

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

Direct Budget Support: USAID Ensured That the Government of Ukraine Adhered to Required Controls, but Did Not Verify the Accuracy of Salary Expenditures

Report 8-121-24-001-M

February 13, 2024

Evaluation



Office of Audits, Inspections, and Evaluations



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

DATE: February 13, 2024

TO: USAID Bureau for Europe and Eurasia, Assistant Administrator, Erin E. McKee
USAID/Ukraine, Mission Director, James Hope

FROM: Middle East and Eastern Europe Regional Office, Audit Director, Louis Duncan, Jr. /s/

SUBJECT: Direct Budget Support: USAID Ensured That the Government of Ukraine Adhered to Required Controls, but Did Not Verify the Accuracy of Salary Expenditures (Report No. 8-121-24-001-M)

This memorandum transmits the final report on our evaluation of USAID's management of the Single Donor Trust Fund (SDTF) contribution to Ukraine. Our objective was to determine to what extent SDTF direct budget support safeguards and controls are operating effectively. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in Appendix B.

The report contains one recommendation to improve USAID's controls over the verification of healthcare worker salary expenditures under the SDTF. After reviewing information you provided in response to the draft report, we consider the recommendation resolved but open pending completion of planned activities. Please provide evidence of the final action to the Audit Performance and Compliance Division.

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

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Report in Brief

Why We Did This Evaluation

Russia's full-scale invasion of Ukraine in February 2022 has caused almost 8 million people to flee the country, displaced over 5 million people internally, and resulted in catastrophic loss of life and livelihood. The United States, through USAID, has directed \$22.9 billion in direct budget support (DBS) to the Government of Ukraine to fund emergency services for internally displaced people and pay public employees delivering critical services.

Of the DBS, \$1.7 billion was channeled through the World Bank's Single Donor Trust Fund (SDTF) to reimburse the Ukraine government for the salaries of healthcare workers employed from January 1, 2022, to July 31, 2022. USAID's contribution to the SDTF was limited to funding verifiable salary expenditures for these healthcare workers.

The Agency contracted with Deloitte Consulting LLP to track and oversee U.S. government funds for the SDTF. Deloitte used spot checks of sample transactions and fund flows from the U.S. government through the World Bank to help USAID review, analyze, and report on Ukraine's oversight of DBS funds.

Our evaluation objective was to determine to what extent safeguards and controls for DBS through the SDTF are operating effectively.

What We Recommend

We recommend USAID implement an action plan to verify the accuracy of salary expenditure reports and remediate any identified deficiencies, as appropriate. The Agency agreed with the recommendation.

What We Found

USAID ensured that the Government of Ukraine adhered to required controls, but did not verify the accuracy of healthcare worker salaries in expenditure reports. USAID verified that the Government of Ukraine met reporting requirements and contracted for monitoring activities of the SDTF. For example, the Agency ensured that the Government of Ukraine submitted monthly healthcare worker salary expenditure reports and corresponding bank statements in accordance with the bilateral agreement. However, Deloitte found discrepancies in the reported data and could not easily trace the information the Ukraine government used to calculate salary expenditures to source documents.

Despite these identified data quality concerns, USAID did not take additional action to confirm whether the reports were accurate and supported by valid documentation. This occurred because neither the bilateral agreement between USAID and the Ukraine government nor Agency policies required that USAID take corrective steps when oversight measures it put in place identified data quality issues.

Without accurate data and verified expenditures for healthcare worker salaries, USAID cannot fully implement the safeguards designed to ensure the integrity of direct budget support funding to support Ukraine's healthcare services during the war.

Introduction

Russia's full-scale invasion of Ukraine in February 2022 has caused almost 8 million people to flee the country, displaced over 5 million people internally, and resulted in catastrophic loss of life and livelihood. In response, Congress enacted four emergency supplemental funding measures to address the crisis caused by Russia's invasion. These measures included approximately \$22.9 billion in direct budget support (DBS) to the Government of Ukraine (GoU) to provide it liquidity needed to ensure the continuity of operations and delivery of essential services.¹ To date, USAID has obligated all \$22.9 billion via three World Bank trust funds: the Financing of Recovery from Economic Emergency in Ukraine Multi-Donor Trust Fund (FREE MDTF), the Public Expenditures for Administrative Capacity Endurance MDTF (PEACE MDTF), and the Single Donor Trust Fund (SDTF).

The SDTF for Ukraine was designed to reimburse the GoU for payments made for the salaries of healthcare workers at over 2,000 healthcare organizations (HCOs) from January 1, 2022, to July 31, 2022. USAID's contribution to the trust fund is limited to funding verifiable salary expenditures. The Agency monitors the funds through a contract with Deloitte Consulting LLP (Deloitte). According to USAID, this contract is designed to give additional confidence to Congress that U.S. assistance is being utilized appropriately.

Our evaluation objective was to determine to what extent SDTF DBS safeguards and controls are operating effectively.

To address our objective, we reviewed and analyzed USAID's bilateral agreement with the GoU, monitoring and analysis reports from Deloitte's State-Owned Enterprises Reform Activity (SOERA),² emails from USAID personnel, and reports provided by the GoU's Ministry of Finance (MoF) covering June 2022 through September 2023. We conducted two site visits to Kyiv, Ukraine, in July and August 2023 to visit three healthcare facilities and interview personnel from MoF, the Ministry of Health, and the National Health Service of Ukraine (NHSU). We visited one facility from each covered healthcare category—primary, secondary, and emergency—to walk through their reporting processes and systems. We also interviewed personnel from USAID's Bureau for Europe and Eurasia (E&E Bureau) and USAID's Mission to Ukraine (USAID/Ukraine), the capacity-building team from Deloitte's SOERA, and experts from an existing USAID/Ukraine healthcare activity. We conducted our work in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation. Appendix A provides more detail on our scope and methodology.

¹ According to USAID personnel, direct budget support is distinguishable from traditional USAID assistance in that its purpose is to provide general support, not to implement specific programming. As such, verification of funding provided to beneficiaries was not required by applicable law or policy.

² SOERA is a capacity-building award to ensure that DBS funds are used appropriately.

Background

New Trust Fund Mechanism

In June 2022, the Interagency Policy Committee at the White House National Security Council (NSC) emphasized that regular and timely fund disbursements would mitigate risks to Ukraine's financial stability, and recommended that the U.S. government transfer \$1.7 billion to the GoU by modifying the World Bank's initial MDTF. On March 31 and April 25, 2022, USAID made its first two contributions totaling \$1 billion to the Ukraine FREE MDTF, which the World Bank established before Russia's invasion of Ukraine to foster anticorruption institutions, strengthen land and credit markets, and bolster the social safety net in Ukraine. World Bank modified the FREE MDTF to cover the GoU's unanticipated budget financing gap due to the outbreak of war.

In contrast to the FREE MDTF, the PEACE MDTF was designed to reimburse costs incurred by the GoU in specified categories, such as government employees and educators, following verification by the World Bank. In July 2022, the World Bank restructured this fund to add expenditure categories for grants to internally displaced persons, salaries for healthcare workers and first responders, social assistance payments for low-income individuals and persons with disabilities, and reimbursement of utility bills.

According to the NSC's Interagency Policy Committee, the slow pace of donor disbursements via the MDTFs had caused the GoU to defer payments for core government operations. In addition, the World Bank was no longer accepting contributions to the two MDTFs established for Ukraine;³ therefore, USAID utilized a new SDTF mechanism called "transfer out."⁴

USAID and the World Bank established the SDTF specifically to allow a rapid, standalone U.S. contribution of \$1.7 billion that was obligated in July 2022. That same month, USAID, with input from the GoU, decided to use the \$1.7 billion to cover health-related salary expenses. This decision was based on the immediate need to keep healthcare workers employed and assurances from the GoU that all funds would go through Ukraine's Treasury Single Account.⁵ According to the GoU, payment of salaries to healthcare employees is part of the budget execution process, and financial controls, including commitments, payments, and payroll, continued to function during the war.⁶

³ The World Bank was no longer accepting contributions to the FREE MDTF, and the PEACE MDTF did not have the capacity to absorb additional donor funding until it was restructured to add expenditure categories.

⁴ The "transfer out" Single Donor Trust Fund mechanism, a new financing instrument the World Bank established in July 2022, was available after the Bank's Board approved a waiver. The waiver authorized the Bank to execute a "transfer out" to a sovereign government rather than to an international financial institution or United Nations agency, as required by Bank policy.

⁵ A treasury single account is a general fund of the state budget. According to the International Monetary Fund, this account is a prerequisite for modern cash management and is an effective tool for a ministry of finance or treasury to establish oversight and centralized control over a government's cash resources. Donor governments are encouraged to integrate their funds with the treasury single account.

⁶ USAID and the GoU also considered funding the GoU general healthcare services, but concluded that funding for consumables, pharmaceuticals, and equipment would require additional verification and assurance measures that would be hard for the GoU to implement given the operating environment.

Administration and Oversight of the Trust Fund

USAID's E&E Bureau has overall responsibility for the activities in its region, while USAID/Ukraine is responsible for managing work within Ukraine. For DBS, the E&E Bureau is responsible for managing USAID's relationship with NSC's Interagency Policy Committee and the World Bank. USAID/Ukraine is a co-signer on the bilateral agreement with the GoU and maintains USAID's SOERA contract.

World Bank policies and procedures do not apply to the SDTF once disbursed to the GoU, in contrast with the other trust funds established for Ukraine. Under the SDTF, World Bank oversight was limited to securely and verifiably transferring the funds to the GoU with no oversight role post-disbursement. Because of this, USAID entered into a separate bilateral agreement under which the GoU must take the following post-disbursement steps:

- Provide progress reports to USAID.
- Disclose to USAID OIG allegations of fraud or other forms of corruption.
- Return amounts disbursed that were not supported by valid documentation.
- Allow audits by independent auditors.

The bilateral agreement also prohibits the GoU from using USAID funds for military and other ineligible expenditures.

In October 2022, USAID/Ukraine modified the SOERA contract with Deloitte to track and oversee U.S. government funds used for DBS to the GoU.⁷ The contract requires SOERA to conduct spot checks to help USAID review, analyze, and report on the GoU's oversight of DBS funds. According to SOERA, spot checks are a review of sample transactions and fund flows from the U.S. government, through the World Bank, to the State Treasury Account of Ukraine, and ultimately to the recipient. The contract also requires SOERA to analyze gaps in the GoU's processes, controls, transparency, and accountability safeguards for the use of DBS funds, and help the GoU strengthen areas where gaps were identified.

USAID Ensured That the Government of Ukraine Implemented Required Controls, but Did Not Verify the Accuracy of the Government's Salary Expenditure Reports

USAID ensured that the GoU met reporting requirements established in their bilateral agreement for the SDTF. For example, the GoU submitted monthly healthcare worker salary expenditure reports. In addition, SOERA conducted spot checks to verify transactions and analyzed gaps in the GoU systems and processes, as the contract required. Both SOERA's gap

⁷ In September 2022, USAID and Deloitte signed a memorandum of understanding (MOU) with the GoU's MoF under which the MoF agreed to give Deloitte access to relevant MoF employees, documents, and systems to conduct monitoring and oversight of DBS funds.

analyses and our independent review of the GoU's process for reporting healthcare worker salaries identified limitations that could affect the quality of expenditure data. Despite these limitations, described below, USAID did not verify the accuracy of the GoU's salary expenditure reports, rendering the reporting requirements ineffective.

USAID Verified That the GoU Met Reporting Requirements and Contracted for Monitoring Activities of SDTF

USAID/Ukraine and the E&E Bureau ensured that the GoU submitted monthly healthcare worker salary expenditure reports, corresponding bank statements, and a 90-day certification on the use of funds in accordance with the bilateral agreement. Additionally, USAID/Ukraine reviewed the reports and consulted with experts from an existing mission health award to identify potential explanations for anomalies in expenditure data reported by the GoU. For example, USAID/Ukraine asked the experts to provide plausible reasons for why expenditure reports showed lower staff numbers for June 2022 than for each month from January through April, yet the amount claimed for salary reimbursement was the highest of all months. The experts suggested that a new medical service was covered, or mid-year bonuses were released.⁸ USAID/Ukraine determined that these explanations were sufficient and did not require additional examination.

Furthermore, SOERA monitored the SDTF through limited spot checks of beneficiaries and HCOs and assessments of NHSU procedures for collecting salary data. For example, SOERA completed two gap analysis reports and identified areas where the GoU could further strengthen its oversight of funds during those periods.

USAID Did Not Verify the Accuracy of Healthcare Salary Expenditure Reports, Rendering One Control Ineffective

USAID did not verify the accuracy of the expenditure reports the GoU submitted, rendering this control ineffective. According to USAID's Automated Directives System (ADS), ensuring the quality of data is crucial for making sound decisions.⁹

USAID follows standard practices for assessing data quality, documenting any limitations in data quality, and establishing a plan for addressing those limitations. ADS 201 notes that to make sound decisions, operating units must uphold data quality standards such as validity, integrity, and reliability. When data do not meet one or more of these standards, units are responsible for documenting limitations and establishing plans to address them. Federal internal control standards note that management obtains relevant data from reliable sources that are reasonably free from error and bias and represent what they purport to represent. In addition, management evaluates both internal and external sources of data for reliability.¹⁰

⁸ The experts stated that they did not review the full expenditure reports or attempt to verify the accuracy of information contained therein.

⁹ ADS 201.3.5.7, "Ensuring the Quality of Performance Monitoring Data," October 28, 2020.

¹⁰ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G), Principle 13, "Use Quality Information," September 2014.

Although USAID reviewed the GoU's monthly healthcare salary expenditure reports for plausibility, when discrepancies were identified the Agency did not take additional action to confirm whether the reports were accurate and supported by valid documentation. This occurred because the bilateral agreement did not require USAID to do so, and the Agency had not established a policy to do so when spot checks or other oversight activities identified data quality issues.

Given that HCOs self-reported salary information, the GoU could not provide us with the necessary information we needed to reconcile submitted expenditure reports at the individual level because it would require reviewing records for each of the over 2,000 HCOs. We therefore conducted a review of the GoU's process for collecting, consolidating, and reporting data. Our review of the collection, consolidation, and reporting of salary expenditures revealed limitations that affected the quality of reported expenditure data.

For instance, while USAID designed the SDTF to reimburse the GoU for payments made for salaries of healthcare workers, the GoU's standard process before the start of the war was to reimburse the overall cost of medical services—not the individual salaries of healthcare workers.¹¹ As a result, USAID and the GoU created a new reporting process to gather and consolidate salary information for individual healthcare workers from HCOs across Ukraine.¹² The new reporting process required the GoU to develop a template for HCOs to self-report individual employee salaries. This process was subject to the following data quality limitations:

- HCOs had to manually enter information into the reporting template.
- HCOs had to complete the new form retroactively to cover expenses months after they were incurred.

Moreover, while the GoU facilitated compiling the salary expenditure reports, HCOs were directly responsible for the reliability of the information and salary calculations they reported. The GoU did not verify the accuracy of each HCO's reported information.

SOERA also noted limitations in the jointly developed expenditure data collection, consolidation, and reporting process. For example:

- SOERA completed 16 spot checks of individual beneficiaries receiving healthcare salaries and 6 HCO-level checks. Although SOERA tested the effectiveness of some internal controls, the number of spot checks conducted resulted in limited oversight. Furthermore, the results of the spot checks were not generalizable to the population of healthcare salary payments. SOERA conducted follow-up analysis of one of the HCO-level checks and determined that the discrepancy was a transcription error due to an HCO entering the wrong expense amounts into the reporting template. This error resulted in the HCO underreporting expenses by \$649,573. SOERA stated that this HCO plans to update its internal control processes to prevent further errors. SOERA reported that another four

¹¹ The cost of a particular medical service includes consumables, pharmaceuticals, equipment, personnel, and any other expenses incurred to provide that service.

¹² Under the GoU's general healthcare services, contracted HCOs (public, not-for-profit enterprises, and private facilities) are required to be legally autonomous from the state to remove potential conflicts of interest by separating the purchaser from the provider.

HCO-level checks identified discrepancies in submitted expenditures ranging between \$102 and \$649. The presence of inaccuracies in 5 of 6 reports, or 83 percent, demonstrates the existence of data quality limitations identified during SOERA's spot checks.

- SOERA also stated that the data the GoU relies upon to calculate and submit salary expenditures for reimbursement is not easily traceable to source documents. As a result, there is a degree of uncertainty about the allocation amounts submitted to NHSU.

Despite these identified data quality concerns, USAID did not take additional action to confirm whether expenditure reports were accurate and supported by valid documentation, which could result in inaccurate information being reported and ineligible expenditures reimbursed. For example, the original expenditure report for January 2022 included approximately \$42,500 in GoU expenditures for 350 mobilized healthcare workers—a category of personnel excluded from salary reimbursement. USAID did not identify this error. Instead, the GoU proactively identified the error and resubmitted its monthly expenditure report to exclude the 350 mobilized personnel. Because the GoU submitted total incurred expenses to USAID for reimbursement in excess of the \$1.7 billion available through the SDTF, we are not recommending that USAID seek reimbursement for the \$42,500.

Conclusion

To address the catastrophic losses Ukraine suffered as a result of Russia's invasion and the ongoing war, Congress allocated nearly \$23 billion in DBS to the GoU, \$1.7 billion of which was channeled through the SDTF to cover healthcare salary expenses. Although USAID established safeguarding controls for the SDTF and verified that the GoU adhered to reporting requirements, the Agency did not verify the accuracy of salary expenditure reports. By not verifying the GoU salary reports, USAID risks supporting ineligible expenditures. Because the data GoU uses to produce the salary reports cannot be traced to source documents, the amounts submitted for reimbursement may not be accurate or supportable. Without accurate data and verified expenditures, USAID cannot fully implement the safeguards designed to meet internal control standards.

Recommendation

We recommend that the USAID Bureau for Europe and Eurasia, in coordination with USAID/Ukraine:

- I. Implement an action plan to verify the accuracy of Government of Ukraine-submitted expenditure reports for healthcare worker salaries and remediate any identified deficiencies, as appropriate.

OIG Response to Agency Comments

We provided our draft report to USAID on December 22, 2023. On January 29, 2024, we received the Agency's response, which is included as Appendix B of this report.

The report included one recommendation. Based on management's response, we consider the recommendation open-resolved pending completion of planned activities. The Agency initially requested closure of the recommendation upon report issuance in its comments, and subsequently confirmed that the target date to implement the action plan is August 30, 2024. This is when the Agency expects KPMG to complete the final stage of its audit of DBS funds, including funds provided through the SDTF.

Our evaluation noted that USAID ensured that the GoU adhered to required controls and made no statement that the Agency did not follow applicable law or policy. Although USAID ensured that the GoU submitted monthly healthcare worker salary expenditure reports as required, our evaluation determined that these reports contained discrepancies. Thus, while USAID personnel stated that the Agency is not required to verify funding provided to beneficiaries, if the Agency is obtaining expenditure reports it would be beneficial to ensure that those reports are accurate.

Appendix A. Scope and Methodology

We conducted our work from June 2023 through December 2023 in accordance with the Council of the Inspectors General on Integrity and Efficiency’s Quality Standards for Inspection and Evaluation. Our evaluation objective was to determine to what extent SDTF DBS safeguards and controls are operating effectively. This evaluation builds on prior OIG reporting that describes the controls in place to safeguard DBS.¹³

To address our objective, we analyzed control activities for the SDTF, continuous monitoring and data reliability assessments related to those controls, and safeguards USAID implemented. We conducted a detailed review of the control activities established under USAID’s bilateral agreement with the GoU, including required reporting and selected documents the GoU submitted to USAID, such as monthly healthcare salary expenditure reports, to ensure adherence to the agreement. We reviewed USAID’s ADS and Federal internal control standards to identify standards and best practices for assessing data quality, documenting any limitations in data quality, and addressing those limitations.¹⁴ We analyzed SOERA monitoring and analysis reports including spot checks, gap analyses, flow of funds, and audit roadmap and recommendations reports. We also reviewed emails from USAID personnel that discussed interagency decisions and documented communication between USAID and GoU personnel.

We conducted two site visits to Kyiv, Ukraine, in July and August 2023 to visit three healthcare facilities and interview personnel from GoU’s MoF, Ministry of Health, and NHSU. We visited one healthcare facility from each reported category—primary, secondary, and emergency—to walk through their reporting processes and systems. We selected the three facilities based on their reported category, security restrictions, and their proximity to the U.S. Embassy in Kyiv. In addition, we interviewed personnel from the E&E Bureau and USAID/Ukraine, the capacity-building team from Deloitte’s SOERA, and experts from an existing USAID/Ukraine healthcare activity, to understand the flow of DBS funds from USAID to the GoU, control and monitoring mechanisms USAID implemented, and data reliability reviews USAID performed.

We attempted to reconcile the GoU’s submitted expenditure reports to source data to determine whether the GoU and USAID verified the accuracy of the reports. We obtained monthly salary data from the three selected facilities we visited and tried to compare that data to the expenditure reports the GoU submitted to USAID. However, we were unable to do comparisons for two of the three selected facilities because the GoU did not separate the data for the two facilities from the aggregated regional data obtained for more than 2,000 HCOs. To verify the source data, we would have had to obtain data from each of the more than 2,000 HCOs and trace it back to their payroll records.

As a result, we had to perform alternative procedures to answer our objective. We conducted a walkthrough to review the GoU’s process for collecting, consolidating, and reporting data used to generate the salary expenditure reports. We interviewed NHSU personnel; analyzed

¹³ USAID OIG, [Information Brief of USAID’s Direct Budget Support to Ukraine](#), January 3, 2023; USAID OIG, [Direct Budget Support: Ukraine Supplemental Appropriations Act, 2023, Mandated Assessment](#), January 5, 2023.

¹⁴ USAID, ADS 201.3.5.7, “Ensuring the Quality of Performance Monitoring Data,” October 28, 2020; GAO, *Standards for Internal Control in the Federal Government*, Principle 13, “Use Quality Information,” September 2014.

controls for the GoU's process for compiling expenditure reports from HCOs; and reviewed HCO contracts, reporting forms, report submissions, and consolidations within the reporting timeframes. We used this information to document the GoU's process and identify any weaknesses.

Appendix B. Agency Comments



MEMORANDUM

TO: Louis Duncan, Audit Director, Office of the Inspector General Middle East and Eastern Europe Regional Office

FROM: Erin McKee (AA/E&E), James Hope (Ukraine Mission Director) /s/

DATE: January 23, 2024

SUBJECT: Management Comments to Respond to the Draft Evaluation Report on Direct Budget Support: USAID Ensured That the Government of Ukraine Adhered to Required Controls, But Did Not Verify the Accuracy of Salary Expenditures, Task No. 8E1U0223

The U.S. Agency for International Development (USAID) would like to thank the Office of Inspector General (OIG) for the opportunity to provide comments on the subject draft report, which contains a single recommendation. The Agency concurs with the recommendation and herein reports on the actions it has already taken to address it. The Agency and USAID/Ukraine raised concerns regarding a number of conclusions in the draft report. Specifically, USAID/Ukraine objects to the statement that USAID did not verify the accuracy of healthcare worker salaries and remediate any identified deficiencies. USAID has no higher priority than oversight and accountability for every dollar of assistance to Ukraine and took extensive additional actions to ensure our funding was used appropriately and reached intended beneficiaries.

We strongly welcome USAID Inspector General oversight, and we take all recommendations with the utmost seriousness.

COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE DRAFT EVALUATION REPORT RELEASED BY THE USAID OFFICE OF THE INSPECTOR GENERAL (OIG) TITLED, DIRECT BUDGET SUPPORT: USAID ENSURED THAT THE GOVERNMENT OF UKRAINE ADHERED TO REQUIRED CONTROLS, BUT DID NOT VERIFY THE ACCURACY OF SALARY EXPENDITURES (Task No. 8E1U0223)

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

Recommendation 1: We recommend that the USAID Bureau for Europe and Eurasia, in coordination with USAID/Ukraine: Implement an action plan to verify the accuracy of Government of Ukraine-submitted expenditure reports for healthcare worker salaries and remediate any identified deficiencies, as appropriate.

- **Management Comments:** USAID concurs with this recommendation despite our reservations about the characterization of our verification efforts. USAID has already implemented a multipronged action plan to account for Direct Budget Support (DBS) funds provided via the World Bank Single Donor Trust Fund (SDTF) – above and beyond what was required by law and policy. Measures to verify expenditures – covering 3 million transactions/payments over a six month period, and supporting more than 500,000 people – were rapidly implemented early on as a priority, despite the upheaval caused by Putin’s unlawful full-scale invasion. As detailed below, USAID has no higher priority than oversight and accountability for every dollar of assistance to Ukraine. USAID fully agrees on the importance of accountability for U.S. taxpayer funds and took extensive additional actions to ensure our funding is used appropriately and reaches intended beneficiaries.

These robust and multi-layered oversight efforts, described below, began before the OIG evaluation and remain ongoing:

1. Starting on July 18, 2022, USAID/Ukraine engaged Deloitte via the existing USAID State Owned Enterprises Reform Activity in Ukraine (SOERA) to work with the Ministry of Finance (MOF) to (a) review and report on the GOU’s monitoring, transparency, verification and reporting systems and safeguards, (b) identify gaps or weaknesses in such systems and safeguards that need to be remedied/strengthened, and (c) identify opportunities to enhance its internal control and monitoring mechanisms for the oversight of the DBS funds and develop metrics to measure results. SOERA is engaged in strengthening these systems and safeguards as a central component of the activity.

As part of this activity, Deloitte has collaborated with the MOF to implement numerous and rigorous spot checks to ensure the appropriate use of the DBS funds under the SDTF, including spot checks on the payment of healthcare worker salaries, and continues to regularly conduct such spot checks. On December 14, 2023, USAID

extended the award to Deloitte through April 25, 2028 in order to permit this long-term support to the USG's oversight efforts.

2. In September 2023, USAID awarded a new, competitively procured contract to KPMG to conduct an audit of all tranches of DBS funds, including the \$1.7 billion contribution through the SDTF. The audit will further build on the spot checks already conducted by Deloitte, since the results of spot checks conducted by Deloitte have been used as an input to help guide the audit methodology implemented by KPMG. This audit, consisting of several individual audit workstreams to increase the pace of the work, is underway and is expected to be completed in stages, the earliest by June 30, 2024 and the latest by August 30, 2024.
3. Starting in January 2023, USAID entered into an interagency agreement with the U.S. Government Accountability Office's (GAO) Center for Audit Excellence to build the capacity of Ukraine's supreme audit institution, the Accounting Chamber of Ukraine (ACU), to verify salary payments and other GOU expenditures. From August 2023 to December 2023, the ACU conducted audits covering two tranches of USAID's DBS funds, including the \$1.7 billion provided via the SDTF. With GAO support, these audits were conducted in accordance with the International Standards of Supreme Audit Institutions.
4. USAID ensured that its bilateral assistance agreement with Ukraine, which governs the SDTF contribution, included a refund provision to provide an additional layer of protection. The provision entitles USAID to a refund of any funds that are not supported by valid documentation or not used as agreed between USAID and the GOU. Where appropriate, and depending on the results of the KPMG audit, future spot check findings, and other oversight efforts, USAID can utilize this refund provision.

In light of all of the above-referenced measures USAID has directed at ensuring proper oversight of the STDF funds, it is clear that USAID already has a robust action plan in place to verify the accuracy of GOU submitted expenditure reports for healthcare worker salaries and remediate any identified deficiencies. This was recognized by the Offices of the Inspector General for the State Department and USAID in a January 2023 evaluation of a separate tranche of \$4.5 billion of direct budget support; this OIG evaluation found that USAID's monitoring mechanisms and safeguards align with Federal Standards for Internal Control established by the U. S. Government Accountability Office.

It is worth noting that the \$1.7 billion in DBS provided via the SDTF is distinguishable from traditional USAID assistance in that it was provided as a "project contribution," and its purpose was to provide the GOU with liquidity to maintain continuity of operations, not to finance specific programming or particular enumerated expenditures. The standard USAID legal and policy requirements contained in traditional awards with third-party implementers like non-governmental organizations and contractors do not apply to project contributions, and therefore verification of funding provided to beneficiaries via the SDTF was not required by

applicable law or policy. While this point is briefly acknowledged in Footnote 1 of the report, the footnote’s prefatory language – “According to USAID personnel” – implies that this is merely USAID’s characterization when it is a legal fact agreed upon by OIG counsel. Nonetheless, as detailed above, from the outset USAID created and implemented a robust plan to verify expenditures as part of our unwavering commitment to investing U.S. taxpayer funds wisely in support of the people of Ukraine and their fight to create a democratic, independent, and prosperous Ukraine.

- **Target Completion Date:** E&E requests closure upon issuance of the final OIG evaluation report.

Appendix C. Major Contributors

Members of the evaluation team include:

- Louis Duncan, Jr., Audit Director
- Ryan Werner, Audit Assistant Director
- Rachel Holub, Lead Auditor
- Meray Adel, Auditor
- Rishi Udeshi, Program Analyst

The evaluation team would also like to acknowledge contributions from Jennifer Herrmann and Tovah Rom.



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