

Management Assistance Report: Financial Monitoring of Foreign Assistance Grants and Cooperative Agreements in Somalia Needs Improvement

AUD-MERO-21-35, July 2021

Summary of Review

The Department of State (Department) provides foreign assistance to Somalia to promote security and support the development of a unified and peaceful nation. From FY 2017 through FY 2019, the Bureau of African Affairs (AF) and the Bureau of Counterterrorism (CT) provided almost \$65.4 million through four Federal financial assistance awards to support the Department's mission in Somalia. In September 2020, the Office of Inspector General (OIG) completed an audit of the Department's risk assessment and mitigation processes for its foreign assistance to Somalia. In that report, OIG noted that risk assessments, risk mitigation procedures, and vetting of foreign assistance grants and cooperative agreements needed improvement.¹ This Management Assistance Report serves as a companion to that report and focuses on deficiencies identified with the Bureau of Administration, Office of the Procurement Executive (OPE); AF; and CT financial monitoring procedures for the four selected awards.

OIG reviewed four awards granted to Bancroft Global Development (Bancroft), the United Nations Office of Project Services, Valar, and the International Development Law Organization. OIG found that the award recipients did not always submit financial reports by required deadlines. OIG also found that the Department did not always review the reports once they were submitted. Without timely submissions and reviews of required financial reports, the Department has limited insight into whether Federal funds are spent as intended and in accordance with the terms and conditions of the awards.

OIG also reviewed award expenditures incurred under three of the four awards.² For the two awards implemented by Valar and the International Development Law Organization and overseen by CT, OIG found that expenditures were generally made within the parameters of the terms and conditions of the award. However, for the award implemented by Bancroft and overseen by AF, OIG identified \$321,599 in questioned costs for unallowable or unsupported expenditures related to travel, lodging, prepaid calling cards,³ fuel, interpreter fees, and meals, among other categories. OIG determined that these expenses should not have been paid, in part, because the Grants Officer and the Grants Officer Representative (GOR) did not conduct a site visit until 2 years and 8 months after issuing the award and did not request additional supporting documentation from Bancroft on its financial transactions despite having noted potential concerns with Bancroft's financial activities in the pre-award

¹ OIG, *Audit of Department of State Foreign Assistance Grants and Cooperative Agreements in Somalia* (AUD-MERO-20-45, September 2020).

² OIG did not review expenditures incurred under the fourth award because it was implemented by the United Nations Office of Project Services, a public international organization that, according to the *Federal Assistance Directive* (FAD), is not expected to subject its books and records to inspection. OPE, FAD, Version 4, October 2019, at 113.

³ Bancroft officials purchased prepaid calling cards to facilitate communications with program participants.

risk assessment. By not conducting timely site visits or obtaining and reviewing supporting documentation, the Grants Officer and GOR failed to comply with Department requirements to ensure award expenditures were used for their intended purpose.

In addition to these questioned costs, OIG also found that the Department permitted Bancroft to keep \$3.78 million that the organization paid its employees as incentive compensation that was not authorized in the terms and conditions of the award. This was permitted even after the Office of Federal Assistance Financial Management (FAFM) in the Bureau of the Comptroller and Global Financial Services having reviewed Bancroft's expenditures and concluded that Bancroft's incentive compensation payments were not authorized under the award. OIG reviewed Bancroft's submitted budget and did not find a reference to incentive compensation. Moreover, OIG did not find a reference to incentive compensation in the majority of the affected employees' contracts. OIG concludes that FAFM's determination that the compensation was not authorized is correct and should not have been paid to Bancroft. Therefore, OIG is questioning the unauthorized \$3.78 million paid to Bancroft for incentive compensation.

OIG made eight recommendations to address the deficiencies identified in this report and to recover any unallowable, unsupported, or unauthorized expenditures made to Bancroft. In response to a draft of this report, the Bureau of Administration concurred with the recommendations offered. On the basis of the bureau's concurrence with the recommendations and actions planned, OIG considers all eight recommendations resolved, pending further action. A synopsis of the Bureau of Administration's response to the recommendations offered and OIG's reply follow each recommendation in the Results section of this report. The Bureau of Administration's response to a draft of this report is reprinted in its entirety in Appendix B.