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

MEMORANDUM

DATE: March 22, 2024

TO: USAID/Bureau for Management/Office of Acquisition and Assistance, Director, Jami Rodgers

FROM: Deputy Assistant Inspector General for Audit, Gabriele Tonsil /s/

SUBJECT: USAID Conducted Risk Assessments and Monitoring for Sampled Fixed-Amount Awards (Report Number 9-000-24-002-P)

USAID has increased its use of fixed-amount awards (FAAs) with the growing emphasis on expanding locally led development.[1] In its December 2018 *Acquisition and Assistance Strategy*, USAID promised to shift from traditional awards associated with a focus on "compliance, not results" to "pay-for-results approaches," such as FAAs.[2] Further, in its 2023 *Acquisition and Assistance Strategy*, USAID specifically included FAAs among the publicly reported indicators used to track engagement with diverse partners to implement locally led development solutions. Given the Agency's plans to increase funding to FAAs and shift the financial oversight processes required by traditional awards to the upfront risk assessments and deliverable-based monitoring used in administering FAAs, we reviewed the Agency's administration of a sample of FAAs.

This final memorandum summarizes the results of our audit. Our objectives were to determine whether USAID (1) conducted risk assessments before issuing the sampled FAAs and (2) oversight of FAAs ensured that selected milestones were completed in accordance with the terms of the awards. We found that USAID conducted risk assessments before issuing the sampled FAAs and ensured that selected milestones in the sampled awards were completed in accordance with the terms of the awards. We are not making any recommendations.

To conduct our work, we reviewed Federal government and USAID guidance for FAA risk assessments and oversight. We reviewed a judgmental sample of 11 of 59 FAAs that overseas USAID missions issued between FY 2018 and FY 2021.[3] To select the sample, we obtained a

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[1] USAID's localization efforts focus on shifting funding and decision-making power to local entities to allow them to drive change in their own countries and communities. This effort includes goals to direct a quarter of USAID funding to local partners by 2025 and, by 2030, ensure that at least half of USAID programs include leadership roles for local entities in areas such as activity design and implementation.

[2] From October 2014 to July 2021, USAID awarded an estimated $741 million through FAAs; from fiscal year (FY) 2021 to FY 2022, the Agency increased its use of FAAs from $97 million to $141 million.

[3] Information on sampled awards is provided in Appendix A.

universe of 925 FAAs USAID issued between FY 2018 and FY 2021, which we judgmentally narrowed to 59 awards based on their start dates and issuing office locations. We stratified these 59 awards by period of performance and used a random number generator to select the final sample of 11 awards. For the awards in the audit sample, we reviewed risk assessment records and select payment-related documentation stored in the Agency Secure Image and Storage Tracking (ASIST) system.[4] We also interviewed officials from the Bureau for Management's Office of Acquisition and Assistance (M/OAA) and the USAID missions that issued the awards in our sample. We conducted our work in accordance with generally accepted government auditing standards. Appendix B provides more detail on our scope and methodology.

Background

In 2013, the Office of Management and Budget (OMB) issued new guidance for administering Federal grants, with the goal of improving performance and outcomes and reducing the overall administrative burden for organizations implementing awards.[5] The guidance introduced FAAs as a standardized, government-wide assistance instrument.[6] Unlike traditional assistance awards, which require agencies to use an extensive set of cost principles to ensure implementer costs are eligible for payment, FAAs do not require agencies to review actual costs incurred by implementers.[7]

Because payments under FAAs are tied to the delivery of specified milestones, the U.S. government considers them to be pay-for-results awards. In addition, OMB has stated that FAAs allow agencies to "rely more on performance than compliance for accountability."[8] In its FAA guidance, USAID notes that this focus on results also helps minimize risk for both the Agency and its implementers, since payments are only made for actual results.

While agencies must perform additional work before making the awards to ensure that they develop appropriate results milestones, FAAs are generally considered easier to manage once awarded. This is because payments are made based on the completion of the specific milestones, and agencies are not required to review implementer costs to ensure eligibility for payment. FAAs also generally do not require implementers to have an extensive capacity for financial management.

USAID's Automated Directives System (ADS) 303 and its supplemental guidance lay out considerations related to using FAAs, including the need for the Agency to assess the risk of

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[4] ASIST is the Agency's official electronic repository for all documentation related to acquisition and assistance awards.
[5] OMB, *Rule on Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 78 Fed. Reg. 78590-01 (December 26, 2013) (codified at 2 CFR Part 200).
[6] FAAs were previously known as fixed-obligation grants.
[7] Cost principles are used to determine the allowable costs for work performed under a federal award by non-federal entities.
[8] OMB, *Rule on Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 78 Fed. Reg. 78590-01 (December 26, 2013).

working with a potential implementer.[9] Before issuing an award, ADS 303 and supplemental guidance instruct agreement officers to review potential implementers and proposed programming to assess risk factors that could prevent the award from being implemented as planned. ADS 303mak, the "Fixed Amount Award Entity Eligibility Checklist," lists specific elements of a potential implementer's history, practices, and finances to be evaluated as part of the risk assessment process. The guidance notes that FAAs are appropriate mechanisms when there are measurable goals and objectives for the program, and when there is sufficient data to ensure that award costs will reflect actual costs.

The ADS 303 supplemental guidance also lays out how milestones should be structured.[10] Specifically, they should:

- Describe the expected product (e.g., task, deliverable, or goal).

- Describe how the awardee will demonstrate completion.

- Include the payment amount for completion of the milestone.

- Include the anticipated completion date.

Mission Staff Conducted Risk Assessments Before Issuing the Sampled Fixed-Amount Awards

Our review of pre-award records, including assistance award and selection memorandums, determined that the mission staff administering all 11 sampled awards conducted risk assessments that addressed the topics of review in the Agency's FAA Entity Eligibility Checklist and documented their conclusions.

USAID's ADS 303 and its supplements require relevant mission staff to assess the possible risks of partnering with a proposed implementer prior to awarding an FAA. The FAA risk assessment must include specific elements laid out in USAID guidance, such as the proposed implementer's legal registration, past performance, and project plan. The relevant agreement officer must document the risk assessment and comply with FAA Entity Eligibility Checklist requirements. If mission staff determine that there are areas for concern regarding the proposed implementer's capacity to complete the award, they should document the issue and steps that will be taken to mitigate risk to the potential implementer and USAID as part of the award.

Mission staff for 9 of the 11 sampled awards used the FAA Eligibility Checklist to guide their risk assessment and ensure compliance with Agency standards and protocols. The methods they used to complete the FAA Eligibility Checklist varied across the sampled awards. For instance, one official reported that a third-party auditor conducted the pre-award risk assessment for a sampled award, while officials for other awards said that reviews were conducted internally.

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[9] ADS, Chapter 303, Section 303.3.25, "Fixed-Amount Awards to Non-Governmental Organizations," July 2022, and supplements ADS 303mak, November 2020, and 303saj, July 2022.
[10] ADS 303mak, Section IV, "Structuring Payments Under Fixed-Amount Awards," July 2022.

Mission staff responsible for the other two awards did not complete the FAA Eligibility Checklist. Rather, they used a different pre-award checklist, referred to as the Non-U.S. Pre-Award Survey (NUPAS). There are similarities between the FAA Eligibility Checklist and the NUPAS; however, ADS 303 notes that the NUPAS should not be used for FAAs.[11] This is because the NUPAS is designed for awards that incorporate payments based on incurred costs and therefore focuses more on potential awardees' financial systems. Staff at the two missions were not able to recall why they did not use the FAA Eligibility Checklist. However, while they did not use the correct pre-award assessment, their reviews did cover the risk areas included in the FAA checklist, such as the potential implementers' financial systems, internal policies, past performance, and compliance with local laws. While there may be room for USAID to further socialize the use of the FAA checklist, we concluded that the NUPAS risk assessments substantially addressed the risk areas in the FAA checklist.

Based on our review of the risk assessments completed for all of the sampled awards, only one assessment identified concerns, which were related to the newness of the organization and potential for overlap with programming of another donor. In response to these risks, the Agency stated that it would conduct significant monitoring activities and also noted that the use of an FAA as the award mechanism was itself a risk mitigation.

The other sampled awards' risk assessments did not identify issues that necessitated any mitigation measures. However, several labeled the use of FAAs themselves as a risk mitigation measure, given that the Agency would only pay for completed milestones.

USAID Ensured That Selected Milestones Were Completed in Accordance With the Terms of the Sampled Fixed-Amount Awards

We found that implementers for the 11 sampled FAAs completed the selected milestones by producing specified deliverables.[12] In addition, mission staff certified that they had received and reviewed all the deliverables for the selected milestones. Lastly, payments for all sampled vouchers were equal to the amounts specified in the award documents for the relevant milestone.

According to the ADS, when FAA implementers have completed milestones, they are required to submit a payment-request voucher and evidence of milestone fulfillment.[13] The ADS instructs USAID agreement officers to include language in awards laying out the work products or other deliverables that will be accepted as verification that milestones have been completed. Implementers are expected to submit the documentation detailed in the award when they claim completion of a milestone. Mission staff review these vouchers and any supporting documents and are required to ensure that the milestone has been completed. The mission staff then

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[11] ADS, Chapter 303, Section 303.3.9, "Pre-Award Risk Assessment," July 2022.
[12] To determine the extent to which milestones were being completed in accordance with the terms of the award, we reviewed one selected milestone payment and supporting documentation for each of the 11 awards in the audit sample.
[13] ADS, Chapter 630, Section 630.3.4.6, "Payment Voucher Tracking," August 2021.

complete an approval form confirming that the implementer has fulfilled the requirements for the vouchered milestone. They must document their verification of the milestone and include this in the award file.

We found that mission staff designed the milestones for the reviewed FAAs to facilitate oversight and monitored implementers' work to ensure they completed the milestones. All milestones we reviewed adhered to Agency guidance. Specifically, they required discrete, verifiable deliverables, such as work plans, finished work products, photographs, and reports.

Specified deliverables were generally not records of work being performed, such as recordings of events or evaluations from participants, but did corroborate implementers' self-reported attestations about their work. For instance, one sampled award required published media stories about events the implementer held. Other awards required progress reports that included narrative summaries and photographs documenting the implementer's work as well as data on quantifiable program indicators, such as the number of program participants.

Mission staff administering the sampled awards stated that they used a variety of methods to monitor award activities, such as conducting site visits and reviewing reports. Some mission staff also requested documentary evidence of implementers' work (i.e., photographs and event sign-in sheets).

Concluding Observations

FAAs will likely continue to be a key mechanism for USAID as the Agency emphasizes the need to engage locally led development. Given the actions that missions have taken to conduct risk assessments of the sampled awards and to oversee the awards, we are not making any recommendations. However, increased use of FAAs will require mission staff to give continued attention to risk assessment and implementer oversight.

We provided our draft memorandum to USAID on February 26, 2024. On March 5, 2024, the Agency noted it had no additional management or technical comments.

We appreciate the assistance provided to us by USAID during this engagement.

Appendix A. Fixed-Amount Awards in Audit Sample

Awarding Mission	Program Area	Obligated Award Funds	Initial Period of Performance (Months)
USAID / Bosnia and Herzegovina	Conflict Mitigation and Stabilization	$499,003	35
USAID / Cambodia	Program Design and Learning	$122,000	8
USAID / Dominican Republic	Program Design and Learning	$672,529	34
USAID / Iraq	Conflict Mitigation and Stabilization	$851,771	25
USAID / Liberia	Conflict Mitigation and Stabilization	$798,666	35
USAID / Mexico	Good Governance	$300,000	35
USAID / Peru	Migration Management	$440,000	14
USAID / Peru	Pandemic Influenza and Other Emerging Threats	$4,430,000	16
USAID / South Africa	Conflict Mitigation and Stabilization	$376,376	15
USAID / Tanzania	Civil Society	$1,499,307	9
USAID / Zambia	Environment	$1,151,390	31

Source: OIG analysis of sample of USAID FAAs issued between FY 2018 and FY 2021.

Appendix B. Scope and Methodology

We conducted our work from October 2021 through February 2024 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Our objectives were to determine whether USAID (1) conducted risk assessments before issuing the sampled FAAs and (2) oversight of FAAs ensured that selected milestones were completed in accordance with the terms of the awards.

In planning and performing the audit, we gained an understanding of 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 the U.S. Government Accountability Office: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.[14] To understand the requirements and procedures for administering FAAs, we reviewed Federal government and USAID guidance for FAA risk assessments and grant oversight found in Title 2, Code of Federal Regulations Part 200, and USAID ADS Chapters 201, 303, 303saj, 303mak, and 630. We also studied milestone standards stated in the sampled awards. Our findings, results, and conclusions are supported by documentary evidence and testimonial evidence from USAID officials.

To answer both audit objectives, we selected a judgmental sample of 11 FAAs USAID issued between FY 2018 and FY 2021 from a universe of 925 FAAs listed in the Global Acquisition and Assistance System (GLAAS). From the initial universe of FAAs, we eliminated 733 awards identified as issued by USAID headquarters and 133 awards with start or end dates that would limit the availability of award documentation. We divided the remaining 59 awards into four strata according to their periods of performance and used a random number generator to select 3 awards from each for an initial sample of 12 awards. We determined that 1 award was erroneously labeled as an FAA and subsequently removed it, resulting in an audit sample of 11 FAAs. To answer our objectives, we reviewed official award files stored in ASIST. We conducted interviews via teleconference with USAID officials from M/OAA as well as agreement officers, agreement officer's representatives, and other staff associated with the sampled awards to obtain information about the policies, procedures, and practices for administering FAAs. We also reviewed Agency guidance for conducting risk assessments and overseeing FAAs.

To answer the first audit objective, we reviewed award files related to award issuance in ASIST to determine whether they contained documentation of risk assessments, as required in ADS 303 and associated guidance. We reviewed risk assessment documents to determine whether mission staff used the FAA Entity Eligibility Checklist to produce their risk assessments. We reviewed the assessments to ascertain whether missions complied with Agency risk assessment standards and protocols and whether specific risks were identified. We also examined related

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[14] U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014.

documentation on actions taken to address the identified risks. Finally, we analyzed the content of risk assessments produced by two missions that used the NUPAS to determine if these assessments addressed the topics covered in the FAA Entity Eligibility Checklist.

To answer the second objective, we selected a sample of payment voucher folders drawn from the 117 vouchers in ASIST for the awards selected for inclusion in the audit sample. The sampled awards had between 2 and 25 vouchers, with an average of approximately 6 vouchers per award. From these, we used a random number generator to select 11 payment voucher folders for review, 1 for each FAA in the audit sample. We reviewed the vouchers and deliverables filed in each voucher folder and compared them to the requirements established in award documents. When the required documents were not available in ASIST, we requested them from USAID officials.

We selected the audit sample of 11 awards from a computer-processed record of FAAs in USAID's GLAAS. We assessed and tested the data and found that it was sufficiently reliable for the purposes of this audit.