

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

Northern Central America Humanitarian Response: USAID Took Steps to Mitigate Fraud Risks, but Opportunities Exist to Clarify Guidance on Assessing Sanctioned Group Risk

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Audit



Global and Strategic Audits Division



OFFICE OF INSPECTOR GENERAL U.S. Agency for International Development

DATE: May 22, 2023

TO: Bureau for Humanitarian Assistance,
Assistant to the Administrator, Sarah Charles

FROM: Global and Strategic Audits Division and Latin America and Caribbean Regional
Office, Director, Emily Gardiner

SUBJECT: Northern Central America Humanitarian Response: USAID Took Steps to
Mitigate Fraud Risks, but Opportunities Exist to Clarify Guidance on Assessing
Sanctioned Group Risk

This memorandum transmits our final audit report. Our audit objectives were to assess the extent to which USAID's Bureau for Humanitarian Assistance (BHA) ensured that (1) the organizational risks of fraud, waste, and abuse related to the presence of sanctioned groups or individuals in the northern Central America response were assessed and (2) cash-transfer activities were designed to mitigate selected risks of fraud and diversion. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in Appendix C.

The report contains five recommendations to improve USAID/BHA's processes for assessing risk posed by sanctioned groups to programs in northern Central America. After reviewing information you provided in response to the draft report, we consider four closed (Recommendations 1, 2, 3, and 4) and one resolved but open pending completion of planned activities (Recommendation 5).

For Recommendation 5, please provide evidence of final action to the Audit Performance and Compliance Division.

We appreciate the assistance you and your staff provided to us during this audit.

Contents

Introduction	1
Summary	2
Background	2
BHA Did Not Consistently Follow Guidance to Assess the Risks Posed by Sanctioned Groups.4	
BHA Did Not Consistently Apply Internal Guidance and Approved Half of Awards Reviewed Prior to Updating Risk Analyses	5
BHA Did Not Ensure Applicants Consistently Followed Guidance to Assess Sanctioned Group Risk.....	8
BHA Took Steps Designed to Mitigate Selected Fraud and Diversion Risks in its Programming, but There Were Opportunities to Further Strengthen the Documentation of Risk Assessments and Data Sharing.....	10
BHA Took Steps to Address Previously Identified Fraud and Diversion Risks in its Cash-Transfer Activities.....	11
Opportunities Existed to Further Strengthen BHA’s Documentation of Risk Assessments and Data Sharing Among Implementers	12
Conclusion	14
Recommendations	14
OIG Response to Agency Comments	15
Appendix A. Scope and Methodology.....	16
Appendix B. Additional Requirements for Applicants in High-Risk Environments.....	18
Appendix C. Agency Comments.....	19
Appendix D. Major Contributors to This Report.....	22

Introduction

According to the United Nations, as of July 2021, an estimated 8.3 million people required humanitarian aid in the northern Central American countries of El Salvador, Guatemala, and Honduras.¹ Responding to this longstanding need, in April 2021 the U.S. government announced that USAID would provide \$125 million in humanitarian assistance to the region. This assistance was designed to address the immediate needs of those impacted by recurrent drought, food insecurity, and the COVID-19 pandemic through a range of activities, including multipurpose cash-assistance and food-assistance cash-transfer activities.² While these types of activities can quickly meet urgent needs, they also come with increased fraud and diversion risks. OIG has identified managing fraud and diversion risks in humanitarian assistance as a top management challenge, noting the need for improved risk assessment and mitigation plans. These risks may be further complicated in northern Central America by the presence of groups that are designated as sanctioned groups by the U.S. government, including transnational criminal organizations such as Mara Salvatrucha (MS-13).³

As USAID responds to these pressing humanitarian needs, we conducted this audit to assess the extent to which USAID's Bureau for Humanitarian Assistance (BHA) ensured that (1) the organizational risks of fraud, waste, and abuse related to the presence of sanctioned groups or individuals in the northern Central America response were assessed and (2) cash-transfer activities were designed to mitigate selected risks of fraud and diversion.

To answer our objectives, we reviewed BHA's processes for assessing risk posed by sanctioned groups to programs in El Salvador, Guatemala, and Honduras, including BHA's guidance for its staff and applicants to assess and mitigate risks. We reviewed applications for all awards including either multipurpose or food-assistance cash-transfer activities made by BHA to nongovernmental organizations (NGOs) as of June 14, 2021—14 in total—that formed part of USAID's \$125 million response to determine if BHA ensured that the applicants developed risk mitigation plans according to USAID's guidelines.⁴ Of the 14 total awards, we judgmentally selected a sample of 3 awards that included one NGO implementing multipurpose cash-assistance or food-assistance cash-transfer activities in each country. We reviewed past U.S. Government Accountability Office (GAO) and USAID OIG audit reports and work conducted by the OIG's Office of Investigations to identify any relevant issues that may have had an impact on cash-transfer activities in humanitarian assistance. Of the 24 previously reported weaknesses or vulnerabilities identified in these reports and information provided by our Office of Investigations, we judgmentally selected 7 based on their relevance to planned activities for the regional response and tested them across the 3 selected awards. We interviewed BHA staff in Washington, DC, and implementer staff in El Salvador, Guatemala, and Honduras to obtain

¹ United Nations Office for the Coordination of Humanitarian Affairs (OCHA), Humanitarian Program Cycle 2021, "[Humanitarian Needs Overview Summary 2021-El Salvador, Guatemala & Honduras](#)," accessed April 11, 2022.

² Throughout this report, we use the term "cash-transfer activities" to refer to both multipurpose cash-assistance and food-assistance cash transfers. Multipurpose cash assistance is a transfer that covers basic needs. Food-assistance cash transfers identify and address gaps in food consumption in a population affected by food insecurity.

³ In this report, the term "sanctioned groups" refers to groups or individuals sanctioned by the U.S. government.

⁴ Throughout this document, when describing actions related to the application process, we refer to the potential implementers as "applicants." When describing actions related to ongoing activities, we use the term "implementers," as their applications were approved and awards made.

information on actions designed to mitigate selected risks of fraud and diversion. We conducted our work in accordance with generally accepted government auditing standards. Appendix A provides more detail on our scope and methodology.

Summary

BHA did not consistently follow guidance to assess the risks posed by sanctioned groups. Although BHA had both internal and external guidance to assist BHA staff and award applicants in assessing the risks posed by sanctioned groups to humanitarian response efforts, BHA did not consistently follow its internal guidance and approved 7 of 14 awards reviewed before determining whether the risks posed by sanctioned groups had changed since its previous assessment of those risks. Further, BHA did not ensure that applicants consistently followed external guidance to assess the risks posed by sanctioned groups in the region. Because of a lack of clarity in its guidance, BHA may not have conducted a sufficiently comprehensive assessment of the risks posed by sanctioned groups or the safeguards established by applicants to protect future U.S. government resources.

BHA took steps designed to mitigate selected fraud and diversion risks in its programming, but there were opportunities to further strengthen the documentation of risk assessments and data sharing. BHA took steps to address previously identified fraud and diversion risks in its cash-transfer activities. However, opportunities existed to further strengthen BHA's review of the risk assessments submitted by applicants and to reduce the risk of beneficiary duplication.

Recommendations: We made five recommendations to improve USAID/BHA's processes for assessing and mitigating fraud and diversion risks. BHA agreed with all five recommendations.

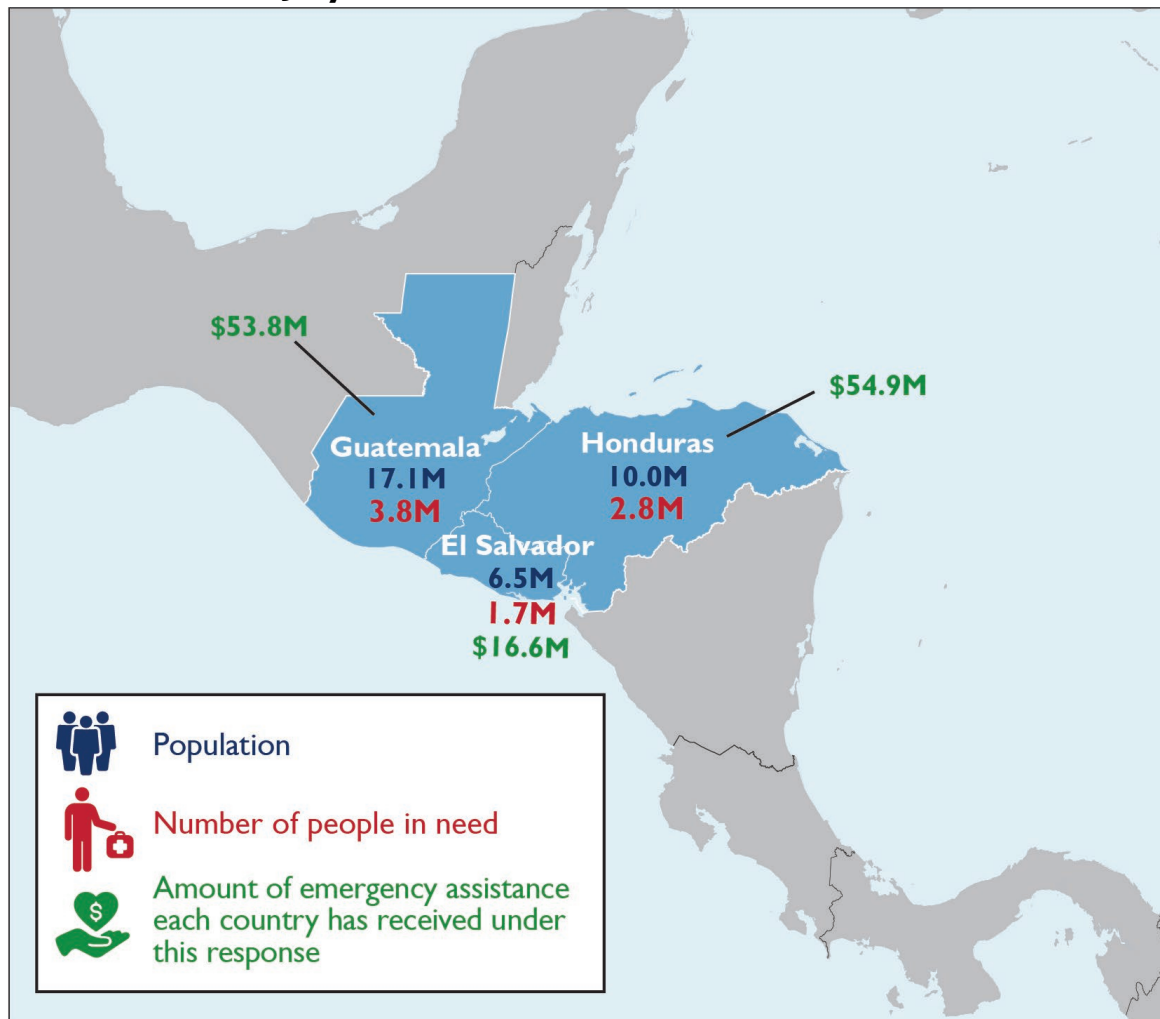
Background

Operational Context in the Northern Central America Region

Home to a population of more than 33 million people, the northern Central America region—consisting of El Salvador, Guatemala, and Honduras—has recently experienced multiple humanitarian crises. Since 2014, the region has experienced a series of extended droughts, creating a high degree of food insecurity, which was exacerbated by the economic and health impacts of the COVID-19 pandemic. The region is also regularly impacted by natural disasters, including Hurricanes Eta and Iota in November 2020. Further, the region's homicide rates remain high by global standards, and criminal organizations—including MS-13 and the 18th Street Gang—are pervasive in the region.⁵ As shown in the figure below, USAID's humanitarian response to the three countries has totaled over \$125 million and was targeting more than 1.9 million people in need as of July 2021.

⁵ Congressional Research Service, *Central American Migration: Root Causes and U.S. Policy*, April 22, 2021.

Figure I. USAID’s Humanitarian Response to El Salvador, Guatemala, and Honduras – July 2021



Source: Map created by USAID OIG using data from the World Bank and USAID. The depiction and use of boundaries and geographic names used on this map do not imply official endorsement or acceptance by the U.S. government.

Building on USAID’s past humanitarian response to Hurricanes Eta and Iota, and given the ongoing humanitarian need, the U.S. government issued disaster declarations for El Salvador, Guatemala, and Honduras in February and March 2021. In April 2021, USAID deployed a Disaster Assistance Response Team to the region. That same month, Vice President Harris announced \$310 million in U.S. government support to the region, including \$125 million for USAID humanitarian response efforts. This funding was designed to mitigate the impact of the recurrent drought, food insecurity, and COVID-19 pandemic. BHA funding provided for multisector support, including water, sanitation, and hygiene assistance; shelter; food-assistance cash transfers; and multipurpose cash assistance, which flexibly provides beneficiaries in humanitarian need with unrestricted cash transfers. Under the northern Central America response, BHA officials noted that they were under tremendous pressure to scale up programming quickly, which necessitated a compressed proposal development and review process.

BHA Key Risk Assessment Requirements for Applicants

To begin implementing programming for a response following a disaster declaration, BHA receives applications from NGOs for humanitarian assistance awards. As part of the application process, BHA requires applicants to submit a Risk Assessment and Management Plan (RAMP) that assesses the risk of fraud, waste, and abuse associated with the proposed activity, and plans for how these risks will be managed and reduced.⁶ The following elements should be addressed in a RAMP:

- A short description of the applicant's organizational structure and process for assessing and managing risk.
- An explanation of policies, processes, and trainings that mitigate risk of fraud, waste, and abuse.
- Planned oversight of project implementation and sub-awards.
- Methods for safeguarding financial resources, including use of money service providers.

BHA's Emergency Application Guidelines for RAMPs designate environments as high risk if there is a presence of groups or individuals who are subject to sanctions administered by the U.S. Department of Treasury, Office of Foreign Assets Control (OFAC). There are additional procedures and requirements for both the Agency and applicants for environments BHA considers high risk. Although BHA does not currently include El Salvador, Guatemala, or Honduras on its list of high-risk environments, the presence of sanctioned groups in the region means that BHA and applicants are still required to take steps to ensure that the provision of assistance does not result in violations of applicable sanctions.

BHA Did Not Consistently Follow Guidance to Assess the Risks Posed by Sanctioned Groups

Although BHA had both internal and external guidance to assist its staff and applicants in assessing the risks posed by sanctioned groups to humanitarian response efforts, BHA did not consistently follow its internal guidance as it launched the response. The internal guidance supported BHA staff in assessing risks posed to humanitarian response efforts, and the external guidance incorporated in the Emergency Application Guidelines laid out steps for applicants. However, despite its internal guidance, BHA obligated 7 of 14 awards reviewed before determining whether the risks posed by sanctioned groups had changed since its previous assessment from November 2020. BHA also did not ensure that applicants consistently followed external guidance to assess the risk posed by sanctioned groups in the region.

⁶ BHA's Emergency Application Guidelines Annex D: Risk Assessment and Management Plan to Prevent Misuse or Diversion of U.S. Government Resources includes requirements and guidance for all NGOs submitting applications to BHA for either new awards or modifications of existing awards.

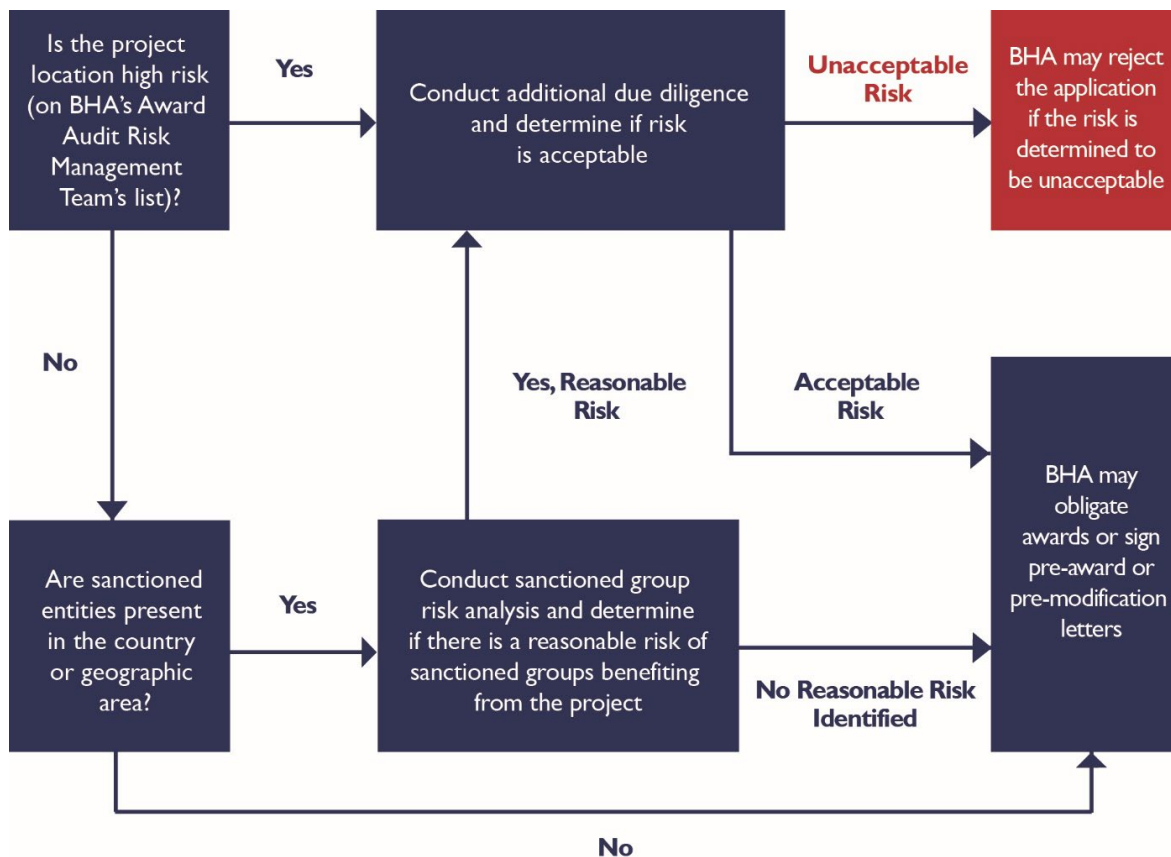
BHA Did Not Consistently Apply Internal Guidance and Approved Half of Awards Reviewed Prior to Updating Risk Analyses

Internal Guidance for Risk Analyses Was Not Consistently Applied

As it rolled out USAID’s response, BHA did not consistently follow internal guidance—legacy guidance developed by the Office of U.S. Foreign Disaster Assistance (OFDA)—related to assessing the risks sanctioned groups posed to its programming.⁷

Within the Agency, when programming humanitarian assistance in areas where groups sanctioned by the U.S. government may be present, BHA staff are required to perform due diligence to ensure the assistance does not benefit sanctioned groups. Two key parts of this due diligence process are the completion of an analysis of the risk posed by sanctioned groups and additional due diligence, when necessary, as depicted in Figure 2.

Figure 2. BHA’s Internal Due Diligence Process for Sanctioned Group Risk



Source: OIG analysis of BHA’s guidance for assessing sanctioned group risk.

⁷ As of July 2022, BHA had not updated and was continuing to use the legacy guidance from OFDA, BHA’s predecessor, for the northern Central America response. Given this, we refer to the legacy OFDA guidance—considered as interim guidance by BHA—as BHA’s internal guidance in this report.

The analysis assessed the risk sanctioned groups posed and was guided by questions outlined in BHA's internal guidance. According to BHA staff, these questions were developed—based on input from other relevant USAID officials—to focus on identified risks of providing material support to sanctioned groups. The questions were designed to help understand the types of control exercised by sanctioned groups and the ability of those groups to benefit, materially or reputationally, from U.S. government assistance. Risks included factors such as the extent to which sanctioned groups exercised control over roads, checkpoints, or the distribution of resources. In undertaking the risk analysis, BHA staff were expected to use available information and resources, and to consult with USAID staff and other stakeholders as needed. For example, available information from applicants included the RAMPs that were reviewed by BHA staff during the application process.

The questions were open-ended, with the guidance stating that if BHA answered “yes” to certain questions or determined that there was a risk—even minimal—of sanctioned groups or individuals benefiting from U.S. government assistance, then additional due diligence was needed. The approach was designed to provide a more comprehensive analysis for BHA to determine if sanctioned groups could benefit from U.S. government-funded humanitarian assistance. The additional analysis included an examination of the operating environment and contextual factors as well as a review of applicants' mitigation measures in response to identified risks. Based on the additional analysis, BHA would make a final determination on whether to proceed with a recommendation of funding under a BHA award for the proposed focus area.

Given the presence of sanctioned groups in El Salvador, Guatemala, and Honduras, BHA conducted analyses of sanctioned group risk for all three countries. For one of the three countries, BHA's risk analysis included the risk of sanctioned groups receiving reputational benefits from its humanitarian programming—an area specifically flagged in the guiding questions used by BHA to consider risks.⁸ However, despite identifying this risk, BHA did not answer “yes” in response to this question in the analysis. For another country, our review determined that not all of the questions were directly addressed in the analysis, despite the guidance and BHA's assertion otherwise.

Three of 14 reviewed applicants, who were funded to implement activities, also reported to BHA mitigating measures for reputational and diversion risks posed by sanctioned groups. Applicants provided the information on risks to BHA in their applications for either new awards or modifications of existing awards. The information was available to support BHA's risk analyses since it was received before the analyses were completed but did not prompt BHA to perform additional due diligence. BHA noted that risks for some applicants, geographic locations, and activities were not necessarily present for all, and the bureau determined the need for additional due diligence based on reasonability.

Despite the identification of risks posed by sanctioned groups by BHA itself, and responses by three of the applicants to additional requirements for high-risk environments, BHA decided not to complete additional due diligence for the northern Central America response. According to BHA officials, this decision was based on the perceived limited risk posed by sanctioned groups;

⁸ Reputational risk is the risk that sanctioned entities receive reputational benefits from humanitarian programming by claiming credit for the assistance or services provided.

BHA determined that there was not a reasonable basis to conclude sanctioned groups would benefit from U.S. government assistance. However, BHA's internal guidance included language definitively stating that additional due diligence was needed if BHA determined sanctioned groups posed a risk to assistance, however minimal that risk.

This variance in implementing BHA's internal guidance was caused by a lack of clarity in the guidance language related to allowable risk levels. There was conflicting language in the guidance between reasonable risk and any risk, even minimal, in determining if additional due diligence was necessary. In deciding not to complete the additional analysis, BHA may not have conducted a sufficiently comprehensive assessment of the risks posed by sanctioned groups or the safeguards established by applicants to protect future U.S. government resources.

BHA Did Not Ensure Risk Analyses Were Updated Prior to Approving Half of Sampled Awards

BHA obligated 7 of 14 awards reviewed before completing updates to the required sanctioned group risk analyses, despite these analyses being a prerequisite to determine if additional due diligence measures were necessary. Specifically, BHA's internal guidance required staff to do analyses of all countries in their regional portfolio on an annual basis to determine the risk posed by sanctioned groups. Further, for changing response contexts, BHA's internal guidance directed staff to undertake new risk analyses before moving forward with a recommendation for funding.

Consistent with this internal guidance, in November 2020, as part of its response to Hurricanes Eta and Iota—the Storms Response—BHA performed risk analyses for Guatemala and Honduras.⁹ At that time, BHA found no evidence that sanctioned groups were a risk to programming. In May 2021, following new funding for El Salvador, Guatemala, and Honduras, BHA began to update its internal risk analyses for Guatemala and Honduras, in addition to performing a new analysis for El Salvador. Given the changes on the ground, including COVID-19 and the longer term effects of previous drought in the region, BHA wanted to be sure that sanctioned groups would not pose a risk to programming.

Because BHA ultimately determined that the additional due diligence was not required, it moved ahead with making awards prior to completing the updated risk analyses that supported the determination. USAID obligated 7 of 14 awards reviewed as early as May 18, 2021—37 days before the June 24 finalization of the updated risk analyses for Guatemala and Honduras. This included four new awards totaling \$19 million and three modifications to existing awards for the Storms Response. These early awards were made contrary to BHA's internal guidance that prohibited awards from being made prior to the completion of additional due diligence if a risk analysis determined that sanctioned groups posed a risk to humanitarian assistance programming. Since the determination on whether to complete additional due diligence would impact if applicants addressed the additional RAMP requirements for high-risk environments, moving forward with programming for the seven awards prior to finalization of the updated risk analyses for Guatemala and Honduras may have increased the possibility that risks posed by sanctioned groups were not fully identified or mitigated.

⁹ El Salvador was not part of the Storms Response.

According to a BHA staff member, it was unnecessary to wait for the results of the new, response-specific analyses for Guatemala and Honduras before obligating awards, because the country analyses were an annual requirement and had been performed earlier under the Storms Response. BHA believed that the prior country risk analyses were still valid for this response, because they were less than a year old, and BHA relied on them as they rapidly began programming. However, despite the annual requirement, the guidance was not clear on the extent to which, and how, changes to the response context—such as new funding, activities, and target populations—could result in a need for BHA to perform updated analysis of the risk posed by sanctioned groups, rather than relying on prior, albeit recent, analysis.

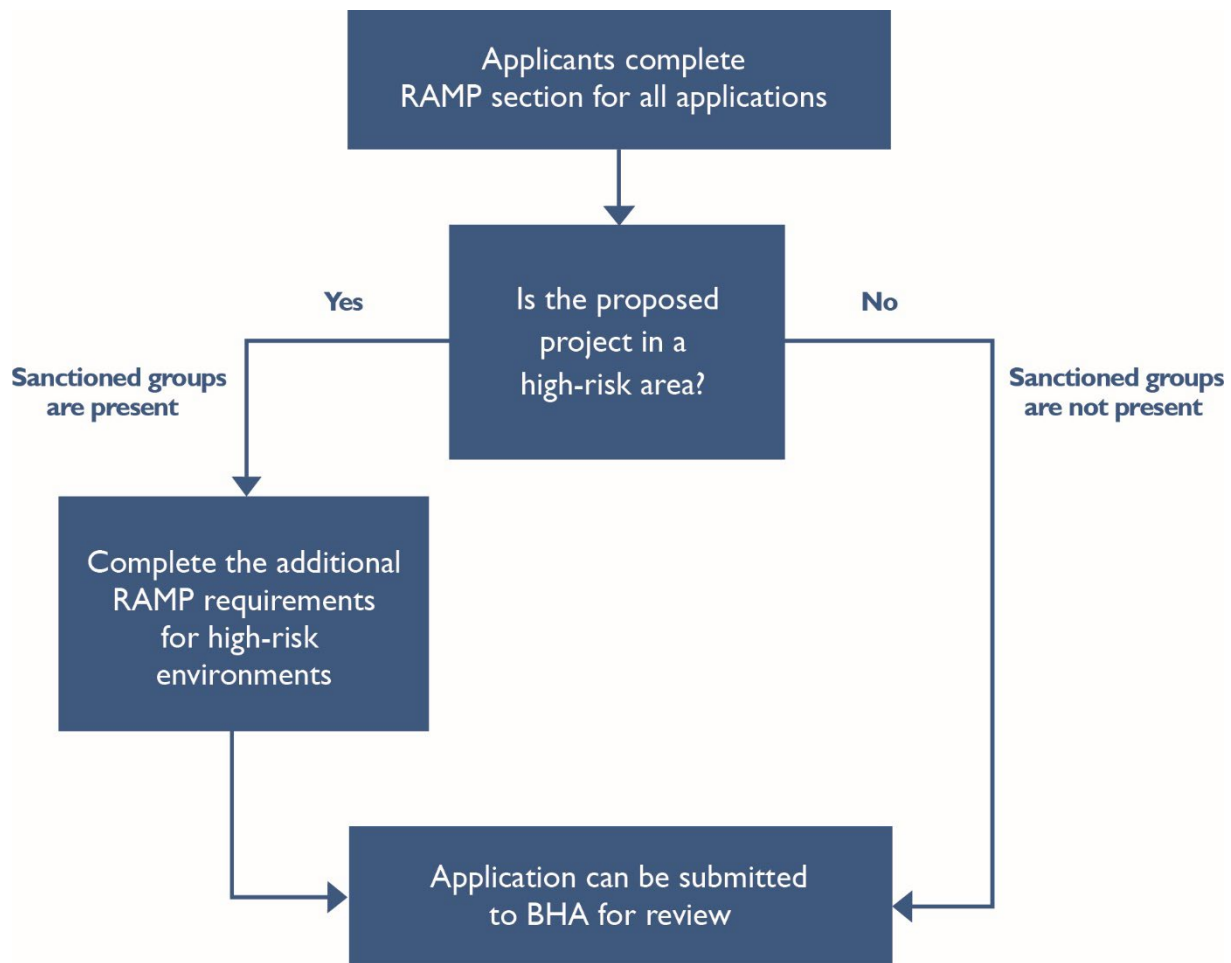
Given that USAID is the lead Federal agency coordinating the U.S. government’s disaster response overseas, having a fast application review and funding process is critical to BHA’s ability to achieve mission success. Under the northern Central America response, BHA officials noted that they were under tremendous pressure to scale up programming quickly, which necessitated a compressed proposal development and review process while faced with challenges such as chronic staffing shortages and other constraints. Without guidance that clearly lays out whether, and how, previously completed sanctioned group risk analyses influence BHA’s award approval process when there are changes to the operating environment and risk posed by sanctioned groups, BHA may accept more risk than it intends. This is particularly important when BHA has to move quickly to meet its mandate of providing life-saving assistance to vulnerable populations.

BHA Did Not Ensure Applicants Consistently Followed Guidance to Assess Sanctioned Group Risk

BHA did not ensure that applicants used a standard approach for assessing the risk that sanctioned groups posed in benefiting from U.S. government assistance using BHA’s Emergency Application Guidelines. These guidelines apply to NGOs that submit applications for awards, or modifications of existing awards.¹⁰ All applications submitted to BHA under these guidelines must include a RAMP. The RAMP process is illustrated in Figure 3.

¹⁰ USAID/BHA, BHA Emergency Application Guidelines, Section 10.12, Applicable to Fiscal Year (FY) 2021 and 2022. Public international organizations have separate guidelines; our audit scope focused only on NGOs.

Figure 3. BHA’s Process for Risk Assessment and Management Plans (RAMPs) for Applicants



Source: OIG analysis of USAID/Bureau for Humanitarian Assistance (BHA) Emergency Application Guidelines: Annex D - Risk Assessment and Management Plan, Applicable to FY 2021 and 2022.

BHA’s Emergency Application Guidelines defined environments as high risk for purposes of the RAMP if there was a presence of groups who were subject to OFAC sanctions or otherwise presented a risk of violating U.S. sanctions.¹¹ When sanctioned groups were operating in the region targeted for assistance, BHA’s application requirements included additional measures and a more robust risk assessment as part of the RAMP (see Appendix B). This additional information included an analysis of the operating environment, as well as descriptions of safeguards and measures to protect beneficiaries, USAID resources, and ensure sanctioned groups did not receive reputational benefits from the assistance.

According to BHA, it was the responsibility of the applicants to determine if sanctioned groups were present in their proposed geographic focus area. Despite the presence of sanctioned groups in El Salvador, Guatemala, and Honduras, and the requirement that applicants determine if their proposed geographic areas of intervention were high risk and necessitated providing

¹¹ USAID/BHA Emergency Application Guidelines, Section 10.12, Applicable to FY 2021 and 2022.

additional information, the applicants made different determinations. BHA's agreement officer's representative for the 14 awards reviewed confirmed that BHA had not excused any of the applicants from the additional requirements.

Three of 14 applicants reviewed submitted RAMPs that responded to some or all of the additional requirements for high-risk environments to consider and mitigate risk; the remaining 11 did not. Individual applicants in all three countries responded differently to the RAMP requirements related to the presence of sanctioned groups, despite in some cases proposing to work in the same geographic areas. This occurred because BHA and applicants shared the responsibility of determining the applicability of the additional requirements when the country or geographic area was not included on BHA's list of high-risk environments. As a result, there was a lack of consistency in applicants' assessments of sanctioned group risk for the same proposed geographic focus areas.

This lack of consistency was also demonstrated by some applicants stating in their RAMPs that sanctioned groups were not present in their proposed geographic area of intervention—which they were not required to do. If the country or geographic area where the applicant proposed working was listed by BHA as high risk, but the applicant determined that no sanctioned groups were operating there, then the applicant was instructed to indicate this in their RAMP. However, given that BHA had not included El Salvador, Guatemala, or Honduras on its list of high-risk environments, there was no need for the applicants to do this. Despite this, two applicants still provided a response, indicating a lack of clarity in the guidance. The remaining nine applicants did not address the additional requirements for high-risk environments nor did they indicate that no sanctioned groups were present in the specific proposed geographic areas.

BHA did not require applicants to provide additional information for high-risk environments because it determined from the sanctioned group risk analyses that the additional due diligence was not needed. Of note, according to a BHA staff member, the additional due diligence would have resulted in BHA adding countries to BHA's list of high-risk environments and requiring applicants to address the additional requirements.

Given the guidance's lack of clarity, as indicated in how applicants addressed the requirements differently, there may be a risk that other applicants had not thoroughly considered or identified risks posed by sanctioned groups or established necessary mitigation measures to ensure that these groups did not benefit from U.S. government assistance.

BHA Took Steps Designed to Mitigate Selected Fraud and Diversion Risks in its Programming, but There Were Opportunities to Further Strengthen the Documentation of Risk Assessments and Data Sharing

BHA has taken steps to mitigate selected risks of fraud and diversion in its multipurpose cash-assistance and food-assistance cash-transfer activities. However, there were opportunities to further improve the documentation of risk assessments and data-sharing agreements among implementers.

BHA Took Steps to Address Previously Identified Fraud and Diversion Risks in its Cash-Transfer Activities

USAID has taken steps to address seven selected issues related to fraud and diversion risks identified from recommendations in past OIG and GAO audit work and risks identified by OIG investigations.¹² For example, BHA:

- Established requirements for applicants to demonstrate how they would collect and store beneficiaries’ personal information to ensure it is secure.
- Incorporated additional fraud risk management practices into its Emergency Application Guidelines and developed guidance and tools related to monitoring cash-transfer programs.

As shown in Table I below, USAID implemented actions to address all seven vulnerabilities, and further issues were identified with two of the seven.

Table I. Overview of Actions Taken to Mitigate Selected Risks in the Northern Central America Response

Previously Recommended Actions	Actions Implemented	Issues Identified
Implementers conduct comprehensive risk assessments and submit results and related mitigation plans addressing financial vulnerabilities, such as counterfeiting, diversion, and losses.	USAID required prospective implementers to conduct risk assessments and submit results and mitigation plans.	USAID did not require its staff to document their review of this assessment.
USAID develop policy and comprehensive guidance for staff and implementers related to financial oversight of cash-based food-assistance projects.	USAID developed guidance and tools to assist with monitoring visits and disseminated the USAID-funded monitoring guidance for cash-transfer programming in emergencies as a resource for staff and implementers.	None
USAID staff conduct systematic financial oversight of the Agency’s cash-based food-assistance projects in the field.	USAID updated training materials and developed guidance and tools for staff that included optional use of reviewing transaction-level records and random records sampling. For financial oversight of cash-based food-assistance projects in the field, USAID relied on annual financial audits performed by an independent auditor to ensure implementers possess the financial systems needed to receive U.S. government funding.	None

¹² USAID OIG, [Enhanced Processes and Implementer Requirements Are Needed To Address Challenges and Fraud Risks in USAID’s Venezuela Response](#) (9-000-21-005-P), April 16, 2021.

GAO, *International Cash-Based Food Assistance: USAID Has Developed Processes for Initial Project Approval but Should Strengthen Financial Oversight* (GAO-15-328), March 26, 2015.

Previously Recommended Actions	Actions Implemented	Issues Identified
Implementers develop and implement mechanism(s) to mitigate risk of duplicate beneficiary enrollments.	USAID’s Emergency Application Guidelines established requirements for implementers to consider sector-level coordination and encouraged them to participate in Cash Working Groups, a forum that includes implementer coordination to reduce the risk of duplicate beneficiary enrollments.	USAID-funded implementers planned to establish data-sharing agreements to mitigate the risk of beneficiary duplication but had not done so.
Implementers develop and implement safeguards for beneficiary personal information.	As part of its Emergency Application Guidelines, USAID established requirements for applicants to demonstrate how they will protect beneficiaries’ personal information. The guidelines established protocols to ensure beneficiary personal information was collected, communicated, and stored safely. Each of the three implementers reviewed demonstrated how they protect beneficiaries’ personal information.	None
Implementers develop and implement safeguards to ensure correct cash transfers to beneficiaries.	Implementers established a process to ensure that all beneficiaries received their correct cash transfers.	None
USAID incorporate leading practices for managing fraud risks into its application guidelines for humanitarian assistance.	USAID’s Emergency Application Guidelines provided additional information and best practices for managing fraud risks.	None

Source: OIG analysis of OIG and GAO recommendations and observations and information provided by BHA.

Opportunities Existed to Further Strengthen BHA’s Documentation of Risk Assessments and Data Sharing Among Implementers

Despite requiring NGO applicants to submit an assessment of the organizational risk of fraud, waste, abuse, and other misuses of resources related to proposed activities and locations, BHA did not establish a requirement for its staff to document their review of the assessment conducted by NGO applicants. Of note, the lack of a requirement for BHA staff to document their review of applications from NGOs contrasted with BHA’s guidance for reviewing applications from United Nations agencies and other public international organizations—another awardee type—which explicitly stated that staff should provide sector-specific clearances as part of the standard review process.

Federal internal control standards establish that documentation is a necessary part of an effective internal control system and is required for an entity’s operating effectiveness.¹³ BHA expected its program officers to provide comments within BHA’s application review system for any deficiencies identified during their examination of the assessment. Although BHA had four program officers responsible for verifying that RAMPs were completed in accordance with Emergency Application Guidelines, BHA did not require staff to document their review of the

¹³ GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 10, 2014.

RAMPs, whether by using the checklist or another mechanism, increasing the risk of BHA inadvertently processing incomplete applications. Rather, BHA considered the absence of comments following an application review to be acceptable documentation for moving forward with the application review process.

BHA guidelines required applicants to address the RAMP requirements to assess risks—both internal and external—of fraud, waste, abuse, and other misuse of funds, and their mitigation actions, including information on areas such as policies and procedures, oversight of project implementation, and methods for safeguarding financial resources. The applicants generally addressed all the requirements for all applications, but for 3 of the 14 applications reviewed, we determined that the applicants did not describe the risks associated with using a financial service provider—a component of safeguarding financial resources—in their RAMP.

Further, while we were able to locate information on risks of using financial service providers in other documents that formed part of the full application describing activities, there was limited or no discussion of these issues in the RAMP itself. In addition, BHA did not include information on the use of financial service providers in its formal communications to two of the three applicants. As a result, we were unable to confirm whether these safeguards were reviewed or verified by BHA staff.

According to BHA, requiring staff to document their review of each required element of an application, including the RAMP, would be excessive and a hinderance to their primary purpose of providing humanitarian assistance. However, establishing a requirement to document BHA staff review of applicant risk assessments could increase BHA's level of assurance that applicants designed their activities to effectively manage risks posed by sanctioned groups.

Data-sharing agreements align to GAO's Framework for Managing Fraud Risk in Federal Programs, which states that managers should pursue access to necessary external data that can help identify potential instances of fraud or improper payments.¹⁴ However, in the northern Central America response, while one of the reviewed BHA-funded implementers intended to establish data-sharing agreements to mitigate the risk of beneficiary duplication, as of July 2022, no agreements had been established. Staff from this implementer noted that sharing beneficiary data among cash-assistance providers is key to avoiding duplication of beneficiaries across interventions and provided an example from BHA's earlier response in this region: during the Storms Response, this implementer reported to USAID that 103 beneficiary households were duplicated between itself and another BHA-funded implementer working in the same area. The problem occurred because these implementers had two separate names for the same community; according to an implementer staff member, it could be difficult to tell where one community ended and another began in urban areas. The issue with duplication was identified by staff from the two implementers when cross-checking data (community names and beneficiary registries).

BHA's Emergency Application Guidelines required applicants to coordinate with other organizations providing cash-based humanitarian assistance to harmonize interventions in the same geographic locations. This coordination aimed to determine the transfer value and

¹⁴ GAO, *A Framework for Managing Fraud Risks in Federal Programs* (GAO-15-593SP), July 2015.

duration and to mitigate the risk of duplicating beneficiaries across interventions. Further, to reinforce the importance of coordination, BHA encouraged applicants to participate in cash working groups.¹⁵ Applicants were required to demonstrate coordination with other cash-based humanitarian assistance providers as part of their application's technical description. However, according to a BHA staff member, the cash working groups in the region were in different stages of development, with varying capacity to reduce the risk of duplicate beneficiary enrollments.

In the absence of data-sharing agreements or other specific coordination efforts to facilitate the sharing of beneficiary registries, BHA's implementers working in the same geographic locations remain at risk of duplicating beneficiaries. Given finite resources, if left unidentified, instances of beneficiary duplication among BHA-funded implementers may reduce the overall number of beneficiaries supported by U.S. government assistance.

Conclusion

Managing fraud and diversion risks to humanitarian assistance remains one of USAID's top management challenges. This challenge is further complicated when programming in geographic areas with a presence of sanctioned groups. To mitigate risks posed by sanctioned groups and ensure that humanitarian assistance reaches those who need it most, BHA has taken several key steps. These include the development of guidance to assist BHA staff and applicants in assessing the risks posed by sanctioned groups to humanitarian response efforts. As BHA continues to work toward strengthening its risk mitigation efforts for programming in areas with a presence of sanctioned groups, often under tight timelines and with significant scrutiny, communicating clear expectations in its guidance for both BHA staff and applicants is critically important. Without clear guidance for both BHA staff and implementers, USAID increases the risk that humanitarian assistance could violate U.S. sanctions to the benefit of sanctioned groups.

Recommendations

We recommend that USAID's Bureau for Humanitarian Assistance take the following actions:

1. Update internal guidance to clarify (1) the language describing the measures of risk posed by sanctioned groups that are sufficient to prompt Bureau for Humanitarian Assistance staff to complete additional due diligence, and (2) how changes to the response context should influence the award approval process regarding the Bureau for Humanitarian Assistance's assessment of risk posed by sanctioned groups.
2. Update the Emergency Application Guidelines to clarify applicant instructions for responding to additional requirements for high-risk environments in cases where a country

¹⁵ A cash working group is a forum that supports the coordination of cash and voucher assistance for a humanitarian response. Cash working groups have been established in El Salvador, Guatemala, and Honduras, each with varying degrees of capacity.

is not on the Bureau for Humanitarian Assistance's non-exclusive list but where sanctioned groups are present.

3. Review the sanctioned group risk analyses for El Salvador, Guatemala, and Honduras to respond to the guiding questions that were not fully answered in one country analysis and to specifically consider risks identified by the Bureau for Humanitarian Assistance and implementers in other analyses, as appropriate, and update those analyses as necessary.
4. Establish a requirement for documenting the Bureau for Humanitarian Assistance staff's review of all applicants' Risk Assessment and Management Plans.
5. Conduct an analysis to determine what, if any, options exist to further reduce the risk of beneficiary duplication among Bureau for Humanitarian Assistance-funded implementers of cash-transfer activities in El Salvador, Guatemala, and Honduras, until such time as country cash working groups have sufficient capacity to support these efforts.

OIG Response to Agency Comments

We provided our draft report to USAID on February 16, 2023. On March 29, 2023, we received the Agency's response, which is included as Appendix C of this report. The Agency also provided technical comments, which we considered and incorporated as appropriate.

The report included five recommendations. We acknowledge management decisions on all five recommendations. We consider four of them closed (Recommendations 1, 2, 3, and 4) and one open-resolved pending completion of planned activities (Recommendation 5).

Appendix A. Scope and Methodology

We conducted our work from July 2021 through February 2023 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.

Our audit objectives were to assess the extent to which BHA ensured that (1) the organizational risks of fraud, waste, and abuse related to the presence of sanctioned groups or individuals in the northern Central America response were assessed and (2) cash-transfer activities were designed to mitigate selected risks of fraud and diversion.

In planning and performing the audit, we gained an understanding and assessed internal controls that were significant to the audit objectives. Specifically, we designed and conducted procedures related to the five components of internal control as defined by GAO.¹⁶ These components were Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

To answer our audit objectives, we reviewed USAID's Automated Directives System (ADS) Chapter 303, "Grants and Cooperative Agreements to Non-Governmental Organizations." We also reviewed internal BHA policy and guidelines to obtain an understanding of the requirements for applicants for BHA's humanitarian emergency assistance funds. Key policies we reviewed included BHA's Emergency Application Guidelines, Annexes A, B, and D, and Mandatory Reference Document Annex D Checklist. We also reviewed GAO's framework for managing fraud risks in Federal programs.¹⁷ The audit scope covered BHA activities funded under the \$125 million in humanitarian assistance for the northern Central America region—El Salvador, Guatemala, and Honduras—announced on April 26, 2021, that included multipurpose cash-assistance or food-assistance cash-transfer activities, implemented by NGOs. As of June 14, 2021, BHA had made 14 awards that included either multipurpose cash-assistance or food-assistance cash-transfer activities to 10 NGOs in the region.

To address our audit objectives, we conducted interviews with USAID officials from BHA, including staff from the Audit Risk and Performance Management division, as well as both Washington, DC, and field-based staff working on the northern Central America response. We also interviewed implementer staff for the three selected awards. These interviews were designed to obtain information on steps taken to mitigate risk.

To answer our first objective, we examined the applications for the 14 awards to determine the extent to which BHA's implementers assessed their organizational risks of fraud, waste, and abuse as part of the RAMPs required in BHA's application process. We assessed the completeness of the RAMPs for the following four issues: implementer structure; policies and

¹⁶ GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014.

¹⁷ GAO, *A Framework for Managing Fraud Risks in Federal Programs* (GAO-15-593SP), July 2015.

procedures to mitigate risks of fraud and diversion; oversight of project implementation, including internal controls of subrecipients; and methods of safeguarding financial resources.

We reviewed BHA's guidance for analyzing sanctioned group risk to understand BHA's additional due diligence process. We reviewed the sanctioned group risk analyses for El Salvador, Guatemala, and Honduras to determine if BHA and its implementers identified risks posed by sanctioned groups, which, according to BHA's Emergency Application Guidelines, required the submission of additional analysis and mitigation measures. We also reviewed the OFAC consolidated list of sanctioned groups to determine if any of these groups were operating in El Salvador, Guatemala, or Honduras.

To answer the second audit objective, we judgmentally selected a sample of 3 of the 14 awards to NGOs that included either multipurpose cash-assistance or food-assistance cash-transfer activities. Our sample maximized the total award value and entailed selecting one award with a different implementer for each country.

We reviewed past GAO and USAID OIG audit reports and work conducted by the OIG's Office of Investigations to determine any relevant issues that may have an impact on cash-transfer activities in humanitarian assistance. From this review, we identified 21 previously reported weaknesses and vulnerabilities from 6 past reports with audit recommendations and 3 weaknesses from information provided by our Office of Investigations. From the 24 weaknesses identified, we selected 7 for testing based on their relevance to cash-transfer activities in the regional response. The selected issues focused on fraud and diversion risks, risk assessment and mitigation plans, and strengthening financial oversight of the cash-transfer programs. In addition, we analyzed implementer documents and interviewed BHA and implementer staff to determine what actions BHA took to design mitigation measures for fraud and diversion risks and ensure its prospective implementers incorporated risk mitigation actions. The findings under the second audit objective cannot be generalized to the rest of the BHA activities in El Salvador, Guatemala, or Honduras.

We considered BHA's response data to be sufficiently reliable for selecting the awards for review, because the audit team validated their accuracy during interviews with BHA and implementers' staff and determined a low level of risk related to the quality of this data. We did not depend on computer-processed Agency data to answer our audit objectives. The audit team utilized both documentary and testimonial evidence to support our findings, results, and conclusions.

Appendix B. Additional Requirements for Applicants in High-Risk Environments

If, as part of their application process, applicants determine that sanctioned groups are present in their proposed program area, they must include the following information in their application to BHA.

1. An analysis of the operating environment to determine if sanctioned groups control territory.
2. An explanation of safeguards and measures to decrease the likelihood that BHA-provided resources will result in violations of U.S. government sanctions.
3. A description of measures to mitigate against risk that beneficiaries targeted by the activity are or were affiliated with a sanctioned group or individual.
4. A description of the measures taken to mitigate the risk that the formal procurement of goods and/or services or hiring staff and/or consultants may benefit armed or sanctioned groups.
5. A description of the efforts to be taken to prevent direct or indirect benefits from other commercial activities (not previously discussed under number 4) going to sanctioned groups that result in the payment of “taxes,” fees, tolls, or other transactions.
6. An explanation of measures to mitigate the risks that sanctioned groups could receive reputational benefit from the proposed activities, such as a sanctioned group or individual claiming credit for assistance or services provided.
7. Information regarding other internal controls and oversight mechanisms that will be implemented to comply with sanctions requirements.

Appendix C. Agency Comments



USAID
FROM THE AMERICAN PEOPLE

MEMORANDUM

TO: OIG Audit Director, Emily Gardiner

FROM: Bureau for Humanitarian Assistance, Assistant to the Administrator, Sarah Charles /s/

DATE: **March 14, 2023**

SUBJECT: Management Comments to Respond to the Draft Audit Report Produced by the Office of Inspector General (OIG) titled, *Northern Central America Response: USAID Took Steps to Mitigate Fraud Risks but Opportunities Exist to Clarify Guidance on Assessing Sanctioned Group Risk*” (Audit Report No. 9-000-23-00X-P) (Task No. 99100121)

The U.S. Agency for International Development (USAID) would like to thank the Office of Inspector General (OIG) for the opportunity to provide comments on the subject draft report. The Agency agrees with the recommendations, herein provides plans for implementing them, and reports on significant progress already made.

COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE REPORT RELEASED BY THE USAID OFFICE OF THE INSPECTOR GENERAL (OIG) TITLED, “Northern Central America Response: USAID Took Steps to Mitigate Fraud Risks but Opportunities Exist to Clarify Guidance on Assessing Sanctioned Group Risk” (Audit Report No. 9-000-23-00X-P) (Task No. 99100121)

Please find below the management comments from the U.S. Agency for International Development (USAID) on the draft report produced by the Office of the USAID Inspector General (OIG), which contains five recommendation(s) for USAID:

Recommendation 1: Update internal guidance to clarify (1) the language describing the measures of risk posed by sanctioned groups that are sufficient to prompt Bureau for Humanitarian Assistance staff to complete additional due diligence, and (2) how changes to the response context should influence the award approval process regarding BHA’s assessment of risk posed by sanctioned groups.

- **Management Comments:** BHA agrees with this recommendation and has already updated its internal sanctions risk analysis guidance [Tab 1] to clarify when additional due diligence is required and how changes in a response context and assessment of sanctions risks will be addressed as part of the award approval process.
- **Target Completion Date:** BHA requests closure of this recommendation upon the OIG’s issuance of its Final Report.

Recommendation 2: Update the Emergency Application Guidelines to clarify applicant instructions for responding to additional requirements for high-risk environments in cases when a country is not on the Bureau for Humanitarian Assistance’s non-exclusive list but where sanctioned groups are present.

- **Management Comments:** BHA agrees with this recommendation. BHA updated its Emergency Application Guidelines Common Requirements section 12.12, “Risk Assessment and Management Plan” to clarify what information applicants should submit when proposing to work in areas not specified on BHA’s list of high risk environments. Applicants are only required to submit the additional questions for high risk environments if they are proposing to work in the listed high risk environments. This change reflects BHA’s confidence in our risk assessment process and ability to obtain sufficient information to assess risks.
- **Target Completion Date:** BHA requests closure of this recommendation upon the OIG’s issuance of its Final Report.

Recommendation 3: Review the sanctioned group risk analyses for El Salvador, Guatemala, and Honduras to respond to the guiding questions that were not fully answered in one country analysis and to specifically consider risks identified by the Bureau for Humanitarian Assistance and implementers in other analyses, as appropriate, and update those analyses as necessary.

- **Management Comments:** BHA agrees with this recommendation. BHA has completed

its annual sanctions risk analyses for El Salvador, Guatemala, and Honduras, per BHA's updated guidance. Please see Tabs 3, 4, and 5

- **Target Completion Date:** BHA requests closure of this recommendation upon the OIG's issuance of its Final Report.

Recommendation 4: Establish a requirement for documenting the Bureau for Humanitarian Assistance staff's review of all applicants' Risk Assessment and Management Plans.

- **Management Comments:** BHA agrees with this recommendation and has documented its requirement for reviewing RAMPs in the Award Making Training [Tab 2]. It is mandatory for a BHA staff member to review every RAMP submitted by an applicant. Who is required to review the RAMP is dependent on whether BHA considers the environment high risk, or not. The Making Awards training shows BHA's requirement that either the Risk Management Advisor/Officer (RIMA/RIMO) or Review Lead must review all RAMPs. It states that "RIMA/RIMOs will review RAMPs from applicants proposing activities in high-risk environments" and that "The RMAT [Risk Management Advisory Team] also provides guidance for Review Leads (RLs) reviewing RAMPs for non-high-risk environments." BHA's award making and management system, Abacus, is the repository for documentation of application review. Like all BHA technical specialists reviewing applications, RIMA/RIMOs enter comments in Abacus to document their review of high risk environment RAMPs. The Review Lead indicates their overall technical clearance of the application in Abacus which documents their review. BHA also provides an internal guidance document to support staff in reviewing applicants' RAMPs [Tab 6].
- **Target Completion Date:** BHA requests closure of this recommendation upon the OIG's issuance of its Final Report.

Recommendation 5: Conduct an analysis to determine what, if any, options exist to further reduce the risk of beneficiary duplication among Bureau for Humanitarian Assistance-funded implementers of cash transfer activities in El Salvador, Guatemala, and Honduras, until such time as country cash working groups have sufficient capacity to support these efforts.

- **Management Comments:** BHA agrees with the recommendation. BHA will conduct an analysis to consider several options in each of the three countries to further reduce the risk of beneficiary duplication for cash transfer activities. BHA will examine options that take into account the ways duplication could occur in each of the three countries, the cost-benefit of each option, and the capacity of and timeline for partners to implement each option.
- **Target Completion Date:** BHA is proposing to complete the analysis by October 30, 2023.

In view of the above, we request that the OIG inform USAID when it agrees or disagrees with a management comment.

Attachments will be provided to the OIG separately

Appendix D. Major Contributors to This Report

Members of the audit team include:

- Emily Gardiner, Audit Director
- Pamela Hamilton, Assistant Director
- David Waldron, Lead Auditor
- Juan Carlos Rivas, Auditor
- Robert Rousseau, Analyst

The audit team would also like to acknowledge contributions from Jennifer Herrmann, Rachel Holub, and Saifuddin Kalolwala.



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