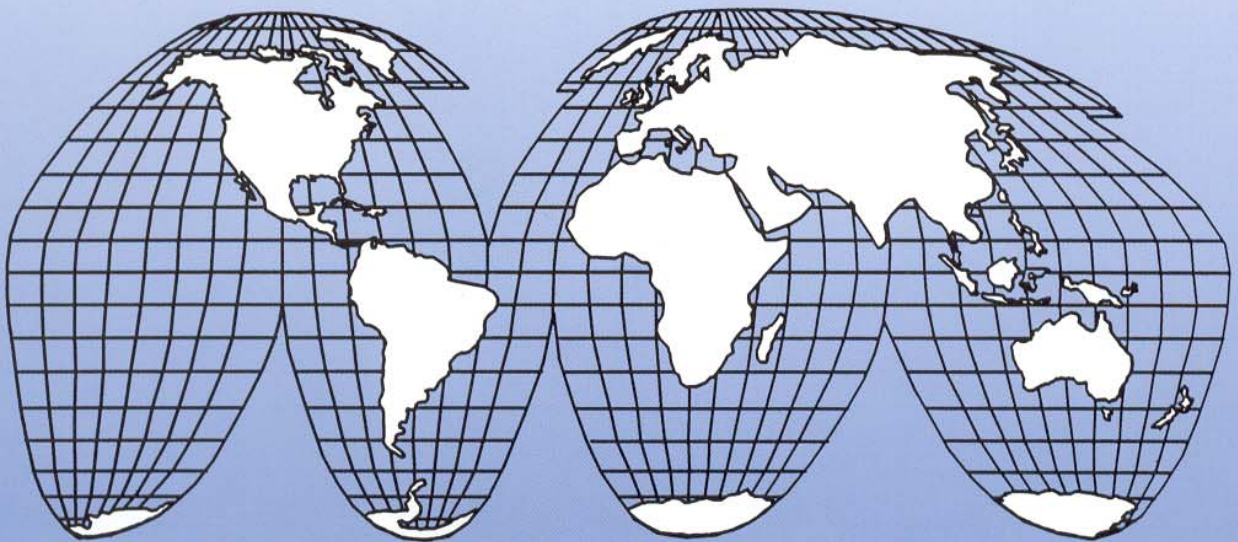# USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID's Efforts to Meet the Requirements of the Government Performance and Results Act of 1993

Audit Report Number 9-000-03-011-P

September 30, 2003

Washington, D.C.

September 30, 2003

MEMORANDUM

FOR: DAA/PPC Director, Jon H. Breslar

FROM: IG/A/PA Director, Nathan S. Lokos /s/

SUBJECT: Audit of USAID's Efforts to Meet the Requirements of the Government
Performance and Results Act of 1993 (Report No. 9-000-03-011-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we
considered your comments on our draft report and have included your response as Appendix II.

The report contains two recommendations to improve USAID's performance-reporting system.
In your written comments, you concurred with the recommendations and identified planned
actions to address our concerns. Consequently, we considered each of the recommendations to
have received a management decision. Information related to your final action on the
recommendations should be provided to USAID's Office of Management Planning and
Innovation.

I want to express my sincere appreciation for the cooperation and courtesies extended to my
staff during the audit.

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Summary of Results

In the 1990s, Congress and the executive branch laid out a statutory and management framework providing the foundation for strengthening government performance and accountability, with the Government Performance and Results Act of 1993 (Results Act) as its centerpiece. (See page 5.) The Office of Inspector General's Performance Audits Division conducted this audit to determine the status of USAID's efforts in implementing the Results Act. (See page 6.)

USAID is implementing the requirements of the Results Act except that it has struggled with meeting some reporting requirements. For instance, USAID did not finalize and issue an annual performance plan for fiscal year 2002, did not establish performance targets for the majority of indicators in its fiscal year 2003 annual performance plan, and did not include results data for fiscal year 2002 performance goals in its fiscal year 2002 performance and accountability report. (See page 7.)

This report includes two recommendations to: (1) improve USAID's performance-reporting system to enable the reporting of current-year results for its program activities and (2) incorporate annual output indicators into the performance-reporting system. (See page 13.)

The Bureau for Policy and Program Coordination concurred with the recommendations and described planned actions to implement the recommendations. Based on their written comments, we consider that a management decision has been reached for each recommendation. USAID Management's comments are included in their entirety in Appendix II. (See pages 13 and 17.)

Background

In the 1990s, Congress and the executive branch laid out a statutory and management framework providing the foundation for strengthening government performance and accountability, with the Government Performance and Results Act of 1993 (Results Act) as its centerpiece. The Results Act was passed to improve Federal program effectiveness, Congressional decision-making, and internal management of the Federal government by holding Federal agencies accountable for achieving program results. The Results Act requires that Federal agencies:

- Develop strategic plans every three years covering a period of at least five years forward from the year of submission.

- Prepare annual performance plans, which include performance indicators to measure relevant outputs, service levels, or outcomes and provide a basis for comparison to actual program results.

- Report annually in a performance report on actual performance compared to planned performance for the fiscal year covered by the report.

The strategic plans provide the framework for implementing all other parts of the Results Act and set out a course of action and accomplishment over the long term. Complementing the strategic plans are annual performance plans that set annual goals with measurable target levels of performance and annual program performance reports that compare actual performance to the annual goals. Together, these should define a course to improve the performance of government programs and operations, as well as provide a basis for the Federal Government to manage for results.

Office of Management and Budget Circular No. A-11, Part 6, "Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Reports," (June 2002) provided instructions to agencies on how to prepare those required Results Act documents. USAID has designated the Bureau for Policy and Program Coordination with the responsibility for ensuring the preparation of those documents for the Agency and for leading Agency efforts in managing for results.

The Reports Consolidation Act of 2000 made several amendments to the Results Act, including allowing agencies that prepare accountability reports (which contain financial information) to combine this report with their program performance report. The Office of Management and Budget directed the 24 departments and agencies subject to the Chief Financial Officers Act (of which USAID is one) to prepare a combined performance and accountability report, and to submit the fiscal year 2002 report by February 1, 2003.

Audit Objective

The Office of Inspector General's Performance Audits Division conducted this audit to answer the following audit objective:

Is USAID implementing the requirements of the Results Act?

The audit of USAID's efforts to meet the Results Act was conducted as part of the Office of Inspector General's annual audit plan and multi-year strategy. Appendix I contains a discussion of the scope and methodology used for this audit.

Audit Findings

Is USAID implementing the requirements of the Results Act?

USAID is implementing the requirements of the Results Act except that it has struggled with meeting some reporting requirements. For instance, USAID did not finalize and issue an annual performance plan for fiscal year 2002, did not establish performance targets for the majority of indicators in its fiscal year 2003 annual performance plan, and did not include results data for fiscal year 2002 performance goals in its fiscal year 2002 performance and accountability report. The status of each individual Results Act document, as well as our comments on needed improvements to the performance-reporting system, are shown below.

Strategic Plan

The Results Act and the Office of Management and Budget Circular No. A-11 indicate that, within three years of the date of transmittal of the previous updated and revised strategic plan to Congress, a new plan should be sent to Congress and the Office of Management and Budget. USAID intends to comply with this deadline by submitting a plan prior to the end of fiscal year 2003[1]. To do so, USAID is working on an updated and revised strategic plan in conjunction with the State Department. This plan, covering the fiscal years from 2004 to 2009, will address policy and management issues.

The joint State-USAID strategic plan is integrated with the U.S. "National Security Strategy." Its goals, objectives, and targets guide the Agency in planning and prioritizing programs and in delivering developmental and humanitarian results. The joint strategic plan will be used by both State and USAID to commit to clear and focused performance goals, and improved State-USAID coordination. The strategic plan and the accompanying annual performance plan lay the framework for the development of performance measures and targets against which the Agency's performance will be measured and reported.

The joint strategic plan lays out four strategic objectives that USAID and the State Department will strive to achieve:

1. Protect the nation;

2. Advance sustainable development and global interests;

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[1] In an email dated September 26, 2003, the Bureau for Policy and Program Coordination stated that the strategic plan was officially launched by Secretary of State Colin Powell last week and is now posted to the USAID website.

3. Promote international understanding; and

4. Strengthen diplomatic and program capabilities.

Within these objectives, the parties will focus their work around 12 strategic goals. Their annual performance plans will flow from these goals and policy direction, and will discuss their programs and activities focused on shorter-term performance targets.

Annual Performance Plan

Although the September 2000 Agency strategic plan is still the basic framework under which USAID operates, it does not completely reflect changes in Administration priorities—particularly in the aftermath of September 11, 2001. As a result, the annual performance plan (APP) for fiscal year 2003 was adjusted to better reflect emerging new directions and changes in practices, such as the new President's Management Agenda. This APP was finalized and issued in August 2002. However, the APP for the previous year, fiscal year 2002, was never finalized and issued. Instead, a note on the cover page of the fiscal year 2003 plan stated, "This plan will also be applied to FY 2002."

This APP organizes USAID's activities into four "pillar" areas, one of which, the Global Development Alliance, is its new business model and applies to all of USAID's programs. The other three program pillars consist of Economic Growth, Agriculture, and Trade; Global Health; and Democracy, Conflict, and Humanitarian Assistance.

Underlying the pillars is a series of objectives, context indicators[2], and performance indicators. A separate section on Management contains objectives, goals, and indicators. For the 36 performance indicators[3] listed in the pillar areas, one performance target was explicitly established for fiscal year 2002 and 16 targets applied to fiscal year 2003, while 19 indicators had no targets. However, in the Management section, for the 11 indicators, 10

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[2] Context indicators monitor development trends over time (e.g., Economic Freedom scores provide a good indicator of a country's overall business climate). USAID does not directly affect context indicators but is one of many stakeholders that influence outcomes. Therefore, USAID does not set targets for these indicators.

[3] USAID guidance defines a performance indicator as having a particular characteristic or dimension used to observe progress and to measure actual results compared to expected results. Each indicator should have a performance target, which is a specific, planned level of result to be achieved within an explicit timeframe.

contained targets for both fiscal years 2002 and 2003, while 1 indicator had a target for only fiscal year 2002.

The draft APP for fiscal year 2004 incorporates the initial development of the joint State-USAID strategic plan that will run from 2004 to 2009. It also complements the fiscal year 2004 USAID budget submission by linking expected results with requested financial resources. Although the draft fiscal year 2004 APP should have been finalized and submitted to Congress by March 2003, it has not yet been finalized and USAID now expects to submit the APP in September 2003[4]. In addition, USAID has further refined the indicators and now has targets for a majority of them. For the 28 indicators listed in the pillar areas, 18 had targets applicable to fiscal year 2004, and the other 10 lacked targets. Furthermore, 15 of the 16 indicators in the Management section contained targets for fiscal year 2004. As USAID continues to work on this draft APP, additional targets will be added. We do not believe that formal recommendations are merited regarding the annual performance plan as USAID is currently preparing APPs for future years and working towards adding targets for all indicators.

Annual Performance Report

The annual performance report was incorporated into USAID's performance and accountability report (PAR) for fiscal year 2002. It is essentially organized in the same format as the annual performance plan for fiscal years 2002 and 2003. For the most part, it only provides results data for fiscal year 2001 or earlier although USAID's Management Goal section does provide current data for fiscal year 2002.

The Association for Government Accountants (Association) reviewed[5] the fiscal year 2002 PAR submitted by USAID under their Certificate of Excellence in Accountability Reporting Program. The Association noted that USAID's PAR continues to improve and commended USAID for their active engagement in the program over the past five years. The Association also provided a list of suggestions that would make for a more reader-friendly and informative report. Regarding performance reporting, the Association emphasized that more of the performance data needed to be for

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[4] In an email dated September 26, 2003, the Bureau for Policy and Program Coordination stated that the APP was being submitted to the Office of Management and Budget on September 26.

[5] Each review team consists of five independent professionals: the Program Technical Director and senior staff volunteered from offices of financial management, inspectors general, independent public accountants, and performance measurement.

the current year, even if that data were presented as preliminary or estimated. They further noted that a PAR should present the targets for the latest year for which actual results are presented, the targets for the year it is reporting on, and actual performance information for the same year—even if the latter needs to be marked unavailable, incomplete, or preliminary.

Researchers from the Mercatus Center at George Mason University conducted their fourth annual evaluation of the annual performance reports produced by the 24 agencies covered under the Chief Financial Officers' Act. Their assessments looked at the quality of the agencies' reports but not at the quality of results achieved. The research team utilized 12 evaluation factors grouped under three general categories of transparency, public benefits, and leadership. The USAID report did not score well in their ratings (23rd out of 24) as they generally considered it to be difficult to follow and unclear. Regarding performance reporting, they noted that the performance data were not always timely. Furthermore, they noted that the base year, the number of years of baseline trend data, and the completeness of the years provided varied widely throughout the report.

In addition to the discussion of the three essential Results Act documents presented above, our comments on USAID's efforts and needed improvements to the performance-reporting system are noted below.

USAID's Performance-Reporting System Needs Improvement

Contrary to Results Act requirements, USAID's annual performance report for fiscal year 2002—which was incorporated into the performance and accountability report (PAR)—generally did not report fiscal year 2002 results. This occurred because USAID's guidance did not request submission of results data from its operating units in time to meet the reporting requirements of the Results Act. As a result, Congress and interested stakeholders would have difficulty in judging USAID's most recent program performance in order to make informed budgeting and managerial decisions. The following paragraphs discuss this issue in detail.

The Results Act states that each program performance report shall set forth the performance indicators established in the agency performance plan, along with the actual program performance achieved compared with the performance goals expressed in the plan for that fiscal year. According to Office of Management and Budget Circular No. A-11 guidance, the purpose of an annual performance report is to provide information on an agency's actual performance and the progress made

towards achieving its goals and objectives in its strategic plan and annual performance plan. Office of Management and Budget Bulletin No. 01-09 required the 14 Cabinet Departments and 10 independent agencies (of which USAID is one) to combine the program performance report with the accountability report and to transmit a combined fiscal year 2002 performance and accountability report to the President, Congress, and Office of Management and Budget not later than February 1, 2003.

Circular No. A-11 states that actual performance is to be reported as it occurred during the fiscal year covered by the report. Further, it states that the annual performance report should identify those performance goals where actual performance information is missing, incomplete, or preliminary, and indicate the approximate date the information will be available. In addition, actual performance information, once available, should be included in the subsequent annual performance report. On the other hand, Circular No. A-11 does not support the development of a performance-reporting system that encourages the use of old data for all performance reporting. For instance, the recently issued Circular No. A-11 for fiscal year 2003 states that the timetable for preparing an annual performance report may result in some performance data not having been collected or analyzed when the report is completed.

USAID's PAR did not report any fiscal year 2002 results for its performance goals as required. Instead, the PAR generally reported fiscal year 2001 results. For instance, there were 23 performance indicators included in the three program pillar areas, none of which reported results for 2002[6]. Earlier in this audit report, in the section on the Annual Performance Report, external reviewers also noted this problem with the timeliness of performance results.

As reported by the Office of Inspector General, this use of prior-year data has been a continuing problem for USAID[7]. Although part of the cause has been the difficulty of gathering current data for developing countries in a timely manner, the timing of USAID's internal reporting system further exacerbates the problem. USAID's operating units prepare an internal document called the Annual Report, which includes information on program performance. These Annual Reports serve as the source

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[6] In addition to these 23 indicators, there was a table labeled "Estimated Averted Infections and 2 Key Preventive Services in USAID Intensive Focus and Expanded Response Countries, 2001," which contained three measures referred to as "Indicators." Another table appeared to be an indicator although it was not labeled as such. Titled as "Children Enrolled in Primary Schools," it showed actual results for the year 2001 and targets for the year 2002.

[7] Report on USAID's Consolidated Financial Statements, Internal Controls and Compliance for Fiscal Year 2002 (Audit Report No. 0-000-03-001-C).

documents for much of the performance information reported in the PAR. However, guidance issued by USAID's Bureau for Policy and Program Coordination did not require operating units to submit fiscal year 2002 results data until January 6, 2003—less than a month before the PAR reporting deadline—and several units had still not complied as of July 2003. Therefore, as current results could not be included in the fiscal year 2002 PAR, USAID intends to include these results in the PAR for fiscal year 2003.

Because USAID reports prior years' data, Congress and other stakeholders would have difficulty in judging USAID's current program performance in order to make informed budgeting and managerial decisions. Furthermore, the Bureau for Policy and Program Coordination believes that it will be unlikely that USAID will be able to meet the accelerated deadline of November 15 for future years based on its existing reporting systems. However, in an Action Memorandum dated June 12, 2003, the USAID Administrator approved a series of initiatives to improve mission effectiveness and cost efficiency. Regarding the issue of performance reporting and accountability, USAID would like to develop a cost-effective system for meeting accountability requirements. A more efficient reporting system should lead to greater timeliness.

We encourage USAID's planned attempts to streamline its performance-reporting system. For instance, USAID has about 450 strategic objectives, as well as a variety of performance indicators. By reducing the number of these objectives and developing common indicators, USAID can present its story in a clearer and more cost-efficient manner. USAID officials expect to pursue these actions over the course of the next year, which could facilitate the Agency's collection of more current data for its reports.

Adding further momentum to streamlining is the trend in performance reporting towards more frequent dissemination of results. For example, the Office of Management and Budget has issued a draft Circular that calls for quarterly reporting beginning in fiscal year 2006.

USAID is taking an initial step towards addressing this issue of accelerated reporting. Beginning in fiscal year 2004, it will start to implement a new web-based performance information-collection and analysis system known as the On-line Presidential Initiatives Network. The primary purpose of this effort will be to initiate a system that provides quarterly information on achievement of Agency goals. To begin with, it will only be used to track implementation of Presidential Initiatives, but, if successful, it may become the basis for more rapid collection, analysis and dissemination of all Agency performance, financial and human resource allocation information.

Finally, developments in performance budgeting may help to improve the timeliness of performance reporting. The recently issued Circular No. A-11 for fiscal year 2003 states that beginning with the budget for fiscal year 2005, agencies will prepare a performance budget in lieu of the annual performance plan, although this budget should satisfy all statutory requirements for the annual performance plan. A performance budget consists of a performance-oriented framework, in which strategic goals are paired with related long-term performance goals (outcomes) and annual performance goals (mainly outputs). Target levels of performance are set for the performance goals. By developing more output-oriented goals for the short term and reporting against those goals (as indicated by the latest A-11 Circular), we believe that USAID would have a greater likelihood of achieving a system that reports current results.

USAID has taken steps to improve its reporting and the quality of its data. However, the Office of Inspector General would like to provide additional impetus to the process of meeting Results Act requirements and intent by making the following recommendations.

> **Recommendation No. 1: We recommend that the USAID Bureau for Policy and Program Coordination improve USAID's performance-reporting system to enable the reporting of current-year results for its program activities.**

> **Recommendation No. 2: We recommend that the USAID Bureau for Policy and Program Coordination incorporate annual output indicators into USAID's performance-reporting system that will supplement longer-term outcome indicators.**

Management Comments and Our Evaluation

In its response to our draft report, the Bureau for Policy and Program Coordination concurred with our recommendations. To address the first recommendation, the Bureau noted that it is working with field missions and contractors to incorporate current year results data for its program activities into the USAID fiscal year 2003 Performance and Accountability Report.

To address the second recommendation, the Bureau noted that it is starting to collect information on a substantial number of output indicators through a new web-based system and expects to report on some of these output indicators in the fiscal year 2003 Performance and Accountability Report.

Based on the actions that the Bureau has planned to address the recommendations, we concluded that a management decision has been reached on each recommendation. Information related to your final action on the recommendations should be provided to USAID's Office of Management Planning and Innovation.

Scope and Methodology

Scope

The Office of Inspector General's Performance Audits Division in Washington, D.C. conducted an audit of USAID's efforts to meet the requirements of the Results Act. This audit was conducted in accordance with generally accepted government auditing standards.

Audit fieldwork was conducted at USAID offices in Washington, D.C., from July 9 through September 5, 2003. The scope of the audit was limited to examining USAID's efforts to meet the requirements of the Results Act by reviewing the various Results Act documents noted in the Methodology section. The Office of Inspector General did not assess the quality of the performance goals, indicators, or targets, nor did it generally perform substantive testing of the performance data.

Methodology

In order to gain an understanding of USAID's efforts to meet the requirements of the Results Act, we held discussions with USAID officials in several offices such as the Bureau for Policy and Program Coordination and the Bureau for Management. In addition, we held discussions with various contract officials involved with the performance-reporting system.

Specifically, to assess management controls, we performed the following:

- Reviewed relevant laws, regulations, guidance, and memoranda to gain a better understanding of the relevant issues relating to performance-reporting systems.

- Met with USAID and contractor officials to review the process for preparing Results Act documents such as the fiscal year 2002 and 2003 performance and accountability reports.

- Obtained and reviewed the following required Results Act documents: the draft joint strategic plan covering the fiscal years 2004-2009, the annual performance plan for fiscal years 2002 and 2003, the performance and accountability report for fiscal year 2002, and the draft annual performance plan for fiscal year 2004.

- Obtained and reviewed independent evaluations of aspects of USAID's performance-reporting system.

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**Management
Comments**

September 22, 2003

MEMORANDUM

TO: IG/A/PA, Nathan Lokos

FROM: DAA/PPC, Jon Breslar /s/

SUBJECT: Audit of USAID Efforts to Meet the Requirements of GPRA

USAID's Bureau for Policy and Program Coordination is pleased to provide comments on the subject audit findings. We accept these findings and we are taking the following actions to address them:

Recommendation No. 1: "We recommend that the USAID Bureau for Program and Policy Coordination improve USAID's performance reporting system to enable the reporting of current year results for its program activities."

Concerning this finding we are working with our field missions and with contractors to improve our ability to incorporate more current data in our annual performance reporting. We expect to incorporate more current year results for our program activities in the agency's FY 03 Management Discussion and Analysis and Annual Performance Report this year. We will especially focus on reporting current year results for critical and extensive programs in Iraq and Afghanistan.

Recommendation No. 2: "We recommend that the USAID Bureau for Program and Policy Coordination incorporate annual output indicators into USAID's performance reporting system that will supplement longer-term outcome indicators".

Concerning this finding, USAID is beginning to collect information on a substantial number of output indicators through our On-Line Presidential Initiatives Network (OPIN). This web based reporting system tracks progress against 12 Presidential Initiatives. Data is collected every quarter of the current fiscal year, and provides up to date information on programs most critical to the interests of the Executive and Legislative branches of the government. While this system is still in the beginning stages of implementation, we expect to report on some OPIN output indicators in our FY 03 Performance Report.

We expect we will be able to address these two findings and close this recommendation following an Inspector General review of the USAID FY 03 Performance and Accountability Report scheduled in November, 2003.

cc: M/MPI/MIC, Connie Turner
       M/MPI/MIC, Gloria White