



U.S. Department of Agriculture Office of Inspector General



Foreign Agricultural Service's Controls Over McGovern-Dole International Food for Education Program Funding

Audit Report 07601-0002-41

OIG evaluated FAS' controls over agreement funding for the McGovern-Dole International Food for Education and Child Nutrition Program.

OBJECTIVES

Our objective was to evaluate FAS' controls over the McGovern-Dole Program agreement funding. Specifically, we determined whether: (1) FAS properly approved and managed advance fund requests; and (2) FAS properly monitored agreements to ensure funds were used for authorized purposes in accordance with agreement requirements.

REVIEWED

We reviewed applicable laws and regulations related to the McGovern-Dole Program cooperative agreements; examples of cooperative agreements and related documentation; written policies, procedures, and other guidance related to FAS' agreement compliance reviews, administration and oversight of earmarked local and regional procurement funding, advance payment request and approval process, and FAS' cooperative agreement closeout process; and interviewed FAS officials to gain an understanding of the agency's internal controls related to the program agreement funding from FYs 2019–22.

RECOMMENDS

FAS needs to strengthen the design of its compliance review controls, as well as strengthen oversight controls related to the local and regional procurement earmarks, advance payment review and approval, and agreement closeout processes.

WHAT OIG FOUND

The key objectives of the McGovern-Dole International Food for Education and Child Nutrition (McGovern-Dole) Program are to implement projects in foreign countries that improve food security, reduce the incidence of hunger, and improve literacy and primary education, especially for girls. It also focuses on improving children's health and learning capacity before they enter school by offering nutrition programs for pregnant and nursing women, infants, and preschoolers. The Foreign Agricultural Service (FAS) administers the McGovern-Dole Program by awarding cooperative agreements to recipients that include United States-donated commodities, funding to ship these commodities, and additional administrative funds to support recipients' school food for education projects in developing countries.

We found FAS did not oversee its McGovern-Dole Program agreements or demonstrate how it met statutory provisions to ensure recipients properly expended program funds for authorized purposes. Further, FAS did not review and approve recipients' advance payment requests to assess "rollover" funds, which allow recipients to retain unused portions of advance payments for future periods. Additionally, as of fiscal year (FY) 2022, FAS did not close out 32 McGovern-Dole Program agreements that ended 1 to more than 11 years earlier. As a result, FAS lacks assurance that recipients properly expended more than \$99.2 million in funds for authorized purposes, and that more than \$67.7 million funds earmarked for local and regional commodity procurements were properly obligated and expended in accordance with the statutory requirements. Furthermore, FAS has not yet de-obligated potentially more than \$19.9 million that could be used for other new or ongoing McGovern-Dole Program projects.

FAS agreed with our recommendations, and we accepted management decision for the ten audit recommendations in the report.



OFFICE OF INSPECTOR GENERAL

United States Department of Agriculture



DATE: July 10, 2024

AUDIT

NUMBER: 07601-0002-41

TO: Daniel B. Whitley
Administrator
Foreign Agricultural Service

ATTN: Alexis A. Vann
Senior Director Financial Management
Foreign Agricultural Service

FROM: Janet Sorensen
Assistant Inspector General for Audit

SUBJECT: Foreign Agricultural Service's Controls Over McGovern-Dole International Food for Education Program Funding - Final Report

This report presents the results of our audit of the Foreign Agricultural Service's Controls Over McGovern-Dole International Food for Education Program Funding. Your written response to the official draft is included in its entirety at the end of the report. Based on your written response, we are accepting management decision for all ten recommendations in the report, and no further response to this office is necessary.

In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of the date of each management decision. For agencies other than the Office of the Chief Financial Officer (OCFO), please follow your internal agency procedures in forwarding final action correspondence to OCFO.

We appreciate the courtesies and cooperation extended to us by members of your staff during our fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website (<https://usdaoig.oversight.gov>) in the near future.

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Background and Objectives

Background

The McGovern-Dole International Food for Education and Child Nutrition (McGovern-Dole) Program is authorized by the Farm Security and Rural Investment Act of 2002.¹ The key objectives of the McGovern-Dole Program are to implement projects in foreign countries that improve food security, reduce the incidence of hunger, and improve literacy and primary education, especially for girls. It also focuses on improving children’s health and learning capacity before they enter school by offering nutrition programs for pregnant and nursing women, infants, and preschoolers.² From fiscal years (FYs) 2019–22, Congress appropriated more than \$897.2 million for the McGovern-Dole Program. These funds are available until expended; there are no time restrictions that limit when the funds must be obligated or expended.

The Foreign Agricultural Service (FAS) administers the McGovern-Dole Program by awarding cooperative agreements to recipients such as private voluntary organizations, cooperatives, and international organizations. The cooperative agreements include United States (U.S.)-donated commodities, funding to ship these commodities, and additional administrative funds to support recipients’ school food for education projects in developing countries. FAS collaborates with recipients to implement these projects in accordance with the terms and conditions of the cooperative agreements,³ and the projects typically last between 3 and 5 years. Recipients may receive multiple awards each FY to implement a variety of projects in different foreign countries.

As part of FAS’ oversight, the agency conducts compliance reviews to monitor recipients’ compliance with program requirements. Specifically, FAS’ Compliance and Security Division (CSD) samples and reviews recipients’ transactions to determine whether they (1) employed effective financial and management and accounting system controls; (2) properly documented and expended program funds in accordance with the agreement; and (3) complied with applicable regulations. However, FAS’ guidance does not specify the frequency for these reviews. CSD then prepares reports that include findings and recommendations for any noncompliance issues identified.

To carry out the program, recipients receive financial assistance (known as “administrative funds”) for FAS-approved project expenses as outlined in their cooperative agreement budgets. These expenses include costs (such as salaries, commodity transportation, storage, etc.) as well as expenses for local and regional procurements (LRP). Beginning in FY 2020, the appropriation acts required FAS to use a specific amount of McGovern-Dole Program funds for LRP,⁴ so FAS included LRP budgets in the recipients’ cooperative agreements and provided these LRP funds for approved commodity types and quantities and other LRP-related expenses.

¹ Farm Security and Rural Investment Act of 2002, Pub. L. No. 107–171, 116 Stat. 295.

² 7 U.S.C. § 1736o-1.

³ 7 C.F.R. § 1599.5.

⁴ Further Consolidated Appropriations Act, 2020, Pub. L. No. 116-94, 133 Stat. 2638; Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1212; and Consolidated Appropriations Act, 2022, Pub. L. No. 117-103, 136 Stat. 80.

Recipients must request payments from FAS on either an advance or reimbursement basis.⁵ ⁶ For advance payments, recipients must deposit the payments in insured interest-bearing bank accounts, and separately track and account for the receipt, obligation, and expenditure of their agreement funds. Recipients must also fully expend advance funds within 90 days of the advance and return any funds that have not been disbursed. With exceptions, such as FAS-approved rollovers that allow recipients to retain unused advance payments beyond the 90-day period, recipients must fully disburse funds from the preceding advance before submitting another advance payment request for the same agreement.⁷

At the conclusion of the agreements, FAS must close out agreements in accordance with Federal regulatory requirements⁸ and the agency's closeout guidance.⁹ FAS' International Food Assistance Division's Operations Branch is responsible for the programmatic portion of the closeout process, and it performs financial reviews to determine whether any additional funds are due to or owed from the recipients. FAS then de-obligates any remaining funds, which could be re-obligated for other new or ongoing McGovern-Dole Program projects.

Objectives

Our objective was to evaluate FAS' controls over the McGovern-Dole International Food for Education and Child Nutrition Program agreement funding. Specifically, we determined whether: (1) FAS properly approved and managed advance fund requests, and (2) FAS properly monitored agreements to ensure funds were used for authorized purposes in accordance with agreement requirements.

⁵ 2 C.F.R. § 200.305.

⁶ We did not identify any issues related to reimbursement payment requests.

⁷ 7 C.F.R. § 1599.7.

⁸ 2 C.F.R. § 200.344.

⁹ USDA FAS, International Food Assistance Division, *Standard Operating Procedure: Closing Recipient Agreements* (Mar. 2021).

Finding 1: FAS Did Not Sufficiently Oversee McGovern-Dole Program Agreement Funding

We found that FAS did not oversee its McGovern-Dole Program agreements to adequately ensure recipients properly expended program funds. FAS did not conduct compliance reviews for 22 of the 30 eligible agreements from FYs 2017–22.¹⁰ This occurred because FAS’ review guidance lacked adequate policies and procedures to assess the recipients’ compliance with applicable requirements. As a result, FAS lacks assurance that its McGovern-Dole Program recipients properly expended agreement funds for authorized purposes; these funds totaled more than \$99.2 million for the eligible agreements awarded in FY 2019.¹¹

Federal regulations require agencies to manage and administer Federal awards to ensure program funding is expended in accordance with statutory requirements.¹² Additionally, Departmental Regulations require agencies to establish internal controls in accordance with the Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government*.¹³ These standards outline management’s responsibilities to design and implement control activities to achieve objectives, including compliance with regulatory requirements.¹⁴

FAS used the agency’s compliance review process as its primary control to ensure certain recipients properly expended McGovern-Dole Program funds.¹⁵ ¹⁶ See Figure 1 below, that provides an overview of this process.

¹⁰ FAS officials explained that a cooperative agreement is subject to (or eligible) for a compliance review after the recipient expended 50 percent or more of the agreement funds, though this guidance is not documented in FAS’ policies or procedures. Since agreements are typically awarded for 3–5 years, and this was the approach FAS officials stated it followed, we expanded the review period to 2017 to include agreements in our universe that met the 50-percent guideline as of FY 2019. All of the 30 eligible agreements we identified were within our universe.

¹¹ FAS did not sufficiently oversee 73 cooperative agreements awarded or ongoing from FYs 2019–22, which totaled more than \$1.3 billion. However, we limited the monetary impact to include only eligible agreements awarded (versus ongoing) during our scope period, which totaled \$99,259,289.

¹² 2 C.F.R. § 200.300.

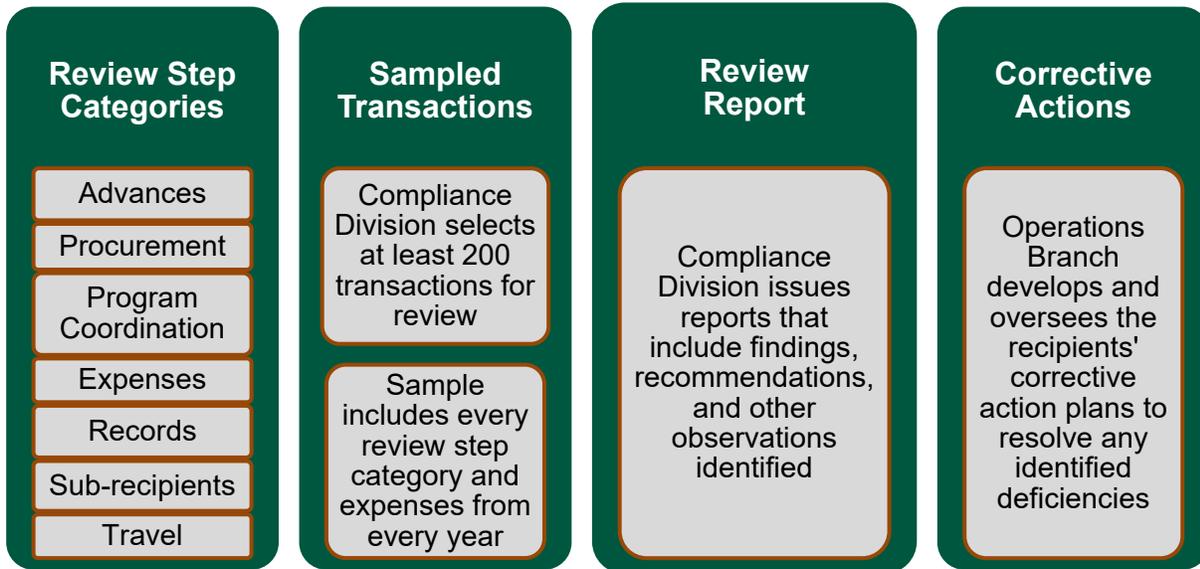
¹³ USDA Departmental Regulation 1110-002, *Management’s Responsibility for Internal Control* (June 17, 2013), and USDA Departmental Regulation 1110-002, *Management’s Responsibility for Internal Control* (Mar. 5, 2021).

¹⁴ GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G, ¶¶ 10.01 and 12.01 (Sept. 2014).

¹⁵ FAS, Office of the Administrator, Compliance and Security Division, *Food Assistance Program SOP and Review Guide* (Oct. 2021).

¹⁶ FAS’ compliance review process excluded an international organization that was exempted from the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (i.e., Federal grant and agreement regulations).

Figure 1: FAS’ Compliance Review Process Overview. Graphic by Office of Inspector General (OIG).



Although FAS established a comprehensive compliance review process, we found it did not adequately ensure recipients properly expended program funds. Specifically, we assessed the design of FAS’ overall compliance review process and reviewed four compliance reviews FAS conducted under its current guidance to assess its implementation.¹⁷ ¹⁸ We identified the following issues related to FAS’ review cycle, sample selections, and local and regional procurement guidance:

No Formal Review Cycle Policy

We found that FAS did not review program agreements or recipients on a consistent basis because its review guidance did not establish a minimum review cycle that specified the timing and frequency for conducting the reviews. FAS officials stated agreements are eligible for compliance reviews only after the recipients expended at least 50 percent of the award amounts,¹⁹ but clarified that FAS does not review all agreements, but rather conducts reviews on a “recipient basis” due to significant resource limitations.

¹⁷ FAS, Office of the Administrator, Compliance and Security Division, *Food Assistance Program SOP and Review Guide* (Oct. 2021).

¹⁸ FAS’ current review guidance includes two parts that were last updated at different times: FAS’ overall guidance that was updated in October 2021, and detailed review steps that FAS officials stated were updated in 2020. Consequently, we reviewed all compliance reviews FAS conducted after 2020 to assess FAS’ implementation of its current guidance.

¹⁹ As noted in footnote 10, this approach is not documented in FAS guidance. In addition to the 50-percent threshold, the agency considered all international food assistance programs as a single universe with similar risks when selecting and scheduling compliance reviews. FAS also considered other factors, such as the prior year review schedule reserve list, agreement execution date, and Program staff’s feedback.

For example, from FYs 2017–22, FAS did not review 22 of the 30 eligible agreements that expended at least 50 percent of the awarded funds. FAS also did not conduct a McGovern-Dole Program compliance review for one of the program’s largest recipients in more than 5 years even though this recipient had prior compliance review findings and received more than \$426.1 million during our scope period. Yet, FAS conducted more frequent reviews for other recipients that received less awards and funding.²⁰ FAS officials explained that recipients that also participated in other FAS international food assistance programs are reviewed under those programs even if they are not reviewed under the McGovern-Dole Program.²¹ However, this approach would not be sufficient because other program reviews would not assess specific McGovern-Dole Program requirements or ensure that recipients properly expended these program funds.

Inconsistently Sampled Transactions

FAS’ review guidance states that reviewers should select a “representative” sample of recipient transactions for review. According to the guidance, the sample should include transactions for every compliance review step category as well as expenses from every year.²² However, we found that all four compliance reviews included different sampling approaches. This occurred because FAS’ review guidance did not provide methodology instructions to ensure reviewers consistently sampled transactions.

We reviewed compliance review documentation for the four reviews and independently analyzed the recipients’ transaction universes and the reviewers’ corresponding sampling data. We noted a variety of differences between the reviews’ sampling approaches. See Table 1 below, that summarizes the sampling differences we identified.

Table 1: Examples of Different Sampling Approaches. Table by OIG.

Sample Approach	Review 1	Review 2	Review 3	Review 4
Randomly Selected	*	N	N	Y
High-Dollar Transactions Targeted	*	Y	Y	N
Spread More Evenly Across the Period	*	*	Y	N
* Information could not be determined due to insufficient documentation				

²⁰ From FYs 2019–22, FAS conducted compliance reviews more frequently for six recipients that received less awards and funding.

²¹ FAS’ compliance review guidance is the same for its international food assistance programs; however, the guidance cites specific regulatory requirements that are only assessed for the program being reviewed. For example, a compliance review of a Food for Progress agreement would assess specific Food for Progress regulations but would not assess McGovern-Dole Program requirements.

²² FAS’ compliance review guidance has seven review step categories for recipient advances, procurements, program coordination, program expenses, record retention, sub-recipients, and travel. See Figure 1.

No Local and Regional Procurement Guidance

We also noted that FAS' review guidance did not include a category for LRP. As explained in Finding 2, recent appropriation acts earmarked a portion of the McGovern-Dole Program funds for LRP,²³ which FAS awarded to recipients that must expend the funds in accordance with regulatory requirements.²⁴ However, FAS did not update its review guidance to reflect the recent appropriation act changes made in FY 2020, so there was no guarantee that LRP transactions would be included as part of the review, or that reviewers would assess whether recipients met the applicable LRP regulatory requirements.

In the absence of sufficient guidance, FAS lacked assurance that its McGovern-Dole Program recipients properly expended agreement funds, which totaled more than \$99.2 million for the eligible agreements awarded in FY 2019. While FAS did not sufficiently oversee the 73 cooperative agreements awarded or ongoing from FYs 2019–22, we limited our estimate of the monetary impact to the total administrative funds awarded to agreements that were eligible for review. Of these 73 agreements, 30 agreements totaling more than \$544.9 million were eligible for review according to FAS; however, we only included the eligible agreements awarded (versus ongoing) during our scope period, which totaled more than \$99.2 million. FAS' compliance review process is currently the agency's primary control that verifies recipients' program expenditure. While recipients are also subject to Single Audit Act requirements, this oversight may be limited so additional agency oversight is needed to meet the regulatory requirements.²⁵ ²⁶ Given that McGovern-Dole Program recipients are typically long-term participants that often receive multiple agreements year after year, FAS' review of one agreement could identify deficiencies that impact the program funds across several other agreements. Therefore, it would be beneficial for the agency to improve its review process.

We spoke with agency officials that agreed FAS' compliance review process could be improved and updated to include LRP. However, they explained that compliance review staff resources were limited, and reviewing McGovern-Dole Program agreements was one of many duties they performed,²⁷ therefore, the compliance staff could not review more McGovern-Dole Program agreements. However, they agreed that strengthening the reviews and accomplishing more with their limited resources could be beneficial.

Implementing the corrective actions recommended below should help FAS oversee its McGovern-Dole Program cooperative agreements and ensure recipients properly expend

²³ Further Consolidated Appropriations Act, 2020, Pub. L. No. 116-94, 133 Stat. 2638; Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1212; and Consolidated Appropriations Act, 2022, Pub. L. No. 117-103, 136 Stat. 80.

²⁴ 7 C.F.R. § 1599.6.

²⁵ 31 U.S.C. § 7501-7506.

²⁶ The Single Audit covers non-Federal entities' entire operations, so the extent of its review and testing specific to the McGovern-Dole Program may be limited. Also, according to a single audit conducted for one McGovern-Dole Program recipient, the auditors did not consider internal control for the purpose of expressing an opinion on the effectiveness of the recipient's internal control system and accordingly expressed no opinion.

²⁷ According to FAS, the compliance division only included about 10 staff members that also conducted compliance reviews for six market development programs, as well as reviews of multiple FAS offices around the world.

program funds by strengthening the design of its compliance review controls, as outlined in the recommendation.

Recommendation 1

Update compliance review guidance to: (a) establish and execute a minimum review cycle that defines the frequency for conducting compliance reviews of McGovern-Dole Program recipients and agreements; (b) incorporate clear instructions for sampling transactions that ensures consistency among reviewers; and (c) include LRP funds as part of the compliance review.

Agency Response

FAS agreed with this recommendation. In subsequent correspondence, FAS agreed with the monetary impact associated with the recommendation. FAS will update its compliance review guidance to establish a minimum review cycle that defines the frequency for conducting compliance reviews of McGovern-Dole Program recipients and agreements. FAS will also update its compliance review guidance to incorporate clear instructions for sampling transactions and include examining the use of LRP funds as part of future compliance reviews, all for implementation in fiscal year (FY) 2025.

OIG Position

We accept management decision.

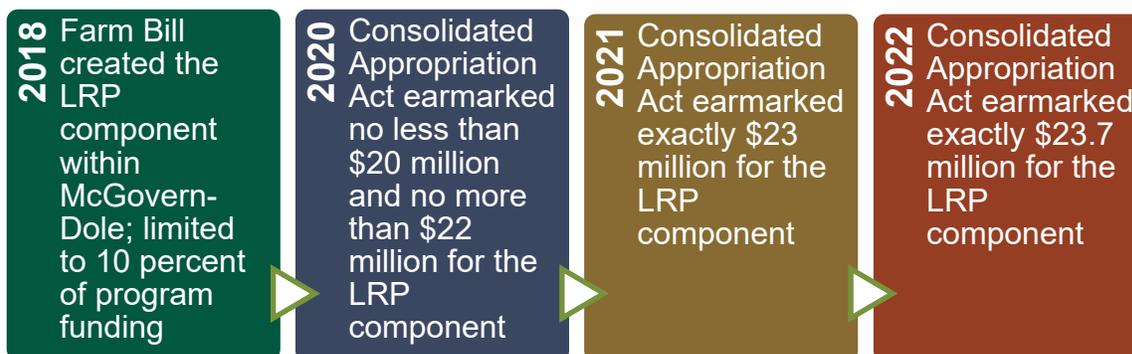
Finding 2: FAS Did Not Properly Oversee Earmarks and Related Expenditures

We found that FAS did not demonstrate how it met statutory provisions and ensured recipients properly expended earmarked funds for authorized purposes. Specifically, FAS did not account for earmarked funds or properly communicate earmarked funding expectations to recipients. This occurred because FAS underestimated the administrative impact of recent appropriations act changes and did not sufficiently analyze and respond to the new requirements. According to FAS officials, the agency was dealing with the effects of the statutory changes in “real time” to address the challenges and limited flexibility. As a result, FAS lacked reasonable assurance that the earmarked funds it initially awarded for local and regional commodity procurements, which totaled more than \$67.7 million between FYs 2020–22, met statutory requirements.²⁸

Beginning in FY 2020, the Consolidated Appropriations Acts earmarked specific amounts of McGovern-Dole Program funds to procure local and regional commodities for the program.²⁹ Specifically, they provided funds for the necessary expenses to carry out program provisions and purchase agricultural commodities that are produced in, and procured from, targeted countries or regions.

Since 2018, the McGovern-Dole Program included an LRP component to improve effectiveness of food assistance through local and regional commodity procurements. See Figure 2 below, that illustrates the history of McGovern-Dole Program’s LRP component.

Figure 2: History of LRP Component by FY. Graphic by OIG.



However, we found that FAS did not demonstrate how it met the Appropriations Act earmark provisions by properly accounting for the earmarked funds or communicating its funding expectations to recipients, as described below.

²⁸ According to FAS, the agency initially awarded \$67,773,633 of LRP funds to recipients from FYs 2020-22.

²⁹ Further Consolidated Appropriations Act, 2020, Pub. L. No. 116-94, 133 Stat. 2638; Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1212; and Consolidated Appropriations Act, 2022, Pub. L. No. 117-103, 136 Stat. 80.

Accounting for Earmarked Funds

Federal accounting standards require that agencies use separate budget accounts to track the use of each appropriation for specific purposes.³⁰ However, we found that FAS did not establish a separate budget account to properly track the funds and meet Appropriation Act requirements. Rather, FAS officials explained the agency created annual spreadsheets that identified the preliminary LRP amounts awarded to each recipient, and these spreadsheets were not intended to be edited or used beyond the initial agreement negotiation. Consequently, FAS did not update or track subsequent adjustments, such as changes made due to pre-award negotiations, or potential differences in the recipients' actual expenditures. FAS officials also stated they monitored LRP expenditures by reviewing the recipients' financial reports; however, these reports did not include information needed to determine the total amount of LRP funds expended.³¹ Further, we noted that FAS did not update its cooperative agreement closeout guidance³² to track the total amount of LRP funds recipients expended at the end of the award. Consequently, FAS did not maintain accurate information regarding the amount of LRP-earmarked funds annually awarded to each agreement, expended to date, or the amount (if any) that may be returned by recipients.

Communicating Earmark Funding Expectations to Recipients

Federal agencies must include specific terms and conditions in the awards that are necessary to communicate program requirements that are in addition to the agency's general terms and conditions.³³ However, we found that FAS did not include its expectations for the LRP-earmarked funds in its cooperative agreements to demonstrate compliance with Appropriation Act requirements.³⁴ While FAS' agreements included LRP budgets that outlined the types of costs the recipients expected to spend for LRP (e.g., local commodity purchases and other related costs such as transportation, storage, etc.), the agreements did not include the agency's expectation that recipients expend these funds "exactly" as estimated. Rather, the agreements included standard requirements that allowed recipients to make adjustments between the budgeted direct-cost line items.³⁵

³⁰ Federal Accounting Standards Advisory Board (FASAB), *FASAB Handbook of Federal Accounting Standards and Other Pronouncements, as Amended*, Version 18 (June 30, 2019).

³¹ FAS required recipients to submit financial reports that included a line item for LRP commodity and food purchases; however, this line item did not include all the recipients' LRP-related expenditures. For example, recipients combined additional LRP-related costs (such as salary, transportation, and storage expenses) on corresponding line items with their other program expenses, so the total amount of their LRP expenditures could not be separately identified within their financial reports.

³² USDA FAS, International Food Assistance Division, *Standard Operating Procedure: Closing Recipient Agreements* (Mar. 2021).

³³ 2 C.F.R. § 200.211(d).

³⁴ FAS' Notices of Funding Opportunities and the recipients' Procurement and Distribution Plans were also incorporated into the cooperative agreements by reference; however, these documents also did not include any statement that notifies or requires recipients to expend LRP funds exactly as estimated.

³⁵ Direct costs include LRP expenses (such as commodity purchases, transportation, storage, etc.) that can be directly assigned to activities relatively easily with a high degree of accuracy.

without further approval.”³⁶ ³⁷ Consequently, FAS lacked assurance that recipients understood its LRP expectations, and the recipients were not legally bound to comply with these expectations without agreement requirements.

This occurred because FAS did not sufficiently analyze and respond to the new statutory requirements. For example, FAS did not analyze the significance of the earmarks’ risk to its program administration or design and implement appropriate response actions to mitigate it. Agency officials explained FAS underestimated the administrative impact of the Appropriation Act earmarks. While they believed the 2018 Farm Bill was a significant program change (which made LRP a component of the McGovern-Dole Program), they had not expected an earmark for the LRP component when it began in FY 2020.

As a result, FAS lacked reasonable assurance that the LRP funds it initially awarded (that totaled more than \$67.7 million between FYs 2020–22)³⁸ were properly obligated and expended in accordance with the statutory requirements. For example, in response to an OIG request in March 2023, FAS found it inadvertently awarded earmarked funds to recipients that exceeded the appropriations’ maximum thresholds in FYs 2021 and 2022, which put the agency at risk of Antideficiency Act violations. While FAS subsequently amended six agreements to correct these errors, it did not establish a separate budget account to make corresponding accounting adjustments and ensure the funds were properly tracked.

We spoke with FAS officials who agreed that the agency needed to improve its administration and oversight of LRP funds. In November 2023, FAS officials stated the agency began taking actions to address some of the issues identified. For example, they stated FAS revised its accounting system to separately track the earmarked funding for the program’s FY 2023 awards, it is updating its FY 2023 legal templates to communicate applicable requirements to recipients, and it clarified recipient LRP reporting requirements.³⁹ FAS officials also stated the agency was dealing with the effects of the statutory changes in “real time” and they emphasized the thresholds restricted FAS’ flexibility in administering the McGovern-Dole Program. Consequently, the agency consulted with the Office of the General Counsel (OGC) to address these LRP challenges.

Implementing the corrective actions recommended below should provide reasonable assurance that FAS meets the Appropriation Acts’ requirements by strengthening its oversight controls related to the LRP earmarks as outlined in the recommendations.

³⁶ Federal regulations allow agreement recipients to make adjustments between direct cost line items without further approval. *See* 7 C.F.R. § 1599.12(h)(1).

³⁷ FAS officials stated the agency maintained regular communication with its recipients and repeatedly emphasized that recipients must expend funds for LRP costs exactly as estimated in their budgets; however, FAS did not include written requirements in its recipient agreements.

³⁸ According to FAS, the agency awarded \$67,773,633 of LRP funds to recipients from FYs 2020-22.

³⁹ FAS did not provide documentation to support these statements, and we could not verify them or assess their adequacy.

Recommendation 2

Assess the administrative impact of the Appropriation Act earmarks and determine and implement all necessary response actions.

Agency Response

FAS agreed with this recommendation. FAS will assess the administrative impact of the Appropriation Act earmarks and implement all final necessary response actions.

FAS also concurred with the monetary impact associated with this recommendation via email on May 9, 2024, though FAS stated this amount is currently \$66,790,369 since FAS subsequently amended the FY 2021 and 2022 agreements.

OIG Position

We accept management decision.

Recommendation 3

Coordinate with the Office of the Chief Financial Officer to ensure that LRP funds are properly accounted for and tracked separately from other McGovern-Dole Program funds for agreements issued in FYs 2021 and 2022. As applicable, remediate or consult with OGC on any potential Antideficiency Act violations noted and, if applicable, include any nonconformance in the agency's *Federal Managers' Financial Integrity Act Annual Certification Statement*.

Agency Response

FAS agreed with this recommendation and consulted with Office of General Counsel and coordinated with the Office of the Chief Financial Officer. FAS will ensure that LRP funds are properly accounted for and tracked separately from other McGovern-Dole Program funds for agreements issued in FYs 2021 and 2022.

OIG Position

We accept management decision.

Recommendation 4

Analyze whether recipients expended LRP funds exactly as budgeted since FY 2020. If they did not, determine whether the recipients exceeded their LRP budgets, and if so, take appropriate action as needed.

Agency Response

FAS agreed with this recommendation. FAS conducted an analysis of FY 2020 and beyond agreements, determining that recipients expended LRP funds as planned and budgeted to date (as agreements from FY 2020 are still being implemented and have not reached the closeout period). In addition, FAS determined that, for current agreements, recipients did not exceed their LRP budgets. Preliminary analysis was completed in April of 2024, and additional analysis and any necessary action will be conducted.

OIG Position

We accept management decision.

Finding 3: FAS Did Not Adequately Assess Recipient Advance Payment Requests

We found that FAS did not review and approve recipients' advance payment requests to assess "rollover" funds. This occurred because FAS did not have adequate policies and procedures to independently identify and calculate rollover amounts, but rather relied on its recipients to separately identify these funds. As a result, FAS lacked added assurance that recipients had adequate control over program funds, and timely implemented project activities, or properly accounted for the funds for potentially 121 advance payment requests it approved from FYs 2019–22.⁴⁰ For example, for the two agreements we reviewed, FAS approved 11 advance payment requests and unknowingly allowed these recipients to retain and rollover more than \$4.7 million of program funds from FYs 2017–22.

FAS regulations require McGovern-Dole cooperative agreement recipients to expend advance payments within 90 days. However, recipients may request to retain and roll over a reasonable or minimal amount of funds that have not been expended within this timeframe.⁴¹ FAS must then review and approve the recipients' rollover requests based on the merits, considering factors such as the amount of funding that a recipient is requesting to roll over, the length of time that the recipient has been in possession of the funds, any unforeseen or extenuating circumstances, the recipient's history of performance, and findings from recent financial audits or compliance reviews.⁴²

FAS provided funding to McGovern-Dole cooperative agreement recipients through reimbursements or advance payments. See Figure 3 below, that summarizes FAS' advance payment request process.

⁴⁰ We used data provided by FAS to determine the number of advance payment requests it approved during our scope period; however, we found these data contained incomplete and inaccurate information (as discussed later in Finding 3).

⁴¹ 7 C.F.R. § 1599.7(f)(3) and (f)(6).

⁴² 7 C.F.R. § 1599.7(f)(4).

Figure 3: Overview of FAS' Advance Payment Request Process. Figure by OIG.



* USDA FAS, International Food Assistance Division, *Standard Operating Procedure: Administrative (Non-Commodity and Non-Freight) Costs Payments in WBSCM* (Sept. 2013); and 7 C.F.R. § 1599.6(f).

** Not documented, though FAS officials stated it is communicated to the recipients.

*** USDA FAS, International Food Assistance Division, *Standard Operating Procedure: Administrative (Non-Commodity and Non-Freight) Costs Payments in WBSCM* (Sept. 2013).

However, we found that FAS did not review and approve the recipients' advance payment requests to assess rollover funds and unknowingly allowed recipients to retain rollover amounts. Specifically, we reviewed advance payment request forms for two agreement examples and determined recipients' requests included rollover funds, even though they did not separately identify these amounts by email or on the optional section of the standardized payment request forms.⁴³ For instance, we used information included on the recipients' payment request forms and determined that one recipient repeatedly rolled over an average of more than \$700,000 on each of its quarterly advance payment requests. Nevertheless, FAS approved the recipient's

⁴³ The standardized payment request forms included an optional section titled "Alternative Computation for Advances Only," where recipients could identify their estimated balance of Federal cash on hand as of the beginning of the advance period (i.e., their rollover funds).

advance payment requests without questioning these amounts because the recipient did not separately identify the rollover funds and FAS assumed there were not any.

This occurred because FAS did not have adequate policies and procedures to review recipients' advance payment requests and independently identify and calculate rollover amounts. According to FAS, it relied on its recipients to separately identify the rollover amounts on the payment request forms and by email, but FAS' policies and procedures did not require staff to independently confirm them. Given that the standardized payment request forms contained information needed to calculate rollover amounts, FAS could identify rollover funds even if recipients did not include it on the optional section of the forms. Additionally, FAS' policies and procedures did not reflect regulatory requirements for staff to then assess and document the merits of the recipients' requests for rollover funds.⁴⁴

FAS also developed a spreadsheet to manually track information related to the recipients' payment requests. However, we found that this tracking tool did not confirm whether recipients included rollover funds by calculating the amounts based on other information included within the recipients' payment request forms. Further, it contained incomplete and inaccurate information, such as advance payments that were misclassified as reimbursements, and payment requests that were entered under a different recipient. Additionally, many of the payments entered did not include payment approval dates.⁴⁵

Nevertheless, according to FAS' payment tracking spreadsheet, FAS approved 121 advance payment requests from FYs 2019–22. In the absence of adequate policies and procedures to assess rollover funds when reviewing recipients' advance payment requests, FAS may have unknowingly approved rollover amounts within these requests. As a result, the agency lacked added assurance that recipients had adequate control over program funds, timely implemented project activities, or properly accounted for the funds.

According to FAS, the agency relied on recipients' semi-annual financial reports as the main medium for accounting for the recipients' expenditures and interest and the best way to evaluate the recipients' timely implementation of activities. However, an improved review of recipients' advance payment requests would enable the agency to verify recipients' rollover funds for a specific performance period and give FAS added assurance that recipients had adequate controls. For example, repeated large rollover amounts could indicate recipients had not properly estimated funds needed for the 90-day period, expended funds to implement projects as planned, or properly tracked and returned interest accrued on the unexpended amounts.⁴⁶ For the two agreements we reviewed, FAS approved 11 advance payment requests and unknowingly allowed

⁴⁴ FAS must review a rollover request and consider factors such as the amount of funding that a recipient is requesting to roll over, the length of time that the recipient has been in possession of the funds, any unforeseen or extenuating circumstances, the recipient's history of performance, and findings from recent financial audits or compliance reviews. *See* 7 C.F.R. §1599.7(f)(4).

⁴⁵ FAS officials explained there was always risk of data entry errors due to potential human error.

⁴⁶ Recipients may retain up to \$500 per FY of any interest earned on funds advanced under an agreement and must remit any additional interest earned to the Department of Health and Human Services. *See* 7 C.F.R § 1599.7(f)(8).

these recipients to retain and roll over more than \$4.7 million of program funds from FYs 2017–22.⁴⁷

Due to the weaknesses noted above, we could not use the spreadsheet to determine the monetary impact of the rollover funds. Furthermore, we were unable to use the related payment information system for this purpose because it did not separately identify the payment type (reimbursement versus advance). We would have to obtain and analyze extensive documentation for all 73 agreements in our universe to quantify the total number of advance payments FAS approved for these agreements, and then closely analyze the forms to determine whether these payment requests included rollover funds. Consequently, we had to rely on FAS' payment tracking spreadsheet to estimate the number of advance payments FAS approved during our scope period.

We spoke with FAS officials who agreed that the payment review and approval process could be improved. They did not think recipients requested rollovers very often, but they acknowledged that the agency had not independently identified or calculated rollover funds to confirm this. Historically, the agency relied on its recipients to separately identify these amounts, and the officials we spoke with assumed the recipients understood this expectation. However, in November 2023, FAS officials stated the agency began taking actions to address some of the issues identified (e.g., developed an updating tracking tool that required analysts to independently verify rollovers, updated external guidance on rollover requirements including a clear template for FY 2023 recipients' advance payment requests and rollover submissions, and provided training to recipients).⁴⁸

Implementing the corrective actions recommended below will ensure FAS properly reviews and approves rollover requests by strengthening its advance payment review and approval controls as outlined in the recommendations.

Recommendation 5

Revise policies and procedures to: (a) review recipients' advance payment requests and independently identify, calculate, and document whether the requests include rollover amounts; and (b) assess rollover funds by considering and documenting the requests' merits in accordance with the regulatory requirements.

Agency Response

FAS agreed with this recommendation. FAS will revise policies and procedures regarding recipients' advance payment requests to independently identify, calculate, and document whether the requests included rollover amounts, and assess rollover funds by considering and documenting the requests' merits in accordance with regulatory requirements.

⁴⁷ Our universe included McGovern-Dole Program agreements awarded or ongoing from FYs 2019-22. Consequently, agreements ongoing during the scope period received advance payments prior to our scope period.

⁴⁸ FAS did not provide documentation to support these statements, and we did not verify them or assess their adequacy.

OIG Position

We accept management decision.

Recommendation 6

Analyze the advance payment requests FAS received from FY 2023 to the date of implementation of advance payment review policies and procedures in Recommendation 5, to determine whether the recipients included rollover funds, and follow up as needed.

Agency Response

FAS agreed with this recommendation. FAS will complete an analysis of the advance payment requests received from FY 2023 to the date of implementation of advance payment review policies and procedures in Recommendation 5 to determine whether the recipients included rollover funds and follow up as needed.

OIG Position

We accept management decision.

Recommendation 7

Review and update FAS' reimbursement and advance payment tracking system to accurately track recipients' advance payment requests, including rollover funds.

Agency Response

FAS agreed with this recommendation. FAS will review and update its reimbursement and advance payment tracking system to accurately track recipients' advance payment requests including rollover funds.

OIG Position

We accept management decision.

Finding 4: FAS Needs to Improve Its Agreement Closeout Process

We found that as of FY 2022, FAS did not close out 32 McGovern-Dole Program agreements that ended 1 to more than 11 years earlier. This occurred because FAS lacked adequate policies and procedures to manage the agreement closeout process effectively. As a result, FAS has not yet de-obligated potentially more than \$19.9 million that could be used for other new or ongoing McGovern-Dole Program projects or pay and collect potential funds due to or owed from the recipients. Further, FAS may continue to increase its backlog of agreements that need to be closed.

Federal regulations require agencies to close out Federal awards when they determine that recipients completed all applicable administrative actions and required work. Specifically, agencies must make every effort to complete closeout actions no later than 1 year after the awards' period of performance end dates.⁴⁹ ⁵⁰ If recipients fail to submit required reports, agencies must proceed to close out the Federal award with the information available within 1 year of the award's period of performance end date.⁵¹ ⁵²

FAS established a process to perform closeout reviews and determine whether all the required work and applicable administrative actions have been completed for the agreement. In 2019, FAS reorganized its business functions and the responsibility for the closeout process was eventually assigned to its Operations Branch, which became responsible for the closeout activities that involved other branches including the Program Branch and the Grants Branch (see Figure 4 below, that summarizes the closeout responsibilities of each branch). Ultimately, each branch was dependent on the other branches to perform different tasks needed to complete the closeout review process.

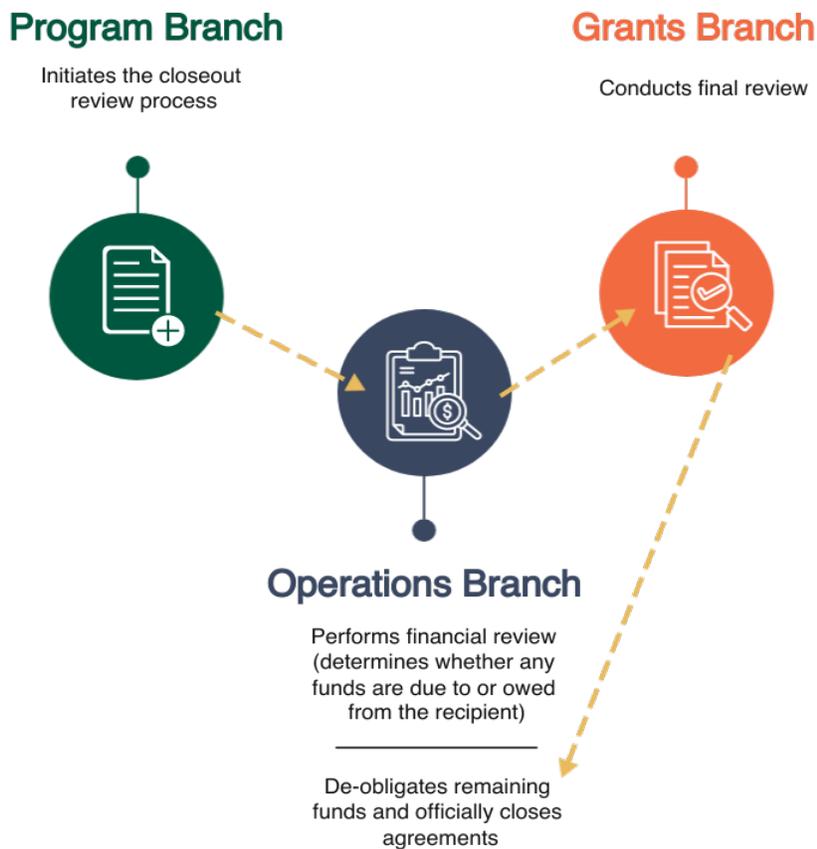
⁴⁹ 2 C.F.R. § 200.344

⁵⁰ Closeout actions include Federal awarding agency actions in the grants management and payment systems.

⁵¹ 2 C.F.R. § 200.344.

⁵² Prior to November 12, 2020, Federal regulations required agencies to close out agreements within 1 year from receiving final documentation from recipients, and recipients were required to submit final documentation within 3 months of the awards' period of performance end dates (in the absence of an approved extension). Therefore, agencies would typically have up to 15 months to close out the agreements. While these requirements changed during our scope period, it did not impact the number of exceptions we identified since open agreements that ended prior to November 2020, exceeded the 15-month timeframe as of September 30, 2022.

Figure 4: Summary of Closeout Responsibilities for Each Branch. Figure by OIG.



We found that as of FY 2022, FAS did not close out 32 McGovern-Dole Program agreements that ended between FYs 2011–21.⁵³ FAS officials explained there were two groups of these McGovern-Dole Program cooperative agreements that had not been closed out: a historical backlog of agreements that the Operations Branch eventually inherited from the agency’s reorganization in November 2019,⁵⁴ and recent agreements that ended after the reorganization. We found 22 of the 32 agreements were part of the backlog, and 10 agreements were not closed after the agency’s reorganization in November 2019. In total, these agreements remained open from 1 to more than 11 years after the agreements’ period of performance end dates.

⁵³ We did not have the information needed to identify the total number of agreements closed from FYs 2011-22 because our scope was limited to FYs 2019–22, so we did not obtain and review agreements that FAS closed prior to this period.

⁵⁴ FAS officials explained that the Operations Branch inherited the process in November 2021.

This occurred because the agency lacked adequate policies and procedures to manage the agreement closeout process effectively. First, FAS' policies and procedures⁵⁵ did not sufficiently reflect regulatory requirements to close out its current agreements.⁵⁶ Specifically, FAS' guidance outlined the closeout review process, but it did not include timeframes for staff in each branch to complete their part of the review, or a timeframe to complete the overall process. FAS' guidance⁵⁷ also did not require staff to proceed with the agreement closeout process based on information available when recipients failed to provide required documentation.⁵⁸ According to FAS officials, the agency would typically wait for the recipients to provide documentation (such as final financial, performance, or other required reports), which could further delay the closeout process.

We also identified other inconsistencies between FAS' closeout guidance and the regulatory requirements that could contribute to delays. For example, FAS' guidance incorrectly cited an Act (related to outdated agency reporting requirements) and stated staff should make every effort to close out agreements within 2 years,⁵⁹ which was not consistent with the regulatory requirement to close out agreements within 1 year of the awards' end dates. FAS' guidance also provided recipients with longer timeframes to adjust their negotiated indirect cost rates after the end of the agreement (up to 18 months),⁶⁰ which was also not consistent with the regulatory requirement to close out agreements within 1 year.

Additionally, FAS did not establish a formalized plan to resolve the historical backlog of agreements that the Operations Branch inherited after the agency's reorganization. While the Operations Branch prioritized closing these agreements, FAS officials acknowledged that these priorities could be adjusted as needed. Therefore, these agreements could continue to remain open.

Lastly, FAS did not ensure its existing closeout policies and procedures were effective to meet the regulatory requirements. FAS had challenges in this area as reported by OIG in 1999, 2006, and 2014.⁶¹ For example, the 2014 report⁶² found that it took FAS 15 to 112 months to close out agreements, and it administratively closed 206 backlogged agreements (identified in the

⁵⁵ USDA FAS, International Food Assistance Division, *Standard Operating Procedure: Closing Recipient Agreements* (Mar. 2021).

⁵⁶ Federal regulations require agencies to make every effort to close out awards no later than 1 year after the awards' period of performance end dates. If recipients fail to submit required reports, agencies must proceed to close out the Federal award with the information available within 1 year of the award's period of performance end date. *See* 2 C.F.R. § 200.344.

⁵⁷ USDA FAS, International Food Assistance Division, *Standard Operating Procedure: Closing Recipient Agreements* (Mar. 2021).

⁵⁸ Federal regulations require recipients to submit all financial, performance, and other reports as required by the terms and conditions of the Federal award no later than 120 calendar days after the end date of the period of performance. *See* 2 C.F.R. § 200.344.

⁵⁹ USDA FAS, International Food Assistance Division, *Standard Operating Procedure: Closing Recipient Agreements* (Mar. 2021).

⁶⁰ *Ibid.*

⁶¹ Audit Report 50801-6-At, *Food for Progress Program PVOs Grant Fund Accountability*, Mar. 1999; Audit Report 07601-0001-At, *FAS PVO Grant Fund Accountability*, Mar. 2006; and Audit Report 07601-0001-22, *Private Voluntary Organization Grant Fund Accountability*, Mar. 2014.

⁶² Audit Report 07601-0001-22, *Private Voluntary Organization Grant Fund Accountability*, Mar. 2014.

2006 OIG report) without a formal review. FAS agreed to the report's recommendations and its corrective actions included establishing controls to timely close out agreements, analyzing staff resources and staffing levels if needed, and developing a closeout tracking process.⁶³ While this OIG report addressed FAS' Food for Progress Program (another international food assistance program), FAS' agreement closeout process is the same for all its food aid programs. Given these repeated challenges, FAS needs to evaluate the impact of the agency's existing resources and distribution of responsibilities on its ability to meet the regulatory requirements.

As a result, FAS has not yet de-obligated potentially more than \$19.9 million (including administrative, freight, and commodity obligations) that could be used for new or ongoing McGovern-Dole Program projects.⁶⁴ Since these agreements have not yet gone through the closeout process, FAS also did not have the information needed to determine whether additional amounts were due to or owed from the recipients.⁶⁵ Further, if FAS does not improve its closeout policies and procedures, it could continue to increase its backlog of agreements that need to be closed.

FAS officials agreed its policies and procedures could be revised to improve the closeout process, though they explained that challenges with obtaining documentation from recipients, as well as staffing, turnover, and lack of resources adversely affected the agency's ability to close out agreements. However, officials stated the agency has recently improved its staffing situation and acknowledged FAS could administratively close out older agreements that lacked required documentation from the recipients. They also stated FAS could revise its policies and procedures to hold recipients more accountable and obtain needed documentation timelier.

Implementing the corrective actions recommended below should ensure agreements are closed out in accordance with regulatory requirements by strengthening FAS' oversight controls of the agreement closeout process as outlined in the recommendations.

Recommendation 8

Revise current agreement closeout policies and procedures to reflect regulatory requirements.

Agency Response

FAS agreed with this recommendation. FAS will revise its current agreement closeout policies and procedures to reflect regulatory requirements.

⁶³ FAS' 2019 reorganization changed branches responsible for the agreement closeout process, which may have impacted its prior corrective actions.

⁶⁴ This amount represents the unexpended program funds obligated to the agreements in the payment information system as of August 2023, which have not been subject to a FAS closeout review. Consequently, this amount could be different based on the results of FAS' closeout review.

⁶⁵ During the closeout review, FAS performs financial reviews that may find recipients used funds for unauthorized costs or did not return unused portions of advance payments in accordance with regulatory requirements. In these cases, recipients must return the funds to FAS which would increase the amount of program funds available for other new, or ongoing McGovern Dole Program projects. Conversely, FAS may find that recipients were owed additional funds under the agreement, which would decrease the amount of unexpended program funds available under the award.

OIG Position

We accept management decision.

Recommendation 9

Establish and implement a formalized plan to resolve the historical backlog and close out these agreements.

Agency Response

FAS agreed with this recommendation. FAS will establish and implement a formalized plan to resolve the historical backlog and close out these agreements.

OIG Position

We accept management decision.

Recommendation 10

Analyze whether FAS' existing closeout process (including the agency's existing resources and distribution of responsibilities) is effective to meet its objectives, and implement closeout process revisions, if needed, based on the results.

Agency Response

FAS agreed with this recommendation. FAS will analyze whether the existing closeout process (including the agency's existing resources and distribution of responsibilities) is effective to meet its objectives and, if needed, implement closeout process revisions.

FAS also concurred with the monetary impact associated with this recommendation via email on May 9, 2024, though FAS stated the amount may be lower because FAS has closed out a number of agreements since OIG initially identified the monetary impact.

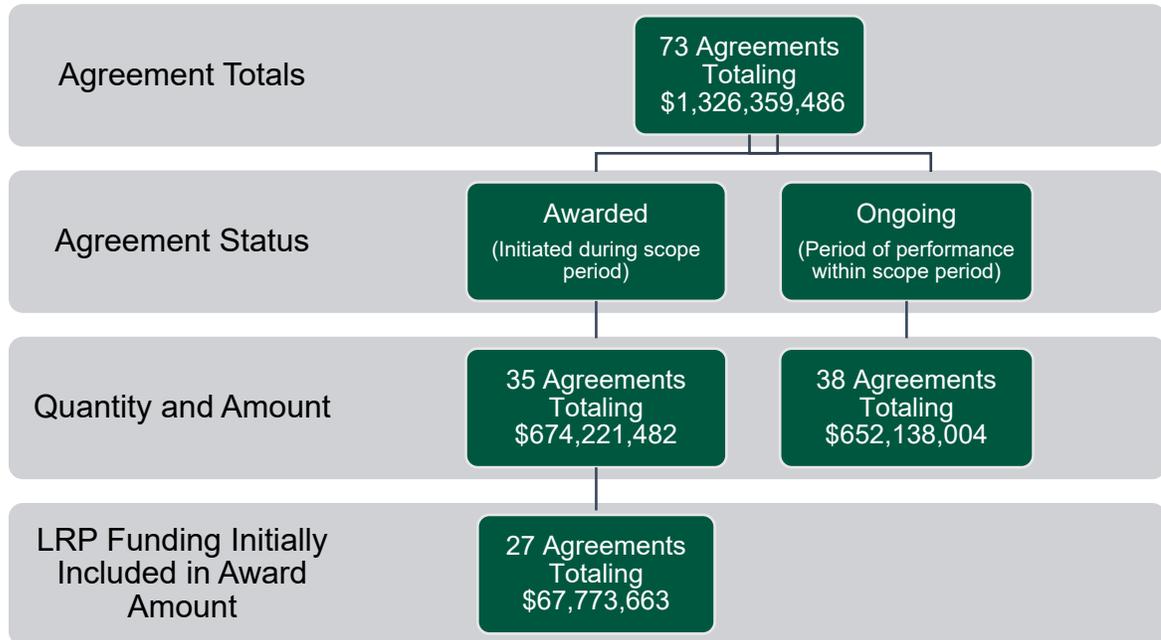
OIG Position

We accept management decision.

Scope and Methodology

We conducted an audit of FAS’ controls over the McGovern-Dole Program cooperative agreement funding from FYs 2019–22, which totaled more than \$1.3 billion for agreements awarded or ongoing during this period.⁶⁶ ⁶⁷ See Figure 5 below, for a summary of the agreement funds.

Figure 5: McGovern-Dole Program Cooperative Agreements from FYs 2019–22.⁶⁸ Figure by OIG.



We performed fieldwork remotely with the FAS National Office (located in Washington, DC), from November 2022 to February 2024.

To accomplish our audit objectives, we performed the following:

- Reviewed applicable laws and regulations related to the McGovern-Dole Program cooperative agreements to gain an understanding of the program and its funding requirements;

⁶⁶ This represents the total amount of administrative funds (or direct financial assistance) that FAS awarded recipients to implement their food for education projects in developing countries. On average, these funds accounted for more than 73 percent of the recipients’ total awards (that also included U.S.-donated commodities and related freight costs that were not reviewed as part of this audit).

⁶⁷ During our fieldwork, we expanded our universe to include an additional 18 agreements with period of performance end dates that pre-dated our scope period; these agreements were still open during our scope period and had not been closed in accordance with regulatory requirements (see Finding 4).

⁶⁸ This information is based on data FAS provided from USDA’s Web Based Supply Chain Management system in August 2023, and FAS’ Food Aid Information System in November 2022.

- Reviewed written policies, procedures, and other guidance related to FAS’ compliance reviews, administration and oversight of LRP funding, advance payment request and approval process, and its cooperative agreement closeout process for the McGovern-Dole Program, to gain an understanding of FAS’ internal controls related to the program’s agreement funding;
- Interviewed FAS officials to obtain an understanding of FAS’ administration and oversight of the program’s agreement funding and applicable LRP requirements; and
- Reviewed cooperative agreement examples and related documentation to assess FAS’ implementation of its controls over the program agreement funding, and advance payment requests.

We identified 11 recipients that received 73 McGovern-Dole Program cooperative agreements that were awarded or ongoing during our scope period. We non-statistically selected nine agreement examples and related documentation from six recipients for further review,⁶⁹ which totaled more than \$196.6 million.⁷⁰ See Table 2 below, for more information related to these agreement examples.

Table 2: Cooperative Agreement Examples

Example Categories	Primary Selection Criteria	Scope Period (FYs)	Number	Amount
Initial Examples	FY awarded; Highest awarded amounts; and Recipient type. ⁷¹	2019-22	3	\$79,237,678
Compliance Review Examples	Compliance review conducted under FAS’ current review guidance. ⁷²	2021-22	4	\$71,825,335
LRP Examples	Highest awarded amounts.	2021-22	2	\$45,635,230
Total			9	\$196,698,243

Table by OIG. Information obtained from FAS’ Food Aid Information System, USDA’s Web Based Supply Chain Management payment system, and FAS.

⁶⁹ The related documentation for the agreement examples included recipient advance payment request forms, FAS compliance review steps and reports, recipient semiannual financial reports, recipient local and regional commodity distribution plans, etc.

⁷⁰ This represents the total amount of administrative funds (or direct financial assistance) that FAS awarded to these recipients to implement their food for education projects in developing countries.

⁷¹ McGovern-Dole Program projects are implemented through recipients such as Private Voluntary Organizations (PVOs) and international organizations. We excluded international organizations from our selection because they were not subject to the grants and cooperative agreement requirements in 2 C.F.R. pt. 200.

⁷² FAS’ current review guidance includes overall guidance that was updated in October 2021, as well as detailed review steps that were updated in 2020 according to FAS.

During the course of the audit, we obtained cooperative agreement data from FAS’ Food Aid Information System and USDA’s Web Based Supply Chain Management payment system, and we relied on them to develop the reported findings. To assess the reliability of these data, we compared the data from each system and tested to verify the accuracy and completeness of the information. In addition, we obtained independent assessments and reports, which evaluated the systems’ internal controls and did not identify any significant issues with data quality and integrity. Further, we obtained the systems’ authorization to operate that certified adequate security controls had been implemented in the information systems. Security controls include the management, operational, and technical controls (i.e., safeguards or countermeasures) that protect the integrity and availability of the system and its information. However, we did not independently review or assess any agency system; therefore, we make no representation regarding the adequacy of any agency computer system, or the information generated from it.

We also assessed internal controls significant to the audit objectives. In particular, we assessed:

Component	Principle
Risk Assessment	Management should define objectives clearly to enable the identification of risks and define risk tolerances.
Risk Assessment	Management should identify, analyze, and respond to significant changes that could impact the internal control system.
Control Activities	Management should design control activities to achieve objectives and respond to risks.
Control Activities	Management should implement control activities through policies.
Information and Communication	Management should externally communicate the necessary quality information to achieve the entity’s objectives.
Monitoring	Management should remediate identified internal control deficiencies on a timely basis.

Because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed the results of our audit with agency officials on March 14, 2024, and included their comments, as appropriate.

Abbreviations

C.F.R.	Code of Federal Regulations
CSD	Compliance Security Division
FAS	Foreign Agriculture Service
FASAB	Federal Accounting Standards Advisory Board
FY	fiscal year
GAO	Government Accountability Office
LRP	local and regional procurement
McGovern-Dole	McGovern-Dole International Food for Education and Child Nutrition Program
PVO	Private Voluntary Organization
OGC	Office of the General Counsel
OIG	Office of Inspector General
SOP	Standard Operating Procedure
U.S.	United States
U.S.C.	United States Code
USDA	United States Department of Agriculture

Exhibit A: Summary of Monetary Results

Exhibit A summarizes the monetary results for our audit report by finding and recommendation number.

Finding	Recommendation	Description	Amount	Category
1	1	Inadequate Oversight of Recipient Program Expenditures	\$99,259,289	Questioned Costs and Loans, No Recovery
2	2	Inadequate Oversight of Earmarked Funds	\$67,773,633	Questioned Costs and Loans, No Recovery
4	10	Cooperative Agreements Need to be Closed Out	\$19,925,665	Funds to be Put to Better Use, De-obligations
Total			\$186,958,587	

**Foreign Agricultural Service's
Response to Audit Report**



United States
Department of
Agriculture

Trade and Foreign
Agricultural
Affairs

Foreign
Agricultural
Service

1400 Independence
Ave, SW
Washington, DC
20250-1052

TO: Janet Sorensen
Assistant Inspector General for Audit
Office of Inspector General

FROM: Daniel Whitley
Administrator
Foreign Agricultural Service

SUBJECT: Response to the Office of Inspector General Draft Report “Foreign Agricultural Service’s Controls Over McGovern-Dole International Food for Education Program Funding” (07601-0002-41)

The Foreign Agricultural Service (FAS) appreciates this opportunity to respond to the Office of Inspector General’s (OIG) draft audit report on the McGovern-Dole International Food for Education and Child Nutrition Program. We also appreciate the time OIG auditors took to understand the program and our administration of it. The ten OIG recommendations, and the FAS response to each, are presented below.

Recommendation 1:

Update compliance review guidance to: (a) establish and execute a minimum review cycle that defines the frequency for conducting compliance reviews of McGovern-Dole Program recipients and agreements; (b) incorporate clear instructions for sampling transactions that ensures consistency among reviewers, and (c) include LRP funds as part of the compliance review.

FAS Response:

We agree with this recommendation. By December 31, 2024, FAS will update compliance review guidance to: (a) establish a minimum review cycle that defines the frequency for conducting compliance reviews of McGovern-Dole Program recipients and agreements; (b) incorporate clear instructions for sampling transactions that ensures consistency among reviewers; and (c) include examining the use of LRP funds as part of future compliance reviews, all for implementation in fiscal year (FY) 2025.

Recommendation 2:

Assess the administrative impact of the Appropriation Act earmarks and determine and implement all necessary response actions.

FAS Response:

We agree with this recommendation. FAS will assess the administrative impact of the Appropriation Act earmarks and implement all final necessary response actions by December 31, 2024.

Recommendation 3:

Coordinate with OCFO to ensure that LRP funds are properly accounted for and tracked separately from other McGovern-Dole Program funds for agreements issued in FYs 2021 and 2022. As applicable, remediate or consult with OGC on any potential Antideficiency Act violations noted and, if applicable, include any nonconformance in the agency's Federal Managers' Financial Integrity Act Annual Certification Statement.

FAS Response:

We agree with this recommendation and have consulted with Office of General Counsel (OGC) and coordinated with the Office of the Chief Financial Officer (OCFO). FAS will ensure that LRP funds are properly accounted for and tracked separately from other McGovern-Dole Program funds for agreements issued in FYs 2021 and 2022 by December 31, 2024.

Recommendation 4:

Analyze whether recipients expended LRP funds exactly as budgeted since FY 2020. If they did not, determine whether the recipients exceeded their LRP budgets, and if so, take appropriate action as needed.

FAS Response:

We conducted an analysis of FY20 and beyond agreements, determining that recipients expended LRP funds as planned and budgeted to date as agreements from FY 20 are still being implemented and have not reached the closeout period. In addition, FAS determined that, for current agreements, recipients did not exceed their LRP budgets. Preliminary analysis was completed in April of 2024, and additional analysis and any necessary action will be conducted by December 31, 2024.

Recommendation 5:

Revise policies and procedures to: (a) review recipients' advance payment requests and independently identify, calculate, and document whether the requests include rollover amounts; and (b) assess rollover funds by considering and documenting the requests' merits in accordance with the regulatory requirements.

FAS Response:

We agree with this recommendation. By December 31, 2024, FAS will revise policies and procedures regarding recipients' advance payment requests to independently identify, calculate, and document whether the requests included rollover amounts, and assess rollover funds by considering and documenting the requests' merits in accordance with regulatory requirements.

Recommendation 6:

Analyze the advance payment requests FAS received from FY 2023 to the date of implementation of advance payment review policies and procedures in Recommendation 5 to determine whether the recipients included rollover funds and follow up as needed.

FAS Response:

We agree with this recommendation. By December 31, 2024, FAS will complete an analysis of the advance payment requests received from FY23 to the date of implementation of advance payment review policies and procedures in Recommendation 5 to determine whether the recipients included rollover funds and follow up as needed.

Recommendation 7:

Review and update FAS' reimbursement and advance payment tracking system to accurately track recipients' advance payment requests including rollover funds.

FAS Response:

We agree with this recommendation and by December 31, 2024, FAS will review and update our reimbursement and advance payment tracking system to accurately track recipients' advance payment requests including rollover funds.

Recommendation 8:

Revise current agreement closeout policies and procedures to reflect regulatory requirements.

FAS Response:

We agree with this recommendation. FAS will revise its current agreement closeout policies and procedures to reflect regulatory requirements by September 30, 2024.

Recommendation 9:

Establish and implement a formalized plan to resolve the historical backlog and close out these agreements.

FAS Response:

We agree with this recommendation. FAS will establish and implement a formalized plan to resolve the historical backlog and close out these agreements by December 31, 2024.

Recommendation 10:

Analyze whether FAS' existing closeout process (including the agency's existing resources and distribution of responsibilities) is effective to meet its objectives and implement closeout process revisions, if needed, based on the results.

FAS Response:

We agree with this recommendation. FAS will analyze whether the existing closeout process (including the agency's existing resources and distribution of responsibilities) is effective to meet its objectives and, if needed, implement closeout process revisions by December 31, 2024.

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