



Office of Inspector General

NOV 3 2009

MEMORANDUM FOR THE ACTING ADMINISTRATOR

/s/

FROM: Donald A. Gambatesa
Inspector General

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

On October 16, 2009, I sent you the annual statement by the Office of Inspector General (OIG), summarizing the management and performance challenges that OIG considers to be the most serious for USAID. On the basis of feedback that we received, we have revised the statement. The attached document supersedes the previous annual statement.

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

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

REVISED NOVEMBER 3, 2009

Fiscal Year 2009

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

- Working in Conflict Areas
- Managing for Results
- Acquisition and Assistance
- Human Capital Management
- Information Technology Management

For fiscal year (FY) 2009, the Office of Inspector General (OIG) is reporting "Working in Conflict Areas" as a serious management and performance challenge for the first time. OIG has reported challenges in the other four areas since 2001. Although OIG had previously reported financial management as a serious management challenge, we note that USAID has implemented an integrated financial management system, Phoenix, and has obtained unqualified audit opinions on its financial statements since 2003. OIG will continue to monitor financial management issues through its annual audits of USAID's financial statements and other audit activities.

Working in Conflict Areas

USAID faces enormous challenges in implementing its program and activities in Afghanistan, Pakistan, and Iraq. Deteriorating security, weakness in governance, and corruption are persistent problems. In addition, USAID faces operational issues such as staffing challenges and difficulties obtaining housing and office space for its personnel.

USAID manages a substantial portfolio of funding in these countries. As of September 30, 2009, USAID/Afghanistan was managing a portfolio of \$5.3 billion. USAID/Pakistan was managing a portfolio of \$2.3 billion, with the prospect of that portfolio increasing dramatically in coming years. At the same time, USAID/Iraq was managing a portfolio of \$2.5 billion, with 11 direct implementing partners covering development activities throughout Iraq. Recent appropriations have provided about a half billion dollars annually for USAID/Iraq programs.

Afghanistan and Pakistan. The greatest challenge to carrying out development programs in Afghanistan and Pakistan is the dangerous conflict in these areas. In general, USAID personnel cannot travel outside the capital city of either country without the Regional Security Office's approval. Travel to some project areas can be prohibited for long periods of time, and personnel implementing these projects are targeted by insurgents.

With deteriorating security, monitoring the progress of USAID programs in these countries has become more and more difficult—especially because funding is being increased to the areas that are most insecure. In Pakistan, for example, much of USAID's assistance is directed to the Federally Administered Tribal Areas, where USAID employees cannot travel.

A myriad of other problems exacerbate USAID's ability to achieve its assistance objectives in both countries: a lack of strong government institutions, widespread corruption, absence of the rule of law, internally displaced persons, high illiteracy rates (especially in the most insecure areas, which receive the bulk of USAID funding), and the host governments' inability to consistently maintain and sustain completed projects.

From an operational perspective, the missions are finding it harder and harder to fill positions with qualified, experienced staff. Danger is not the only deterrent for some Agency employees; many are reluctant to serve in an "unaccompanied" post. For example, the mission has had to fill some positions with personal services contractors, some of whom may be unfamiliar with USAID policies and procedures and may lack the in-depth development experience of U.S. direct-hire staff.

Further, obtaining housing and office space is problematic at both missions. Housing is especially critical in Afghanistan, where personnel are often required to share residential space. Increasingly, many employees are asked to share living quarters in metal containers no larger than 10 by 12 feet. In Pakistan, residential housing is available, but rents are rapidly rising. Both missions lack adequate office space, and employees often work in cramped offices, sometimes sharing cubicles and desks. Construction of additional office space has been delayed in both locations.

Iraq. As with Afghanistan and Pakistan, precarious security conditions place severe limitations on USAID/Iraq's ability to implement and monitor its development activities. According to the Embassy's Regional Security Office, more than 200 American civilians have been killed in the course of their duties. With the planned departure of most U.S. troops by August 2010, the security of USAID staff will increasingly depend on private security contractors, whose activities have been scrutinized and whose capabilities are limited compared with those of U.S. military forces. After a period of decreased violence, bombings and sectarian violence have recently surged between Shiites and Sunnis. As a result, USAID has difficulty recruiting Iraqi professionals to key positions in the USAID mission or retaining them because of the threat of violence. Moreover, violence makes counterparts reluctant to visit USAID staff in the International Zone, and many key counterparts do not welcome visits from USAID staff because of the resulting attention.

Oversight of USAID programs is also complicated by widespread corruption and USAID staffing issues. In both 2007 and 2008, Transparency International's "Corruption Perception Index" ranked Iraq at 178 out of 180 countries. USAID/OIG audits and investigations have frequently identified corrupt schemes that have hindered program accomplishments. However,

the much-needed oversight by USAID staff serving on provincial reconstruction teams will be reduced, as those employees are being drawn down from 20 to fewer than 10.

USAID has been working to provide alternatives to its traditional methods of monitoring programs. For example, the Agency recently issued guidance on monitoring USAID activities in high-threat environments. Recommended alternative methods might include requiring photographic evidence or the use of other technology to verify accomplishment results, or relying on other U.S. Government agencies to make site visits. Such alternative monitoring methods can help mitigate, but not eliminate, the challenges of working in conflict areas.

Managing for Results

USAID manages a large portfolio of foreign assistance programs designed to help achieve long-term development, respond to humanitarian emergencies, rebuild countries that have experienced high levels of violent conflict, or respond to transnational issues that threaten the interests of the United States and other countries. USAID faces several related challenges in ensuring that these programs achieve planned results.

Transformational Development. The U.S. Department of State-USAID strategic plan for FY 2007–2012 describes transformational development as the ultimate goal of the foreign assistance reform effort led by the Director of U.S. Foreign Assistance. The strategic plan states that transformational development “engenders lasting economic, social, and democratic progress, through a transformation of institutions, economic structures, and human capacity, so that nations can sustain further advances on their own.”

To serve as a useful guideline for evaluating foreign assistance programming proposals, though, and ultimately to serve as a measure of the success of foreign assistance programs, the concept of transformational development needs a more concrete, operational definition. However, transformational development is not defined in USAID’s Automated Directives System or in any other USAID publication. This omission makes it impossible to objectively evaluate whether USAID programs have been designed to promote transformational development or are effectively contributing to it. USAID needs to develop an operational definition of transformational development, with guidance on how to incorporate the concept into program planning and program management decisions.

Assistance Planning. OIG audits frequently identify weaknesses in assistance planning that can impair the effectiveness of USAID programs. During FY 2009, 20 OIG audits reported that

- Overall program performance indicators and targets were not established or were not very closely related to USAID activities (18 cases);
- Overall program targets were not assigned to specific contractors or grantees (1 case); and

- Performance targets in program management plans, contracts and grants, and annual work plans were inconsistent or contradicted one another (3 cases).

The impact of these and similar planning deficiencies is that they make it hard for program implementers—USAID, host governments, and contractors and grantees—to achieve clarity on program goals and how to accomplish them. Moreover, program implementers cannot be held accountable for poor performance if targets and indicators are not clearly specified.

Results Reporting. Results achieved by USAID-financed programs are reported mainly through the annual performance reports that are submitted by USAID operating units to the State Department's Office of the Director of U.S. Foreign Assistance (DFA). These annual performance reports, in turn, inform external reporting to stakeholders and the public through USAID's Annual Performance Report and the Congressional Budget Justification.

The narrative sections of the annual reports provide an opportunity for USAID operating units to describe the context in which USAID programs are implemented and to discuss the degree to which USAID programs have influenced the quality of governance, economic growth and poverty reduction, health status, educational attainment, and other desired outcomes. However, some of the performance narratives do not place results in context or provide a balanced, objective description of program performance. For example, one USAID operating unit reported that "an area of 6,848,500 hectares of Amazon forest has been secured under improved natural resource management." The size of the area was based on reporting by partners. However, they did not provide data on this indicator consistently or establish in every instance a clear link to USAID assistance. For example, one partner reported hectares of land covered by participatory regional planning after the partner had provided information that was used to map a protected forest—but mapping protected forest is not the same as placing it under a participatory regional planning regime. Another partner reported an increase in area under improved management, after it assumed that the Federal Government would implement a plan that the partner helped prepare. Although some organizations reported areas placed under regional planning regimes or a sustainable management plan based on indirect assistance, such as training, others did not. Also, partners did not have sufficient evidence to support the area reported.

Another reporting weakness is that reported results are frequently inaccurate: in FY 2009, 18 OIG audit reports disclosed that data reported by USAID operating units or their partners were misstated.

In our opinion, reporting results that are inaccurate or that lack needed context can undermine USAID's credibility and impair USAID's ability to secure the resources it needs to accomplish its mission.

Acquisition and Assistance

Most of USAID's development activities are implemented by contractors, grantees, and recipients of cooperative agreements. USAID has encountered major challenges in deploying a

global acquisition and assistance system, using performance-based contracting, and monitoring cost-reimbursement contracts.

To help plan for, execute, and manage the implementation of its procurement actions, USAID is in the process of deploying the Global Acquisition and Assistance System (GLAAS) and plans to complete the implementation and deployment around June 2011 at a total cost of about \$100 million. USAID received \$38 million in American Recovery and Reinvestments Act (Recovery Act) funds and is using the funds for the GLAAS project. GLAAS is intended to interface acquisition and assistance financial transactions with USAID's core financial system, Phoenix. GLAAS is a high-profile system because of several factors—for example, the Office of Management and Budget identified GLAAS as a high-risk investment; GLAAS receives Recovery Act funding; and the value of potential transactions processed by the system will be in the billions of dollars. Some current and potential challenges for USAID include the following:

- Complying with Recovery Act mandates, such as tracking invoice payments with multiple funding sources to specific Recovery Act funds.
- Providing adequate direct-hire support for activities, such as financial integration, training, customer care, project management, functional requirements, and engineering management.
- Managing various project artifacts, such as requirement documents, project plans, business cases, risk assessments, total project expenditures, and contingency planning.

As part of the its Recovery Act oversight activities, OIG monitors and assesses risks associated with the GLAAS project and plans to conduct reviews on Recovery Act compliance and the project's high-risk areas in FY 2010 and beyond.

Additionally, according to Federal Acquisition Regulation (FAR) subpart 37.102, performance-based contracting is the preferred method of acquiring services and must be used to the maximum extent practicable. However, this method is not commonly used by USAID. FAR subpart 37.6 and related subparts state that performance-based contracting (1) describes the requirements in terms of results rather than the methods of performance of the work; (2) uses measurable performance standards (i.e., in terms of quality, timeliness, quantity) and quality assurance surveillance plans; and (3) includes positive and negative performance incentives where appropriate.

OIG audits over the past several years have shown that USAID has not incorporated all of the FAR requirements for performance-based contracting for some of its procurements. For example, a recent OIG audit of selected information technology task orders found that USAID did not always (1) incorporate meaningful performance standards to the maximum extent practicable, (2) use quality assurance surveillance plans, or (3) incorporate performance incentives into the task orders to the maximum extent practicable.¹

¹ Audit of Selected Performance-Based Task Orders for Information Technology Services, Report No. A-000-08-005-P, May 15, 2008.

USAID commonly uses cost-reimbursement contracts, which allow for payment of allowable incurred costs. FAR subpart 16.301-2 states that cost-reimbursement contracts are suitable for use 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 301-3 states that this method of 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. Therefore, use of cost-reimbursement contracts places a heavy burden on USAID operating units to sufficiently monitor the implementation of these awards to reasonably ensure that American taxpayer funds are efficiently and effectively spent. Moreover, this method is more difficult to use to ensure that performance quality levels and desired outcomes are achieved.

OIG's FY 2010 audit plan includes two efforts related to procurement: (1) Audit of USAID's Commodities for Malaria Prevention and Treatment, and (2) Survey of USAID's Contracting Mechanisms. The audit of malaria commodities will determine whether USAID procured, stored, and distributed commodities for the prevention and treatment of malaria to help ensure that prevention and treatment goals are achieved. The survey will determine which contracting mechanisms used by USAID are most consistent with Federal procurement policies and current interests of the administration and Congress. The survey will include assessing the advantages and disadvantages of each contracting mechanism, with an emphasis on identifying the inherent risks. Concerns include the length of time involved in the procurement process, contractors' accountability for their performance, and the amount of money spent on contractors.

Human Capital Management

USAID has previously identified human capital issues such as the need to recruit, retain, and train a diverse workforce to respond to the various work needs throughout the world. The demands of working in areas of conflict in Afghanistan, Pakistan, and Iraq have compounded USAID's challenges. Moreover, the Government Accountability Office (GAO) issued a report in September 2008 focusing on USAID's acquisition and assistance (A&A) staff. Among its conclusions, GAO found that

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.²

To address its human capital challenges, USAID has developed (1) the Development Leadership Initiative (DLI), (2) a human capital strategic plan for 2009 to 2013, and (3) a 5-year workforce plan for the same period. The overall goal of the DLI is to double the size of the Foreign Service by 2012 and increase the civil service workforce to complement the larger Foreign Service.

USAID stated that it has begun to implement the initiative and plans as follows:

- Recruitment—USAID is on track to hire 300 Foreign Service officers within a 12-month period ending March 31, 2010. To date, over 220 officers have begun working with USAID.
- Retention—USAID has increased the funding for the student loan repayment program, which is having the intended positive impact on retention.
- Training/Competency Management—USAID has continued expanded outreach in training through e-learning and field visits and fellowships for Foreign Service nationals. The Office of Human Resources (OHR) has also developed a competency management module, which will be piloted in the first quarter of FY 2010.
- Succession Planning—The 5-year workforce plan and its addendum provide a full description of USAID succession planning program. Beginning in the first quarter of FY 2010, OHR will update, refine, and post the plan annually.
- Acquisition and Assistance staff—OHR has improved the integrity of its post personnel system to assess project needs accurately in field missions and in Washington for USAID's entire workforce, including acquisition and assistance professionals. Also, the Office of Acquisition and Assistance undertook competency assessments in FY 2009 of all direct-hire contracting specialists and officers to identify skill gaps.

Although USAID has made significant progress, OIG believes that USAID needs to continue to implement its workforce planning to close skill gaps through recruitment, retention, training, succession planning, and other strategies. For example, with all the new hires, USAID needs to ensure that it properly allocates the new staff among its operating units and provides adequate training and supervision to appropriately carry out the work. OIG plans to conduct an Audit of USAID's Efforts to Increase Technical Expertise in FY 2010. This audit will determine whether USAID's efforts to overcome technical expertise limitations have been successful.

Information Technology Management

USAID has made progress in addressing weaknesses in its information technology (IT) management. However, USAID continues to face inherent management challenges for

² "USAID Acquisition and Assistance: Actions Needed to Develop and Implement a Strategic Workforce Plan," Report GAO-08-1059, September 26, 2008.

integrating and coordinating initiatives with other Federal agencies with respect to its implementation of Homeland Security Presidential Directive 12³ (HSPD-12) and the Office of Management and Budget's Trusted Internet Connection (TIC) initiative.⁴ Moreover, the Agency must ensure that the right processes are used to consolidate the IT infrastructures and services of USAID and the Department of State.

- **HSPD-12 Initiative.** OIG reported⁵ that USAID lacked the resources needed to carry out this governmentwide initiative and relied on the Department of State's implementation plan until one could be developed for USAID. Ongoing and potential challenges for USAID include resource constraints and implementation of an approach that integrates USAID's overseas posts, while ensuring that USAID's implementation plan is consistent with the Department of State's role and for overseeing U.S. Government offices operating overseas from a technical, policy, and management perspective.
- **TIC Initiative.** USAID offices overseas use the Internet as well as headquarters offices. Probable future challenges for USAID include obtaining resources to develop and implement an enterprise technical solution to centralize Internet access points, as well as identifying, coordinating, and incorporating the Department of State's role of overseeing U.S. Government offices operating overseas from a technical, policy, and management perspective.
- **Combined IT Infrastructures.** USAID and the Department of State have already endorsed the consolidation of IT personnel and infrastructure for Afghanistan, to take effect by November 15, 2009. In this consolidation, USAID personnel would transition to the Department of State's network (OpenNet). Additionally, USAID and the Department of State have started to contemplate the potential for integrating their IT infrastructures to realize increased business effectiveness and cost savings for both USAID/Washington and overseas posts. Among the many probable challenges in this area are coordination for information and system security, customer service, backup and contingency planning, personnel integration (including Foreign Service nationals), and measures to ensure that USAID applications continue to function, such as financial and related systems.

As resources permit, OIG intends to monitor the development of these IT initiatives.

³ HSPD-12 required the development and agency implementation of a mandatory, Governmentwide standard for secure and reliable forms of identification for Federal employees and contractors in gaining physical access to Federal facilities and virtual access to Federal information systems. The directive applies to all employees, including direct hires, personal service contractors, or employees "on loan" from other Federal agencies.

⁴ The Trusted Internet Connection initiative, also known as TIC, is mandated in Office of Management and Budget Memorandum M-08-05 issued November 20, 2007. The memorandum was meant to optimize individual external connections, including Internet points of presence currently in use by the Federal Government of the United States. It includes a program for improving the Federal Government's incident response capability through a centralized gateway monitoring at a select group of TIC access providers.

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.