Office of Inspector General

MEMORANDUM FOR THE ADMINISTRATOR

FROM: /s/
Donald A. Gambatesa
Inspector General

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

This memorandum summarizes what the Office of Inspector General (OIG) considers to be the most serious management and performance challenges facing USAID.

The Reports Consolidation Act of 2000 (Public Law 106-531) requires that agency performance and accountability reports include a statement prepared by each agency's Inspector General that summarizes what the Inspector General considers to be the most serious management and performance challenges facing the agency and an assessment of the agency's progress in addressing those challenges. Our statement for inclusion in USAID's fiscal year 2010 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 2010

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

- Working in Critical Priority Countries and Disaster Areas[1]
- Managing for Results
- Acquisition and Assistance
- Human Capital Management
- Information Technology Management

Working in Critical Priority Countries and Disaster Areas

USAID continues to face enormous challenges in implementing its program and activities in Afghanistan, Pakistan, Iraq, Sudan, and Haiti. Security concerns, weakness in governance, and corruption are persistent problems. Moreover, as USAID seeks to provide more of its assistance directly to host country institutions to help build capacity at the national, provincial, and local levels, potential questions concerning accountability over those funds may arise.

USAID also faces additional challenges in providing emergency assistance to Pakistanis affected by the flooding that began in July 2010 and to Haitians affected by the devastating earthquake of January 2010. Challenges include delivering assistance when travel routes and other infrastructure are nonexistent, destroyed or severely damaged; planning and delivering assistance rapidly; and, providing adequate controls over large sums of cash and commodities given to a large number of beneficiaries.

> **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 the Regional Security Office's approval. Travel to some areas can be prohibited for long periods of time, and personnel implementing these projects are at risk of being targeted by insurgents.
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> Monitoring the progress of USAID programs in these countries has become more and more difficult as funding is directed 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. OIG's performance audit work in Afghanistan and Pakistan has reported that security conditions have either hindered

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[1] This challenge was renamed from "Working in Conflict Areas"

program accomplishment or had the potential to create implementation problems. OIG audits also identified trends in inadequate contract oversight or activities management.

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; and, the host governments' inability to consistently maintain and sustain completed projects.

An additional challenge for USAID is managing and mitigating the increased risk of the U.S. Government's (USG) strategy of increasingly providing assistance to host country institutions in Afghanistan and Pakistan at national, provincial, and local levels. For example, USAID has entered into agreements to provide the Afghan Ministries of Public Health and Finance $236 million and $60 million, respectively. USAID signed a $174 million cash transfer agreement with the Government of Pakistan that will be used, among other things, to help build the capacity of educational institutions and increase educational opportunities for Pakistanis in vulnerable areas.

While World Bank indicators addressing a variety of governmental policies and institutions, such as public sector management and the quality of public administration, indicate that Pakistan's government institutions are more advanced than those in Afghanistan, this significant increase in USAID assistance funds provided directly to these governments poses a heightened risk in both countries. Moreover, the fact that USAID's programs in Afghanistan and Pakistan are implemented in environments of pervasive corruption makes that risk even greater. In 2009, the Transparency International's "Corruption Perception Index", which measures the perceived level of public sector corruption, ranked Afghanistan 179 and Pakistan 139 out of 180 countries (with 180 being perceived as the most corrupt). In addition, a number of scandals implicating Afghan officials in corruption have recently been publicized.

To mitigate the increased risk of providing assistance directly to host government institutions, USAID is performing pre-award assessments to determine whether those institutions can properly administer the assistance.

The OIG has taken steps to address the above concerns. The OIG recently opened offices in Kabul and Islamabad and plans to audit the above-mentioned agreements with the Governments of Afghanistan and Pakistan in FY 2011. Moreover, in Pakistan, the OIG and has signed a Memorandum of Understanding with the country's Supreme Audit Institution (SAI) that establishes a framework for the SAI conducting financial audits of USAID funds awarded to Government organizations. The OIG has also provided audit training to Pakistan Auditor General staff on several occasions. The Pakistan Auditor General is coordinating with the OIG in planning audits of funds provided to the Pakistan Ministry of Economic Affairs and Statistics, the Ministry of Finance, and the Higher Education Commission.

The OIG has had a number of meetings with Afghanistan's Control and Audit Office, its Supreme Audit Institution. Unlike Pakistan, this organization does not have the capacity to conduct audits of USAID funds provided to Government organizations. At this time, it lacks the skills, resources, and independence from the Executive Branch of the Afghan Government.

Iraq. The precarious security situation in Iraq continues to place severe limitations on USAID/Iraq's ability to implement and monitor its development activities. With President Obama's announcement of the end of combat operations on August 31, 2010, and the drawdown of most U.S. troops, the security of USAID staff will increasingly depend on private security contractors. Bombings and sectarian violence have recently increased. 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. 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.

OIG performance audits in Iraq have reported that security conditions have either hindered program accomplishment or had the potential to create implementation problems. OIG audits have also identified trends in inadequate contract oversight or activities management.

Oversight of USAID programs is also complicated by widespread corruption. In 2009, Transparency International's "Corruption Perception Index" ranked Iraq 176 out of 180 countries. USAID/OIG audits and investigations have identified corrupt schemes that have hindered program accomplishments.

Sudan. USAID's assistance to Sudan is focused on forging a definitive end to conflict, human rights abuses, and genocide in Darfur, and peaceful implementation of the 2005 Comprehensive Peace Agreement (CPA), which brought an end to a civil war between Northern and Southern Sudan that had raged for 22 years. Since the CPA was signed, 2 million displaced people have returned to their communities in southern Sudan. However, a lack of basic infrastructure and institutional capacity impedes economic and social progress in the south. A referendum is scheduled for 2011 in which Southern Sudanese will vote on whether to form an independent country or remain united with Northern Sudan. In addition, more than 2.7 million people have also been driven from their homes in Darfur, where conflict and insecurity persist.

Such conflict and insecurity impacts USAID's efforts to implement its programs throughout Sudan. Approval of the embassy Regional Security Officer is generally required for travel outside the main cities of Khartoum and Juba due to highway banditry and intermittent clashes with the Lord's Resistance Army, an armed group based in Uganda. Extremely high staff turnover and staff shortages at the USAID mission and implementing partner offices, lack of local human capacity, and difficult conditions for

transportation and logistics have also hindered implementation and monitoring of USAID projects in Sudan.

USAID's oversight of its programs is also complicated by widespread corruption in the country. Sudan was ranked as one of the most corrupt countries (176 out of 180 – tied with Iraq) in Transparency International's 2009 "Corruption and Perception Index."

In FY 2011, OIG plans to audit USAID's progress in providing humanitarian assistance in Sudan and follow up on a previous audit of road construction from the Southern capital of Juba to Nimule, a city immediately north of the border with Uganda.

Haiti. On January 12, 2010, a magnitude 7.0 earthquake struck southern Haiti. The earthquake caused extensive damage to homes, apartments, roads, and other infrastructure in Port-au-Prince and other areas of the country. As a result of this devastation, millions of individuals required emergency shelter and supplies. Relief agencies estimated that there were nearly 2.1 million Internally Displaced Persons.

USAID is faced with many obstacles in its relief and reconstruction efforts, including (1) planning and implementing activities quickly to deliver basic food, shelter, health care services, (2) delivering assistance when travel routes and other infrastructure are destroyed or severely damaged, and (3) providing adequate controls over large sums of cash and commodities. OIG is working to establish a satellite office in Haiti staffed by two auditors and plans to conduct seven audits in Haiti in FY 2011 to review USAID's relief and reconstruction activities.

USAID has taken steps to address monitoring in critical priority countries and disaster areas. For example, the Agency issued guidance on alternative approaches to monitoring in high threat environments. The Agency stated that it has established monitoring and evaluation contracts in Afghanistan and Iraq to independently verify program implementation. USAID also established the Office of Civilian Response (OCR) to strengthen its capability to deploy sufficient numbers of trained officers in a timely manner to support USG reconstruction and stabilization activities abroad. OCR has 52 active members within USAID who can be deployed. The Agency developed several courses to build knowledge and skills in the civilian response corps to operate in complex environments. The OIG will continue to provide oversight over the Agency programs to determine if the actions taken by the Agency are effective.

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 issues that threaten the interests of the United States and other countries. USAID faces challenges in ensuring that these programs achieve planned results.

Assistance Planning. OIG audits frequently identify weaknesses in planning that can impair the effectiveness of USAID programs. In 21 of the audits OIG conducted in FY 2010 we found:

- Program performance indicators and targets were not established, were not updated, or were not very closely related to USAID activities (17 cases).
- Performance targets in performance management plans, contracts and grants, and annual work plans were inconsistent or not appropriate (6 cases).
- Performance indicators were not adequately defined, or data collection procedures were not uniform among partners (4 cases).

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

Results Reporting. Results achieved by USAID-financed programs are reported mainly through annual performance reports that are submitted by USAID operating units to the State Department's Office of the Director of U.S. Foreign Assistance. Information is also made available to external stakeholders such as OMB, Congress, and the public.

OIG audits have identified inaccurate or unsupported reported results. In 23 of the audit reports OIG issued in FY 2010, we noted that data reported by USAID operating units or their partners were misstated, not supported, or not validated. To illustrate, one audit report disclosed that USAID implementing partners overstated numbers of beneficiaries assisted from activities in Iraq as follows:

- 262,482 individuals reportedly benefited from medical supplies that were purchased to treat only 100 victims of a specific attack.
- 22 individuals attended a 5-day mental health course, yet 1.5 million were reported as beneficiaries.
- 123,000 were reported as benefitting from water and well activities that did not produce potable water.
- 280,000 were reported as benefitting from $14,246 spent to rehabilitate a morgue.

USAID has taken action to address weaknesses in planning and results reporting, including (1) developing a training workshop "Managing for Results" and training over 200 individuals in planning and performance management as of September 2010, (2) establishing the Bureau for Policy, Planning, and Learning to support the Agency's efforts to manage for results, and (3) enhancing strategic planning at the mission level by requiring country-level plans. OIG audits in FY 2011 will review USAID efforts in this area.

Acquisition and Assistance

USAID faces several challenges as discussed below:

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

It is crucial that USAID set up appropriate mechanisms to ensure that host country and other local systems provide accountability over U.S. government funds before the funds are provided to host country institutions. OIG will assist USAID in these efforts, as requested, and audit funds provided to host government organizations.

Global Acquisition and Assistance System. To help plan, execute, and manage its worldwide procurement actions, USAID has been implementing the Global Acquisition and Assistance System (GLAAS). The system is intended to improve accountability and modernize and streamline the Agency's acquisition and assistance process.

The on-going multi-year implementation and world wide deployment of GLAAS is a challenge not only because of resource constraints, but also for its scale of deployment to end-users in multiple countries world wide.

As part of the American Recovery and Reinvestment Act of 2009, USAID received $38 million in funding that is being used to supplement the funding of the GLAAS project. USAID is actively working to address management challenges in the following areas:

- Meeting the system deployment plan and schedule.
- Improving earned value management processes.[2]
- Developing a comprehensive disaster recovery plan.

On-going audit work on GLAAS revealed deficiencies in Agency documentation to support earned value and progress reviews. These concerns were shared with the Agency's GLAAS project team.

The OIG is monitoring the risk management processes associated with deploying GLAAS and plans to conduct a post system implementation review of the system once it has been fully deployed in late FY 2011.

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[2] Processes to monitor project progress both in terms of schedule and cost.

Performance-Based Contracting. 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) describe the requirements in terms of results rather than the methods of performing the work; (2) use measurable performance standards (i.e., in terms of quality, timeliness, quantity) and quality assurance surveillance plans; and (3) include positive and negative performance incentives where appropriate.

OIG audits over the past four years have reported that USAID has not incorporated all of the FAR requirements for performance-based contracting in all of its procurements. For example, 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.

USAID stated that it has taken or plans to take several actions in response to this challenge, including (1) creating and filling a performance-based contracting position in the Office of Acquisitions and Assistance, (2) developing performance based contracting templates for the procurement of technical assistance, commodities, training, and evaluation services, and (3) establishing review panels at missions and in Washington to oversee compliance with applicable regulations.

USAID also stated that performance-based contracting has been incorporated, in part, into a larger Agency-wide procurement reform initiative. Action items related to greater emphasis on the use of performance-based methodologies will be part of the procurement reform efforts in FY 2011.

Cost Reimbursement Contracts. 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 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 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. Cost-reimbursement contracts places a heavy burden on USAID operating units to provide the monitoring necessary to reasonably ensure that American taxpayer funds are efficiently and effectively used. Moreover, this method is more difficult to use to ensure that the desired outcomes are achieved.

In response to this challenge, USAID has hired 43 Foreign Service Offices to work in the area of acquisition and assistance and established a policy to report to Congress the use of high-risk contracts prior to solicitation, including cost-reimbursement contracts. In addition, USAID plans to (1) establish high risk acquisition performance indicators, (2) issue new policies to ensure that contracting officers sufficiently justify the choice of contracting instrument, and (3) create a permanent contract review board to ensure appropriate instrument selection and pricing arrangements.

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 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.

Since 2003, the Government Accountability Office (GAO) has undertaken several reviews of USAID's human capital management and identified improvements needed in workforce planning. In its most recent report,[3] GAO noted that USAID faced some workforce gaps and vacancies. GAO reported that mission officials cited various factors that contributed to vacancies, such as recruiting difficulties and the need for staff to be posted in higher priority countries, such as Iraq and Afghanistan. According to mission officials, it is not uncommon for positions to remain vacant for a lengthy period. During such periods, mission staff may assume multiple responsibilities and additional workload. Workforce gaps and heavy workload may limit mission staff's ability to travel to the field to monitor and evaluate the implementation of projects.

Furthermore, GAO noted that USAID's 5-year workforce plan for fiscal years 2009 through 2013 discusses the agency's challenges and the steps it has taken and plans to take to strengthen its workforce. However, GAO concluded that the plan lacks several key elements as follows:

- The plan generally does not include a major portion of USAID's workforce—U.S. and foreign national personal services contractors.

- The plan 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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[3] "Foreign Assistance: USAID Needs to Improve Its Strategic Planning to Address Current and Future Workforce Needs," Report GAO-10-496 June 30, 2010.

- 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.

Despite additional improvements that are needed, USAID stated that it has made significant progress in its human capital management. Some actions taken and planned are as follows:

- USAID institutionalized the workforce planning process and continues to refine its workforce planning process and has adjusted the consolidated workforce planning model to add institutional support contractors.

- USAID met its first and second quarter of FY 2010 Development Leadership Initiative hiring targets totaling 53 new hires.

- USAID is developing a Human Resources Information System with reliable data on staffing. USAID's goal is to create an integrated platform that supports world-wide workforce analyses, hiring and deployment, and budget formulation. USAID stated that this will take several years to complete.

- USAID plans to rebuild its internal technical capacity and rebalance the workforce. Specifically, USAID plans to (1) prioritize recruitment of technical staff with a focus on key initiative areas such as global health and food security, as well as science and technology, democracy and governance and entrepreneurship; and (2) prioritize the recruitment and retention of contracting officers.

OIG's FY 2011 plan includes a review of USAID efforts to re-build expertise within its workforce.

Information Technology Management

USAID continues to face challenges in integrating and coordinating the government-wide initiative for implementing Homeland Security Presidential Directive 12[4] (HSPD-12). Additionally, USAID could be facing a significant management challenges should USAID and the Department of State decide to consolidate their information technology infrastructures and services on a world wide basis.

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[4] HSPD-12 required the development and agency implementation of a mandatory, Government wide 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 (e.g., direct hire, Personal Service Contractors, or employees on "loan" from other Federal agencies).

- In regard to the HSPD-12 initiative, the OIG reported[5] that USAID lacked the resources needed to carry out this government-wide initiative. Although USAID has since established vetting processing and enabled domestic physical access capabilities in support of HSPD-12, USAID has yet to implement HSPD-12's capabilities to access USAID information systems. Future challenges in this area include tailoring an implementation plan for USAID/Washington and overseas posts.

- During fiscal year 2010 USAID and the Department of State consolidated their IT personnel and infrastructure in Afghanistan and transitioned USAID personnel to the Department of State's network, OpenNet. Pending the results of a USAID study on the impact of such consolidation, USAID and the Department of State may decide to further integrate their IT infrastructures. Likely future challenges in this area include coordinating information and system security, providing high quality customer service, performing effective backup and contingency planning, integrating personnel systems (including Foreign Service Nationals), and ensuring that USAID applications such as financial and related systems continue to function during any transition.

The OIG intends to monitor the development of these initiatives and may amend its annual plan as resources permit to initiate audit work in any one of these areas.

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[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.