October 15, 2012

MEMORANDUM FOR THE ADMINISTRATOR

FROM: Michael G. Carroll /s/
              Deputy Inspector General

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

This memorandum transmits the Inspector General's statement on the most serious management and performance challenges for the U.S. Agency for International Development in FY 2012.

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.

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 on
USAID's Most Serious Management and Performance Challenges

USAID faces its most serious management and performance challenges in six areas:[1]

- Work in High-Threat Environments

- Performance Management and Reporting

- Sustainability

- Implementation and Procurement Reform

- Management of Information Technology

- Audits of U.S.-Based For-Profit Entities

Work in High-Threat Environments

USAID continues to face challenges in implementing its programs and activities in Afghanistan, Pakistan, Iraq, Haiti, and South Sudan. Critical priority countries and fragile states are characterized by instability, insecurity, weak governance, and poor control of corruption. OIG audits have disclosed deficiencies in planning for program sustainability, weak contract and grant management, weak internal controls, and noncompliance with laws, regulations, and other legally binding requirements. Relations between the U.S. Government and the governments of some of these countries are challenging, and continuing violence complicates program monitoring and makes it hard to recruit qualified Foreign Service National employees.

USAID has formed a steering committee that is developing plans to train a cadre of USAID employees and partners with the requisite skills and equipment to operate in exigent environments. The steering committee is also expected to produce plans for improved monitoring and oversight of USAID funds in these areas. The steering committee is preparing a strategic plan, as well as a decision memorandum and an implementation plan with cost estimates and time frames for implementing required changes.

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[1] This list reflects four significant changes from OIG's last statement on USAID's management and performance challenges, dated October 12, 2011: (1) "Managing for results" has been replaced by "performance management and reporting." (2) "Sustainability," previously included in "managing for results," is now reported as a separate management challenge. (3) "Managing acquisitions and assistance," which was reported in OIG's last statement as a separate management challenge, is now included in "implementation and procurement reform," which is being reported as a management challenge for the first time in this statement. (4) "Timely completion of audits of U.S.-based for-profit entities" is reported as a management challenge for the first time. (In addition to these significant changes, there are minor wording changes in the titles of some of the management challenges that were included in the OIG's previous statements.)

Afghanistan. Audits and reviews conducted in recent years have noted the need for improvements in several management and performance areas. Forty percent of the reports issued from October 1, 2010, through June 30, 2012, have identified contract or project management deficiencies and noncompliance with relevant procedures or regulations. Forty percent reported on internal control weaknesses. More than a third of the reports indicated that security problems hampered project implementation or monitoring; likewise, more than a third of the reports indicated that program benefits might not be sustainable. Two recent OIG audits illustrate some of these issues:

- USAID/Afghanistan's Incentives Driving Economic Alternatives for the North, East, and West, a $150 million program to promote alternatives to growing poppies, was achieving only mixed results.[2] For example, in 2010 and 2011, the program reported repairing or constructing only 80 of the 161 miles of transportation infrastructure targeted. Changes in program focus and staff turnover slowed progress, as incoming mission personnel came with different visions of the program, had varying priorities and operating styles, and in many cases did not document changes to the program. The mission's monitoring and documentation were not adequate, and while the agreement officer's representative was receiving quarterly and annual progress reports, he was neither analyzing those reports nor confirming the accuracy of reported data. Involvement of the host government in planning is an important component of fostering sustainability; however, officials in Afghanistan's Directorate of Agriculture, Irrigation, and Livestock said that they were not asked for their input into the design and planning of projects. In addition, participants in activities were disproportionately men, demonstrating that a gender balance was not maintained as required. Finally, the program's cash-for-work projects lacked policies on working hours, child labor, and worker safety.

- The Afghanistan Stabilization Initiative for the Southern Region, a $160 million program, has been delayed by a lack of timeliness standards for evaluating the performance of the main implementer, adverse security conditions, a lack of formal work plans, inadequate USAID oversight, staffing difficulties, and poor-quality subcontractors.[3] While the program was expected to build confidence and trust between the Government of Afghanistan and its citizens, citizens did not perceive projects as Afghan Government efforts, but rather as the work of foreigners. Security costs charged by the implementer were unreasonable, and reported results were inaccurate because the implementer reported planned results instead of actual results to USAID/Afghanistan, significantly overstating achievements.

USAID continues to address the challenges of managing projects in Afghanistan, and USAID/Afghanistan has begun planning for a reduced U.S. military and civilian presence in accordance with a transition to Afghan leadership under the Strategic Partnership Agreement signed in May 2012. USAID/Afghanistan and its interagency partners expect to continue using

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[2] Audit of USAID/Afghanistan's Incentives Driving Economic Alternatives for the North, East, and West Program, June 29, 2012, F-306-12-004-P.
[3] Audit of USAID/Afghanistan's Afghanistan Stabilization Initiative for the Southern Region, November 13, 2011, F-306-12-001-P.

on-site monitors, and the use of third-party monitors is being considered to help train program recipients and report on project progress.

Pakistan. OIG performance audits and reviews conducted in recent years have noted the need for improvements in a range of management and performance areas. Most of the reports issued from October 1, 2010, through June 30, 2012, have identified contract or project management deficiencies, and more than 40 percent have found internal control weaknesses and noncompliance with relevant procedures or regulations. Two examples follow:

- USAID/Pakistan's Pre-Service Teacher Education Program, a program with expenditures of $22 million as of December 2011, has successfully promoted new 2- and 4-year degree programs for teachers, with 16 educational institutions adopting the new degree programs. Notwithstanding its success in this regard, the program did not meet targets for 12 of 19 indicators. Some targets were not met because activities such as student scholarships and grants were postponed. Other program accomplishments, such as renovations at college and university facilities and the number of teachers enrolled in the new degree programs, fell short of targets. Performance management plans submitted by the program implementers did not comply with USAID requirements, and the mission had not given final approval to one implementer's plan.[4]

- The Energy Efficiency and Capacity Program, a 3-year, $23.5 million program, trained 138 individuals during its first year, 46 percent of the 300 individuals it expected to train. However, it did not achieve any of the planned results for industries with energy conservation plans, companies evaluating energy efficiency, energy companies upgrading equipment, or distribution companies implementing conservation strategies, and it did not implement a planned appliance-labeling program. Subsequently, responding to a shift in U.S. Government strategy, the mission modified the program to focus on subsidies for more efficient pumps for irrigation wells, intending to replace 11,000 pumps over 2 years. After 1½ years of implementing the new program strategy, only 963 pumps were reportedly replaced, 9 percent of the number planned. Because the contractor's fixed costs were spread over a smaller number of pumps than expected, USAID's cost per pump increased from the original estimate of $1,400 each to almost $8,500 each. More realistic planning and closer monitoring would have produced better results.[5]

To mitigate risks affecting its programs, USAID/Pakistan continues to conduct preaward assessments of local implementing partners. USAID/Pakistan also conducts broad-based monitoring and evaluation activities under an institutional contract to strengthen oversight.

Iraq. Monitoring assistance projects continues to be extremely difficult in Iraq. With the drawdown of the U.S. military, the U.S. Embassy disbanded its provincial reconstruction teams as of September 2011. To fill the void in program monitoring, USAID has sought to hire 25 Iraqi field monitors; however, hiring has proved difficult. Because of the perceived danger, few

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[4] Audit of USAID/Pakistan's Pre-Service Teacher Education Program, March 16, 2012, G-391-12-004-P.

[5] Audit of USAID/Pakistan's Energy Efficiency and Capacity Program, November 23, 2011, G-391-12-002-P.

Iraqi professionals apply to fill positions with the U.S. Government or with implementing partners. Iraqis seeking employment face a challenging security vetting process including polygraph testing and routine revetting. These requirements make it difficult to recruit and retain Iraqi professionals for key positions.

To improve its oversight and provide better accountability in such an environment, USAID has hired contractors and relied on local counterparts to gather performance data to assist with reporting, analysis, and decision making. Notwithstanding these recent efforts, the following examples highlight the difficulties of working in Iraq:

- USAID contracted for monitoring and evaluation services to carry out oversight functions that Agency personnel could not perform because of security restrictions.[6] To assess the services provided under the contract, USAID subsequently requested an audit, which found weaknesses in the monitoring and evaluation methods used by the contractor, casting doubt on the quality of findings and conclusions reported.

- USAID provided $103 million in technical assistance to develop the capacity of the Government of Iraq's election commission.[7] While the program did assist voter registration and elections, the program did not use a performance management plan, an Agency requirement for managing, assessing, and reporting progress toward the development objective.[8] Without a plan that defined the assistance to be provided and the results to be achieved, it was difficult to monitor progress or document program results. A performance management plan was prepared 3 years after the program began, but it was not updated; consequently, it was not used for monitoring the program. After 7 years of investment, the program was not sustainable and needed more assistance to stand on its own operationally, administratively, and financially. While capacity-building efforts produced some tangible results, overall the program did not focus on transferring the administrative and financial management skills needed to ensure the sustainability of the Iraqi election commission.

South Sudan. South Sudan's first year of independence has seen a continuation of the conflicts that plagued northern and southern Sudan for decades. In January 2012, South Sudan halted oil production during a dispute with Sudan over pipeline transit fees, diminishing government revenues in both countries. Travel restrictions are common in the north, where South Sudan's forces clash with both Sudanese and rebel forces. In the southern part of South Sudan, banditry and tribal conflict also restrict USAID activities. While insecurity and resulting travel restrictions continue to impede project implementation and monitoring, frequent USAID staff turnover and inadequate handover procedures have exacerbated the situation. For example, USAID has not approved work plans and waivers promptly during staff transitions, delaying implementation and resulting in some partners' starting activities without USAID approval.

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[6] Audit of USAID/Iraq's Performance Evaluation and Reporting for Results Management Program, July 30, 2012, E-267-12-004-P.
[7] Audit of USAID/Iraq's Electoral Technical Assistance Program, March 22, 2012, E-267-12-003-P.
[8] USAID's Automated Directives System (ADS) provides guidance for managing foreign aid. ADS 203.3.3.1, effective September 2008, contains requirements for a complete performance management plan to track and report results.

Financial monitoring is also difficult: USAID's office in South Sudan had just two financial analysts, each with less than 6 months' experience, to perform on-site financial reviews. Furthermore, few local public accounting firms are qualified to perform audits of USAID recipients if more in-depth audit oversight is warranted.

In addition, government capacity in South Sudan is weak, limiting program coordination and the expected long-term benefits of USAID's development efforts. Two examples highlight the problems posed by insecurity, insufficient financial monitoring, and low host-government capacity:

- Two programs in South Sudan designed to support the comprehensive peace agreement and increase the capacity of both civil society and local government entities did not achieve their main goal. An audit requested by USAID/Sudan found that key deliverables such as radio stations, resource centers, and annual state conferences were not completed on time. Performance targets for training, textbooks, and related activities were not met, sometimes because of factors like insecurity that were outside the control of the implementer and USAID, but also because of mismanagement. The implementer undertook activities without first obtaining USAID's approval, leading to $1.2 million in questioned costs. The implementer charged another $339,015 that the auditors classified as questioned costs because of questionable methods of allocating management costs and overhead to the USAID project. Additionally, the sustainability of some project activities was doubtful. For example, a resource center constructed by a USAID-funded program in Mankien (Unity State) that was intended to strengthen local civil society organizations was no longer functional because of post-referendum security concerns. Additionally, USAID-funded resource centers in Central Equatoria State were not functioning as intended because the local organizations meant to run them lacked capacity and sustainable financial resources. Finally, a USAID-funded organization evacuated staff from insecure areas along the border between Sudan and South Sudan, leaving behind incomplete and unmonitored USAID investments. Because of these staff departures, the organization was unable to complete training and capacity building for local government entities.[9]

- An audit of road-upgrading activities in South Sudan found that, while the Juba-Nimule road was over budget and behind schedule, the sections of road that were completed were well built, and increases in traffic showed that the road had successfully linked South Sudan with Uganda and other neighboring countries to the south. However, increased traffic volume has led to more accidents and has increased the wait time at the border from 3 hours to 3 days, according to a contractor official. These problems are due to the lack of action by the South Sudan Government to expedite customs clearance at the border and to the lack of policing in certain areas.[10]

Haiti. The January 12, 2010, earthquake in Haiti has been characterized as the largest urban disaster in modern history. As estimated on USAID/Haiti's Web site, the earthquake affected

[9] Audit of USAID/South Sudan's Programs Implemented by Mercy Corps, May 25, 2012, 4-668-12-009-P.
[10] Follow-Up Audit of USAID/South Sudan's Road Infrastructure Activities, June 13, 2012, 4-668-12-010-P.

3 million people, including approximately 1.5 million who were displaced to 1,300 settlements throughout Haiti. USAID estimates that 370,000 people still live in temporary camps and makeshift homes. Cholera has killed thousands of people and remains an ongoing health threat. Haiti also struggled through a turbulent presidential election in April 2011, with rumors of fraud sparking violent demonstrations.

USAID faces a vast array of challenges as it assists with Haiti's recovery from the devastating natural disasters and progress toward national development goals for infrastructure, health, agriculture, and governance. Although Haitian-led development is imperative, the limited capacity of the government and local nongovernmental organizations complicates this goal. Property rights and land tenure are also major challenges in Haiti. The loss of records in the earthquake has made identifying the rightful owners of land extremely difficult. Land tenure issues also impede USAID's ability to achieve its agricultural goals. Widespread corruption is a challenge for program accountability. In 2011, Transparency International's Corruption Perceptions Index ranked Haiti 175 out of 183 countries.

After the earthquake USAID provided significant emergency funding to Haiti that improved living conditions for thousands; however, the expenditure of long-term reconstruction funding moved slowly. For example, according to USAID/Haiti, of the approximately $800 million in reconstruction funding committed under the most recent bilateral agreement, less than 20 percent had been awarded, and only about 6 percent had been disbursed, as of July 2012. To facilitate a more rapid reconstruction effort, USAID/Haiti has reached a comprehensive bilateral agreement with the Government of Haiti and has developed reconstruction strategies that focus on health, education, agriculture, economic security, and energy.

In addition to the funding committed under the bilateral agreement, Haiti receives funding through the Development Credit Authority, Public Law 480, Global Health, and Office of Foreign Disaster Assistance programs. Mission officials anticipated that an additional $250 million to $300 million per year may be added to the country program. The sum of funds committed and budget requests for FY 2010-FY 2014 is approximately $2.7 billion.

Performance Management and Reporting

Performance management and reporting remains a management challenge. Program managers are responsible for approving performance management plans that support the objectives of each program and provide measures or indicators and targets for monitoring overall progress. Creating the plans is a time-consuming process, involving research and the collection of baseline data. Monitoring requires making site visits to confirm that scheduled activities are taking place and that targeted groups are receiving the intended benefits. It requires managers to assess data quality and check the numbers reported by implementers, not just against targets and previous reports but also against what is possible in the local context. Reporting results means compiling data from many implementers, in some cases from manual records, and verifying the compiled information under tight deadlines.

Performance Management. According to USAID's Automated Directives System 200.2, the mission's performance management responsibilities include planning and designing development objectives and managing and monitoring the implementation of these objectives. USAID's challenges in project monitoring result from causes both internal and external to USAID. During the planning phase, USAID does not always assess and document external weaknesses that could impair project execution. Often weaknesses in local institutions or implementing partners do not become evident until the project monitoring phase. The following examples highlight planning and monitoring difficulties:

- The President's Malaria Initiative, initiated in 2005, seeks to reduce the burden of the disease—illness, death, and poverty—especially in Africa. In Senegal, USAID relied on the national health system to distribute commodities and treat beneficiaries. However, because the system comprises 14 regions, 76 health districts, and 16,000 health outlets, program oversight was difficult, and an OIG audit disclosed numerous monitoring weaknesses.[11] Inventory records were lacking, treated bed nets had not been distributed as the mission understood, and some health posts had not received drugs for more than a year.

- For an HIV/AIDS program in the Democratic Republic of Congo (DRC),[12] the implementing partner was expected to "ensure continuous provision of supplies, including test kits" for HIV counseling and testing services. Because of unclear communication between USAID/Washington's contracting office and USAID/DRC's program office, it was not until after the contract was awarded and the project had begun that mission officials realized the implementer interpreted "ensure continuous provision" to mean managing distribution of commodities available at the health facilities, whereas the mission intended the language to mean procurement of commodities. Yet there was no line item for procurement in the implementer's approved budget, and during implementation USAID estimated that an additional $5 million would be needed to procure medical supplies for the remainder of the project.

- USAID developed the Skills Training for Afghan Youth Project[13] to provide technical and vocational skills, education, and other assistance. USAID awarded the 3-year project, valued at approximately $50 million, through a cooperative agreement. Ineffective communications and unapproved documents led to drastically different understandings about when the implementing partner should begin the second phase of the project. Inexperienced USAID staff members contributed to the project's difficulties. OIG recommended that USAID document significant meetings, discussions, and decisions—especially approvals, which are an essential element of management control.

Reporting. Quality, reliability, and sufficiency of program data are essential to assess whether projects have the intended impact. USAID guidance stresses that data must be of high enough quality to support the appropriate level of management decisions. Even though USAID has

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[11] Audit of USAID/Senegal's Activities Under the President's Malaria Initiative, August 7, 2012, 7-685-12-007-P.

[12] Audit of USAID/Democratic Republic of Congo's HIV/AIDS Program, November 23, 2011, 7-660-12-001-P.

[13] Audit of USAID/Afghanistan's Skills Training for Afghan Youth Project, February 7, 2012, F-306-12-002-P.

extensive guidance to help manage projects, staff members continue to struggle to report accurate and supported results, as the following examples make clear:

- The implementer of an HIV/AIDS project in Ghana found, after conducting a data quality assessment, that it had overreported results.[14] Reporting was flawed because those working for a subpartner did not understand how to define, measure, and report on project indicators. In addition, the lack of a centralized database made it difficult to track and report on results. Further, auditors could not verify results reported on activities designed to reduce gender-based violence, which affects groups at high risk for HIV/AIDS.

- USAID/Pakistan[15]developed a project to expand opportunities for owners of microenterprises. Although circumstances beyond the control of the mission forced it to reduce the project's scale, substantially increasing microentrepreneurs' income remained a focus of the project. However, the project did not pay sufficient attention to measuring the change in beneficiary income. As a result, when OIG reviewed the project, no information was available on changes in income, and auditors could draw no conclusions on whether the project was, in fact, increasing income. Since the audit, the mission has mandated the collection of this information.

- For the Tajikistan Productive Agriculture Program, results were missing or not useful.[16] The program did not formally track or report on the program's most significant activity—giving farmers vouchers that allowed them to buy high-quality seeds and other inputs at a discount. The program had no indicator to measure the number of voucher recipients or the number who redeemed their vouchers for the inputs subsidized by the program. Further, the program established no targets for the indicators on which it collected data. These conditions made measuring effectiveness difficult.

- USAID's Cooperative Development Program, managed in large part by the Office of Innovation and Development Alliances, does not have reliable data to assist Agency managers in making informed program decisions. Across USAID, there is no comprehensive set of relevant metrics with which to assess the results of agricultural cooperatives. USAID is taking steps to improve its program management by requesting more data and conducting improved evaluations.[17] However, USAID is not able at this time to produce evidence that the cooperative programs have produced sustainable economic benefits for small farmers.

In January 2011, USAID began requiring that a comprehensive strategy, a Country Development Cooperation Strategy, be developed to give direction to its programs in each country. In addition, new program cycle guidance has been issued to improve planning, implementation, monitoring, and evaluation. Staff training has also been phased in to complement the new approaches.

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[14] Audit of USAID/Ghana's Efforts to Integrate Gender into HIV/AIDS Activities, May 4, 2012, 7-641-12-006-P.
[15] Audit of USAID/Pakistan's Entrepreneurs Project, April 20, 2012, G-391-12-005-P.
[16] Audit of USAID/Tajikistan's Productive Agriculture Program, October 28, 2011, 5-119-12-001-P.
[17] Review of USAID Cooperative Development Programs, May 10, 2012, 9-000-12-001-S.

Sustainability

The President, Secretary of State, and the USAID Administrator have stressed the importance of sustaining benefits from development projects, and USAID has launched several efforts to address sustainability. The challenge is to design and implement projects that improve the ability of countries receiving aid to sustain benefits after U.S. Government funding ends. Sustainability underlies most of USAID's development priorities, and new plans require USAID to address this subject in meaningful ways.

Specific difficulties in managing projects for sustainability are discussed below.

- The USAID/Barbados Eastern Caribbean Community Action Project[18] demonstrates the difficulty of ensuring that national governments and community organizations are committed to sustainability. Despite sound policy in the USAID Automated Directives System and extensive efforts by the mission to ensure sustainability, the national government failed to provide funds to sustain the project when USAID funding ended. Following the first phase of the project, USAID developed a sustainability strategy to focus on working with government agencies and community organizations, yet these same elements were the focus of the strategy that failed in the first phase. USAID is now reassessing its plan for this project.

- Between 2003 and 2011, USAID financed information technology systems for the Government of Iraq to help manage information and increase transparency. However, for a variety of reasons—including changes in government that led some information technology systems to fall into disfavor—the Government of Iraq did not demonstrate the required commitment. The result was that most of the investments were not sustainable. USAID is now revising its procedures in an effort to implement lessons learned and audit recommendations for information technology investments.[19]

- USAID's road project in South Sudan experienced delays and budget overruns and is unlikely to be maintained by the Government of South Sudan. USAID has been working with the South Sudanese Government to create a quasi-governmental entity to maintain the country's roads. However, doubt remains about the road's sustainability since the government representatives stopped attending meetings with USAID officials and failed to take control of completed bridges.[20]

In December 2011, USAID issued new project design guidance requiring sustainability objectives to be incorporated into every project design. The Agency also created a companion Sustainability Analysis Tool to help missions design projects to maximize sustainable outcomes.

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[18] Audit of USAID/Barbados' Eastern Caribbean Community Action Project, August 17, 2012, 1-534-12-006-P.

[19] Audit of the Sustainability of USAID/Iraq-Funded Information Technology Systems, March 21, 2012, E-267-12-002-P.

[20] Follow-Up Audit of USAID/South Sudan's Road Infrastructure Activities, June 13, 2012, 4-668-12-010-P.

In January 2012, the project design sections of the Automated Directives System, Chapter 201, were updated to incorporate the new guidance and tool. In July 2012, USAID's Office of Policy, Planning and Learning completed development of its new project design course, which includes a major section on sustainability. Project design workshops are ongoing.

To provide guidance for the country where sustainability of U.S. efforts is the focus of national debate and international attention, the Administrator issued "Sustainability Guidance for USAID in Afghanistan," in June 2011. The guidance acknowledges that USAID's efforts are critical to the success of the President's strategy and lays out core principles for USAID efforts. Specifically, the Administrator directs more rigorous program review, monitoring, analysis and reporting, and development of a communications strategy.

Implementation and Procurement Reform

USAID's Implementation and Procurement Reform (IPR) is part of the USAID Forward reform agenda, designed to make USAID's assistance programs more efficient, effective, and sustainable. Ultimately, USAID aims to create enabling conditions in the countries where it works so that aid is no longer necessary. To achieve these ambitious outcomes, IPR includes six objectives:

- Increase use of host-country systems and institutions.

- Strengthen local civil society and private sector capacity through increased grants and contracts to local non-profit and for-profit entities and through capacity-building assistance.

- Increase competition and broaden USAID's partner base by increasing the use of U.S.-based small and disadvantaged businesses and small NGOs.

- Increase the number of fixed-price contracts and decrease the use of high-risk procurement methods.

- Strengthen collaboration and partnership with bilateral donors and multilateral and international organizations.

- Rebuild USAID's internal technical capacity.

By the end of fiscal year 2015, USAID plans to deliver 30 percent of mission assistance programs through host-country systems including government ministries, local non-profit organizations, and local for-profit firms. To assess risks associated with awards to non-U.S. organizations, USAID has developed two new assessment tools: a Public Financial Management Risk Assessment Framework (PFMRAF) for public sector institutions and a Non-U.S. Organization Pre-Award Survey (NUPAS) tool for private sector non-profit and for-profit entities. As of August 7, 2012, USAID had reportedly completed 24 Stage 1 PFMRAF assessments (which focus on country-level fiduciary risks) and 3 Stage 2 assessments (which assess risks within specific government institutions). USAID does not centrally track the

completion of NUPAS surveys. OIG is currently conducting a review of PFMRAF and NUPAS assessments to see whether the assessments are reliable and whether recommendations for risk mitigation measures are being implemented.

To manage the fiduciary and programmatic risks that will accompany IPR implementation, USAID has begun using fixed-obligation grants, in which grantees are paid a fixed amount for completion of verifiable products, tasks, deliverables, or goals. USAID also uses fixed-amount reimbursement agreements, in which host governments are paid a fixed amount for completion of construction projects in accordance with agreed specifications and quality standards.

If USAID missions are to deliver more assistance through organizations that lack experience working with USAID, the relationship between USAID and its implementers will necessarily change. USAID officials working on IPR implementation have indicated that missions will need additional staff so that they can work more closely with new implementers. If additional human resources are not provided, the risks associated with working with a new group of implementers will be heightened.

As part of the IPR initiative, several other acquisition and assistance reforms are planned. USAID expects to increase the number of awards reserved for U.S.-based small, disadvantaged, and women-owned businesses, while ensuring that prime contractors and grantees provide more subgrants and subcontracts to small and start-up NGOs and to small and disadvantaged businesses. By FY 2013, USAID plans to obligate 3 percent of its program funds through contracts with U.S. small and disadvantaged businesses, increase the number of partners to 200, and increase the number of U.S. private business partners and U.S. NGOs by 25 respectively. By 2015, USAID plans to obligate 5 percent of its program funds through contracts with small and/or disadvantaged businesses, increase the number of partners to 300, and increase the number of U.S. private business partners and U.S. NGOs by 40 respectively.

USAID expects to revise its policies and procedures on indefinite quantity contracts and leader with associate awards, reducing their size, scope, and duration. USAID plans to increase the percentage of fixed-price contracts for commodities to 75 percent and for other acquisitions to 20 percent by FY 2015. The Agency will also consider cost containment measures for contractors and grantees, such as compensation limits. It is working to harmonize procurement approaches with other U.S. Government agencies working in the same areas as USAID, such as HIV/AIDS and maternal and child health. Finally, USAID plans to reduce both the number of contracts reviewed by the Contract Review Board and the number of times that contracts must be reviewed.

To strengthen collaboration among USAID, other donors, and multilateral organizations, USAID has issued a new Automated Directives System (ADS) chapter, ADS 351, establishing new policies for agreements with other bilateral donors. It has revised ADS 308, which governs awards to public international organizations, and it is in the process of negotiating new audit provisions applicable to United Nations agencies.

To rebuild USAID's internal technical capability, USAID will prioritize recruitment of technical staff with a focus on key initiative areas such as global health and food security, science and technology, democracy and governance, and entrepreneurship. USAID is also prioritizing recruitment and retention of contracting officers. This part of the IPR effort is carried out under USAID's Talent Management Reform Plan, which was announced in 2010 and is led by the Office of Human Resources.

Management of Information Technology

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

Regarding Presidential Directive 12, OIG reported that USAID lacked the resources to comply with this U.S. Government-wide directive. [21] 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. USAID plans to follow the direction of the Department of State to comply with Presidential Directive 12, but tailoring an implementation plan to comply with the directive in USAID/Washington and at overseas posts continues to be a challenge.

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, Open Net. Subsequently, USAID conducted a business study for consolidating USAID and Department of State IT infrastructure at approximately 70 locations. The approach chosen as a result of this study involves total integration of hardware, software, and support personnel. During FY 2012, USAID and the Department of State consolidated IT infrastructure at three pilot locations: Lima, Peru; San Salvador, El Salvador; and Guatemala City, Guatemala. A USAID study identified potential risks to system security and to attaining projected savings, and data collected from the three pilot sites pointed to a number of technical, governance, and security issues that need to be addressed. USAID and the Department of State's move toward cloud-based software and IT infrastructure could reduce the expected cost benefits of the consolidation and represents a risk to the consolidation effort. The monitoring of these and other significant risks will require management's continuing 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 in 2011 to assess federal efforts to guard classified information against improper disclosure. At USAID, these efforts included a self-assessment of the handling of classified material, an external review by the Information Security Oversight Office and the

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[21] Audit of USAID's Implementation of Selected Homeland Security Presidential Directive 12 (HSPD-12) Requirements for Personal Identity Verification of Federal Employees and Contractors, February 6, 2008, A-000-08-004-P.

Office of the National Counterintelligence Executive, and a review by the Office of Inspector General. All three efforts identified areas where USAID could strengthen the safeguarding of classified material.

According to USAID, the Agency continues to work with the State Department to comply with Presidential Directive 12 and consolidate IT infrastructure. In addition, USAID is working to increase the protection of classified material and has established a June 2013 target date for addressing areas identified as needing improvement.

Audits of U.S.-Based For-Profit Entities

Audits of USAID's for-profit contractors are traditionally conducted by the Defense Contract Audit Agency (DCAA) under a reimbursable agreement with USAID. However, USAID has not made timely requests for many of these audits, and DCAA has been slow to respond to audit requests. As a result, as of September 2012, USAID has a backlog of approximately 370 incurred-cost audits.

To clear the backlog, the following actions have been taken. USAID has provided increased funding for incurred-cost audits and proposes to create a working capital fund to finance future audits, setting aside a small percentage of program funds each time a contract award is made. USAID is also using contracts with public accounting firms to augment DCAA's audit efforts. USAID provided $3.2 million in funding for audits of for-profit contractors during FY 2013, with the expectation that 167 audits will be completed this year: 61 performed by DCAA and 106 performed by a public accounting firm. USAID has funded a liaison position within DCAA to monitor audits requested by USAID, bring valid issues to the attention of appropriate DCAA management officials for resolution, and see that USAID receives periodic status reports. Finally, DCAA has dedicated three teams of five auditors at its Colombia, Maryland, branch office to USAID audits.