

January 1999

**Major Management
Challenges and Program
Risks**

Agency for International
Development





**United States
General Accounting Office
Washington, D.C. 20548**

**Comptroller General
of the United States**

January 1999

The President of the Senate
The Speaker of the House of Representatives

This report addresses performance and management challenges that have limited the effectiveness of the U.S. Agency for International Development (USAID) in carrying out its mission. It also outlines corrective actions that USAID has recently taken or initiated to address these challenges.

USAID is faced with major challenges in improving its information and financial management systems and internal controls. The agency has recognized that it needs to give top-level attention to these management challenges and has undertaken a course of action to improve its systems and processes. For example, USAID has recently appointed a chief information officer and implemented a disciplined process for resolving deficiencies in its major management information systems. It also made Year 2000 problems its top information technology priority. This top-level management attention is critical and must be sustained to ensure that the challenges are successfully met.

This report is part of a special series entitled the Performance and Accountability Series: Major Management Challenges and Program Risks. The series contains separate reports on 20 agencies—one on each of the cabinet departments and on most major independent

agencies as well as the U. S. Postal Service. The series also includes a governmentwide report that draws from the agency-specific reports to identify the performance and management challenges requiring attention across the federal government. As a companion volume to this series, GAO is issuing an update to those government operations and programs that its work has identified as “high risk” because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement. High-risk government operations are also identified and discussed in detail in the appropriate performance and accountability series agency reports.

The performance and accountability series was done at the request of the Majority Leader of the House of Representatives, Dick Armey; the Chairman of the House Government Reform Committee, Dan Burton; the Chairman of the House Budget Committee, John Kasich; the Chairman of the Senate Committee on Governmental Affairs, Fred Thompson; the Chairman of the Senate Budget Committee, Pete Domenici; and Senator Larry Craig. The series was subsequently cosponsored by the Ranking Minority Member of the House Government Reform Committee, Henry A. Waxman; the Ranking Minority Member, Subcommittee on Government Management, Information and Technology, House Government Reform Committee, Dennis J. Kucinich; Senator Joseph I. Lieberman; and Senator Carl Levin.

Copies of this report series are being sent to the President, the congressional leadership, all other

Members of the Congress, the Director of the Office of Management and Budget, the Administrator of the U.S. Agency for International Development, and the heads of other major departments and agencies.

A handwritten signature in black ink, appearing to read "D.M. Walker", with a long horizontal line extending to the right.

David M. Walker
Comptroller General of
the United States

Contents

| | |
|---|----|
| Overview | 6 |
| Major Performance and Management Issues | 10 |
| Related GAO Products | 19 |
| Performance and Accountability Series | 20 |

Overview

With a budget of over \$6 billion a year, the U.S. Agency for International Development (USAID) provides assistance to developing countries. USAID's development mission is multifaceted and complex, with strategic goals ranging from economic growth to environmental protection. In the more than 100 countries where it has programs, USAID works with a wide array of public and private partners, relying heavily on private partners to implement its programs. Given the complexity of this operating environment, establishing efficient management structures that focus on accountability and results is critical to ensuring that scarce foreign aid funds are spent effectively. However, USAID faces some major performance and management challenges that threaten its ability to carry out its mission effectively.

The Challenges

USAID Has Not Implemented a Comprehensive Information Management System

USAID's effort to develop and implement its New Management System (NMS), which is meant to consolidate primary information systems into a single integrated network, has not been fully successful. The NMS is only partially functional and has created

problems in agency operations. In 1996, USAID deployed the system without sufficient testing, and subsequent difficulties forced USAID to suspend its use for most administrative functions in overseas missions in April 1997. Despite an expenditure of at least \$92 million to date, the NMS is not likely to be fully operational and compliant with federal accounting standards for several more years. Until then, USAID will not have accurate information to ensure that its operations and programs are being managed in a cost-effective and efficient manner.

USAID's Actions Not Adequate to Resolve the Year 2000 Problem

USAID's computer systems in headquarters and in its field offices are not yet equipped to handle the Year 2000 problem. USAID has not taken adequate steps to address this problem and has not developed contingency plans to ensure continuity of all of its mission-critical business operations. Although USAID has requested supplemental funds to accelerate the Year 2000 compliance process, it continues to face a serious risk that its systems and operations could fail or be significantly degraded.

USAID Remains Vulnerable to Weak Financial Management

USAID continues to face financial management challenges. The lack of an integrated financial management system and the existence of material control weaknesses hinder the agency's ability to produce auditable financial statements. As in the previous year, USAID's Office of Inspector General (OIG) was unable to express an opinion on the agency's financial statements for fiscal year 1997. The process of preparing financial statements and subjecting them to independent audit is the first step in generating complete, reliable, and timely financial information for decisionmakers at all levels. Without financial integration and strong controls, USAID's systems do not comply with federal accounting and management requirements.

Progress and Next Steps

USAID has taken several steps in the past year to address these management challenges. USAID has designated a Chief Information Officer and NMS program manager to institute more disciplined processes for managing information technology and to address NMS system deficiencies. In addition, USAID has made the Year 2000 problem the agency's highest information technology priority. Further, the USAID Chief Financial Officer (CFO) is in the process of submitting a plan to

Overview

the Office of Management and Budget to address some of its financial management deficiencies over the next 5 years. However, resolving these deficiencies will require USAID to commit significant management attention to achieving genuine reform.

Major Performance and Management Issues

USAID has primary responsibility for implementing a diverse array of U.S. foreign assistance programs throughout the world. It designs and manages programs in the areas of (1) economic growth and agricultural development, (2) education and training, (3) world population and human health, (4) environmental protection, and (5) humanitarian relief. Foreign assistance projects are implemented in association with host governments, nongovernmental organizations, international agencies, universities, and other contractors through USAID headquarters bureaus and about 70 overseas missions and offices.

This report summarizes recent findings on the effectiveness of USAID's efforts to implement effective information and financial management systems and ensure that its computer systems are ready for the Year 2000. The report also addresses USAID's efforts to correct these management deficiencies.

**USAID Has Not
Implemented a
Comprehensive
Management
Information
System**

Although USAID has spent, by its own account, at least \$92 million to develop and maintain the NMS, the system does not work as intended and has created problems in mission operations and morale. The NMS was designed to enable USAID to manage its resources and monitor results more effectively by consolidating accounting, budget, personnel, procurement, program operations, and property management into a single, integrated network. It was designed to allow the agency's missions and offices worldwide to access information and to aid in the effective management and monitoring of its programs. Correcting system deficiencies is essential to USAID's continued progress in improving its operations, including ensuring financial accountability and implementing performance-based management.

USAID began developing the NMS in 1994 and activated it at USAID headquarters in July 1996 and at the overseas missions in October 1996. The agency deployed the system worldwide, knowing that it was not fully operational or adequately tested. Consequently, agency staff experienced chronic problems with the NMS, including excessively slow operation and difficulties transferring data from one computer

application to another. USAID suspended use of part of the NMS in the missions but has continued to use the NMS accounting module in Washington, despite warnings from the OIG that doing so “leaves USAID vulnerable to losses from fraud or abuse and hinders USAID’s ability to provide adequate assurance that it can account for resources.” According to the OIG, the NMS does not have a system of internal controls that meet federal government standards, was deployed without providing the necessary training to many users, and is difficult to maintain due to deficiencies in the software code, among other problems.

USAID has taken some steps to correct the deficiencies of the NMS, including appointing a Chief Information Officer who has instituted more disciplined processes for planning, developing, and implementing new management information technology. An NMS program manager has also been appointed to handle deficiencies and implement remedial actions within the NMS. However, USAID does not anticipate fully implementing the NMS across the agency for several more years. Thus, the NMS still presents a critical management challenge for the foreseeable future, and we will continue monitoring USAID’s reform efforts.

Key Contact

Benjamin F. Nelson, Director
International Affairs and Trade Issues
National Security and International Affairs
Division
(202) 512-4128
nelsonb.nsiad@gao.gov

**USAID's Actions
Not Adequate to
Resolve the Year
2000 Problem**

USAID has not taken adequate steps to address the computer problems associated with accommodating dates beyond 1999—the “Year 2000 problem.” The Office of Management and Budget has categorized USAID as a “tier I” agency for Year 2000 readiness—that is, USAID is among those agencies that have not shown satisfactory progress in ensuring that they will be able to continue mission-critical business operations in the Year 2000. USAID had relied heavily on implementation of the NMS to resolve the agency’s Year 2000 problems. However, full implementation of the NMS has been delayed beyond the Year 2000. In addition, studies have revealed that those parts of the NMS system currently in place are not immune to the Year 2000 problem and have already encountered many serious date-handling difficulties.

Remediation of the Year 2000 problem is currently under way and is USAID’s highest

information technology priority, according to agency officials. USAID plans to complete this effort by October 1999 for those elements of the system that are operational and has requested \$10.2 million in supplemental funds to accelerate the pace of Year 2000 compliance. However, it is unclear whether this effort will be sufficient, given the short time and the broad extent of testing and system integration that needs to be done. In addition, USAID's Year 2000 program has significant shortcomings in scope. The agency is concentrating its remediation efforts on the NMS and other corporate systems and has not fully addressed systems developed separately by its worldwide missions and bureaus or the systems that it has funded in other countries. This would include high-visibility overseas projects such as the stock market trading system in Russia and extensive communications network improvements in Egypt.

Given that these various shortcomings suggest a high risk that USAID's systems could experience disruptive failures, it is critical that the agency have contingency plans in place to ensure continuity of its business operations. However, USAID is only now beginning to prepare contingency plans after

being criticized for poor progress in this area by the OIG. Fixing the agency's Year 2000 problems will require focused management attention at the most senior levels of the agency.

Key Contact

Jack L. Brock, Jr., Director
Governmentwide and Defense Information
Systems
Accounting and Information Management
Division
(202) 512-6240
brockj.aimd@gao.gov

**USAID Remains
Vulnerable to
Weak Financial
Management**

USAID continues to face serious financial management problems. As in the previous fiscal year, the OIG was unable to express an opinion on USAID's financial statements for fiscal year 1997 because (1) USAID's financial management systems could not produce complete, reliable, timely, and consistent financial information in accordance with federal requirements and (2) weak internal controls in accounting and financial management systems precluded the OIG from obtaining sufficient evidential matter to perform adequate testing. USAID's inadequate financial accounting system makes it difficult for the agency to accurately account

for activity costs and measure its program results.

The OIG concluded that USAID's financial management system does not meet the federal financial systems requirements. Federal law requires agencies to develop and maintain an integrated accounting and financial management system that substantially complies with applicable accounting principles and internal control standards. USAID's introduction of the NMS in October 1996 was intended to correct these long-standing system deficiencies. However, as previously noted, the NMS was not successfully implemented. As a result, USAID continues to use a variety of nonintegrated systems that require data reentry, supplementary accounting records, and lengthy and burdensome reconciliation processes.

The OIG reported several material weaknesses in internal controls that impair the integrity of financial information. These deficiencies prevented the OIG from obtaining sufficient evidence to express an opinion on USAID's financial statements. For example, the OIG reported the following control weaknesses:

- USAID did not have adequate controls to ensure that disbursements made through letters of credit (about \$1.69 billion in fiscal year 1997) were authorized, proper, correct, and accurately recorded and reported.
- USAID did not review and reconcile unexpended appropriation balances as required by the U.S. Department of the Treasury. As a result, USAID's unexpended appropriation balances may potentially be misstated.
- USAID has not established effective policies and procedures for recording and reporting financial statement account balances. Therefore, USAID cannot provide adequate assurance that all financial transactions are complete, consistent, reliable, and properly reported.

USAID is in the process of correcting some of its deficiencies, in part by contracting a number of its financial management functions to organizations outside the agency, including a private bank and another U.S. government agency. USAID's Chief Financial Officer is also in the process of submitting a 5-year plan to the Office of Management and Budget outlining improvement initiatives, including system remediation efforts. In addition to the system improvements, USAID needs to

**Major Performance and Management
Issues**

strengthen its internal controls to ensure that (1) transactions are properly recorded; (2) assets are safeguarded against loss due to unauthorized access, use, and disposition; and (3) transactions are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements. As part of the agency's required annual financial statements audit, USAID's OIG will continue to assess and report on whether USAID internal controls are effective. In addition, we will monitor USAID's progress in resolving these long-standing financial management problems.

Key Contact

Lisa G. Jacobson
Director, Defense Financial Audits
Accounting and Information Management
Division
(202) 512-9095
jacobsonl.aimd@gao.gov

Related GAO Products

The Results Act: Observations on the U.S. Agency for International Development's Fiscal Year 1999 Annual Performance Plan (GAO/NSIAD-98-194R, June 25, 1998).

Foreign Assistance: USAID's Reengineering at Overseas Missions (GAO/NSIAD-97-194, Sept. 12, 1997).

The Results Act: Observations on USAID's November 1996 Draft Strategic Plan (GAO/NSIAD-97-197R, July 11, 1997).

Foreign Assistance: Status of USAID's Reforms (GAO/NSIAD-96-241BR, Sept. 24, 1996).

Information Management Reform: Effective Implementation Is Essential for Improving Federal Performance (GAO/T-AIMD-96-132, July 17, 1996).

Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed (GAO/NSIAD-93/106, June 11, 1993).

Performance and Accountability Series

Major Management Challenges and Program Risks: A Governmentwide Perspective
(GAO/OCG-99-1)

Major Management Challenges and Program Risks: Department of Agriculture
(GAO/OCG-99-2)

Major Management Challenges and Program Risks: Department of Commerce
(GAO/OCG-99-3)

Major Management Challenges and Program Risks: Department of Defense (GAO/OCG-99-4)

Major Management Challenges and Program Risks: Department of Education
(GAO/OCG-99-5)

Major Management Challenges and Program Risks: Department of Energy (GAO/OCG-99-6)

Major Management Challenges and Program Risks: Department of Health and Human Services (GAO/OCG-99-7)

Major Management Challenges and Program Risks: Department of Housing and Urban Development (GAO/OCG-99-8)

Major Management Challenges and Program Risks: Department of the Interior
(GAO/OCG-99-9)

Major Management Challenges and Program Risks: Department of Justice (GAO/OCG-99-10)

Major Management Challenges and Program Risks: Department of Labor (GAO/OCG-99-11)

Major Management Challenges and Program Risks: Department of State (GAO/OCG-99-12)

Major Management Challenges and Program Risks: Department of Transportation
(GAO/OCG-99-13)

Major Management Challenges and Program Risks: Department of the Treasury
(GAO/OCG-99-14)

Major Management Challenges and Program Risks: Department of Veterans Affairs
(GAO/OCG-99-15)

Major Management Challenges and Program Risks: Agency for International Development
(GAO/OCG-99-16)

Major Management Challenges and Program Risks: Environmental Protection Agency
(GAO/OCG-99-17)

Major Management Challenges and Program Risks: National Aeronautics and Space Administration (GAO/OCG-99-18)

Major Management Challenges and Program Risks: Nuclear Regulatory Commission
(GAO/OCG-99-19)

Major Management Challenges and Program Risks: Social Security Administration
(GAO/OCG-99-20)

Major Management Challenges and Program Risks: U.S. Postal Service (GAO/OCG-99-21)

High-Risk Series: An Update (GAO/HR-99-1)

The entire series of 21 performance and accountability reports and the high-risk series update can be ordered by using the order number GAO/OCG-99-22SET.

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

**U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013**

or visit:

**Room 1100
700 4th St. NW (corner of 4th & G Sts. NW)
U.S. General Accounting Office
Washington, DC**

**Orders may also be placed by calling
(202) 512-6000 or by using fax number
(202) 512-6061, or TDD (202) 512-2537.**

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to: info@www.gao.gov

**or visit GAO's World Wide Web Home Page at:
<http://www.gao.gov>**

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested

| |
|---|
| <p>Bulk Rate Postage & Fees Paid GAO Permit No. G100</p> |
|---|