October 5, 2007

INFORMATION MEMO FOR THE ACTING ADMINISTRATOR

/s/

FROM: Donald A. Gambatesa
          Inspector General

SUBJECT: U.S. Agency for International Development's (USAID) Most Serious
          Management and Performance Challenges

This memorandum summarizes what the Office of Inspector General (OIG) considers to be the most serious management and performance challenges facing USAID.

The Reports Consolidation Act of 2000 (Public Law 106-531) requires that agency performance and accountability reports include a statement prepared by each agency's Inspector General that summarizes what the Inspector General considers to be the most serious management and performance challenges facing the agency and an assessment of the agency's progress in addressing those challenges. Our statement for inclusion in USAID's fiscal year 2007 performance and accountability report is attached.

We have discussed the management and performance challenges summarized in this statement with the responsible agency officials. If you have any questions or wish to discuss this document further, I would be happy to meet with you.

Attachment

<u>Office of Inspector General's (OIG) Fiscal Year 2007 Statement on</u>
<u>USAID's Most Serious Management and Performance Challenges</u>

USAID continues to face management and performance challenges in the areas of:

- Financial Management

- Managing for Results

- Acquisition and Assistance

- Human Capital Management

- Information Technology Management

The OIG has been reporting on these five areas since we issued our first statement in 2001.

Financial Management

USAID continues to improve its financial management systems. For example, under the financial management area in last year's letter, Reconciliations of USAID's Fund Balance with the U.S. Treasury and Extensive Use of Manual Processes Limits Agency Compliance with Federal Financial Management System Requirements have been removed from this year's letter. However, Accrual Accounting and Reporting remains a significant challenge as described below.

<u>Accrual Accounting and Reporting</u>

Over the past several years, USAID's accrual system has generated erroneous information that has limited the ability of Cognizant Technical Officers (CTOs) to accurately calculate estimates of accrued expenditures and accounts payable for recording in USAID's general ledger. More specifically, USAID's accruals system has not always produced obligation information with the level of detail or reliability necessary for USAID's CTOs to make informed quarterly accrual estimates. Further, notwithstanding the obligation information provided electronically, some USAID CTOs have manually generated incorrect or inaccurate information in making their quarterly accrual estimates. As a result, USAID's accrued expenditures and accounts payable have continued to contain inaccuracies, and the OIG has recommended millions of dollars of adjustments to USAID's financial statements to more accurately reflect USAID's accrual activity. Although USAID has taken several steps throughout the years to improve its accrual system, including training CTOs and revamping its electronic processes for producing obligation information, inaccuracies continue to be found and the OIG continues to closely monitor the Agency's progress during annual financial statement audits.

Managing for Results

Managing a complex and diverse portfolio of worldwide activities is an inherent challenge for USAID managers. As reported in last year's performance and accountability report, USAID implements programs in 88 countries. These programs promote a wide range of objectives related to economic growth, agriculture and trade; global health; and democracy, conflict prevention and humanitarian assistance. Federal laws, such as the Government Performance and Results Act of 1993, require that Federal agencies develop performance measurement and reporting systems that establish strategic and annual plans; set annual targets; track progress; and measure results. In addition, government-wide initiatives, such as the President's Management Agenda, require that agencies link their performance results to budget and human capital requirements.

USAID managers continue to make improvements in this area. For example, each quarter the Office of Management and Budget (OMB) scores each agency's status and progress towards implementing the President's Management Agenda (PMA). OMB developed a scoring system based upon the colors green, yellow, and red. A "green" rating indicates success and a "yellow" rating signifies mixed results, while a "red" rating is unsatisfactory. For the quarter ending June 30, 2007, OMB rated USAID's current status and progress in the performance improvement initiative[1] as "yellow," which, for the current status rating, is a downgrade from the previous "green" rating. However, the "yellow" rating only applies to this one aspect of Managing for Results. Therefore, although USAID is making some progress towards meeting its performance improvement goals, more work remains to be done.

USAID's primary method for reporting the results of its activities had been through its Annual Report Application system, whereby each USAID operating unit provided information on the results attained with USAID resources; requested additional resources; and explained the use of, and results expected from, these additional resources. In January 2006 the Secretary of State announced a major change in the way the U.S. Government directs foreign assistance by creating the Office of the Director of Foreign Assistance (State/F) to centralize the structure for rationalizing and coordinating U.S. foreign assistance policy, planning, and oversight. Organizationally, State/F is within the Department of State. However, the Director of Foreign Assistance (DFA) serves concurrently as the Administrator for the USAID. In June 2006, the DFA approved the development of a system to support foreign assistance monitoring, budgeting, and information requests—the Foreign Assistance Coordination and Tracking System (FACTS). FACTS will provide a single repository for data and a common planning and reporting tool for foreign assistance resources across U.S. Government agencies implementing programs with foreign assistance funds. The intent is to ensure that all foreign assistance resources are coordinated, appropriately linked to foreign policy objectives, supportive of integrated country strategies, and designed to collect standardized data about foreign assistance programs.

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[1] As of July 2007, the Budget and Performance Integration Initiative was changed to the Performance Improvement Initiative.

Although FACTS went live on December 10, 2006, the ability of FACTS to adequately manage its programs for results is still questionable as indicated in a recent OIG audit.[2]

The OIG continues to monitor USAID's progress in improving its performance management and reporting system in Washington as well as overseas. For performance information reported in the Management's Discussion and Analysis section of USAID's 2006 performance and accountability report, an OIG review found that while USAID took actions to improve its controls over data management, USAID needs to improve these controls to ensure that data submitted to headquarters are accurate and adequately supported, and that required data quality assessments are performed. In addition, during the past year, the OIG issued 31 audit reports that included 74 recommendations pertaining to issues involving data quality, performance indicators, reporting of results, and supporting documentation.

Acquisition and Assistance

The majority of USAID's development activities are implemented by contractors, grantees and recipients of cooperative agreements. Because of the innate complexities in Federal acquisition and assistance—numerous laws, regulations, policies, procedures, definitions, etc.—USAID faces challenges in its acquisition of supplies and services, as well as in its delivery of foreign assistance. In the area of competitive sourcing for example, for the quarter ending June 30, 2007, OMB's scorecard reported that USAID is making some progress in implementing the President's Management Agenda for competitive sourcing. Nevertheless, the scorecard rated the status of USAID's competitive sourcing as "red" or unsatisfactory—no change since the last report in March 2007.

During the past year, the OIG issued one performance audit report[3] while another audit is in process dealing with acquisitions and assistance. The completed audit was conducted to determine whether USAID's Supply Chain Management System achieved its key activities in its first year. This System was established in September 2005 to provide global procurement and distribution for essential HIV/AIDS medicines and supplies funded under the President's Emergency Plan for AIDS Relief. The performance audit determined that USAID generally achieved the planned activities for its first year, such as the development of procurement strategies and policies for the supply system. The in-process audit, entitled "Follow-up Audit on Recommendations Included in the Audit of Selected USAID Bureaus' Training, Use and Accountability of Cognizant Technical Officers, Audit Report No. 9-000-03-009-P, dated September 22, 2003," will be completed in early FY 2008.

Although USAID faces serious challenges in this area, it continues to take steps to improve its procurement processes and systems. For example, USAID is currently developing

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[2] Audit of USAID's Capital Planning and Investment Control for the Foreign Assistance Coordination and Tracking System (FACTS), Audit Report No. A-000-07-006-P, dated September 14, 2007.
[3] Audit of USAID's Start-up of the Supply Chain Management System for the President's Emergency Plan for AIDS Relief, 9-000-07-005-P, dated February 8, 2007

and implementing two new systems—the Global Acquisition System (GLAS) and the Joint[4] Assistance Management System (JAMS)—to improve USAID's acquisition and assistance functionality worldwide through advanced technology and business process improvements. The success of these systems, however, remains to be seen and an early audit of GLAS indicates that USAID did not always follow industry best practices in its development of this system (Audit of USAID's Pre-Deployment Activities for Its Global Acquisition System, Audit Report No. A-000-07-004-P, dated July 19, 2007).

The OIG intends to conduct several audits in fiscal year 2008 on GLAS, JAMS and other acquisition and assistance subjects, such as audits on the procurement and distribution of commodities for the President's Emergency Plan for AIDS Relief, the procurement and handling of commodities for avian influenza activities, and USAID's debarment and suspension process.

Human Capital Management

From fiscal year 2001 to 2003, the Agency's programmatic responsibilities and spending nearly doubled, while its direct hire workforce and operating expense budget have remained essentially flat. Since then, the new demands of rebuilding Afghanistan and Iraq and addressing the prevention, care, and treatment for victims of HIV/AIDS, have compounded USAID's challenges. As a consequence, USAID today faces growing human capital gaps, as identified by the USAID's Administrator and Business Transformation Executive Committee (BTEC)[5] annual all-employee survey, including:

- A lack of surge capacity to meet emerging needs,
- A workforce that is rapidly aging, has a void in the midmanagement ranks, and is losing skills and "institutional memory,"
- Chronically vacant or under-staffed positions and accumulating backlogs of work,
- A bureaucratic and cumbersome performance appraisal process that is perceived to lack fairness, honesty, transparency, and linkages between results and rewards,
- Morale and "burn out" problems and perceptions that USAID is not an employee-friendly work environment,
- Perceived barriers to equal employment opportunity,
- Insufficient capacity in human resources functions to recruit and develop an effective 21st century workforce,

Additionally, the PMA identifies the strategic management of human capital as one of five government-wide areas that needs improvement. As of June 30, 2007, OMB gave USAID a "yellow" rating, reflecting mixed results for its overall status in the area of human capital management.

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[4] JAMS is being implemented jointly with the Department of State.
[5] The purpose of the BTEC is to provide agency-wide leadership for initiatives and investments to transform USAID business systems and organizational performance.

In response to the PMA's initiative on human capital and to address its own human capital challenges, USAID has undertaken a major effort to improve and restructure its human capital management. For example, in September 2007, USAID issued a self-assessment report that focused on Civil Service merit staffing, Foreign Service recruitment and diversity. Also, along with the Department of State, the Human Resources Working Group is tasked with identifying Human Resources policies, processes, and initiatives that will have to be changed and/or implemented as USAID and the Department of State work to consolidate administrative support services at New Embassy Compounds overseas.

The OIG believes that USAID needs to continue to implement its workforce planning to close skill gaps through recruitment, retention, training, succession planning, and other strategies, and an audit of USAID's succession planning is intended for fiscal year 2008.

Information Technology Management

USAID has made progress towards addressing weaknesses in its information technology management. However, USAID faces the following management challenges:

Implementing Homeland Security Presidential Directive – HSPD-12

The inherent challenges for integrating and coordinating with other Federal agencies represent only some of the numerous challenges USAID is likely to face in implementing this Government-wide initiative—the Homeland Security Presidential Directive (HSPD) 12.

HSPD-12, signed by the President on August 25, 2005, is entitled "Policy for a Common Identification Standard for Federal Employees and Contractors." The Directive requires the development and agency implementation of a mandatory, Government-wide standard for secure and reliable forms of identification for Federal employees and contractors[6] in gaining physical access to Federal facilities and logical access to Federal information systems. HSPD-12 is being implemented in two phases. OMB required agencies to begin complying with phase I by October 27, 2005, and phase II by October 27, 2006.

The OIG first reported the implementation of HSPD-12 in fiscal year 2006 as one of the most serious management and performance challenges facing USAID. In an ongoing audit initiated in fiscal year 2007, the OIG identified that USAID complied with OMB's phase I selected requirements for obtaining background checks of its employees, however USAID will not meet the phase II implementation dates for gaining access to USAID facilities and information systems. According to USAID, it lacked the resources needed to carry out this government wide initiative. The potential challenges that USAID will likely face include:

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[6] This standard applies to all employees (i.e., direct hire, Personal Service Contractors, employees on "loan" from other Federal agencies, etc.).

- Tailoring an implementation plan for USAID's Washington and overseas posts. (USAID intends to rely on the Department of State's implementation plan until one can be developed for USAID.)
- Obtaining resources to adequately define and develop access interfacing mechanisms to USAID's facilities and information systems.
- Defining an overall framework and policy for coordinating issues between USAID and the Department of State in support of HSPD-12.
- Defining and coordinating the managerial, operational and technical integration aspects between USAID and the Department of State for implementing physical and logical access.

A final OIG report of the on-going audit is expected by the first quarter of fiscal year 2008.

Information Technology Governance

In fiscal year 2006, the OIG reported that Information Technology (IT) governance is a management challenge for USAID. IT governance involves not only the duties and functions within the Office of the Chief Information Officer, but that of all bureaus, divisions and offices in USAID. As such, IT governance is an Agency-wide challenge rather than merely a Chief Information Officer challenge. IT governance provides the structure that links Agency-wide strategies and objectives to IT processes, resources and information.

In the area of IT governance, an OIG audit[7] that assessed USAID's Phoenix Overseas Deployment and Procurement System Improvement Program (PSIP) projects reported that, among other things, USAID needs to:

- Develop an enterprise architecture.
- Enhance and fully utilize the capabilities of its Program Management Office.
- Develop complete policies and procedures governing its IT projects.

Moreover, OMB identified 15 USAID IT projects on its high risk investments list in its quarterly report ending June 30, 2007. This number of USAID projects increased from 2 on last year's list.

According to USAID management, the following steps have been taken to correct the IT governance weaknesses:

- With respect to enterprise architecture, USAID published the Data Architecture for Program Management and Results Reporting.

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[7] Audit of USAID's Information Technology Governance Over Its Phoenix Overseas Deployment and Procurement System Improvement Program Projects (No. A-000-06-001-P, February 21, 2006)

- USAID completed its reorganization of the Office of the Chief Information Officer, which (among other things) combined the Program Management Office and the Office of Information Resources Management.
- Regarding policies and procedures, USAID published a standard IT Project Life Cycle Methodology that prescribes the recommended IT project baselines and government reviews.

In a recent status report, USAID management reported that the corrective action plans will be revised due to the disbandment of the Program Management Office. However, to date the OIG has not received USAID's revised corrective action plans. The OIG will continue to monitor USAID's progress in addressing these weaknesses, as it is still a major challenge for USAID to acquire, implement, and deploy systems.