional and international procurement.

Recommendation 5: To enhance USAID's financial oversight of implementing partners' spending to implement and support Title II development and emergency projects, we recommend that the USAID Administrator establish a requirement for Title II development project partners to conduct and document comprehensive risk assessments and mitigation plans for cash transfers and food vouchers funded by 202(e), and take steps to ensure that implementing partners adhere to the requirement.

- **Response:** USAID concurs with the recommendation. USAID partners are currently required to complete an analysis of risks as it relates to proposed modalities and relevant mitigation measures in our Food for Peace emergency activities. USAID has inserted the requirement into the FY17 Request for Applications for development activities.

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

Thomas Melito, 202-512-9601 or melitot@gao.gov

Staff Acknowledgments

In addition to the contact named above, Valérie L. Nowak (Assistant Director), Elisabeth Helmer, Nicholas Jepson, Steven Rocker, Ming Chen, Jeff Isaacs, Reid Lowe, and Kimberly McGatlin made significant contributions to this report. Jaime Allentuck, Jacques Arsenault, Diana Blumenfeld, Martin de Alteriis, Neil Doherty, Mark Dowling, Christopher Hayes, Susmita Pendurthi, Theresa Perkins, and Sushmita Srikanth provided technical assistance.

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