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Office of Inspector General  
United States Department of State

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ISP-I-26-18

Office of Inspections

June 2026

# **Evaluation of Fraud Risks Associated With the U.S. Department of State's Security Assistance to Mexico**

EVALUATION

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# HIGHLIGHTS

Office of Inspector General  
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## What OIG Evaluated

In January 2026, the U.S. Department of State-funded active security assistance programs in Mexico totaled \$145 million. The purpose of this security assistance is to help dismantle drug cartels, combat narcotics trafficking, and strengthen border security. In the FY 2026 National Defense Authorization Act, Section 8365, Congress required OIG to evaluate the fraud risks associated with the Department's security assistance to Mexico.

Accordingly, OIG conducted this evaluation to: (1) determine whether the Department was positioned to identify and mitigate fraud risks associated with security assistance provided to the government of Mexico, in accordance with federal fraud risk principles and Department requirements, and (2) evaluate how Department bureaus providing security assistance to Mexico mitigate fraud risk.

## What OIG Recommends

OIG made 8 recommendations to the Department to improve the Department's identification and mitigation of fraud risks in its security assistance programs in Mexico. OIG made 3 additional recommendations in a Sensitive But Unclassified annex to this report. In its comments on the draft unclassified report, the Department concurred with all 8 recommendations. OIG considers all 8 recommendations resolved. The Department's response to each recommendation and OIG's reply can be found in the Recommendations section of this report. The Department's formal responses are reprinted in their entirety in Appendix B.

June 2026

## OFFICE OF INSPECTIONS EVALUATION

### Evaluation of Fraud Risks Associated With the U.S. Department of State's Security Assistance to Mexico

#### What OIG Found

The Bureau of International Narcotics and Law Enforcement Affairs (INL), which administered approximately 91 percent (\$132 million) of U.S. security assistance in Mexico as of January 2026, was generally well positioned to manage fraud risk in accordance with federal fraud principles and Department requirements. INL had identified inherent fraud risks, assessed the likelihood and impact of these risks, determined its fraud risk tolerance, examined the suitability of existing fraud controls, and documented the program's fraud risk profile. However, INL's office in Mexico did not prioritize residual fraud risks, did not have a defined process for updating the fraud risk profile, lacked key elements in its resulting antifraud strategy, and did not explicitly evaluate fraud risks as part of its annual country risk assessment.

The Bureau of Arms Control and Nonproliferation (ACN), which oversaw 9 percent (\$13.3 million) of U.S. security assistance in Mexico in January 2026, had not applied any of the prescribed fraud risk principles at the bureau- or program-level.

OIG found that INL and ACN relied on award management, monitoring, and vetting of potential recipients of security assistance equipment and training to mitigate fraud risks in Mexico. However, the bureaus did not consistently assess fraud risks in their awards to interagency partners and international organizations. INL's office in Mexico implemented end-use monitoring, but risks remained due to the number of INL-donated items and security conditions limiting on-site reviews. These deficiencies—stemming in part from gaps in integrating fraud-specific risks into award design and in INL's controls over end-use monitoring—leave the Department vulnerable to taxpayer-funded equipment, training, or assistance in Mexico being misused by individuals involved in drug trafficking, terrorism, or other activities contrary to U.S. law and foreign policy objectives.

Additional information on fraud mitigation efforts through vetting programs are provided in a Sensitive But Unclassified annex.

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## BACKGROUND

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Since 2008, the U.S. government has provided more than \$3 billion of security assistance to the government of Mexico to combat narcotics trafficking, strengthen border security, counter financial crimes, and build Mexico's law enforcement and criminal justice capacity. Within the U.S. Department of State (Department), the Bureaus of International Narcotics and Law Enforcement Affairs (INL) and Arms Control and Nonproliferation (ACN) implement this security assistance. In January 2026, Department-funded active security assistance programs in Mexico totaled \$145 million.<sup>1</sup> Of this total, INL-funded security assistance programs accounted for \$132 million (91 percent). INL's core strategic priorities in Mexico were to dismantle cartels, disrupt the production and trafficking of fentanyl, and strengthen border security. INL oversaw the implementation of its INL-funded security assistance programs through its office in Embassy Mexico City (INL/Mexico).

Active ACN-funded security assistance programs in Mexico totaled \$13.3 million (9 percent) in January 2026. ACN primarily conducted training of Mexican officials in the areas of border security, nonproliferation, and countering weapons of mass destruction. ACN implemented its border security program, the Export Control and Related Border Security Program (EXBS),<sup>2</sup> through its office in Embassy Mexico City (EXBS/Mexico). ACN also worked with the embassy's Political and Economic Sections to nominate individuals for EXBS training programs.

Mexico remains the primary source of fentanyl, methamphetamine, and heroin entering the United States and a major transit country for cocaine entering the United States from Colombia. The influence of transnational criminal organizations and Mexican drug cartels has spread throughout Mexico, leading to high levels of crime, violence, and corruption, with border cities particularly vulnerable.<sup>3</sup> In 2025, Mexico ranked third globally in overall organized crime, according to the Global Organized Crime Index.<sup>4</sup>

On January 20, 2025, the President issued an Executive Order determining that international cartels and other transnational organizations threatened the national security, foreign policy,

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<sup>1</sup> This total includes all active INL and ACN assistance awards for Mexico as of January 31, 2026. The awards are funded with money from multiple fiscal years. The Department of Defense also implemented security cooperation programs in Mexico.

<sup>2</sup> EXBS is a Department initiative that helps foreign governments strengthen their export control systems and secure borders against the proliferation of weapons of mass destruction, conventional weapons, and dual-use items by providing training, equipment, and technical expertise to align national regulations with international standards.

<sup>3</sup> The U.S. Attorney's Office for the Southern District of New York unsealed an indictment on April 29, 2026, of the sitting governor of the Mexican state of Sinaloa and nine other former or current Sinaloa officials. In Sinaloa, the indictment states "corruption permeates all levels of local, state and federal government, and allows the Cartel and its drug trafficking operations to function and thrive."

<sup>4</sup> Global Initiative Against Transnational Organized Crime, "Global Organized Crime Index 2025, Crime at a crossroads," [ocindex.net/report/2025](https://ocindex.net/report/2025).

and economy of the United States.<sup>5</sup> In February 2025, the Department designated six cartels based in Mexico as foreign terrorist organizations.

In the FY 2026 National Defense Authorization Act, Section 8365, Congress—concerned about the effectiveness of U.S. assistance efforts to combat narcotics trafficking—required the Office of Inspector General (OIG) to evaluate the fraud risks in the Department’s security assistance to Mexico.<sup>6</sup>

Specifically, Congress directed OIG, within 180 days of the bill’s enactment, to develop a fraud risk assessment to (1) identify inherent fraud risks, (2) assess the likelihood and impact of these risks, (3) determine fraud risk tolerance, (4) examine the suitability of existing fraud controls and prioritization of residual fraud risks, and (5) document the program’s fraud risk profile.<sup>7</sup> This evaluation has two objectives:

- Determine whether the Department was positioned to identify and mitigate fraud risks associated with security assistance provided to the government of Mexico, in accordance with federal fraud risk principles and Department requirements.
- Evaluate how Department bureaus providing security assistance to Mexico mitigate fraud risk.

This evaluation draws on federal fraud risk requirements and best practices to answer the objectives. In March 2026, the Office of Management and Budget (OMB) reissued Circular A-123 to update the administration’s commitment to combatting fraud and to require federal agency heads to establish, maintain, and evaluate the effectiveness of internal controls over operations.<sup>8</sup> The revised Circular A-123 identifies risk assessment as a key internal control component and directs agencies to evaluate fraud risk alongside other risks that could affect the achievement of program or organizational objectives.<sup>9</sup> The Department outlines the Circular A-123 requirements in 2 Foreign Affairs Manual (FAM) 021.2.

In addition, the Government Accountability Office’s (GAO) fraud risk framework (Framework) outlines best practices for preventing and addressing fraud risks.<sup>10</sup> According to Circular A-123

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<sup>5</sup> Executive Order 14157, Designating Cartels And Other Organizations As Foreign Terrorist Organizations And Specially Designated Global Terrorists, January 20, 2025.

<sup>6</sup> FY 2026 National Defense Authorization Act, Section 8365, Public Law 119-60. This act also required the Department to submit to Congress a report with a strategy for countering transnational criminal organizations in Mexico.

<sup>7</sup> GAO defines fraud as “obtaining something of value through willful misrepresentation.” This could include fraudulent reporting, misappropriation of assets, and other illegal acts. See GAO, *Standards for Internal Control in the Federal Government*, Principle 8.06 (GAO-25-107721, May 2025).

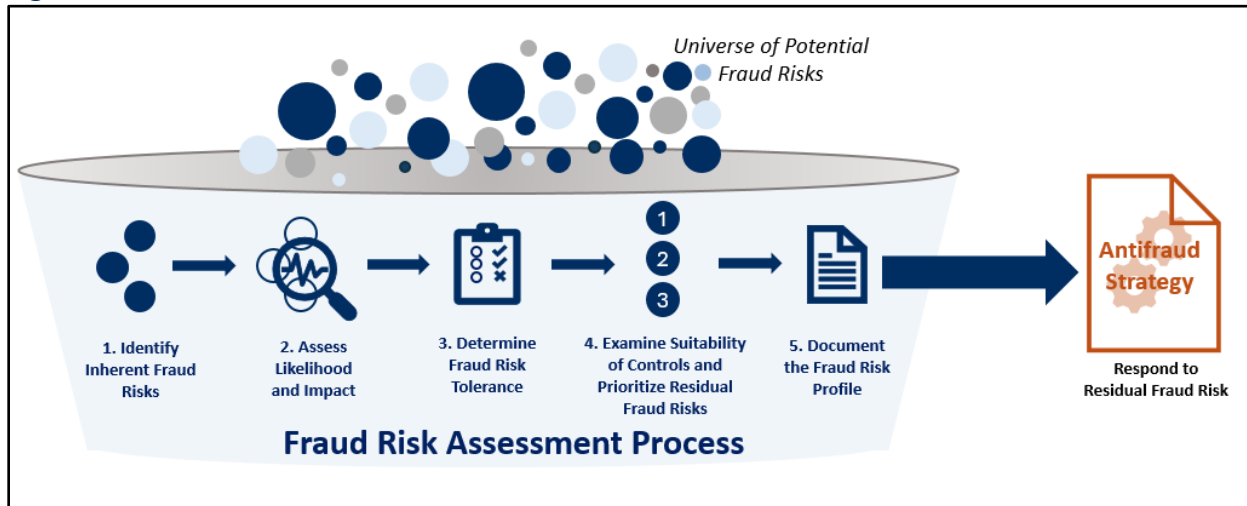
<sup>8</sup> OMB Circular No. A-123, *Management’s Responsibility for Internal Control* (revised March 10, 2026). Internal controls are defined as “a process effected by an entity’s oversight body, management, and other personnel designed to provide reasonable assurance that the objectives will be achieved.”

<sup>9</sup> OMB Circular No. A-123, page 10.

<sup>10</sup> GAO, *A Framework for Managing Fraud Risks in Federal Programs*, (GAO-15-593SP, July 2015).

and GAO's Framework, the key elements of a fraud risk assessment process include identifying inherent fraud risks<sup>11</sup> and assessing their likelihood and impact, determining fraud risk tolerance, examining the suitability of existing fraud controls and prioritizing residual fraud risks,<sup>12</sup> and documenting the program's fraud risk profile.<sup>13</sup> This evaluation also draws on GAO's internal control standards,<sup>14</sup> which sets standards for an effective internal control system for federal agencies, as mandated by the Federal Managers' Financial Integrity Act.<sup>15</sup> Figure 1 depicts GAO's fraud risk assessment process.

**Figure 1: Fraud Risk Assessment Process**



Source: OIG analysis of GAO's Framework.

## FINDINGS

### The Bureau of International Narcotics and Law Enforcement Affairs Generally Identified and Assessed Fraud Risk in Security Assistance Programs to Mexico, but the Bureau of Arms Control and Nonproliferation Did Not

To determine whether the Department was positioned to identify and mitigate fraud risks, OIG examined steps taken to identify and assess fraud risk in line with the GAO Framework and other federal guidelines. OIG determined that INL, which accounted for 91 percent of Department-funded security assistance to Mexico, generally identified and assessed fraud risk in its security assistance programs, while ACN did not. OIG found that INL used two processes intended to assess fraud risk in its Mexico security assistance programs: a fraud risk profile

<sup>11</sup> An inherent fraud risk is the risk to an entity prior to considering management's response to the risk.

<sup>12</sup> Residual fraud risk is the threat that remains after an organization has implemented internal controls to mitigate fraud, representing the gap between inherent risk and the effectiveness of those controls.






<sup>13</sup> OMB Circular No. A-123, pages 11-12; GAO-15-593SP, page 11 and 16.

<sup>14</sup> GAO, *Standards for Internal Control in the Federal Government*, (GAO-25-107721, May 2025).

<sup>15</sup> Federal Managers Financial Integrity Act of 1982, Public Law 97-255.

developed as part of a 2025 antifraud strategy managed by INL/Mexico<sup>16</sup> and a bureau-wide annual country risk assessment managed by INL.<sup>17</sup> INL/Mexico generally aligned its fraud risk profile with federal guidelines, except for the prioritization of residual fraud risk, positioning it to mitigate fraud risk. However, ACN did not have a system for identifying and assessing fraud risk. This is shown in Table 1 below, which aligns with GAO’s fraud risk assessment process and directly corresponds with Congress’ detailed directive.

**Table 1: The Bureaus of International Narcotics and Law Enforcement Affairs and Arms Control and Nonproliferation’s Use of Fraud Risk Assessment Best Practices**

	<b>Fraud Risk Assessment Best Practice</b>	<b>INL*</b>	<b>ACN</b>
	1. Identify inherent fraud risks	Yes	No
	2. Assess the likelihood and impact of identified fraud risks	Yes	No
	3. Determine fraud risk tolerance	Yes	No
	4. Examine the suitability of existing fraud controls and prioritize residual fraud risks	Partially. Residual fraud risks were not prioritized.	No
	5. Document the program’s fraud risk profile	Yes	No

\* Table addresses INL’s Mexico fraud risk profile, not INL’s annual country risk assessment for Mexico.

**Source:** Results of OIG testing for compliance with GAO’s Framework and other federal guidelines.

While INL/Mexico generally adhered to best practices in assessing fraud risk, OIG found it had not prioritized residual fraud risk to allocate resources towards the most significant vulnerabilities. It also did not incorporate timelines, roles, responsibilities, or resources into its antifraud strategy implementing guidance.<sup>18</sup> Additionally, while INL broadly assessed risk in its overseas programs through its annual country risk assessment, INL/Mexico staff who prepared Mexico’s assessment reported they did not evaluate fraud risks when completing the country risk assessment, as required by Circular A-123. Further, although ACN conducted risk assessments at the award level for its grants and cooperative agreements, these assessments did not consider risks across programs.

***The Bureau of International Narcotics and Law Enforcement Affairs/Mexico Office Lacked a Priority Order for Residual Fraud Risks and a Process To Update Its Fraud Risk Profile***

When examining the suitability of existing fraud controls, Circular A-123 states that program managers should prioritize internal control risks, following identification and assessment. The

<sup>16</sup> INL developed the Mexico fraud risk profile and antifraud strategy in 2022, in response to a GAO recommendation, and updated it in 2025 as part of the finalized Mexico antifraud strategy.

<sup>17</sup> INL’s annual country risk assessment, implemented in 2023 in response to an OIG recommendation, required countries with active INL programming, including Mexico, to assess programmatic risks against 10 risk areas.

<sup>18</sup> GAO-15-593SP, page 17.

Circular also states agencies should perform risk monitoring to manage changes that may impact risk assessment processes.<sup>19</sup> Similarly, GAO’s Framework states that, as a best practice, agencies should rank residual fraud risks in priority order to determine response, and agencies should conduct fraud risk assessments both at regular intervals and whenever program conditions change.<sup>20</sup>

OIG found that although INL/Mexico categorized its residual fraud risks as high, medium, or low priority, it did not rank the risks within those categories to determine the order in which they should be addressed. For example, INL/Mexico listed six of the nine identified fraud risks as medium priority but did not assess which of those six risks required the most immediate attention. Additionally, although INL/Mexico planned to review and update the fraud risk profile, it lacked a defined process to do so, including in response to changes in the program or operating environment.

INL did not rank and prioritize the risks because the bureau believed that the initial fraud risk profile, developed for INL in 2022, adhered to GAO standards. However, although the profile categorized each fraud risk as low, medium, or high, it did not rank the risks in priority order. Further, when INL/Mexico reviewed the profile in 2025, staff did not update the rating methodology because their initial focus was on operationalizing the antifraud strategy (further described below). Therefore, they had not yet developed a process to review and update the fraud risk profile.

Without prioritizing residual fraud risks, INL/Mexico risks directing fraud control efforts and resources towards issues that may be less consequential, rather than focusing on its programs’ most significant vulnerabilities. For example, INL/Mexico’s initial guidance for implementing its antifraud strategy outlined control enhancements for all identified fraud risks but did not indicate which controls staff should prioritize. Additionally, because no system is perfectly secure, residual fraud risk is always present and requires continuous monitoring, contingency planning, and regular assessment to keep it within acceptable levels. Without a process to update the fraud risk profile, INL/Mexico risks failing to identify and address emerging or shifting fraud risks as program conditions change.

**Recommendation 1:** Embassy Mexico City should update its fraud risk profile to prioritize identified residual fraud risks and establish a process to review and update its fraud risk profile. (Action: Embassy Mexico City)

***The Bureau of International Narcotics and Law Enforcement Affairs/Mexico Office Did Not Include Key Elements in Its Antifraud Strategy Guidance***

According to Circular A-123, once agencies identify program deficiencies, they must document the corrective actions needed to resolve those issues, establish a timeline for completing corrective actions, and designate responsible parties. The Circular further states agencies

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<sup>19</sup> Ibid., pages 28-29.

<sup>20</sup> GAO-15-593SP, pages 11, 15.

should allocate resources based on the likelihood and impact of the risks the corrective actions are intended to address.<sup>21,22</sup>

Although INL/Mexico had started implementing its antifraud strategy—the next step after developing a fraud risk profile—the strategy lacked timelines, designation of roles and responsibilities, and resource allocation. INL/Mexico’s initial antifraud strategy implementation guidance included a checklist of controls and actions to mitigate each identified fraud risk, including potential control enhancements identified in the fraud risk profile. However, the guidance did not specify how these control enhancements would be implemented, such as when they would be implemented, who would be responsible for implementing them, or what resources would be required.

INL/Mexico staff told OIG that the antifraud strategy implementation guidance was still in development, and that they were working to finalize the guidance. While INL/Mexico was still in the process of developing its antifraud strategy guidance, it is important that the office establish clear timelines, roles, and responsibilities, and a process for allocating resources. Without these elements, INL/Mexico risks ineffective implementation of its fraud risk strategy, making its programs vulnerable to the identified fraud risks the strategy is designed to mitigate.

**Recommendation 2:** Embassy Mexico City should update its antifraud strategy implementation guidance to align with fraud risk management best practices, including establishing timelines, designating roles and responsibilities, and allocating resources for implementing fraud controls. (Action: Embassy Mexico City)

***The Bureau of International Narcotics and Law Enforcement Affairs/Mexico Office Did Not Evaluate Fraud Risks in Its Annual Country Risk Assessment***

Despite Circular A-123’s requirement for fraud risks to be evaluated in conjunction with other risks that may affect an agency’s ability to achieve its objectives,<sup>23</sup> INL staff, who prepared Mexico’s country risk assessment, told OIG that they did not evaluate fraud risks as part of its annual country risk assessment.<sup>24</sup> While the annual risk assessment included a few questions that could be interpreted as related to fraud, fraud was not mentioned explicitly. Staff stated they focused on assessing operating risks affecting their ability to work in Mexico. INL staff in

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<sup>21</sup> OMB Circular No. A-123, page 18.

<sup>22</sup> GAO’s Framework echoes Circular A-123, stating that an antifraud strategy should use the fraud risk profile to help decide how to allocate resources, create timelines for implementing fraud risk management activities, and establish roles and responsibilities for those involved in fraud risk management activities. See GAO-15-593SP, pages 17-19.

<sup>23</sup> OMB Circular No. A-123, page 11.

<sup>24</sup> INL’s annual country risk assessment is a collaborative process between INL offices overseas and the corresponding country program office in Washington. For Mexico, INL/Mexico provides on-the-ground insights and perspectives to INL’s Mexico program office in Washington, which reviews and submits the final version to the INL office managing the assessment process.

Washington, who managed the annual country risk assessment process for the bureau,<sup>25</sup> told OIG they developed the country risk assessment expecting that overseas staff who completed it would address fraud risk across the assessment's 10 identified risks topics.<sup>26</sup>

INL/Mexico did not explicitly evaluate fraud risks in the country risk assessment because the bureau was still refining its approach to the assessment process and did not include clear instructions to INL overseas offices to evaluate fraud across identified risk areas. INL provided training on how to complete the annual assessment for each cycle; however, the training did not provide guidance on evaluating fraud risk within the country risk assessment. The training was also not mandatory. INL staff in Washington also stated that many overseas INL staff viewed the assessment process as a "check-the-box exercise," underscoring the need to strengthen the bureau's risk-aware culture.

As of April 2026, INL was working to incorporate fraud risk-related content into its broader training. INL also started to integrate results from the annual country risk assessment into its funding and programming approval process. However, because INL/Mexico did not assess fraud risk through the country risk assessment process, it may not be fully communicating fraud risks to INL, potentially affecting the bureau's ability to make informed decisions about programming and resource allocation for its programs in Mexico.

**Recommendation 3:** The Bureau of International Narcotics and Law Enforcement Affairs should provide guidance to the Bureau of International Narcotics and Law Enforcement Affairs/Mexico office on how to evaluate fraud risks in its annual country risk assessment, as required by the Office of Management and Budget Circular A-123. (Action: INL)

### ***The Bureau of Arms Control and Nonproliferation Had Not Conducted a Fraud Risk Assessment***

OIG found that ACN did not conduct a fraud risk assessment for its security assistance programs, either at the bureau level or the program level in Embassy Mexico City (the Export Control and Related Border Security Program, or EXBS). Specifically, ACN did not identify inherent fraud risks, assess the likelihood and impact of those fraud risks, determine fraud risk tolerance, examine the suitability of existing fraud controls and prioritization of residual fraud

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<sup>25</sup> Per the instructions in the annual country risk assessment, INL requires submitters of the assessment survey to review each outlined risk and assign an inherent risk rating (low, medium, or high), a risk management approach (mitigate, accept, share/transfer, or avoid), and a residual risk rating (low, medium, or high). If a risk is categorized as high, submitters are required to provide a justification for the rating. If 5 of the 10 risk areas are categorized as high, a risk addendum is required to be submitted alongside the risk assessment that outlines key risk challenges, impact of INL programming, and a discussion of risk versus reward outcomes.

<sup>26</sup> The 10 identified risks topics include: (1) threats to security and physical safety, (2) terrorism financing, (3) U.S. Department of the Treasury's Office of Foreign Assets Control/Specially Designated Nationals sanctions, (4) property management, (5) Leahy vetting, (6) human and labor trafficking, (7) construction, (8) implementing partners, (9) administrative oversight and staffing, and (10) political will and capacity of host government.

risks, or document efforts in a fraud risk profile, as outlined by Circular A-123 and described in GAO's Framework.<sup>27</sup>

Although ACN conducted risk assessments at the award level for its cooperative agreements and grants, OIG found these assessments only considered award-specific risks.<sup>28</sup> It did not consider fraud risks across programs. Award-level risk assessments are useful for identifying issues that may affect achievement of the award's objectives; however, both Circular A-123 and GAO's Framework emphasize the importance of assessing risk—fraud risks in particular—across programs and agencies to support mission-wide objectives.

ACN leadership and staff acknowledged the bureau had not conducted bureau- or program-level risk assessments. This was because EXBS/Mexico worked with a small number of trusted partners and most of its programs were limited to providing training rather than equipment.<sup>29</sup> However, ACN leadership acknowledged that it needed to assess its program risks more broadly. ACN leadership told OIG that the bureau planned to develop a bureau-wide risk assessment process that would incorporate fraud risk and leverage expertise from other bureaus.

Without conducting a fraud risk assessment that identifies inherent fraud risks, assesses the associated likelihood and impact, and determines fraud risk tolerance, ACN will not be positioned to implement management controls needed to mitigate such risks.

**Recommendation 4:** The Bureau of Arms Control and Nonproliferation should implement a process to identify and assess fraud risks in its Mexico programs in compliance with the Office of Management and Budget Circular A-123 requirements and the Government Accountability Office's *A Framework for Managing Fraud Risks in Federal Programs* best practices. (Action: ACN)

### **Embassy Mexico City Implemented Fraud Controls in Security Assistance Programs To Mitigate Fraud Risk, but There Were Gaps in Award Management, End-Use Monitoring, and Vetting**

Both INL and ACN relied on their oversight of awards, vetting of potential recipients of security assistance training and equipment, and monitoring of that equipment to mitigate fraud risk in security assistance programs in Mexico. However, OIG found deficiencies in the Department's fraud controls in all three areas. In awards management, OIG found that INL/Mexico did not focus on fraud and faced challenges in overseeing interagency agreements. INL's end-use monitoring generally met federal and Department guidance. However, OIG identified weaknesses in how INL addressed monitoring deficiencies, increasing risk of diversion. For example, 840 sensitive export-controlled items, valued at over \$37 million, were unmonitored

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<sup>27</sup> OMB Circular No. A-123, pages 11-12; GAO-15-593SP, page 11.

<sup>28</sup> ACN's award-level risk mitigation efforts are further discussed in the next finding.

<sup>29</sup> ACN also mitigated risk by vetting its training participants.

or improperly disposed. OIG's findings on vetting are included in a Sensitive But Unclassified annex to this report.

### **Award Management**

INL and ACN funded security assistance programs in Mexico through a combination of awards, including grants, cooperative agreements, contracts, interagency agreements (IAA), and a letter of agreement with an international organization (IO-LOA). In January 2026, those security assistance programs consisted of 34 active INL awards totaling approximately \$132 million and 51 active ACN awards totaling approximately \$13.3 million.<sup>30</sup> As of March 2026, INL/Mexico staff managed most INL awards from Embassy Mexico City. While ACN maintained a small footprint of EXBS/Mexico staff, these staff did not have formal monitoring responsibilities. Instead, ACN staff based in Washington remotely managed the EXBS awards in Mexico.

Award management was a key pillar of risk mitigation for both INL and ACN. The bureaus relied on pre-award risk assessments and post-award monitoring to evaluate and oversee program-level risks. However, Department requirements for pre-award risk assessment varied between grants, cooperative agreements, IAAs, and the IO-LOA. Department guidance in the Federal Assistance Directive (FAD) and the Department of State Acquisition Manual require pre-award risk assessments for grants, cooperative agreements, and contracts.<sup>31</sup> In contrast, guidance in the Department of State Interagency Agreement Guide does not require pre-award risk assessments for IAAs, and FAD requirements for IO-LOAs do not apply to IO-LOAs made under Circular 175 Procedure authority—the mechanism INL used to establish its IO-LOA in Mexico.<sup>32</sup>

### ***U.S. Government and International Organization Partners Were Not Consistently Assessed for Fraud Risks***

Circular A-123 requires managers to identify, assess, oversee, and prioritize internal control risks at the program level.<sup>33</sup> It also directs that fraud risk be evaluated alongside other risks that may affect the program's ability to achieve its objectives. OIG reviewed a selection of INL- and ACN-funded security assistance program awards and found both bureaus followed Department requirements to assess risk in their grants, cooperative agreements, and contracts.<sup>34</sup> However,

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<sup>30</sup> In January 2026, INL's security assistance program consisted of 1 grant, 6 cooperative agreements, 15 contracts, 11 IAAs, and 1 IO-LOA. ACN's security assistance program consisted of 8 grants, 15 cooperative agreements, 4 contracts, and 24 IAAs. ACN did not have any IO-LOAs in its security assistance program.

<sup>31</sup> The U.S. Department of State Federal Assistance Directive requires all bureaus/offices/embassies to conduct a risk assessment on all federal assistance awards issued by the Department. See Federal Assistance Directive (FAD), Chapter 2, Section K, January 2026. The U.S. Department of State Acquisition Manual (DOSAM) requires a written formal acquisition plan, which includes a risk assessment, for all acquisitions greater than or equal to \$5 million. See Office of the Procurement Executive, Department of State Acquisition Manual (DOSAM), Subpart 607.102-80(b)(3), June 2024.

<sup>32</sup> Guidance in 11 FAM 720 provides Circular 175 Procedure authority, allowing INL to negotiate and conclude treaty-like agreements with international organizations.

<sup>33</sup> OMB Circular No. A-123, page 9.

<sup>34</sup> For INL, OIG reviewed a selection of three grants and cooperative agreements, three contracts, four IAAs, and one IO-LOA. For ACN, OIG reviewed a selection of five grants and cooperative agreements, one contract, and three

INL and ACN developed their own approaches to assess risk in their IAAs and IO-LOA, and neither approach consistently assessed fraud-specific risks.

For INL's IAAs and IO-LOA, which included 12 active awards valued at approximately \$25 million, OIG found that INL did not consistently address fraud-specific risks. Although INL/Mexico discussed risks during award design, INL/Mexico staff told OIG these discussions focused on whether the awards would achieve intended results. In addition, while INL required U.S. government interagency partners to describe risk management practices during the IAA pre-award process, staff said that they did not expect partners to provide detailed risk information. This was because the award partner was another federal agency. As previously mentioned, existing Department requirements for pre-award risk assessment do not apply to INL's IO-LOA. However, one INL staff member noted international organization partners could voluntarily include risk-related information in the work plan they provide to INL.

For ACN's IAAs, which included 24 active awards valued at approximately \$9 million, OIG found the bureau completed some pre-award risk assessments and monitoring plans— although the Department of State Interagency Agreement Guide does not require pre-award risk assessments for IAAs. In addition, one staff member noted that ACN relied on information submitted during the application process to assess risk. As previously discussed, ACN lacked a process that would allow the bureau to assess award-level fraud risks across its Mexico program, but planned to develop a Bureau-wide strategy that would allow it to do so. With respect to INL/Mexico, it focused primarily on ensuring a program's success when designing its IAAs and IO-LOA, but it did not fully assess fraud risks, leaving aspects of its security programs in Mexico vulnerable to fraud.

**Recommendation 5:** Embassy Mexico City should develop and implement guidance to assess award-level fraud risks when designing its Bureau of International Narcotics and Law Enforcement Affairs-funded programs. (Action: Embassy Mexico City)

***Bureaus Monitored Their Security Assistance Awards, but the Bureau of International Narcotics and Law Enforcement Affairs/Mexico Office Faced Challenges Overseeing Interagency Agreements***

Guidance in 18 FAM 301.4-3a requires bureaus and independent offices to monitor the performance of their programs and projects. OIG reviewed monitoring activities for selected INL- and ACN-funded security assistance awards and found that both bureaus monitored their programming in Mexico. Monitoring activities included communication with implementing partners, reviews of financial and programmatic reporting, and site visits (see Figure 2).

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IAAs. During this inspection, OIG expanded its review of IAAs and found evidence that the bureau completed some pre-award risk assessments and monitoring plans. As of January 2026, ACN did not have any IO-LOAs in its security assistance program.



**Figure 2:** INL/Mexico staff observing Mexican officials inspecting goods and monitoring INL-donated training equipment from the IO-LOA. Source: OIG, March 2026.

Although INL/Mexico staff generally did not identify concerns about fraud risks for grants, cooperative agreements, contracts, or the IO-LOA, multiple INL/Mexico staff told OIG they faced challenges overseeing finances for IAAs. Staff responsible for award oversight said that the financial reporting from interagency partners lacked the detail needed to verify program expenditures.

The U.S. Department of State Interagency Agreement Guide requires contracting officer’s representatives to monitor reimbursements to interagency partners and to verify, as a part of the payment process, that the Department received and accepted the agreed-upon goods or services.<sup>35</sup> INL staff in Washington and INL/Mexico staff recognized that while IAAs required interagency partners to provide quarterly financial reports, there was often a delay between when partners spent funds and when the Department systems reflected the expenditures. As a part of the close out process for IAAs, INL completed a budget reconciliation to address any discrepancies in the expenditures.

INL staff in Washington told OIG they did not have concerns with the financial oversight process and one person noted that IAA financial reporting requirements were designed to identify unexpended funds before cancellation. In contrast, INL/Mexico staff—who managed the day-to-day oversight of IAAs—told OIG the financial reports’ required budget line items were only general categories that did not provide sufficient detail to perform due diligence on expenditures. For example, interagency partners may report a single line item related to travel without specifying where travel took place or whether it supported activities in the IAA work plan.

Although INL/Mexico staff were able to request additional information, interagency partners were not required to provide them with supplemental information about program

<sup>35</sup> Bureau of Global Acquisitions, Interagency Agreement Guide, Pages 12, 19 (August 2025).

expenditures. As a result, INL/Mexico had to rely on the willingness of interagency partners to share the information staff needed to practice responsible oversight.

**Recommendation 6:** The Bureau of International Narcotics and Law Enforcement Affairs, in coordination with Embassy Mexico City, should review and update reporting requirements for interagency agreements to identify and address gaps in financial oversight. (Action: INL, in coordination with Embassy Mexico City)

### **Contracting Officers at Embassy Mexico City Reinforced Oversight of the Bureau of International Narcotics and Law Enforcement Affairs' Contracts**

In 2022, the Bureau of Administration's Office of Global Acquisition (now Bureau of Global Acquisitions) stationed two contracting officers at Embassy Mexico City to support INL/Mexico's security assistance programming. Multiple staff described to OIG how the contracting officers at the embassy improved coordination. The co-location of the contracting officers in Mexico allowed INL/Mexico staff to engage with them regularly. The contracting officers told OIG that their presence at the embassy helped them to understand the operating environment better, be responsive to changes in the security situation, and more effectively design procurement requirements for INL contracts. In addition, they could conduct site visits and directly observe INL-funded training activities. The co-location of the contracting officers at Embassy Mexico City, strengthened INL's fraud controls by creating an environment for contracting officers to be more involved in the development and oversight of INL contracts.

### **End-Use Monitoring**

End-use monitoring (EUM) is a principal mechanism to verify that U.S.-donated equipment remains under the control of intended recipients and is used for its intended purposes. Required by law,<sup>36</sup> EUM is an important risk mitigation tool for defense articles, dual-use items, and equipment requiring export licenses. In 2025, INL donated nearly \$18 million in equipment to Mexican federal agencies, state governments, and municipalities. Of this amount, \$5.5 million (31 percent) worth of equipment was subject to EUM, including items such as aircraft, canines, vehicles, communications and computer equipment, field gear, investigative and laboratory equipment, and weapons simulators.<sup>37</sup> As of December 2025, INL was tracking more than 7,700 donated items, valued at \$390 million, that were subject to EUM. These items included any INL-donated equipment valued at \$15,000 or more that remained within its

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<sup>36</sup> The Foreign Assistance Act of 1961, as amended, Section 484(b) and the Arms Export Control Act, Chapter 3A, Section 40A require EUM. See 22 U.S. Code (U.S.C.) § 2291c(b) and 22 U.S.C. § 2785. The Foreign Assistance Act of 1961, Section 484(b), codified at 22 U.S.C. § 2291c(b), also requires that all reasonable steps be taken "to ensure that . . . equipment made available to foreign countries under this chapter are used only in ways that are consistent with the purposes for which such equipment was made available."

<sup>37</sup> INL is not authorized to transfer lethal weapons to the government of Mexico and did not have any lethal weapons in its inventory.

defined “useful life,”<sup>38</sup> as well as sensitive export-controlled items,<sup>39</sup> regardless of value, until disposed or destroyed (such as armored vehicles and night vision goggles).

In 2026, ACN’s EUM-eligible inventory totaled \$2.2 million. This included ACN-donated sensitive export-controlled equipment and items valued at \$10,000 or more and less than 5 years old (such as vehicles, scanners, and detection equipment).

***The Bureau of International Narcotics and Law Enforcement Affairs/Mexico Office Mitigated Fraud Risk Through End-Use Monitoring, Although Some Risk Remained***

INL/Mexico’s EUM program for monitoring security assistance equipment donated to the government of Mexico was generally well developed and aligned with requirements contained in the Foreign Assistance Act of 1961. In 2025, OIG found that INL/Mexico conducted inspections at 82 locations, allowing staff to inspect 67 percent of donated and tracked items. INL/Mexico also used secondary methods to monitor an additional 25 percent of property items. Furthermore, INL/Mexico exceeded INL’s EUM requirements by producing annual reports and recommendations for end users.

Despite these strengths, OIG identified conditions that created opportunities for fraud. Specifically:

- Reduced on-site monitoring: INL/Mexico decreased the number of on-site EUM visits from the previous year (from 284 in 2024 to 248 in 2025) due to an increase in violence in certain regions of Mexico and resulting embassy travel restrictions.
- Unsecured storage of defense articles: INL/Mexico reported that a common issue among Mexican state-level end users of controlled defense articles was that they lacked secure storage facilities to store field gear equipment (such as night vision goggles and ballistic vests).
- Raised micro-purchase threshold: In October 2025, the Federal Acquisition Regulatory Council raised the threshold for micro-purchases subject to monitoring from \$10,000 to \$15,000. INL/Mexico complied with this change as directed, resulting in the removal of some vehicles from EUM oversight.

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<sup>38</sup> In October 2025, INL raised the minimum dollar value threshold for items subject to EUM from \$10,000 to \$15,000. INL/Mexico defined the minimum useful life cycle of property donated to the government of Mexico in a life cycle memorandum. The memorandum set useful life cycle ranges of 5 to 10 years, based on factors outlined in OMB Circular A-76, Revised Appendix 3, on useful life and disposal value.

<sup>39</sup> For the purposes of this report, we use the term sensitive export-controlled items to refer to items that are required, in the INL Standard Operating Policy/Procedure (SOPP): for End Use Monitoring, to be monitored, regardless of their age or value. These include: (1) defense articles or technical data designated in 22 Code of Federal Regulations § 121.1, (2) 600 series items (specially designated items with both commercial and military applications—commonly known as dual-use items—that are subject to the Department of Commerce’s Bureau of Industry and Security export license requirements), and (3) other dual-use items under Department of Commerce control.

INL mitigated these fraud risks through secondary monitoring, by working with end users to improve tracking procedures and storage of defense articles, and by developing corrective action plans for identified EUM deficiencies. INL/Mexico staff also told OIG they were discussing the impact of the micro-purchase threshold change with INL. INL/Mexico staff also discussed the feasibility of adding unannounced inspections to their EUM program. Therefore, OIG did not make a recommendation.

***The Bureau of International Narcotics and Law Enforcement Affairs/Mexico Office Had Not Monitored More Than 840 Sensitive Export-Controlled Items Valued at Over \$37 Million***

U.S. law and Department standards require EUM to verify compliance with U.S. government policies on the use, transfer, and final disposition of defense articles.<sup>40</sup> INL standards describe monitoring of defense articles as essential to prevent illegal defense exports and technology transfers. These standards require that monitoring of all defense articles be performed by U.S. government employees through on-site inspections.<sup>41</sup> INL standards also require that the partner-government agency obtain approval prior to disposal or destruction of defense articles and that any destruction of the property be conducted in accordance with U.S. government standards, with a U.S. government witness to verify.

Although INL/Mexico prioritized EUM of defense articles, OIG found more than 840 sensitive export-controlled items worth over \$37 million were unmonitored or improperly disposed.<sup>42</sup> INL/Mexico identified 425 assets, valued at \$14 million and subject to EUM in 2025, that had not been formally inspected or evaluated by EUM personnel. Of the 425 assets, 397 were defense or dual-use items.

OIG found that more than eight Mexican partners did not follow established monitoring procedures. For example, one Mexican partner informed INL/Mexico they had disposed of 448 sensitive export-controlled items (valued at over \$27 million) without obtaining INL/Mexico's permission or following agreed-upon procedures. INL/Mexico staff also told OIG that, since at least 2024, two Mexican partners had not responded to repeated requests to schedule monitoring visits, preventing INL/Mexico staff from verifying the status of INL-funded equipment. INL/Mexico attributed the problems to frequent leadership changes and reorganization within a key Mexican law enforcement agency, as well as to a worsening security environment that restricted INL's ability to travel to certain states to conduct onsite inspections.

Recognizing these challenges, INL/Mexico determined EUM fraud risk to be a high priority in its antifraud strategy, rating the likelihood of the risk as a 3 out of 5 and the impact of the risk as 3

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<sup>40</sup> See 22 U.S.C. § 2785(a)(2)(B).

<sup>41</sup> INL's December 2023 Standard Operating Policy/Procedure: for End-Use Monitoring states that on-site inspection is the recommended method of monitoring defense articles, except when security conditions prevent it. In these instances, planned deviations must be documented in embassy's EUM plan.

<sup>42</sup> INL/Mexico records show that for 2025, 448 defense articles or series 600 items were improperly disposed of and 397 defense articles and series 600 items had not been monitored.

out of 5. The recommended response advised enhanced controls, and the strategy described specific control enhancements. As described previously, while INL/Mexico's draft implementation guidance included potential control enhancements from the strategy, including for EUM, there was no information as to how these controls would be implemented or if they already were. However, INL did take some steps to address the EUM problems. In December 2025, INL/Mexico met with senior leadership of one Mexican government agency to reiterate the agency's responsibilities and obtained their agreement to document the disposal of the equipment. INL also had corrective action plans in place for unresponsive Mexican partners.<sup>43</sup> However, INL/Mexico staff told OIG they had not yet reached a point to consider pausing future donations with the non-responsive Mexican partners.

The failure to account for defense articles and sensitive export-controlled items raises the risk of their misuse or diversion, particularly to cartels or terrorist organizations. Even if INL receives documentation of the disposal of the defense articles, INL remains unable to verify whether the equipment was diverted, given that required U.S.-witnessed destruction or inspection did not occur.

**Recommendation 7:** The Bureau of International Narcotics and Law Enforcement Affairs/Mexico office should determine what happened to the 448 defense articles and sensitive export-controlled items declared as disposed. (Action: Embassy Mexico City)

**Recommendation 8:** The Bureau of International Narcotics and Law Enforcement Affairs/Mexico should develop and implement a plan, in alignment with its antifraud strategy, to correct monitoring deficiencies for the more than 840 defense articles declared as unmonitored. (Action: Embassy Mexico City)

### ***Export Control and Related Border Security Program/Mexico Office Did Not Conduct End-Use Monitoring in 2025***

Although EXBS/Mexico had submitted a 2025 EUM monitoring plan to ACN, EXBS/Mexico did not conduct EUM in 2025 for any of the 25 inventory items included in the plan. This included at least four sensitive export-controlled items, which required monitoring for the life of the property until properly disposed or destroyed, regardless of value (enhanced EUM).<sup>44</sup> EXBS/Mexico staff told OIG that they did not conduct EUM in 2025 due to a pause in programming and associated travel restrictions resulting from the foreign assistance review, an ACN decision to suspend program travel in response to security conditions, and the government shutdown.<sup>45</sup> In addition, EXBS/Mexico did not correctly identify the sensitive export-controlled items, valued at over \$100,000, as requiring enhanced EUM and had omitted

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<sup>43</sup> INL's corrective action plan for unmonitored resources included meeting with end users to clarify the status of the assets and discuss their EUM responsibilities, and—if the partner continued to be unresponsive—considering pausing future donations.

<sup>44</sup> ACN's January 2026 Standard Operating Procedure for End Use Monitoring required EXBS programs to inspect, monitor, and report on all tangible equipment donations valued at \$10,000 or more for the duration of its useful life, as well as all sensitive export-controlled items or items listed on the CCL.

<sup>45</sup> The federal government was shut down from October 1 to November 12, 2025, due to a lapse in appropriations.

those items from the 2025 EUM plan. EXBS/Mexico staff stated that guidance on which items required enhanced EUM was unclear.

Failure to conduct required EUM in 2025 increased the risk that EXBS-funded security assistance equipment would not be used for its intended purposes. However, ACN staff in Washington and EXBS/Mexico staff determined the risk of misuse or equipment diversion was low, noting that most equipment had narrow operational uses, was not advantageous to criminal organizations, and did not present proliferation risks. EXBS/Mexico conducted all required EUM in 2024, and at the time of this evaluation, ACN reported that there were no known instances of misuse in Mexico of EXBS-donated equipment subject to EUM. EXBS/Mexico also had a corrective action plan to conduct EUM visits in 2026 for all items missed in 2025 and those due for inspection in 2026. Furthermore, EXBS/Mexico had conducted one such monitoring trip during OIG's fieldwork visit. Because ACN and EXBS had taken corrective action and no misuse had been identified, OIG did not make a recommendation.

### **Vetting**

Embassy Mexico City conducted Leahy vetting for intended recipients of security assistance—including individuals and units nominated for training programs and recipients of equipment—in compliance with Leahy laws.<sup>46</sup> Embassy Mexico City also had a local vetting program for vetting additional categories of security assistance recipients to safeguard the embassy's interests against reputational risk when engaging in training or other public-facing outreach. OIG's findings and recommendations related to Embassy Mexico City's vetting program are included in the Sensitive But Unclassified annex to this report.

## **CONCLUSION**

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Stability and security in Mexico will continue to be a high foreign policy priority for the United States because of the shared border and extensive commercial and people ties between the two countries. Best practices in assessing the risk of fraud, such as determining fraud risk tolerance and prioritizing residual fraud risks, will assist Department leaders and program managers in weighing risks of diversion and fraud against policy priorities and expected outcomes. In addition, implementing the recommended fraud controls in the areas of award management, EUM, and vetting should provide the Department with greater assurance that taxpayer-funded equipment, training, and other assistance in Mexico does not inadvertently benefit individuals involved in drug trafficking, terrorism, or other activities inconsistent with U.S. law and foreign policy objectives.

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<sup>46</sup> The Leahy Amendment to the Foreign Assistance Act of 1961 prohibits the Department from furnishing assistance to foreign security forces if the Department receives credible information that such forces have committed gross violations of human rights. See 22 U.S.C. § 2378d.

## RECOMMENDATIONS

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OIG provided a draft of this report to Department entities for their review and comment on the findings and recommendations. OIG issued the following recommendations to Embassy Mexico City, to the Bureau of International Narcotics and Law Enforcement Affairs, and to the Bureau of Arms Control and Nonproliferation. The Department's complete responses can be found in Appendix B. The Department also provided technical comments that were incorporated into the report, as appropriate.

**Recommendation 1:** Embassy Mexico City should update its fraud risk profile to prioritize identified residual fraud risks and establish a process to review and update its fraud risk profile. (Action: Embassy Mexico City)

**Management Response:** In its June 3, 2026, response, Embassy Mexico City concurred with this recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that Embassy Mexico City updated its fraud risk profile to prioritize identified residual fraud risks and established a process to review and update its fraud risk profile.

**Recommendation 2:** Embassy Mexico City should update its antifraud strategy implementation guidance to align with fraud risk management best practices, including establishing timelines, designating roles and responsibilities, and allocating resources for implementing fraud controls. (Action: Embassy Mexico City)

**Management Response:** In its June 3, 2026, response, Embassy Mexico City concurred with this recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that Embassy Mexico City updated its antifraud strategy implementation guidance to align with fraud risk management best practices, including establishing timelines, designating roles and responsibilities, and allocating resources for implementing fraud controls.

**Recommendation 3:** The Bureau of International Narcotics and Law Enforcement Affairs should provide guidance to the Bureau of International Narcotics and Law Enforcement Affairs/Mexico office on how to evaluate fraud risks in its annual country risk assessment, as required by the Office of Management and Budget Circular A-123. (Action: INL)

**Management Response:** In its June 3, 2026, response, the Bureau of International Narcotics and Law Enforcement Affairs concurred with this recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that the Bureau of International Narcotics and Law Enforcement Affairs provided guidance to the Bureau of International Narcotics and Law Enforcement Affairs/Mexico office on how to evaluate fraud risks in its annual country risk assessment, as required by the Office of Management and Budget Circular A-123.

**Recommendation 4:** The Bureau of Arms Control and Nonproliferation should implement a process to identify and assess fraud risks in its Mexico programs in compliance with the Office of Management and Budget Circular A-123 requirements and the Government Accountability Office's *A Framework for Managing Fraud Risks in Federal Programs* best practices. (Action: ACN)

**Management Response:** In its June 3, 2026, response, the Bureau of Arms Control and Nonproliferation concurred with this recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that the Bureau of Arms Control and Nonproliferation implemented a process to identify and assess fraud risks in its Mexico programs in compliance with the Office of Management and Budget Circular A-123 requirements and the Government Accountability Office's *A Framework for Managing Fraud Risks in Federal Programs* best practices.

**Recommendation 5:** Embassy Mexico City should develop and implement guidance to assess award-level fraud risks when designing its Bureau of International Narcotics and Law Enforcement Affairs-funded programs. (Action: Embassy Mexico City)

**Management Response:** In its June 3, 2026, response, Embassy Mexico City concurred with this recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that Embassy Mexico City developed and implemented guidance to assess award-level fraud risks when designing its Bureau of International Narcotics and Law Enforcement Affairs-funded programs.

**Recommendation 6:** The Bureau of International Narcotics and Law Enforcement Affairs, in coordination with Embassy Mexico City, should review and update reporting requirements for interagency agreements to identify and address gaps in financial oversight. (Action: INL, in coordination with Embassy Mexico City)

**Management Response:** In its June 3, 2026, response, the Bureau of International Narcotics and Law Enforcement Affairs concurred with this recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that the Bureau of International Narcotics and

Law Enforcement Affairs reviewed and updated reporting requirements for interagency agreements to identify and address gaps in financial oversight.

**Recommendation 7:** The Bureau of International Narcotics and Law Enforcement Affairs/Mexico office should determine what happened to the 448 defense articles and sensitive export-controlled items declared as disposed. (Action: Embassy Mexico City)

**Management Response:** In its June 3, 2026, response, Embassy Mexico City concurred with this recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that Embassy Mexico City determined what happened to the 448 defense articles and sensitive export-controlled items declared as disposed.

**Recommendation 8:** The Bureau of International Narcotics and Law Enforcement Affairs/Mexico should develop and implement a plan, in alignment with its antifraud strategy, to correct monitoring deficiencies for the more than 840 defense articles declared as unmonitored. (Action: Embassy Mexico City)

**Management Response:** In its June 3, 2026, response, Embassy Mexico City concurred with this recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that Embassy Mexico City developed and implemented a plan, in alignment with its antifraud strategy, to correct monitoring deficiencies for the more than 840 defense articles declared as unmonitored.

## APPENDIX A: OBJECTIVES, SCOPE, AND METHODOLOGY

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This inspection was conducted from December 29, 2025, to May 1, 2026, in accordance with the Quality Standards for Inspection and Evaluation, as issued in 2020 by the Council of the Inspectors General on Integrity and Efficiency, and the Inspections Handbook, as issued by the Office of Inspector General (OIG) for the Department of State (Department) and the U.S. Agency for Global Media (USAGM).

The Office of Inspections provides the Secretary of State, the Chief Executive Officer of USAGM, and Congress with systematic and independent evaluations of the operations of the Department and USAGM. Consistent with FY 2026 National Defense Authorization Act, Section 8365, this evaluation focused on assessing the risk of fraud in Department-funded security assistance programs in Mexico. OIG's specific evaluation objectives were to:

- Determine whether the Department was positioned to identify and mitigate fraud risks associated with security assistance provided to the government of Mexico, in accordance with federal fraud risk principles and Department requirements.
- Evaluate how Department bureaus providing security assistance to Mexico mitigate fraud risk.

OIG reviewed security assistance programs in Mexico that were funded through the Department's International Narcotics Control and Law Enforcement or Nonproliferation, Anti-terrorism, Demining and Related Programs accounts and implemented from December 18, 2025, to March 31, 2026. OIG identified the Department's approaches for assessing fraud risk at the bureau-, program-, and award-level and reviewed whether fraud risk assessment procedures and mitigation controls aligned with federal and Department guidance and best practices. OIG also reviewed the extent to which the Department adapted fraud risk management approaches to Department policy and program changes.

OIG conducted portions of the inspection remotely and relied on audio- and video-conferencing tools in addition to in-person interviews with personnel from the Department, U.S. government agencies, international organizations implementing Department-funded security assistance programs in Mexico, and other personnel. OIG also reviewed pertinent records and data systems; accompanied Embassy Mexico City staff on an award monitoring visit; and reviewed the substance of this report and its findings and recommendations with offices, individuals, and organizations affected by the evaluation. OIG used professional judgment and analyzed physical, documentary, and testimonial evidence to develop its findings, conclusions, and actionable recommendations.

## APPENDIX B: MANAGEMENT RESPONSES

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*Embassy of the United States of America*



*Mexico City, Mexico*

June 3, 2026

UNCLASSIFIED

THRU: Bureau of International Narcotics and Law Enforcement Affairs

TO: OIG – Ryan McGonagle, Acting Assistant Inspector General for Inspections

FROM: Embassy Mexico City/INL- Jackie Ward, A/DCM

SUBJECT: (U) Response to Draft OIG Report – Evaluation of Fraud Risks Associated with the U.S. Department of State’s Security Assistance to Mexico

(U) Embassy Mexico City has reviewed the draft OIG inspection report. We provide the following comments in response to the recommendations provided by OIG:

- **(U) OIG Recommendation 1**: Embassy Mexico City should update its fraud risk profile to prioritize identified residual fraud risks and establish a process to review and update its fraud risk profile. (Action: Embassy Mexico City)

**(U) Management Response:** Embassy Mexico City concurs with this recommendation.

- **(U) OIG Recommendation 2**: Embassy Mexico City should update its antifraud strategy implementation guidance to align with fraud risk management best practices, including establishing timelines, designating

roles and responsibilities, and allocating resources for implementing fraud controls. (Action: Embassy Mexico City)

**(U) Management Response:** Embassy Mexico City concurs with this recommendation.

- **(U) OIG Recommendation 5:** Embassy Mexico City should develop and implement guidance to assess award-level fraud risks when designing its Bureau of International Narcotics and Law Enforcement Affairs-funded programs. (Action: Embassy Mexico City)

**(U) Management Response:** Embassy Mexico City concurs with this recommendation and recommends actions related to award management should be closely coordinated with INL.

- **(U) OIG Recommendation 6:** The Bureau of International Narcotics and Law Enforcement Affairs, in coordination with Embassy Mexico City, should review and update reporting requirements for interagency agreements to identify and address gaps in financial oversight. (Action: INL, in coordination with Embassy Mexico City.)

**(U) Management Response:** Embassy Mexico City concurs with this recommendation and recommends the report note that INL bureau guidance allows agencies to complete close-out within an 18-month period.

- **(U) OIG Recommendation 7:** The Bureau of International Narcotics and Law Enforcement Affairs/Mexico office should determine what happened to the 448 defense articles and sensitive export-controlled items declared as disposed. (Action: Embassy Mexico City)

**(U) Management Response:** Embassy Mexico City concurs with this recommendation. Post is already taking action through the established End Use Monitoring Process.

- **(U) OIG Recommendation 8:** The Bureau of International Narcotics and Law Enforcement Affairs/Mexico should develop and implement a plan, in alignment with its antifraud strategy, to correct monitoring deficiencies for the more than 840 defense articles declared as unmonitored. (Action: Embassy Mexico City)

**(U) Management Response:** Embassy Mexico City concurs with this recommendation.

The point of contact for this memorandum is Jessica Carl.



United States Department of State

Washington, D.C. 20520

June 3, 2026

UNCLASSIFIED

TO: OIG – Ryan McGonagle, Acting Assistant Inspector General for Inspections

FROM: INL – Lesley Ziman, Principal Deputy Assistant Secretary

SUBJECT: Response to Draft OIG Report – Evaluation of Fraud Risks Associated with the U.S. Department of State’s Security Assistance to Mexico

INL/Washington has reviewed the draft OIG audit report. We provide the following comments in response to the recommendations provided by OIG:

**OIG Recommendation 3:** The Bureau of International Narcotics and Law Enforcement Affairs should provide guidance to the Bureau of International Narcotics and Law Enforcement Affairs/Mexico office on how to evaluate fraud risks in its annual country risk assessment, as required by the Office of Management and Budget Circular A-123. (Action: INL)

**Management Response:** INL concurs with the recommendation. INL will develop and issue guidance on evaluating fraud risks in annual country risk assessments, as cited by OMB Circular A-123. This guidance will establish clear methodologies for identifying, analyzing, and responding to fraud risks and will incorporate best practices for fraud risk management as part of the annual country risk assessment process. We will coordinate this guidance with CGFS as the Department lead on fraud risk.

**OIG Recommendation 6:** The Bureau of International Narcotics and Law Enforcement Affairs, in coordination with Embassy Mexico City, should review and update reporting requirements for interagency agreements to identify and address gaps in financial oversight. (Action: INL, in coordination with Embassy Mexico City)

**Management Response:** INL concurs with this recommendation. INL intends to review the budget template provided to INL implementors, which includes a “budget detail” tab, to determine if additional itemization is required. Additionally, INL also will review its financial reconciliation process for Inter-Agency Agreements.

The point of contact for this memorandum is Laiza Reidenbach.

Tab 1 – INL IAA-Budget Template



United States Department of State  
Washington, DC 20520

UNCLASSIFIED

June 3, 2026

TO:           OIG – Ryan McGonagle, Acting Assistant Inspector General for Inspections

FROM:        ACN – Renee P. Sonderman, Acting PDAS

SUBJECT:     ACN Response to OIG Recommendation in ISP-I-26-18

ACN has reviewed the draft OIG inspection report. We provide the following comments in response to the recommendations provided by OIG:

**OIG Recommendation 4:** The Bureau of Arms Control and Nonproliferation should implement a process to identify and assess fraud risks in its Mexico programs in compliance with the Office of Management and Budget Circular A-123 requirements and the Government Accounting Office’s A Framework for Managing Fraud Risks in Federal Programs best practices. (Action: ACN)

**Management Response:** ACN concurs with the recommendation. ACN will develop a comprehensive bureau-wide risk assessment process for its foreign assistance programs that will incorporate fraud risk and leverage expertise from other bureaus. ACN will develop a draft plan by September 1, 2026, and begin implementation of the new process by December 1, 2026.

**Background:** The OIG found that ACN did not conduct a fraud risk assessment for its security assistance programs, either at the bureau level or the program level in Embassy Mexico City (the Export Control and Related Border Security Program, or EXBS). Specifically, ACN did not identify inherent fraud risks, assess the likelihood and impact of those fraud risks, determine fraud risk tolerance, examine the suitability of existing fraud controls and prioritization of residual fraud risks, or document efforts in a fraud risk profile, as outlined by Circular A-123 and described in GAO’s Framework.

The point of contact for this memorandum is DAS Shawna Wilson.

## ABBREVIATIONS

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ACN	Bureau of Arms Control and Nonproliferation
EUM	End-Use Monitoring
EXBS	Export Control and Related Border Security Program
FAD	Federal Assistance Directive
FAM	Foreign Affairs Manual
GAO	Government Accountability Office
IAA	Interagency Agreement
INL	Bureau of International Narcotics and Law Enforcement Affairs
IO-LOA	Letter of Agreement with an International Organization
OMB	Office of Management and Budget



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