October 14, 2005

INFORMATION MEMORANDUM

TO: A/AID, Andrew S. Natsios

                    /s/
FROM: Acting DIG, Paula F. Hayes

SUBJECT: USAID's Most Serious Management and Performance Challenges

SUMMARY

      This memorandum summarizes the most serious management and performance challenges facing the Agency.

DISCUSSION

      The Report Consolidation Act of 2000 (Public Law 106-531) states that agency accountability reports shall include a statement prepared by each agency's inspector general that summarizes the most serious management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges. Our statement for inclusion in the U.S. Agency for International Development's (USAID) FY 2005 Performance and Accountability Report is attached.

      If you have any questions or wish to discuss this document, I would be happy to meet with you.

Attachment: a/s

cc: M/CFO/APC, Connie A. Turner

<u>USAID Office of Inspector General Statement on</u>
<u>USAID's Most Serious Management and Performance Challenges</u>

In pursuit of its mission, USAID faces serious management and performance challenges in the areas of:

- Financial Management

- Managing for Results

- Acquisition and Assistance

- Human Capital Management

Since the Agency has made substantive progress in the area of Information Resource Management, we no longer regard it as one of the Agency's most serious management and performance challenges. However, we do consider this area to be a reportable condition, since further progress is needed.

<u>Financial Management – Estimating Accrued Expenditures</u>

The Office of the Inspector General (OIG) expects to issue unqualified opinions on USAID's fiscal year 2005 financial statements. This would be the third consecutive year that USAID would receive unqualified opinions on its financial statements. Notwithstanding these unqualified opinions and the progress that USAID has made in strengthening its financial management processes, a serious financial management challenge remains with respect to estimating accrued expenditures.

USAID's fiscal year 2004 accrued expenditures and accounts payable recorded in the core accounting system contained inaccuracies because of the large number of Cognizant Technical Officers (CTOs) responsible for estimating accrued expenditures—an effort for which many had not been adequately trained. Consequently, the OIG proposed, and USAID made, $254 million in adjustments to more accurately present the accrued expenditures and accounts payable reported on USAID's financial statements.

USAID reported that it has taken several actions to address this situation, including revising the Accruals section of several training classes, issuing accrual resources to relevant overseas missions and distributing an Accruals Calculator that can be used to assist CTOs in calculating accruals. However, until CTOs are adequately trained to formulate quarterly accruals, USAID's reported accrued expenditures and accounts payable are still vulnerable to material error and its annual pipeline information—which is used by various levels of USAID management—may be unreliable and require material adjustments.

Managing for Results

USAID has programs in about 100 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 (PMA), require that agencies link their performance results to budget and human capital requirements.

A significant element of USAID's performance management system is the Annual Report prepared by each of its operating units. These reports provide information on the results attained with USAID resources, request additional resources, and explain the use of, and results expected from, these additional resources. Information in these unit-level Annual Reports is consolidated to present a USAID-wide picture of achievements in USAID's annual Performance and Accountability Report.

The OIG continues to monitor USAID's progress in improving its performance management system. While USAID has made notable improvements, more remains to be done. For example, during the prior reporting period, the OIG reported that certain information included in the Management's Discussion and Analysis section of USAID's fiscal year 2004 consolidated financial statements did not contain a clear picture of USAID's planned and actual performance for that year. Moreover, the primary performance information included was based on results achieved in fiscal year 2003 rather than fiscal year 2004.

Nevertheless, USAID has made notable improvements to the Management's Discussion and Analysis section. First, the Management's Discussion and Analysis for fiscal year 2004 reported more current-year results than in the prior year. USAID's present ability to compare the estimated current-year results against established goals and targets is a significant step forward. USAID officials also indicate that they anticipate further enhancing the timeliness of reporting by implementing the collection of performance data on a semiannual basis.

Second, the Management's Discussion and Analysis for fiscal year 2004 used USAID's New Strategic Planning Framework and Goal Structure contained in the Joint USAID/State Strategic Plan. This new framework is designed to present a more coherent, concise and logical reflection of how the Department of State and USAID organize their work towards results and outcomes.

We will review progress made in the Management's Discussion and Analysis for fiscal year 2005 when this information is made available to us by USAID management in mid-October 2005.

Acquisition and Assistance

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. Compounding this situation is the fact that many of USAID's development results are achieved through intermediaries such as contractors, grantees and recipients of cooperative agreements. In such an environment, promoting operational efficiency and effectiveness is critical in ensuring that intended results are achieved.

Within the framework of its multi-year audit plan, the OIG defined "standards for success" for critical acquisition and award processes. Audit plans have been developed to identify the Office of Acquisition and Assistance's status in achieving these standards and the steps needed for further improvement.

The OIG previously examined whether the task-ordering process carried out by mission directors affected USAID's ability to meet the goals established by the Small Business Administration. The audit concluded that USAID had excluded mission task orders from its small and disadvantaged business program. USAID has not yet achieved final action on this issue.

In another audit, which is currently ongoing, the OIG raised questions concerning the adequacy of scopes of work that USAID used in awarding field support task orders under Indefinite Quantity Contracts. The OIG is currently awaiting an opinion from USAID's General Counsel concerning this matter.

Human Capital Management

The PMA identifies the strategic management of human capital as one of five government-wide areas that needs improvement. In response to the PMA— 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 August 2004, USAID issued its first comprehensive Human Capital Strategic Plan, which covered fiscal years 2004 to 2008. As of June 30, 2005, the Office of Management and Budget gave USAID a "yellow" rating, reflecting mixed results, for its overall status in the area of human capital management. While this was an upgrade from an unsatisfactory rating of "red," USAID needs to continue to implement its workforce planning to close skill gaps through recruitment, retention, training, succession planning, and other strategies.

Reportable Condition Related to Information Resource Management

As noted above, the area of Information Resource Management is no longer regarded as one the Agency's most serious management and performance challenges. We still regard this area, however, as a reportable condition. Accordingly, cited below are some of the Agency's efforts to address this area as well as some of the additional steps that need to be taken.

In the area of Information Resource Management, USAID has:

- Staffed most of its Program Management Office.

- Hired Directors for its Office of Information Resources Management and Program Management Office.

- Published documents such as risk management and quality control plans for projects; and

- Issued revised policies and procedures for the Agency's capital planning and investment control process.

Nevertheless, more remains to be done. For example, USAID needs to:

- Develop an enterprise architecture;

- Enhance and fully utilize the capabilities of its Program Management Office; and

- Develop complete policies and procedures governing its Information Technology projects.

The OIG is currently conducting an audit that will address this area. We will report on the results of that audit in our March 2006 Semiannual Report to the Congress.