October 23, 2008

INFORMATION MEMO FOR THE 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 2008 Agency Financial Report is attached.

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

Attachment

cc: David Ostermeyer, Chief Financial Officer

<u>Office of Inspector General's (OIG) Fiscal Year 2008 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

OIG has been reporting challenges in these five areas since 2001.

Financial Management

OIG expects to issue unqualified opinions again on USAID's fiscal year 2008 financial statements. This would be the sixth consecutive year that USAID has received unqualified opinions on its financial statements. Notwithstanding these unqualified opinions and the progress that USAID has made in strengthening its financial management processes, accrual accounting and reporting remain a financial management challenge.

<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 accrual 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 OIG has recommended adjustments to USAID's financial statements of millions of dollars to more accurately reflect USAID's accrual activity. For example, as part of the current year's financial statement audit, one OIG test found that 10 out of 22 sampled items contained errors totaling approximately $100 million. Therefore, USAID will have to make a significant adjustment to its general ledger again this year. 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 OIG continues to closely monitor the Agency's accruals 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 Agency Financial Report, USAID implements programs in 88 countries and contributes to development through appropriated funding that has more than doubled since 2001. Increased resources have come with new responsibilities, such as intensified efforts to combat HIV/AIDS and malaria and rebuilding efforts following conflicts in Afghanistan, Iraq, Lebanon, and parts of Africa. USAID programs promote a wide range of objectives related to economic growth, agriculture and trade, global health, 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, Governmentwide 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 toward 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, 2008, OMB rated USAID's current status and progress in the performance improvement initiative as "green," which, for the current status rating, is an upgrade from the previous "yellow" rating. Therefore, according to OMB, USAID has made progress toward meeting its performance improvement goals.

Nevertheless, OIG continues to monitor USAID's progress in improving its performance management and reporting systems in Washington, as well as overseas. During fiscal year 2008, OIG issued 44 audit reports that included 153 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—which include adherence to numerous laws, regulations, policies, procedures, and definitions—USAID continues to face challenges in its acquisition of supplies and services, as well as in its delivery of foreign assistance.

To help plan for, execute, and then manage the implementation of its procurement actions, USAID had been developing two new systems—the Global Acquisition System

(GLAS) and the Joint[1] Assistance Management System (JAMS)—to improve USAID's acquisition and assistance functionality worldwide through advanced technology and business process improvements. Over the past year, however, and in continuing efforts to improve its procurement processes and systems, USAID modified GLAS to include the assistance portion that was to be included in JAMS. The modified system, known as the Global Acquisition and Assistance System (GLAAS), allows acquisition and assistance financial transactions to be interfaced with USAID's core financial system, Phoenix. That interface eliminates the need to re-key the acquisition and assistance data into Phoenix.

Nonetheless, according to USAID officials, implementation of GLAAS continues to be a management challenge, primarily because of the lack of resources. Because of this lack, USAID has had problems:

- Meeting the system deployment plan and schedule.
- Ensuring adequate training of system users.
- Providing adequate direct-hire support for activities, such as implementing changes based on user feedback on the system.
- Developing a comprehensive disaster recovery plan.

In addition, OMB identified GLAAS as a high-risk investment due to a variety of factors, such as the high cost and complexity of the investment. OIG is assessing the risks associated with deploying GLAAS, and one audit is planned for fiscal year 2009. (See page 8.)

During the past year, OIG issued 10 performance audit reports dealing with specific acquisitions and assistance issues and has three ongoing audits. The 10 issued reports were:

- Audit of USAID/Iraq's Agribusiness Program (Report No. E-267-08-006-P, September 30, 2008)
- Followup Audit of USAID's Governmentwide Commercial Purchase Card Program (Report No. 9-000-08-009-P, August 26, 2008)
- Audit of USAID's Effectiveness in Complying with Tiahrt Voluntary Family Planning Requirements (Report No. 9-000-08-005-P, February 8, 2008)
- Followup Audit on Recommendations Included in the Audit of Selected USAID Bureaus' Training, Use and Accountability of Cognizant Technical Officers (Report No. 9-000-08-004-P, January 24, 2008)
- Followup Audit of USAID/Senegal's Contracting Operations (Report No. 7-685-08-004-P, December 28, 2007)
- Audit of USAID's New Partners Initiative Created Under the President's Emergency Plan for AIDS Relief (Report No. 9-000-08-002-P, December 12, 2007)
- Audit of the Adequacy of USAID's Antiterrorism Vetting Procedures (Report No. 9-000-08-001-P, November 6, 2007)

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[1] JAMS was being implemented jointly with the Department of State.

- Audit of USAID/Iraq's Monitoring and Evaluation Program (Report No. E-267-08-004-P, July 3, 2008)
- Audit of Selected Performance-Based Task Orders for Information Technology Services (Report No. A-000-08-005-P, May 15, 2008)
- Audit of USAID/Morocco's Democracy and Governance Activities (Report No. 9-000-08-006-P, March 28, 2008)

These 10 reports identified 23 recommendations to correct various deficiencies related to acquisition and assistance activities.

OIG also has three ongoing audits—Audit of USAID's Process for Suspension and Debarment, Audit of USAID's Commodities for Avian Influenza Activities, and Worldwide Audit of USAID's Procurement and Distribution of Commodities for the President's Emergency Plan for AIDS Relief (PEPFAR). The objective of the Suspension and Debarment audit is to determine whether USAID's suspension and debarment process protects the public interest by responding to contractor impropriety in accordance with Federal guidance. The objective of the Avian Influenza Activities audit is to determine whether USAID has properly procured, deployed, and warehoused its avian influenza commodities. And, the objective of the third audit is to determine whether USAID has procured, deployed, and warehoused its PEPFAR commodities to ensure that intended results are achieved and to determine the impact. These audits will be completed in fiscal year 2009.

Human Capital Management

As stated above, since 2001 USAID funding has more than doubled. However, its direct-hire workforce and operating expense budget have remained essentially flat. For example, its full-time permanent employee workforce increased less than 3 percent from 2001 to 2007. 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 USAID's Administrator and the Business Transformation Executive Committee's (BTEC)[2] 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 understaffed 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.

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[2] The purpose of the BTEC is to provide agencywide leadership for initiatives and investments to transform USAID business systems and organizational performance.

- 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 the five Governmentwide areas that need improvement. As of June 30, 2008, OMB gave USAID a "yellow" rating, reflecting mixed results for its overall status in the area of human capital management, the same as in 2007. Further, on September 26, 2008, the Government Accountability Office issued a report[3] focusing on USAID's acquisition and assistance (A&A) staff that found, among other things:

> The number of A&A staff with the necessary competencies was less than adequate at some missions, while at others it was more than adequate, according to agency officials. For example, officials at the mission in Mali said they have delayed time-sensitive projects because key A&A staff were not available when needed to approve contracts, while officials at the mission in Indonesia said the current number of A&A staff may be more than adequate. Most of the A&A survey respondents overseas also reported difficulty in altering staffing patterns to meet A&A workload demands. Although USAID has made some efforts to address its A&A workforce issues, these efforts do not constitute a strategic A&A workforce plan that takes into account the entire A&A workforce. Without accurate and reliable A&A staff data, USAID does not have adequate information to address current workload imbalances.

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, to address the Agency's most critical workforce and competency gaps, the BTEC led the development of the 5-year USAID Human Capital Strategic Plan. According to USAID, the plan describes the human resources capabilities necessary to implement the overall Joint State Department-USAID Strategic Plan, while directly addressing the human capital goals of the PMA. The plan addresses five strategic objectives:

- Achieve a high-performing workforce.
- Align staff strategically with Agency priorities.
- Establish a more flexible workforce.
- Create a diverse workforce.
- Increase human resources capacity to support USAID's mission.

Additionally, USAID has already instituted a multi-year effort entitled the Development Leadership Initiative (DLI) to rebuild the USAID workforce. It is aimed at increasing the size of

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[3] "USAID Acquisition and Assistance: Actions Needed to Develop and Implement a Strategic Workforce Plan," Report GAO-08-1059, September 26, 2008.

USAID's overseas presence and to build a strong corps of professionals to meet the development challenges of the future. USAID plans to request $92.1 million for implementation of the DLI in fiscal year 2009—and hire 300 Foreign Service Officers (above attrition), which represents an approximately 30 percent increase in the Foreign Service overseas workforce. USAID plans to continue this hiring initiative in future years with the goal being to double the size of the Foreign Service by fiscal year 2012.

OIG applauds the Agency's efforts in this area and believes that USAID needs to continue to implement its workforce planning to close skill gaps through recruitment, retention, training, succession planning, and other strategies. OIG plans to conduct an audit of USAID's Human Capital Strategy in fiscal year 2009.

Information Technology Management

USAID has made progress toward addressing weaknesses in its information technology management. However, USAID continues to face management challenges with respect to its implementation of the Homeland Security Presidential Directive (HSPD-12). Specifically, 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 Governmentwide initiative.

HSPD-12, "Policy for a Common Identification Standard for Federal Employees and Contractors," was signed by the President on August 25, 2005. The directive requires the development and agency implementation of a mandatory, Governmentwide standard for secure and reliable forms of identification for Federal employees and contractors[4] in gaining physical access to Federal facilities and virtual 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.

OIG first reported the implementation of HSPD-12 in fiscal year 2006 as one of the most serious management and performance challenges facing USAID. OIG reported[5] that USAID did not fully comply with OMB's phase I selected requirements for obtaining background checks of its employees, because USAID personnel could not identify or retrieve all of the identity proofing documents from a system located at the Department of State. Furthermore, USAID did not meet the phase II implementation dates for gaining access to USAID facilities and information systems. Several factors contributed to USAID's inability to meet phase I and phase II requirements: (a) USAID's lack of an implementation plan, (b) failure to establish HSPD-12 as a higher-priority information technology investment, (c) dependencies on Department of State's implementation of HSPD-12, (d) NIST's evolving technical standards[6], and (5) funding

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[4] This standard applies to all employees (e.g., direct hire, Personal Service Contractors, or employees on "loan" from other Federal agencies).
[5] Audit of USAID's Implementation of Selected Homeland Security Presidential Directive 12 (HSPD-12) Requirements for Personal Identity Verification of Federal Employees and Contractors, Audit Report No. A-000-08-004-P, February 6, 2008.
[6] The National Institute of Standards and Technology.

constraints on Agency budget requests. Further, USAID lacked the resources needed to carry out this Governmentwide initiative. Future challenges that USAID will likely face in this area include:

- Tailoring an implementation plan for USAID/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 define and develop mechanisms that provide access 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.

OIG will continue to monitor USAID's management of its information technology. Specifically, the following information technology audits are planned in fiscal year 2009:

- Audit of USAID/Washington's Compliance with the Federal Information Security Management Act for Fiscal Year 2009
- Audit of USAID Missions' Compliance with the Federal Information Security Management Act for Fiscal Year 2010
- Audit of USAID's Compliance with the Federal Financial Management Improvement Act of 1996 for Fiscal Year 2009
- Audit of USAID's Implementation of the Privacy Requirements in Section 522 of the Consolidated Appropriations Act of 2005
- Audit of the Performance of USAID's Worldwide Global Acquisition and Assistance System at Missions with Moderate and High Telecommunications Profile
- Audit of USAID/Washington's Group Policy Objects
- Audit of USAID's Electronic Mail System
- Audit of USAID's Independent Verifications and Validations for Selected Information Technology Investments within the Bureau for Economic Growth, Agriculture, and Trade's Information and Communication Technology Team
- Audit of USAID's Compliance with OMB Requirements for Information Technology Business Cases
- Audit of USAID's Implementation of its Managerial Cost Accounting System.
- Audit of USAID's Inventory Processes to Identify Information Technology Hardware, Operating Systems, and Applications on USAID's Network
- Audit of the Integrity Checks of the Manual Processes Used to Prepare Financial Statements