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# History of Oversight Arrangements for Foreign Aid

The Inspector General Act was preceded by an evolving set of arrangements for evaluation, investigation, inspection, and audit services at individual Federal entities. The foreign aid program, in particular, has had a long association with an Inspector General (IG).

The Mutual Security Act expanded foreign aid provided under the Marshall Plan which operated from 1948-1951. Subsequently, as assistance increased, the Department of State's Office of Inspector General (OIG) and Comptroller for Mutual Security were responsible for a financial and statistical annual report to the Congress under the Mutual Security Act of 1954, as amended. The Division of Financial Management worked with other elements of the Department of State to prepare this report. This function was not seen as compromising the independence of judgment and decisions with respect to other financial matters under its jurisdiction. The OIG and Comptroller attended meetings of the Mutual Security Steering Group for the purpose of gathering information related to its responsibilities for evaluations, investigation, audit, and financial management. While oversight arrangements by the IG complied with the Mutual Security Act, independence was questioned by some.

The oversight challenges, the institutional arrangements, and the relationship with Congress contributed to the evolution and advancement of subsequent IGs at civilian agencies. The State Department's Inspector General continued to have broad oversight responsibilities even as the Agency for International Development was established as a component within the Department of State with its own internal evaluation and oversight arrangements.

## **Early History—Administrative Actions**

President John Kennedy directed the Secretary of State to “establish an agency in the Department of State to be known as the Agency for International Development” on November 3, 1961. As U.S. Government foreign assistance programs were consolidated into the U.S. Agency for International Development (USAID) from the International Cooperation Agency and other departments and agencies, USAID had designated officials responsible for accountability and oversight of its programs. Their positions were established administratively.

In July 1962, a Management Inspection Staff was formed to “assist the Administrator by conducting investigations and internal audits and submitting evaluations of the effectiveness of AID operations.” The Staff, which conducted reviews similar to performance evaluations and inspections, reported directly to the Administrator’s office. This unit, along with the audit activities in the Office of the Controller and the security function, eventually evolved into the USAID Auditor General’s office.

## **Legislation Establishes Inspector General for Foreign Assistance**

The Act for International Development of 1961 created the position of Inspector General of Foreign Assistance (IGA)—one of the first Inspectors General in Federal civilian agencies. The legislation required that the President nominate and the Senate confirm the IGA.

The IGA, with duties across several departments and agencies, reported to the Secretary of State. The direct access assured that observations and recommendations would reach the Secretary. Care was taken to prevent the IGA from being dependent on the administrative budget of any of the agencies under its jurisdiction.

The IGA was tasked to arrange, direct, or conduct reviews, inspections, and audits to ascertain the efficiency and economy of programs under its

jurisdiction and their consonance with foreign policy. The IGA had responsibilities for substantive reviews of foreign aid covering multiple agencies, unlike tasks normally associated with internal audit activities. This included policy and procedural issues of interest to the State Department’s senior-level management. At that time, in contrast, internal audit activities at USAID focused on compliance with established policy rather than on efforts to evaluate the policy itself.

The IGA had authority to suspend all or any part of a project or operation unless the Secretary of State overruled the suspension. Expenses for the IGA—not to exceed \$2 million a year—were charged against the appropriations of the programs reviewed (including USAID, the Peace Corps, and the Military Assistance Program). This contributed to the independence of the IGA as it prevented the curtailment of travel funds or other operations to the detriment of the IG’s effectiveness. (The Military Assistance and foreign assistance programs were part of the Foreign Assistance Act.)

Congress sought to strengthen the capacity for auditing foreign assistance programs through the IGA office. While the goals and scope were well intentioned from the start, over time, the work product of the Inspector General for Foreign Assistance was questioned. While the IGA’s reports were read by the State Department’s top officials, the efforts to ensure Department compliance with routine IGA inspection findings did not go smoothly. The inability to obtain management compliance with recommendations also hindered the IGA from achieving results. The recommendations mostly concerned management improvements or policy recommendations without dollar amounts that could be claimed as defined dollar savings. The IGA moved ahead with a broad mandate and ever evolving issues and challenges related to its effectiveness. Some of the IGA experience would later become “lessons learned” in the establishment of subsequent IGs.

In a review of the IGA office, the General Accounting Office (GAO) subsequently reported

that the IGA was ineffective as established and duplicated the work of other better-managed offices (with stronger operational arrangements) that performed evaluations of foreign aid. GAO claimed that it was better positioned to perform such work. Meanwhile, independent of the IGA's operations, internal reorganizations during the late 1960's and 1970's helped USAID strengthen several offices that were to have a role in the formation of its OIG.

### **Consolidation of Compliance Functions at USAID**

The Assistant Administrator for Administration, responsible for the Office of the Controller, gained responsibility for the Office of Security in 1964 and later the Management Inspection Staff.

### **Management Proposes an Auditor General at USAID**

Starting in the mid-1960's and continuing in the 1970's, the need for greater independence of the audit function was generally recognized throughout government. When stories of widespread fraud were reported, the public became concerned about government accountability. As a result, department managers and Congress sought reform through strengthened audit and investigative oversight. As change came to other departments and agencies, it also came to USAID.

The USAID Auditor General began operations in March 1969, largely to the credit of Edward Tennant, Assistant Administrator for Administration, who recommended the creation of an Auditor General at USAID.

Tennant made several observations: (1) the audit function, in the Office of the Controller, was thrice removed in the reporting chain from the Administrator, (2) the controller had dual responsibilities as the "keeper of accounts" and chief auditor, and (3) the controller was very much involved in the subject matter he was responsible for auditing.

Based on sound management practice and inspired by reform initiatives in other Federal agencies, Tennant recommended that the agency's auditors be independent of all operations subject to audit. This applied to USAID's overseas activities located in field missions. At that time, agency auditors posted overseas worked for the mission controller, who worked for the mission director. Some mission directors wanted this function to remain under their direction.

Congress became involved when it learned that a mission director "sat on draft audit reports and refused to permit their release." As a consequence, support grew for organizational independence of the audit function. Some, nevertheless, still believed that the mission director needed an auditing staff as a "line management" tool to alert them to problems and directly respond to the mission director's specific priorities.

Tennant believed that "the Administrator is in the best management position if he has an independent audit staff calling the shots as they see them balanced by the views of the responsible operating officials." Under his proposal, the Auditor General would work with Mission Directors to develop a plan that included their priorities and concerns. Even though independent of the agency's field operations, "auditors want to be used, called upon, respected, and even loved (sometimes) . . ." according to Tennant. He thought that such character traits qualified auditors to dig into special problems when called upon by the missions.

Senior management also had concerns about granting the Auditor General excessive independence. Tennant addressed these concerns in his auditor general plan. The agency's chief auditor would be a member of the executive staff and attend staff meetings and senior councils. In addition, the individual would be a multi-disciplined professional, well attuned to the aid business, with a good understanding of operating abroad, and have a feel for the inherent difficulties of managing USAID's high-risk business, where the partner is

a cooperating country not particularly geared to United States management or accountability standards.

## **Auditor General Operations Begin**

On June 16, 1969, the USAID Administrator John Hannah issued a memorandum entitled "Activation of Auditor General Operations." It read in part:

The President has announced in his Foreign Aid Message that we will establish 'better means of continuous management inspection' in A.I.D. I am today establishing the Auditor General operation referred to by the President. Mr. Edward F. Tennant is hereby named Auditor General reporting directly to the administrator.

This innovation in the management of A.I.D.'s programs reflects this Administration's desire to assure that the Agency manages its business in the most effective way possible. All of us in this Agency have a great responsibility with respect to the handling of the public funds, and all of us want to discharge that responsibility properly and effectively. I am convinced a wide-ranging, independent internal review activity will help provide me, and all of our managers, the necessary protective and constructive services absolutely essential to good management . . . Our future emphasis would be teamwork and improved management effectiveness. We must detect problems and issues at the earliest possible stages and promptly effect corrective action. To help accomplish this, the Auditor General operation will be structured to meet both the needs of top management and subordinate management levels. Thus, the Auditor General and his staff will be fully responsible to requests of operating managers for audits and investigations to help them discharge their basic operating responsibilities.

The Office of the Auditor General was subsequently established from units under the Assistant Administrator for Administration. These included the audit division (removed from the Office of Controller), the Office of Security, the inspections and investigations staff, and the compliance and management effectiveness staff. This action placed

under central management all of the agency's compliance functions. Strong congressional interest in improved audit activity at USAID added support for this arrangement.

USAID's Office of Auditor General worked closely with the IGA. The Auditor General's audit reports and planning reports (showing the status of each program and project audit and the next audits to be undertaken) were routinely sent to the IGA. This helped avoid duplication.

On October 30, 1969, the Administrator directed the executive staff and mission directors to transfer the mission-based audit activities to the Auditor General's operation. In 1973, Harry C. Cromer became USAID's Auditor General. He was succeeded by Herbert L. Beckington in 1977. While USAID and the Inspector General for Foreign Assistance (IGA) shared information, they disagreed from time-to-time on operating procedures for reviews.

One procedure allowed IGA staff to attend USAID's internal "pre-decisional" project discussions and review files. Under its standard procedures, IGA issued reports and forwarded them to Congress before the agency could comment, which sometimes subjected the agency to criticism. In one case involving a loan program, GAO applauded IGA's approach and expressed the view that ". . . questioning of proposed projects represents one area where IGA can be of substantial assistance to Congressional appropriation committees."

Further, the IGA was viewed as an organization that placed an emphasis on being responsive to Congress but failed to meet the needs of management. Under the IGA, management did not always have an opportunity to act on IGA findings before the reports became public. So, while the IGA conducted audits and investigations to identify savings or wrongdoing, its reports did not support management responsibilities. The IGA reports were not useful to the secretary, according to some.

The Murphy Commission on Reorganization of Government for the Conduct of Foreign Policy

recommended that the IGA be disbanded. The International Development and Food Assistance Act of 1977 authorized the transfer of IGA duties and functions and the office was abolished effective July 1, 1978. Responsibilities of the IGA were divided, with some going to the Inspector General for the Foreign Service at the Department of State. In 1978, the other office in a good position to gain duties was USAID's Auditor General.

### **Inspector General Act of 1978 Takes Form**

Reacting to highly publicized scandals in government programs, Congress held hearings on issues facing departments and agencies and on the features and authorities needed by Inspector General offices. In the spring of 1978, the Senate Subcommittee on Governmental Efficiency and the District of Columbia invited testimony from the IGs of Health, Education and Welfare, the Foreign Service, Department of State, and the Auditor General of the Agency for International Development, Herbert Beckington, among others. Based on the testimony of the Auditor General, Congress determined that USAID would not be part of the IG Act as originally passed in 1978.

Congress had confidence in the workings of the USAID Auditor General. In addition, the State Department (of which USAID was a part) already had an "Inspector General and Controller." So for the time being neither State nor USAID (as part of State) came under the IG Act as first passed.

Three other developments had significant impact on USAID's Auditor General organization. First, an amendment to the Foreign Assistance Act made the Auditor General a statutory office in USAID and required an annual report to Congress. Second, President Carter by Executive Order in December 1978, extended significant features

of the IG Act to all executive departments and agencies. Third, substantial new responsibilities and authorities were granted by amendment to the Foreign Assistance Act.

The new amendments, which provided protection for whistleblowers, required the IG be provided with suitable office space and administrative support, and for the first time, granted subpoena power. The audit and investigation duties, responsibilities, and authorities of the USAID IG were now almost the same as those accorded the Inspectors General established by the 1978 Inspector General Act. Shortly, USAID's Office of Inspector General would be established under the mandate of the Inspector General Act of 1978, as amended.

### **USAID Comes under the Inspector General Act of 1978**

The International Security and Development Cooperation Act, signed on December 29, 1981, brought USAID's OIG under the Inspector General Act of 1978 (IG Act). As an entity under the IG Act, the USAID Office of Inspector General became fully independent within USAID. To meet the IG Act requirements, the first semiannual report of the IG was issued for the period ending March 31, 1982, joining USAID to the modern era of Inspectors General.

In conclusion, the Foreign Assistance program was overseen by an IG for many years during which time much was learned regarding making workable, efficient oversight arrangements which may well have contributed to the professional practices of IGs. So while the programs of foreign assistance were under the oversight of an Inspector General, they did not come under the IG Act until after they were placed in an independent agency and that agency's Inspector General was brought within the IG Act. 🏠