MEMORANDUM FOR THE ADMINISTRATOR

FROM: Donald A. Gambatesa   /s/
                   Inspector General

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

       This memorandum summarizes what the Office of Inspector General (OIG) considers 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 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 2011 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

STATEMENT BY THE OFFICE OF INSPECTOR GENERAL:
USAID'S MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES

Fiscal Year 2011

USAID faces its most serious management and performance challenges in the following four areas:

1. Working in Critical Priority Countries and Disaster Areas
2. Managing for Results
3. Managing Acquisitions and Assistance
4. Managing Information Technology

Last year, OIG reported human capital management as a serious management challenge because of issues such as the need to recruit, retain, and train a diverse workforce to respond to the various requirements throughout the world. The demands of working in high-threat areas in Afghanistan, Pakistan, and Iraq have further compounded USAID's human capital challenges.

We no longer consider human capital management a serious management challenge because USAID has addressed Government Accountability Office (GAO) findings regarding USAID's 5-year workforce plan for fiscal years (FYs) 2009–13 (in box). According to USAID, it now has a comprehensive, automated Competency Management System, including an electronic Individual Development Plan, allowing individuals to assess their competencies against job requirements and identify gaps that indicate a need for training, thus facilitating career development. The system now covers the Foreign Service and Civil Service, as well as U.S. personal services contractors. Foreign Service Nationals will be covered by 2013. Consistent with GAO audit recommendations, USAID is developing a 2-year workforce plan, along with a Human Resources Information System with data on staffing that supports worldwide workforce analyses, hiring and deployment, and budget formulation. OIG will continue to monitor human capital issues through audits of USAID programs and projects.

> **GAO Findings**
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> "USAID's 5-year workforce plan . . . lacks several key elements that GAO has identified as critical . . . . For example, the plan generally does not include a major portion of USAID's workforce—U.S. and foreign national personal services contractors. In particular, it is not comprehensive in its analysis of workforce and competency gaps and the staffing levels that the agency requires to meet its program needs and goals.
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> "USAID has not fully met its Foreign Service hiring targets nor developed plans for how it will meet its hiring goals, and it has not planned the required overseas training assignments for all new hires to help ensure that missions have the necessary resources and mentors."
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> "USAID Needs to Improve Its Strategic Planning to Address Current and Future Workforce Needs," GAO-10-496, June 2010.

Working in Critical Priority Countries and Disaster Areas

USAID continues to face enormous challenges in implementing its programs and activities in Afghanistan, Pakistan, Iraq, Sudan, and Haiti.

Security concerns, weaknesses in governance, and corruption are persistent problems. Moreover, as USAID provides more of its assistance directly to host-country institutions to help build capacity at the national, provincial, and local levels, questions concerning accountability for those funds may arise.

Afghanistan and Pakistan. The greatest challenge to carrying out development programs in Afghanistan and Pakistan is the high-threat environment in these areas. In general, USAID personnel cannot travel outside the capital city of either country without approval from the Regional Security Office. Travel to some areas can be delayed for long periods, and personnel implementing projects outside the capitals are at risk of being targeted by insurgents.

Consequently, monitoring the progress of USAID programs in these countries has become more difficult. USAID/Afghanistan and USAID/Pakistan require contract and agreement officers' technical representatives to conduct site visits to verify the progress of activities, where possible. Where security constraints make it difficult to conduct regular site visits to oversee the work of implementing partners—in Pakistan, for example—USAID engages contractors to perform monitoring to ensure that program objectives are met, intended recipients are receiving USAID program benefits, and reported results are validated.

Yet monitoring difficulties remain. OIG's performance audits in Afghanistan and Pakistan have found instances of inadequate contract and management oversight. Findings include commodity spoilage caused by mismanagement, nonexistent beneficiaries, and inaccurate performance reporting to USAID management and external parties.

An additional challenge for USAID is managing increased risk associated with the U.S. Government's strategy of providing assistance to partner-country institutions in Afghanistan and Pakistan at the national, provincial, and local levels. For example, USAID has entered into agreements with the Afghan Ministries of Public Health and Finance to provide $236 million and $72 million, respectively. USAID disbursed $190 million to the Government of Pakistan for the multidonor Citizen's Damage Compensation Program to provide cash grants to approximately 1.6 million families in flood-affected areas.

Providing funds directly to these governments poses a heightened risk in both countries, where corruption is pervasive. In 2010, Transparency International's Corruption Perceptions Index, which measures the perceived level of public sector corruption, ranked Afghanistan 176 and Pakistan 143 out of 178 countries surveyed (with 178 being perceived as the most corrupt). In recent months, corruption scandals involving Afghan officials have captured media attention.

To mitigate the increased risk of providing assistance directly to host-government institutions, USAID is performing preaward assessments to determine whether these institutions can properly administer the assistance. In Afghanistan, USAID launched a program to (1) vet Afghan recipients and subrecipients receiving over $150,000, including those subrecipients of host-government institutions, for ties to terrorist organizations and (2) achieve extensive audit coverage of costs incurred in Afghanistan, including funds expended by the partner government. In Pakistan, one key step taken by the mission was to contract with international and local accounting firms to conduct preaward assessments of potential first-time recipients of USAID funds.

Like USAID, OIG has taken steps to address these concerns. OIG audited USAID's management of the preaward assessments in Afghanistan, and the OIG has audited the Ministry of Finance and the Ministry of Public Health, as well as other host-government institutions. OIG is using local accounting firms to conduct financial audits of funds provided directly to Afghanistan Government ministries. In Pakistan, the OIG also audited USAID's management of the preaward assessments.

In Pakistan, OIG and USAID signed a memorandum of understanding with the country's Supreme Audit Institution (similar to the U.S. Government Accountability Office) that establishes a framework for conducting financial audits of USAID funds awarded to government organizations. As of September 30, 2011, the Auditor General of Pakistan was conducting four financial audits of USAID funds provided to Government of Pakistan organizations, all of which are over a year behind schedule; the Auditor General conducts financial audits of all USAID funds provided to the Government of Pakistan, including cash transfers, in coordination with OIG's office in Pakistan. OIG also provided audit training to 19 Pakistan Auditor General staff in September 2011.

OIG completed 10 audits or reviews in Afghanistan in FY 2011 and plans to conduct 15 audits or reviews in FY 2012. In addition, OIG completed six audits in Pakistan in FY 2011 and plans to conduct ten audits in FY 2012.

Iraq. The precarious security situation in Iraq continues to limit USAID/Iraq's ability to implement and monitor its development activities. All travel outside the International Zone (both in Baghdad and in the rest of the country) requires approval from the Regional Security Office and depends on the availability of security details—increasingly made up of private security contractors—to accompany staff on site visits. Even when they are not traveling, implementing partners are subject to hostile action: within the last half year, Iraqi-led security forces conducted raids of two implementing partners' compounds, resulting in arrests and confiscated property. Violence also makes counterparts reluctant to visit USAID staff in the International Zone and even more reluctant to receive visits from USAID staff because of the unwanted attention resulting from a security convoy.

Furthermore, it is still extremely dangerous for Iraqis to work for the U.S. Government or USAID partners. Although many Iraqis continue to work for the U.S. Government, the dangerous environment has kept many away, creating a deficit of skilled professionals to fill Foreign Service National (FSN) vacancies. In addition, potential FSN employees face a security vetting process that includes multiple interviews and one or more polygraph examinations and takes 6 to 8 months to complete. Once hired, the FSNs are subjected to polygraph testing and revetting annually or semiannually. These requirements make it difficult to recruit and retain Iraqi professionals for key positions.

With the drawdown of the U.S. military, the U.S. Embassy disbanded all of its provincial reconstruction teams, as of September 2011. To fill much of the resulting void in program monitoring, USAID is in the process of hiring some 25 Iraqi field monitors; however, the vetting process remains a concern. Not surprisingly, OIG performance audits have disclosed inadequate contract oversight and activity management.

Oversight of USAID programs is also complicated by widespread corruption. In 2010, Transparency International's Corruption Perception Index ranked Iraq 175 out of 178 countries. USAID/OIG audits and investigations have identified corrupt schemes that have hindered program accomplishments.

OIG completed three audits and two reviews in Iraq in FY 2011 and plans to conduct three audits and one review in FY 2012.

Sudan. With the emergence on July 9, 2011, of a new country, the Republic of South Sudan, the challenges USAID faces in delivering assistance to the people of Sudan have multiplied. The division of one country into two has weakened the economy of the north (the Republic of Sudan), which lost much of the oil revenue it formerly received. The south, which was neglected during decades of civil war, needs to build infrastructure both physical and civil and unite groups that fought together for independence but are now jockeying for power. Conflict between and within the two countries continues.

As in other conflict and postconflict settings, security threats impede project implementation and monitoring in the Republic of Sudan and the Republic of South Sudan. Approval from the Regional Security Office is generally required for travel outside the main cities of Khartoum and Juba because of highway banditry and intermittent clashes with the Lord's Resistance Army, a rebel group that has abducted and killed civilians in several Central African countries. Extremely high staff turnover and staff shortages at both USAID missions and in implementing partner offices, lack of local skilled personnel, and transportation and logistics difficulties also hinder implementation and monitoring of U.S. foreign assistance projects in Sudan. In 2010, Transparency International's Corruption Perceptions Index ranked Sudan 172 out of 178.

In FY 2011, the OIG issued two performance audits of Sudan programs and one performance review. In FY 2012, OIG plans to issue two performance audits of USAID/South Sudan programs.

Haiti. More than a year after a powerful earthquake hit Haiti, hundreds of thousands of people still live in temporary camps and makeshift homes, and much rubble remains to be cleared. Compounding these problems, the nation has had to deal with a cholera epidemic, which has killed thousands of people and continues to spread. Haiti also struggled through a turbulent presidential election, with rumors of fraud by the ruling party sparking violent demonstrations.

USAID faces a vast array of challenges to reaching its development goals for infrastructure, health, agriculture, and governance in Haiti. Although Haitian-led development is imperative, the limited capacity and weak infrastructure of the government complicate this goal. Property rights and land tenure are also major challenges in Haiti. National government policies on property rights need to be reformed and enforced transparently and fairly. Until reform occurs, USAID is limited in resettling people from camps to permanent shelters. Land tenure issues also impede USAID's ability to achieve its agricultural goals. In addition, the limited capacity of local nongovernmental organizations will make it difficult for USAID to award grants and contracts directly to them, as the Agency seeks to do to advance its procurement goals. These are some of the challenges that USAID needs to overcome to have a sustainable development impact in Haiti.

In January 2011, OIG established a Port-au-Prince satellite office, staffed by two auditors and two investigators, and regularly dispatches additional audit teams to Haiti to provide expanded oversight of USAID operations. OIG conducted five audits in FY 2011, covering USAID's shelter, education, health, and agriculture programs, and one review addressing the financial management controls of a USAID implementer. In FY 2012, OIG plans to conduct six audits of USAID/Haiti's programs.

USAID continues to take steps to meet the challenges in critical priority countries and disaster areas. For example, USAID established a team to develop Agency policy on counterinsurgency, combating terrorism, and combating violent extremism. USAID also established the Office of Civilian Response to allow the rapid deployment of sufficient numbers of trained officers to support U.S. Government reconstruction and stabilization activities abroad. The Office of Civilian Response has 34 active members and 169 standby members working for USAID who can be deployed. The Agency developed several training courses to build knowledge and skills in the civilian response corps to operate in complex environments.

Managing for Results

USAID manages a large portfolio of foreign assistance programs designed to help achieve long-term development, respond to humanitarian emergencies, and rebuild countries that

have experienced high levels of violent conflict. USAID faces challenges in ensuring that these programs achieve planned results.

Assistance Planning. The need for planning cannot be overemphasized. OIG audits frequently identify weaknesses in planning that can impair the effectiveness of USAID programs. Of the 80 performance audits OIG conducted in FY 2011, 25 disclosed problems with assistance planning:

- Program performance indicators and targets were not established, were not updated, or were not very closely related to USAID activities (21 cases).

- Performance targets were inconsistent in performance management plans, contracts and grants, and annual work plans or were not appropriate (2 cases).

- Performance indicators were not adequately defined, or data collection procedures were not uniform among partners (5 cases).

These deficiencies make it difficult for program implementers—USAID, partner-governments, contractors, and grantees—to track progress toward and achieve program objectives and results.

Performance Management. The Agency is committed to managing assistance programs to achieve the best possible development outcomes. Nonetheless, OIG audits have identified shortcomings in performance management.

For programs audited in FY 2011, a significant proportion of program performance targets were not met, or performance lagged behind targets in key areas. OIG reported this finding in 17 performance audit reports. For example, one audit report disclosed that a USAID program fell well short of its income generation targets for beneficiaries, attaining only 19 percent of its licit job creation target and 22 percent of its vocational training target for the year.

Also, 35 performance audit reports documented instances of inadequate contract or project management. In one audit, OIG reported that USAID program staff overrode management controls by performing responsibilities that are normally reserved for the agreement officer. For example, program staff directed the implementer to provide services that were not part of the implementer's scope of work. Consequently, program performance deteriorated.

Results Reporting. USAID operating units report results achieved by USAID-financed programs to the State Department's Office of the Director of U.S. Foreign Assistance. Operating units also make this information available to external stakeholders such as the Office of Management and Budget, Congress, and the public.

OIG audits have identified inaccurate or unsupported reported results. In 37 of the audit reports OIG issued in FY 2011, we noted that data reported by USAID operating units or their partners was misstated, not supported, or not validated. According to one audit report, USAID overstated the number of beneficiaries from activities in Colombia as follows:

- 357,209 individuals reportedly benefited from U.S. Government-supported social services, but supporting documentation showed that only 276,148 individuals actually received these services (a 29 percent difference).

- 2,442 jobs were reportedly created, but supporting documentation showed that only 1,833 jobs were actually created (a 33 percent difference).

Sustainability. Sustainability is the capacity of a host-country organization to achieve long-term success and stability and to serve its clients and consumers without interruption and without reducing the quality of services after external funding ends.

USAID places emphasis on sustainability. Agency policy requires that long-term development plans produce sustainable benefits after termination of USAID funding. In fact, in a February 2011 testimony before the Senate Committee on Foreign relations, Mark Feierstein, Assistant Administrator for Latin America and the Caribbean, said:

> The hallmark of the Obama Administration's approach to development is sustainability. Of all the metrics we use to gauge our success, none is more important than reaching the point at which we can close up shop in a country. As President Obama said when he announced his new development policy in September, the purpose of development 'is creating the conditions where our assistance is no longer needed.'

OIG audits have identified obstacles to project sustainability, with 11 audit reports disclosing sustainability weaknesses in FY 2011. For example, one project in India was expected to build the capacity of a government agency, transforming it into an independent technical assistance agency by the end of the project. To demonstrate progress, the agency was to develop and implement a capacity-building and sustainability plan that would help it become independent of USAID support. However, no such plan had been developed at the time of the audit.

USAID has taken action to address weaknesses in planning, performance management, and results reporting. Actions include (1) developing a training workshop, "Managing for Results," and training over 350 individuals in planning and performance management as of March 2011, (2) piloting a new workshop called "Training of Technical Advisors," which targets

Agency staff tasked with providing technical assistance to the field and teaches facilitation skills for developing results frameworks and selecting performance indicators, and (3) establishing the Bureau for Policy, Planning, and Learning to support the Agency's efforts to manage for results. OIG audits in FY 2012 will review USAID efforts in these areas.

Managing Acquisitions and Assistance

In the area of acquisition and assistance, USAID faces two main challenges, discussed below.

Strategic Procurement Reforms. USAID faces a major challenge in implementing procurement reforms. Current strategies emphasize using partner-country systems and strengthening local capacity and institutions. USAID has formed a Procurement Reform Group to explore ways to make significant changes in the way USAID's assistance is designed and delivered to build local capacity. The group has proposed reforms to increase competition; broaden the Agency's partner base; strengthen partner-country financial, management, and procurement systems; and strengthen local civil society and private sector capacity to improve aid effectiveness and sustainability.

To ensure that host-country and other local systems can provide accountability for U.S. Government funds before providing the funds to host-country institutions, in August 2011, USAID issued Automated Directives System Chapter 220, "Use of Reliable Partner Country Systems for Direct Management and Implementation of Assistance." The chapter requires USAID to assess the partner-country systems. To conduct this assessment, USAID established a Public Financial Management Risk Assessment Framework. The framework includes a (1) general appraisal of the country's systems, (2) in-depth risk assessment, (3) risk analysis, management, and mitigation, (4) conditions precedent, which, if complied with, would constitute formal approval for use of a partner financial system, and (5) negotiations with the partner country. Use of the framework will discharge USAID's fiduciary duties, advance USAID's broad development goals, and achieve measurable results jointly identified and agreed on with the partner country government.

Also, if USAID intends to use a partner country's supreme audit institution, USAID needs to coordinate with the USAID OIG to ensure that the supreme audit institution can conduct audits in accordance with U.S. Government Auditing Standards. USAID OIG will assist USAID in these efforts as requested, and will audit funds provided to host-government organizations as necessary.

Cost-Reimbursement Contracts. USAID commonly uses cost-reimbursement contracts, which allow for payment of allowable incurred costs. Federal Acquisition Regulation Subpart 16.301–2 states that cost-reimbursement contracts are suitable only when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract. Subpart 16.301–3 states

that cost-reimbursement contracting may be used only when there is appropriate government surveillance during performance to provide reasonable assurance that efficient methods and effective cost controls are used. Cost-reimbursement contracting places a heavy burden on USAID operating units to provide the monitoring necessary to provide reasonable assurance that American taxpayer funds are used efficiently and effectively and that the desired outcomes are achieved.

In response to the strategic procurement reforms challenge, USAID established a new USAID/Washington support team in the Office of the Chief Financial Officer to provide quality control by analyzing data, ensuring consistency in using a risk assessment framework for public financial management, proposing and monitoring exposure limits, and providing policy analysis and advice.

Regarding cost-reimbursement contracts, USAID responded that the Acquisition Savings Plan it submitted to the Office of Management and Budget in April 2011 reduces by 21 percent the number of new awards using high-risk contracting mechanisms. USAID hired a permanent chairperson of the Contract Review Board in August 2011, and developed guidelines for a new Acquisition and Assistance Board. The Acquisition and Assistance Board was created to ensure appropriate instrument selection and pricing arrangements.

Managing Information Technology

USAID continues to face challenges in implementing Homeland Security Presidential Directive 12 (HSPD–12). In addition, USAID faces challenges in consolidating information technology (IT) personnel and infrastructure with the Department of State and in safeguarding classified material.

- Regarding HSPD–12, OIG reported that USAID lacked the resources to comply with this U.S. Government-wide directive. Although USAID has since met the requirements for credentials that allow access to buildings at headquarters, it has not yet met requirements for credentials that enable access to information systems. Future challenges in this area include tailoring an implementation plan for USAID/Washington and overseas posts.

- In FY 2010, USAID and the Department of State consolidated their IT personnel and infrastructure in Afghanistan and shifted USAID personnel to the Department of State's network, OpenNet. Subsequently, USAID conducted a business study for consolidating USAID and Department of State IT infrastructure at approximately 70 locations where both USAID and the Department of State have operations. The approach chosen as a result of this study involves total integration of hardware, software, and support personnel. USAID is planning to conduct pilots at three locations starting in October 2011: Lima, Peru; San Salvador, El Salvador; and Guatemala City, Guatemala. Although OIG has not performed any formal audit work in this area, USAID's study identified potential critical risks associated with the

consolidation effort—including weakening of system security and not attaining projected savings—that will require management attention.

- A November 2010 Office of Management and Budget memorandum noted the "significant damage to our national security" caused by WikiLeaks disclosures. That memorandum set in motion a variety of activities conducted in 2011 to assess federal efforts to safeguard classified information against improper disclosure. At USAID, these efforts included a self-assessment of the Agency's handling of classified material, an external review by the Information Security Oversight Office and the Office of the National Counterintelligence Executive, and a review by the Office of the Inspector General. All three of these efforts noted areas for improvement in safeguarding classified material. OIG plans to perform a follow-up review in FY 2012 to determine whether USAID has addressed these challenges adequately.

In response to these challenges, USAID continues to work with the State Department to consolidate IT infrastructure and is working to increase protection of classified material. OIG intends to monitor USAID activities to address the three challenges mentioned in the managing information technology area and may amend its annual plan as resources permit to initiate audit work in these areas.