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Accountability Complexities in the International Environment

As someone who has spent more than 30 years in the U.S. community of Federal Inspectors General, it is satisfying to see the recognition that the U.S. Inspectors General model is now receiving attention as a standard for other countries in addressing fraud, waste and mismanagement.

The Anticorruption and Good Governance Act helps make this case. Section 205 of the Act authorizes the US government to support and report on activities that “support the establishment of audit offices, *inspectors general offices*, third party monitoring of government procurement processes, and anti-corruption agencies.” The Act was effective in October 2000.

My office is very well positioned to help support activities to address anticorruption overseas since our agency, The U.S. Agency for International Development, plays a major role in funding anti-corruption activities as part of the agency programs that strengthen or establish Democracy. USAID

works with other Departments and agencies of the USG in this area, and OIG participates in their meetings and conferences.

In the fall of 2000, I was a co-chair of the Anti-corruption Summit 2000 sponsored by the USAID Americas' Accountability/Anti-corruption Project and the International Consortium on Governmental Financial Management. The conference focused on the role accounting and accountability play in dealing with public corruption.

In May 2001, I served as a member of the U.S. delegation to the Second Global Forum on Fighting Corruption held at the Hague in the Netherlands. The delegation was led by U.S. Attorney General Ashcroft with delegation members from the Departments of Justice, State and Treasury; the Office of Government Ethics, USAID, the FBI and the Customs Service. Participants included senior officials from 142 foreign governments.

The "War on Corruption" is the theme of the latest journal of the Inspectors General Community, The Journal of Public Inquiry. My office contributed three articles to the journal in the areas of the "Anticorruption and Good Governance Act," international accountability initiatives of my office, and the work of our overseas office in monitoring disaster reconstruction activities in Central America and the Caribbean.

My goals for working in the international anticorruption area are:

1. to assure the integrity of the operations and programs of the U.S. Agency for International Development, The African Development Foundation and the Inter-American Foundation.
2. to work with Supreme Audit Institutions and involve them in accounting for foreign aid programs from the United States and other countries where and when possible and to work with local accounting firms to ensure that work they perform for the OIG meets USG standards
3. to work with USAID's implementing partners in the private voluntary organization arena to provide education and training as part of our fraud awareness efforts and
4. increasingly, to work with the United Nations agencies involved with USAID programs on oversight of our assistance. This is very important currently as the USG begins developing and implementing massive foreign assistance programs for Afghanistan.

WHAT USAID DOES

USAID's mandate is to respond to the many program needs of U.S. foreign policy all over the world. USAID operates its programs in high-risk environments, and runs programs of high risk, particularly its disaster response programs.

What makes my work so challenging is the number of countries and the complexities in dealing with the countries that are at differing stages of development in their economies, government institutions, and their accountability systems.

In addition, USAID has a large variety of program areas and a variety of mechanisms for providing assistance.

USAID has program activities in 93 countries.

USAID uses contracts, grants and cooperative agreements.

USAID's major program areas or Pillars, are broadly defined as:

1. Democracy, Conflict Prevention and Humanitarian Assistance
2. Economic Growth, Agriculture and Trade
3. Global Health, and
4. the Global Development Alliance Partnership

In practice, these programs are extremely diverse:

- Microenterprise development
- Transparent and accountable government institutions
- Education
- Population, maternal health, infectious disease,
- Conservation of biological habitats, development of environmentally-sound energy practices, global climate change
- Agricultural development and trade development
- Political rights and civil liberties in post-conflict transition countries
- Food assistance

--Emergency aid for natural and man-made disasters

And the countries are diverse:

--This assistance is in some of the poorest and least-developed countries of the world.

--Some projects are hard to get to

--With different cultural practices

--Numerous different languages are spoken with record keeping in the local language

--Integrity and ethics standards differ

--Local law enforcement is responsible for prosecuting local crimes such as those against the USAID programs by local nationals

To best help the agency, I have initiated a proactive effort to have my staff involved at the beginning of any developing high-risk program. By being at the table early in the process, my staff is able to provide information and advice on how to build in accountability at the start while maintaining our independence. And the agency appreciates this guidance.

RESOURCES

To meet the challenge of oversight of the USAID annual \$7 billion foreign assistance program, I have six overseas offices staffed by auditors and investigators. Those offices are in Budapest, Hungary; Dakar, Senegal; Manila, the Philippines; Pretoria, South Africa and San Salvador, El Salvador.

Our operating allocation is approximately \$35 million.

Operating overseas is not only complex, it is also very expensive.

Of course Security is and will continue to be a major concern and expense for the U.S. overseas operations. In addition to housing, we also pay education expenses and even boarding school costs when schools are not available at Post.

DEMANDS AND CHALLENGES

Our demands are many as those of you in the Inspectors General Community know – between GMRA, FFMIA, GPRA, etc.

Right now the emphasis by Congress is on Major Management Challenges facing Federal Departments and Agencies. For us that is a substantial portfolio by itself with major weaknesses in the areas of information resource management and financial management.

USAID needs instant connectivity with our overseas locations but that brings all the pertinent security concerns and it is exacerbated by the general lack of security at many overseas missions.

Because USAID operates Missions overseas, they have developed the Mission Accounting and Control System - a separate accounting system for those locations. The system is receiving only some of the attention it needs as the agency concentrates on improving the new Headquarters accounting system called “Phoenix.” Computer security at the overseas accounting operations is something we are addressing. This entails travel and testing. Our testing and audit reports have shown that these systems are vulnerable

to intrusion and the Agency is now trying to enhance the security of these systems.

Another major challenge is Human Resource Management. USAID presents us with an interesting twist on the subject of Human Capital Management. While many departments and agencies are facing, human capital problems, the Foreign Service system at USAID adds another dimension to the workforce. Since most Foreign Service officers are eligible to retire at age 50, it has been projected that 57 percent of the Foreign Service staff are eligible to retire by the end of fiscal year 2005. The potential sharp decline in the number of senior Foreign Service staff is certain to have an impact on the technical expertise available to manage field programs world-wide and certain to impact on the successful implementation of field programs.

EMERGENCIES, HIGH RISK ENVIRONMENTS AND HIGH RISK PROGRAMS

Some Inspectors General have the responsibility for oversight of emergency operations. [The Federal Emergency Management Agency (FEMA) for example.]

USAID is capable of responding with a range of programs to alleviate disaster situations -- which require fast response -- and can be half a world away. The USAID Administrator has been designated as the U.S. Disaster Coordinator for all international emergencies due to USAID's international emergency assistance portfolio and the Agency's outstanding performance record. Those programs are largely implemented by the Office of Foreign

Disaster Assistance. Special authorities, which increase risk, allow the programs to be implemented quickly.

The most complex and high-risk operations require us to undertake concurrent or on-going audit work to reduce risk. Large dollar amounts spent quickly might otherwise result in fraud or waste. Our program minimizes these problems.

Our San Salvador office conducted ongoing audits of monies provided to the Central America and the Caribbean region to assist recovery from the effects of Hurricanes Mitch and George as well as other disasters. As of September 30, 2001, the OIG had issued 12 internal audit reports and 93 financial statement audit reports, on this project. Early findings help minimize problems as corrective actions resolve issues of questionable costs, internal control and noncompliance.

Another of our programs oversaw the distribution of cash to victims of floods in Southern Africa. Our auditors oversaw the distribution of cash grants to 107,000 families in Mozambique. Flying to remote locations by helicopter and living in tents on site, our auditors assessed field procedures and controls during the distribution. Some \$9.7 million was successfully distributed with an accountability system that relied in part on marking the recipient's thumb with red ink to verify receipt of funds.

SUPREME AUDIT INSTITUTIONS

Supreme audit institutions are national audit agencies of foreign governments. Such institutions are not always independent or have trained staff. My office seeks to develop formal agreements with these organizations that would allow us to rely on their audit work of our assistance program. To date, we have agreements with 17 countries which recognize that they have the requisite professional capabilities and independence to meet USG auditing requirements. We work with SAIs and provide them training to improve their operations for the future (sustainable development).

FRAUD AWARENESS

We also have an aggressive program of fraud awareness training as part of our anti-corruption initiative. These briefings are provided to USAID staff, program implementation organizations and foreign government representatives. These briefings include both audit and investigative perspectives on fraud. Our Fraud training includes our handbook on fraud indicators that provides guidance on detecting fraud in government contracts, recognizing fraud schemes, and other indicators of financial fraud.

Our fraud awareness training has been provided in Armenia, Colombia, the Dominican Republic, Egypt, El Salvador, Guatemala, Haiti, Honduras, Hungary, Israel, Jordan, Kazakhstan, Kosovo, Kygystan, Madagascar, Malawi, Mozambique, Nicaragua, Nigeria, The Philippines, Russia, Senegal, South Africa, Uganda, and the Ukraine.

Our program is paying big dividends. In Honduras, we provided training to over 1,000 people including auditors from public accounting firms, members of the office of the Controller General of Honduras, and staff of organizations receiving grant and contract funds from USAID. As a result, out Hotline referrals rose significantly.

To further expand our reach, the USAID/OIG produced a “Fraud Awareness” training videotape. The tape has been provided to our Regional Inspectors General Offices overseas for further outreach to USAID Missions and all the locations we cannot economically reach.

Our Fraud Awareness Handbook is located on our website.

In addition to our proactive initiatives, we still do the traditional, after the fact, audits and investigations that produce significant results. An example of this work is our long-term investigation of an international bid-rigging cartel over several years. This became the biggest case in our history in terms of dollar recoveries and is still on-going. The case involved contractors that conspired to rig the bids of a USAID-funded wastewater treatment facility in Egypt.

The majority of these companies were European conglomerates, with U.S. subsidiaries, that they used to bid on, and to allocate among themselves, several multi-million U.S. Government contracts funded by USAID.

Due to the foreign nationalities and locations of these companies and their employees, they felt that they could conduct their illegal activities beyond the reach of U.S. law enforcement.

The investigation has truly been international in scope – requiring the coordination of extensive investigative activity in six countries on three continents. The investigation involved enormous amounts of documentary evidence from diverse foreign locations and in several different languages and the execution of international search warrants.

After over six years of near full-time dedication, the investigation had these results:

- A construction company based in Germany admitted it made payments to co-conspirators as compensation to reduce or eliminate competition on two contracts. As a result of their guilty plea, the company was sentenced to pay a criminal fine of \$30. million.
- A construction company based in Arlington, Virginia, also pled guilty to participating in the conspiracy and admitted accepting payments from coconspirators in exchange for a commitment not to bid on the contract. After pleading guilty, the firm was sentenced to pay a criminal fine of \$4.2 million and civil restitution of \$500,000.
- A German construction corporation entered into a settlement agreement with the U.S. Department of Justice to pay \$3.2 million to settle its liability of its U.S. subsidiary for their role.
- A U.S. subsidiary of a Swiss corporation entered into a settlement agreement to pay \$10 million to settle its liability to the U.S. government.

- A subsidiary of a Swiss corporation, operating in Italy, admitted that it agreed to suppress or eliminate competition and agreed to pay \$3.4 million to its co-conspirators in return for their commitment not to bid competitively for the contract. The company pled guilty and was sentenced to pay a criminal fine of \$53.0 million.
- And, finally, a U.S. construction company, a foreign affiliate, and the affiliate's former president were indicted on separate charges of participation in a conspiracy to rig bids and to defraud the United States. The case is expected to go to trial in February.

With more than \$100 million in criminal and civil recoveries returned to the U.S. Government, these cases are the most successful investigative efforts in the history of the USAID Office of Inspector General.

THE UNITED NATIONS

I had the pleasure to meet with the Auditor General of the United Nations recently to share our experiences in auditing international programs. Accountability problems exist in United Nations programs too, and the Auditor General is looking for ways to improve his oversight. One of our tools is where he could see a good return is our "Fraud Awareness Handbook" which we were able to provide in the Spanish and French languages as well as English.

Our latest collaboration with the United Nations is in the early stages as we prepare for USAID's major assistance program with Afghanistan. At the present time, substantial resources are being provided in food assistance through the U.N.'s World Food Program.

My staff is developing a plan that would allow us to collaborate with the United Nations on oversight and accountability. We are of course, diplomats, and we are careful not to overstep our bounds since we do not have formal “audit rights” with the World Food Program. This new venture is certain to yield important results.

THE OIG SIX-PART STRATEGY

In conclusion, the USAID/OIG has developed and is implementing a six-part Anti-corruption Strategy. We remain committed to the battle against corruption through our six part anti-corruption strategy which includes:

1. surveying the environment – The USAID/OIG assesses historical corruption in host countries and identifies local threats and vulnerabilities to USAID’s, the African Development Foundation’s (ADF’s) and the Inter-American Foundation’s (IAF’s) programs.
2. establishing a close working relationship – The USAID/OIG works closely with USAID, ADF and IAF management, Non-Governmental Organization’s, Private Voluntary Organizations and host governments to promote cooperation and collaboration with USAID.
3. emphasizing a team approach – The USAID/OIG encourages the timely submission of referrals, and works towards the early solution of problems.

4. educating employees about fraud awareness issues – The OIG trains employees and partners in fraud awareness and anti-corruption issues to ensure that all are aware of their responsibilities when confronted with evidence of fraud or corruption.

5. enforcing the Foreign Corrupt Practices Act aggressively – This Act prohibits a U.S. firm or agent of the firm from making a “corrupt” payment to a foreign official for procuring or retaining business. The USAID/OIG works closely with the Department of Justice in investigating violations of the Act, and uses this Act as a tool in fighting corruption in USAID programs.

6. offering recommendations for systematic improvement – The USAID/OIG recommends systematic improvement if a weakness is uncovered in a program or operation and works with USAID, ADF or IAF to correct the problem.

The USAID/OIG is committed to work with USAID to enhance accountability over the U.S. foreign assistance program worldwide.

USAID and USAID/OIG anticorruption activities will continue to be an important part of the foreign assistance program of the United States Government.

This concludes my remarks. I would be glad to respond to questions.

Thank you.

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