



Management Accountability And Control

USAID has undertaken comprehensive management reforms to improve accountability and make the Agency more efficient and results oriented. Although the reform process continues, the way USAID does business and the approaches to the delivery of foreign assistance have changed dramatically.

USAID's management controls (organizations, systems, policies, and procedures) have been reengineered over the past few years to support the reforms and improve the integrity of its operations. Among other things, the Agency was reorganized to reduce overlap and layering and to facilitate empowerment of Agency staff. New program operations procedures were adopted to achieve better results, improve delivery of assistance, and provide better service to customers. An automated directives system provides USAID staff access to policies, procedures, and supplemental information needed to effectively implement the programs and manage the administrative operations of the Agency.

In fiscal year 1997, USAID deployed a new management information system

ANNUAL ASSURANCE STATEMENT

As of September 30, 1998, the management accountability and control systems of the Agency for International Development provided reasonable assurance that the objectives of the Federal Managers Financial Integrity Act were achieved, with the exception of the material weaknesses noted. This statement is based on the results of an Agencywide management control assessment, Inspector General audits, and input from senior program and administrative officials.

—J. BRIAN ATWOOD
Administrator

worldwide to improve accountability and provide more timely information for decision-making. The New Management System (NMS) encompasses all the core business systems—accounting, procurement, budget, and program operations. After a series of technical difficulties, selected modules of NMS were suspended in field missions, while operations continued in Washington. USAID changed its approach to the development of NMS to correct the technical difficulties and management control deficiencies identified by Agency staff and the Office of the Inspector General.

An independent review of NMS recommended ways to repair and replace NMS modules that were not functioning as planned.

Material Weaknesses: An Overview

In the fiscal year 1997 Federal Managers Financial Integrity Act report, USAID identified seven material problems in control systems and procedures. These included problems in financial management systems and procedures, security and reporting capabilities of the NMS, information resources management processes, and the computer security program. Although progress has been made, the weaknesses were not fully corrected during fiscal year 1998.

Two additional weaknesses were identified in fiscal year 1998 related to the year 2000 computer problem and USAID's program performance reporting.

USAID's primary accounting system was identified as a material weakness in fiscal year 1988. Several efforts have been made to resolve the deficiency, including development of the Agencywide Accounting and Control System, a component of NMS. The system did not meet expectations. It does not comply with some important financial management system requirements, and internal control deficiencies exist.

The direct loan program was also identified as a material weakness in fiscal year 1994. Additional controls and an integrated general ledger system are needed to effectively manage the program.

A three-pronged strategy is being implemented to correct the Agency's financial management deficiencies. The strategy combines the acquisition

of a commercial off-the-shelf core accounting system, cross-servicing with another government agency, and outsourcing to private industry.

A business process improvement analysis was completed during fiscal year 1998. It helped define functional requirements for the accounting system. USAID plans to acquire the new accounting system in fiscal year 1999. Phased implementation will occur in Washington and in field missions during fiscal years 2000 through 2002.

A Credit Review Board has been established to direct the policy, planning, and implementation of the Agency's portfolio of loans and loan guarantees. USAID signed a contract with Riggs National Bank in July 1998 for the servicing of loan accounts. The outsourcing will reduce vulnerability in the management of the program to the extent that it will no longer be a material weakness. The credit program general ledger will be incorporated into the new accounting system in fiscal year 2001.

USAID's financial management policies and procedures have not been fully updated and incorporated into the automated directives system. Therefore, policy guidance and regulations are not readily available to USAID staff from a complete and easily accessible source. The Agency expects to significantly reduce this material weakness during fiscal year 1999.

USAID identified the security and access controls in NMS as a material weakness in fiscal year 1997. NMS was developed within time constraints that did not permit a comprehensive and integrated computer security and access control plan. The material weakness resulted from the level at which controls are implemented in the system, the design of access control roles, audit trails of system activity,

user identification and password administration, and access to sensitive Privacy Act information.

In February 1998 a contract was awarded through the General Services Administration to identify means to improve NMS security, test security enhancements, recommend utilities and tools to improve security, and prepare a structured knowledge base of NMS risks, deficiencies, security practices, and system capabilities. This work is ongoing.

GSA also awarded a performance-based task order to a firm to serve as the Agency's prime contractor on NMS for the next five years. The contractor will implement and maintain an NMS security plan. USAID expects to fully correct this weakness by fiscal year 2001.

NMS reporting and resource management capabilities are also identified as a material weakness. The system does not yet generate reports that are timely, accurate, and sufficiently useful to manage the Agency's resources. A number of steps have been taken to address this weakness. In September 1998, a total of 158 reports and queries were available to USAID staff.

The longer term strategy to improve NMS reporting requirements will be addressed by implementation of the new accounting system with interfaces to other NMS modules. The weakness is scheduled for correction in fiscal year 2001.

Another material weakness is found in the Agency's information resources management processes, in which there are organizational and management deficiencies. During fiscal year 1998, USAID began implementing a new information technology management strategy that will improve compliance with the Clinger-Cohen Act. The new approach identifies and incorporates

industrywide best-practices and lessons learned to improve management discipline.

Among other things, the Agency established a Capital Investment Review Board for information technology to provide broad management oversight for investments. An interagency agreement was signed in fiscal year 1998 to have the Software Engineering Institute provide USAID with technical support to implement disciplined software engineering methods in both acquisition and development activities. In addition, a contractor is providing the Agency with specialized management advice, support, and expertise. USAID expects this material weakness to be corrected in fiscal year 2000.

USAID's information system security program does not meet the requirements of the Computer Security Act and Office of Management and Budget guidance. Accordingly, it is deemed a material weakness.

In January 1998, USAID hired a senior information professional to serve as the Agency's information system security officer. In consultation with the Office of the Inspector General, an information security program plan has been developed and is being implemented. The Agency has procured a risk-analysis software tool and secured the internal networks from hackers. USAID is now taking steps to incorporate security requirements into every major system and information technology initiative.

USAID expects to complete the objectives of the information system security plan by fiscal year 2003.

The Year 2000 (Y2K) computer problem was identified as a material weakness in USAID's fiscal year 1998 management control review. The Y2K conversion is multifaceted and complex. In addition to its internal operating

systems, USAID is affected by the systems and equipment in some 80 countries overseas and the information technology applications that are part of the assistance provided to countries and institutions. There are varying risks to USAID in ensuring Y2K readiness in all three areas. The Agency is unable to control some factors that contribute to readiness and can only reduce their impact through contingency planning.

USAID has devoted substantial resources to assessing, repairing, testing, and implementing systems and applications that may be affected by the Y2K problem. An assessment of mission-critical systems and a renovation plan were completed in July 1998. All mission-critical systems will be Y2K compliant by July 1999. The conversion of NMS modules may impact Agency operations by creating higher risks to the normal automated support of business and accounting operations.

Compliance activities for some non-mission-critical headquarters systems have been deferred until the mission-critical systems are repaired. In addition, assessments have not been completed of the Y2K implications for

unique systems used in overseas missions or systems provided as part of program delivery activities. Missions will perform the assessments and assistance will be provided from headquarters as needed.

USAID has initiated contingency planning to cover its most critical operational systems, concentrating initially on the financial management systems. The Agency plans to clarify responsibility for contingency planning to ensure continuity of non-mission-critical systems and field operations. USAID anticipates that the material weakness will be fully corrected in FY2000.

USAID's program performance reporting is the ninth material weakness. Performance reporting does not adequately link the Agency's performance goals with its programs. In addition, improvements are needed in the timeliness of results reporting and the quality of performance indicators. These weaknesses limit the utility of the performance reporting system as a management tool.

The Agency took steps during fiscal year 1998 to improve performance

Table 6.1. Pending Material Weaknesses

Title	Fiscal Year First Reported	Targeted Fiscal Year For Correction
USAID's primary accounting system	1988	2002
Financial management procedures	1993	1999
Direct loan programs	1994	1999
USAID's NMS security and access controls	1997	2001
USAID's NMS reporting and resource management capabilities	1997	2001
Information resources management processes	1997	2000
Computer security program	1997	2003
Year 2000 compliance	1998	2000
Program performance reporting	1998	2000

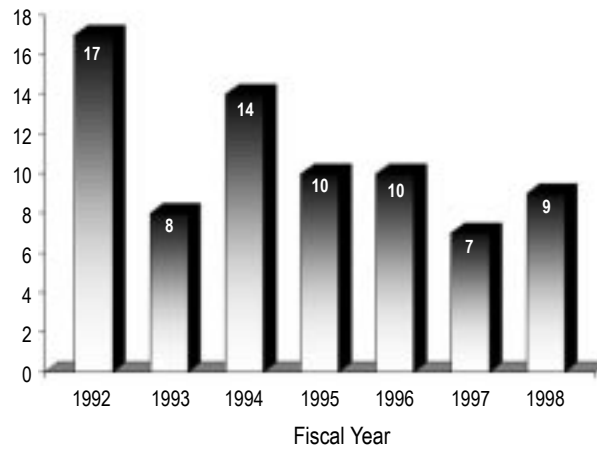
reporting. Guidelines were issued to missions on performance indicators and data quality. The management control assessment included a specific tool to identify problems with performance data.

USAID expects to reassess the strategic plan; review how operating units are evaluating programs and using the information to assess and report performance; and streamline results reporting guidance. The Agency expects to correct this weakness by fiscal year 2000.

Correcting the material weaknesses identified in this report is one of the Agency's highest management priorities. Detailed corrective action plans with key milestones and target dates have been reviewed and approved by the Agency's Management Control Review Committee, chaired by the Deputy Administrator. The committee will hold periodic review meetings with the accountable officials to ensure timely completion of corrective actions.

Table 6.1 (previous page) summarizes the nine material weaknesses. Table 6.2 and figure 6.1 reflect historical

Figure 6.1. Material Weaknesses



information on USAID's progress in correcting material weaknesses.

Material Nonconformance Of Financial Management System

USAID's financial management systems do not comply substantially with federal financial management system requirements, applicable federal accounting standards, and the U.S.

Government Standard General Ledger at the transaction level. Agency management and the Office of the Inspector General have identified internal control and security deficiencies and other vulnerabilities. The system also fails to meet some important financial management systems requirements, such as the capability to produce all required financial reports and other management information at an acceptable level of timeliness and accuracy.

Audit Follow-Up Program

USAID views audit follow-up as a fundamental component of its effort to implement adequate management controls and to improve the efficiency and effectiveness of its programs and operations. Agency staff work in partnership with the Office of the Inspector General (OIG) to ensure timely and appropriate actions in response to audit recommendations.

USAID is required to obtain audits of its contractors and grantees based on the Federal Acquisition Regulation, Single Audit Act, Office of Management and Budget Circulars,

Table 6.2. Summary of Agency Performance In Correcting Weaknesses

Fiscal Year	Material Weaknesses Beginning Of Year	Material Weaknesses Added	Material Weaknesses Corrected	Pending Material Weaknesses
1992	9	10	2	17
1993	17	—	9	8
1994	8	8	2	14
1995	14	1	5	10
1996	10	—	—	10
1997	10	4	7	7
1998	7	2	—	9

Table 6.3. Management Action on Recommendations That Funds Be Put to Better Use

	Recommendations	Dollar Value (\$000)
Beginning balance 10/1/97	13	\$ 6,209
Management decisions during FY	26	\$ 17,399
Final action	29	\$ 10,117
Recommendations implemented	27	\$ 10,072
Recommendations not implemented	2	\$ 45
Ending balance 9/30/98	10	\$ 13,491

and internal policies and procedures. To fulfill this requirement, the Agency contracted with the Defense Contract Audit Agency to audit its U.S.-based contractors and relied on nonfederal auditors to audit its U.S.-based grantees. Foreign-based grantees expending a minimum threshold level of USAID funding had financial audits performed by either local auditing firms or the supreme audit institutions in host countries.

The OIG conducts audits of USAID programs and operations, including audits of the Agency's consolidated financial statements, financial-related systems and procedures, and Agency performance in implementing programs, activities, or functions.

USAID received 456 audit reports with 502 recommendations during fiscal year 1998. The reports consisted of 65 OIG audits of Agency programs and operations, 390 financial audits of contractors and grantees, and an audit of USAID's financial statement, internal controls, and compliance for fiscal years 1997 and 1996.

USAID closed 673 audit recommendations during the fiscal year, embracing 185 recommendations from audits performed by OIG and 488 recommendations from financial audits of contrac-

tors and grantees. The Agency collected \$4.5 million in disallowed costs during the period, and \$10.0 million was put to better use. Of this combined amount, \$4.9 million was recovered from contractors and grantees, \$4.2 million was deobligated, \$4.1 million was reprogrammed for other uses, and \$1.3 million was saved by implementing procedural changes. Management decisions were made to recover an additional \$3.2 million in disallowed costs and to put \$17.4 million to better use. Tables 6.3 and 6.4 provide more detailed information on the status of recommendations with disallowed costs and recommendations that funds be put to better use.

USAID had 294 open audit recommendations at the end of fiscal year 1998. Of this number, 70 recommendations have been open more than a year after a management decision was made on the appropriate course of action. Funds must be collected from contractors and grantees to complete final action on 31 of the recommendations. Collection actions are under way or USAID has determined that the funds are uncollectible and a write-off is in process. The remaining 39 recommendations require actions to improve Agency programs or operations. USAID expects to take final action on 32 of the recommendations during fiscal year 1999. Weaknesses identified in the remaining seven recommendations will be corrected when the Agency has fully implemented its computer security program and modifications to the New Management System.

Program Improvements

USAID management and the OIG have collaborated on a number of initiatives to enhance the effectiveness and quality of the audit management program:

- The Agency's audit information and tracking system was developed as a joint effort and is managed in collaboration with OIG staff. The system was

Table 6.4. Management Action on Audits With Disallowed Costs

	Recommendations	Disallowed Costs (\$000)
Beginning balance 10/1/97	130	\$ 6,627
Management decisions during FY	264	\$ 3,249
Final action	310	\$ 4,505
Collections, offset or other	297	\$ 3,189
Write-offs	13	\$ 1,316
Ending balance 9/30/98	84	\$ 5,371

enhanced during fiscal year 1998 to improve the security and overall design. A number of offices in Washington and in overseas missions now have access to the system, allowing them to track audit recommendations on a real-time basis. Plans are under way to provide access to USAID staff worldwide.

- A comprehensive audit management training program was developed and conducted in

Washington and at several overseas locations. Among other things, the course provided training on the roles and responsibilities of USAID staff from the initiation of an audit through final action on audit recommendations.

- Comprehensive policies and procedures for audit follow-up were jointly developed and issued in the Agency's automated directives system. USAID management and OIG staff

worked together during the fiscal year to improve and update the guidance.

- A more proactive approach to audit management was instituted by intensifying management involvement from the audit notification stage through report issuance.

USAID will continue to work with OIG staff to identify additional approaches to improve the audit follow-up program.