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INSPECTOR GENERAL'S VERDICT: FRAUD, WASTE, AND ABUSE AT AID

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As Congress begins its work on the federal budget, one item sure to receive intense scrutiny is foreign aid. Despite the overwhelming evidence that suggests foreign aid does more harm than good, the Clinton Administration has submitted a budget that calls for \$1.4 billion in increased foreign aid spending. Why would the Clinton Administration ask for increased foreign aid spending when the agency responsible for most aid programs—the Agency for International Development (AID)—remains mired in fraud, waste, and abuse? According to several recent audits by AID's own inspector general, the agency has continued to waste millions of tax dollars—as much as \$70 million from April 1, 1995, to September 30, 1996, alone.

AID has a long-standing reputation as one of the worst-run and most poorly organized federal agencies. In 1989, for example, a task force report co-authored by Representatives Lee Hamilton (D-IN) and Benjamin Gilman (R-NY) concluded that AID was poorly managed and in dire need of reform—possibly even elimination as an independent agency. Even Vice President Albert Gore's "reinventing government" initiative concluded that U.S. foreign aid programs need reform. This consensus induced former Secretary of State Warren Christopher to recommend in 1995 that AID be abolished and its activities merged with those of the State Department.

Skepticism over AID's performance has been met with intense lobbying by AID bureaucrats. Indeed, AID's top official, J. Brian Atwood, recently acknowledged that "In the past three years, we have seen major management reforms change USAID's image as well as its operations. As one of the lead agencies of the National Performance Review, our Agency has been one of the most ambitious in all of government in trying to do what we do better."¹

Atwood's claim of progress, however, is at odds with a series of reports released by AID's own inspector general. According to these reports, AID is managed no better today than it was almost a decade ago.² The inspector general's office is required by law to provide Congress with semiannual

1 Remarks of J. Brian Atwood before Advisory Committee for Voluntary Foreign Assistance, Washington, D.C., September 10, 1996.

2 The Heritage Foundation has published a series of papers on the reports of the inspector general dating back to

reports summarizing its audit findings. These audits reveal a picture far different from that painted by Atwood. Consider a few recent examples:

- **Wasted funds.** The inspector general's office has determined that AID continues to waste tax dollars. For example, from April 1, 1995, to September 30, 1996 (the most recent period covered by these audits), AID was found to have wasted almost \$70 million on questionable programs.³
- **The slow pace of reform.** AID is required by law to develop a management system that "adopts methods for comparing actual results against those anticipated when the programs and projects were undertaken."⁴ According to the inspector general, however, "USAID [does] not yet have fully effective systems for measuring results."⁵ Although AID has developed a new management system, the most recent IG report concludes that "as of September 1996, none of the eight NMS [New Management System] subsystems was fully operational and less than one percent of the Agency's normal monthly volume of obligations...was being entered into the new core accounting system."⁶ Thus, 99 percent of all AID spending is managed by outdated accounting systems, and AID has given no assurance that most of its spending is achieving stated objectives.
- **Waste in participant training activities.** AID spends about \$300 million each year to bring foreign students to the United States for a variety of educational training programs. This includes support for foreign graduate students. Yet the inspector general found that about "36 percent of the Agency's graduate participants attended schools with tuition ranging from \$8,001 to \$20,000 although the average cost of a graduate school nationwide is \$7,206."⁷
- **Waste in the Egypt Irrigation Management Systems Project.** Since AID began an irrigation project in Egypt in 1981, it has spent some \$42 million. The purpose of the project was to increase Egyptian agricultural production. The inspector general found, however, "that the [AID] Mission had difficulties quantifying project results since it could not link project outputs to increases in agricultural production—a key part of the indicator being used to measure irrigation efficiency."⁸
- **Food aid fraud in Haiti.** A major purpose of the U.S. foreign aid program in Haiti is to provide substantial food aid to Haiti's citizens. A recent audit, however, found that the food program has "incurred substantial commodity losses due to theft..." Specifically, AID could not account for 2,732 metric tons of commodities valued at \$1.1 million.⁹

1987. See Bryan T. Johnson, "Inspector General Finds Fraud and Waste at AID," *F.Y.I.* No. 49, January 11, 1995; "At AID, New Inspector General Reports Confirm Need for Reforms," *Background Update* No. 166, August 9, 1991; "Inspector General Finds Many AID Projects Wasteful Failures," *Background Update* No. 159, May 6, 1991; "Inspector General Audits Find AID Problems Continue," *Background Update* No. 127, March 9, 1990; "Inspector General Verdict: Poor Planning on AID Projects," *Background Update* No. 103, June 5, 1989; and "Results of Inspector General Audits of AID," *Background Update* No. 93, February 15, 1989. See also Melanie S. Tammen, "New Audits Find More Foreign Aid Waste," *Background Update* No. 90, December 13, 1988; "More Audits Uncover Aid Failures," *Background Update* No. 78, June 8, 1988; and "Inspector General Audits Reveal Aid Failures and Boondoggles," *Background* No. 618, November 23, 1987.

3 U.S. Agency for International Development, Inspector General's Office, *Semiannual Report to the Congress*, reports covering the 18-month period from April 1, 1995, to September 30, 1996; cited hereafter as AID IG reports.

4 AID IG report, April 1, 1995, to September 30, 1995.

5 *Ibid.*

6 AID IG report, April 1, 1996, to September 30, 1996.

7 AID IG report, April 1, 1995, to September 30, 1995.

8 *Ibid.*

9 *Ibid.*

- **U.S. contractor abuses.** A considerable number of AID's projects are performed by U.S. companies that contract with the agency. Although some proponents of foreign aid argue that such contracting cuts down on fraud and waste, recent audits by the inspector general have found otherwise. For example, a Pennsylvania company was hired by AID to help refurbish an Egyptian industrial plant. The company then hired non-U.S. citizens to perform the work, paid minimal wages, and billed AID for \$98,999.05 more than it had paid these workers, just as if it had paid them the higher wages.¹⁰ In another example, an official of a Private Voluntary Organization (PVO) reported to the inspector general's office that the PVO had received a letter on official AID stationery soliciting a \$5,000 contribution to be used by the solicitor to orchestrate a congressional lobbying campaign against proposed budget cuts. The audit found that the perpetrator was an AID contractor who had stolen the stationery while in AID's facilities.
- **Waste in small enterprise credit project in Egypt.** AID often provides money to less-developed countries to stimulate credit for borrowers. One such a project was provided to the Egyptian National Bank for Development in 1994. The inspector general found that \$1,023,040 of the \$3,470,013 AID gave to the bank was of a "questionable" nature¹¹ and that almost one-third of the funding for the entire project had been wasted.
- **Food aid fraud in Mozambique.** The United States donated 458,000 metric tons of food to Mozambique between 1991 and 1994. A recent audit found that "poor quality commodities, subsequently determined by USAID management to be 'unfit for human consumption'" had been sent to Mozambique. Purchase, transport, and disposal costs to AID totaled some \$8 million. Moreover, some \$1,376,378 worth of the remaining edible food was stolen while being unloaded, "often in the plain view of port security guards."¹²
- **Waste in cash grants to Chad.** From July 1994 to March 1995, AID provided some \$3,449,937 in cash grants to Chad for a variety of development purposes. An audit of the project found that \$3,405,801, or 98.7 percent, of this amount was "questionable"¹³ and that almost all the funding for this program was wasted.

CONCLUSION

Supporters of the Agency for International Development argue that these are only isolated cases, but the pattern of waste, fraud, and abuse revealed in the reports of the inspector general cannot be denied. Despite numerous attempts to reform it since the end of the Cold War, this federal agency remains unreformed. It is time to admit the obvious: AID is beyond reform. It is time to abolish AID and most of its functions.

10 *Ibid.*

11 AID IG report, October 1, 1995, to March 31, 1996.

12 *Ibid.*

13 AID IG report, April 1, 1996, to September 30, 1996.

