Office of Inspector General October 15, 2014

MEMORANDUM FOR THE ADMINISTRATOR

FROM: Michael Carroll /s/
Acting Inspector General

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

This memorandum transmits the Office of Inspector General's statement on the most serious management and performance challenges for the U.S. Agency for International Development in fiscal year 2014. 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 summarizing the most serious management and performance challenges facing the agency and an assessment of the agency's progress in addressing those challenges.

In identifying USAID's most serious management and performance challenges in 2014, we relied on our knowledge of the Agency's operations and programs, the results of our audit work, and a survey of USAID staff.[1] Our analysis identified five new challenges: a lack of Agency focus, weak management of human resources, cumbersome procurement processes, uncertain budget environment, and unreliable performance data. The first four were from the survey; the last was from our audit reports. It distills last year's category of performance management and reporting into the underlying element: data.

We have discussed the management and performance challenges drawn from our reports and summarized in this statement with the responsible USAID officials. In addition, as described in the footnote below, we validated our survey results with senior Agency officials. If you have any questions or wish to discuss this document further, I would be happy to meet with you.

Attachment

[1] OIG surveyed a sample of USAID employees—Foreign Service officers, Civil Service officers, and Foreign Service Nationals—in Washington and overseas. Nearly 1,000 completed the survey. We validated the responses by surveying senior USAID officials, asking to what extent they agreed. Responses from 59 senior officials give us confidence that our results are valid.

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Statement by the Office of the Inspector General on USAID's Most Serious Management and Performance Challenges[2]

Fiscal Year 2014

USAID faces extensive management challenges. It must deliver tailored programs worldwide with measurable results for the U.S. taxpayer. It must design and deliver assistance so that results live on after funding ends. It must coordinate with the Departments of State and Defense in conflict settings, where it promotes economic opportunity and individual rights to help quell emerging threats.

The Office of Inspector General (OIG) helps the Agency assess how well it is meeting these challenges. To prepare this statement on management challenges, we supplemented our audits of program effectiveness with surveys. We asked those at all levels of the organization to identify challenges and then surveyed senior managers to validate the results. The following challenges, in order of importance, come from our knowledge of the Agency's work, audit and other reports, and our surveys:

- Work in Nonpermissive Environments
- Lack of Focus (New in 2014)
- Weak Management of Human Resources (New in 2014)
- Unreliable Performance Data (New in 2014)
- Limited Sustainability
- Inadequate Risk Mitigation for Local Solutions
- Cumbersome Design and Procurement Processes (New in 2014)
- Uncertain Budget Environment (New in 2014)
- Decentralized Management of Information Technology and Information Security
- Backlog of Audits of U.S.-Based, For-Profit Entities

Each section on a recurring challenge includes a summary of USAID's progress on it.

Work in Nonpermissive Environments

USAID assists countries from Afghanistan to Haiti to Yemen that are experiencing conflict, insecurity, instability, and weak governance. These environments and working conditions—sometimes necessitating flak jackets and combat helmets and travel where there are no roads—make it extremely difficult to oversee projects and to recruit local Foreign Service National (FSN) employees, who may be under threat from insurgents. Yet the U.S. Government has invested substantial resources in these countries, particularly in Afghanistan, Iraq, and Pakistan to combat the threat of terrorism and address the causes of instability, and OIG helps USAID account for its program results and funds.

Afghanistan. In an attempt to overcome travel and oversight restrictions, the mission uses on-site monitors and third parties to provide on-the-ground information.

[2] USAID OIG coordinates closely with the Special Inspector General for Afghanistan Reconstruction in planning and reporting to ensure efficiency. USAID also coordinates with the Government Accountability Office.

- USAID's Afghan Civilian Assistance Program II sought to help rebuild the lives of Afghan civilian victims of confrontations between international military forces and Taliban insurgents. OIG found[3] that methods for verifying program beneficiaries were weak. When it could, USAID relied on the International Security Assistance Force, which is led by the North Atlantic Treaty Organization, to certify names on a list submitted by the implementer. Alternatively, the program implementer would use the U.S. Government's System for Award Management, a database that lists parties suspended from doing business with the U.S. Government, to determine beneficiaries' eligibility. However, this database is unlikely to include names of rural Afghan villagers, who are often program beneficiaries. During the period tested for the audit, the implementer checked for 5,412 names in the database, which contained none of them. As a last resort, the implementer turned to local district officials and village leaders, who introduced implementer staff to individuals said to be victims' family members. Due to security concerns, the State Department's regional security officer did not allow the audit team to travel to villages to verify that those who received assistance were the intended beneficiaries.

Iraq. U.S. Embassy Baghdad evacuated all nonessential employees on June 15, 2014, because of the expansion of the so-called Islamic State. The following examples illustrate challenges encountered prior to this development.

- USAID/Iraq's $75 million civil society project seeks to strengthen the civil society sector to help Iraq become a more participatory democracy. While the project reported successes in building the organizational capacity of more than 80 local civil society organizations, the project faced setbacks. OIG's audit[4] of the project found that a subpartner implementing three of five components ceased its operations in Iraq, significantly affecting the project's ability to achieve its intended results. The subpartner explained that it left because Iraq required considerable attention from senior staff and entailed security risks and costs.

- USAID/Iraq's $156.7 million Administrative Reform Project was designed to improve public institutions' ability to serve Iraqis. OIG auditors[5] found that ministry employees had not received fiscal management training that the implementer was supposed to provide. The implementer could not retain an adviser who was responsible for fiscal management training on a continuous basis because of the security situation in Iraq. Moreover, site visits by the contracting officer's representative, which were not documented, were limited to some project events in the International Zone (a restricted area in Baghdad) and certain ministries because of security restrictions.

Pakistan. During the past few months, the unsettled security situation caused by military operations near the border has been further inflamed by ongoing political protests against the legitimacy of the government in power. These events have led to frequent and ongoing restrictions on personnel movements.

- USAID's $22.7 million agricultural policy research program was designed to build local capacity, better inform policy decisions, and promote science and innovation in agriculture.

[3] *Audit of USAID/Afghanistan's Afghan Civilian Assistance Program II*, Report No. F-306-14-003-P, June 10, 2014.
[4] *Audit of USAID/Iraq's Broadening Participation Through Civil Society Project*, Report No. 6-267-14-006-P, February 12, 2014.
[5] *Audit of USAID/Iraq's Administrative Reform Project*, Report No. 6-267-14-004-P, December 15, 2013.

According to an OIG audit,[6] the implementer had to reschedule training events because of security concerns. Rescheduling doubled the time for arranging events and increased the costs of rebooking venues and air tickets.

Yemen. Staff in Yemen were evacuated twice, most recently on August 6, 2013. Furthermore, travel is restricted to Sanaa even though programs are being implemented throughout the country.

- USAID's $124 million livelihoods project delivered mixed results. The OIG audit of the project[7] found that the mission was slow to introduce the project to various officials in the Yemeni Government because of the revolution in that country and personnel evacuations. After the revolution, staffing and security challenges slowed progress. Although project staff used third-party monitors, the project did not use their findings to improve the project.

Libya. USAID staff were evacuated on July 26, 2014, and have not returned. Libya had just one USAID country officer to oversee all program implementation.

Tunisia. Since the U.S. Embassy was evacuated in September 14, 2012, USAID has been permitted to maintain only one permanent country officer in-country.

Syria. USAID operates its Syrian humanitarian programs from neighboring countries because of the ongoing conflict. USAID and all its implementers have had difficulty implementing programs because of border closures and the security of Syrian volunteers and staff carrying out program activities. Because USAID does not currently have its own monitoring mechanisms, it relies entirely on implementers to monitor the effectiveness of programs.[8]

West Bank and Gaza. The mission operated with limited staffing from July 9 to August 7, 2014, because of continued threats of rocket fire from Gaza. During this period, the U.S. Government pledged to provide approximately $47 million to help address the humanitarian situation in Gaza. USAID/West Bank and Gaza staff work in an uncertain security situation with restricted access and politically sensitive permits and approvals. Furthermore, because of travel restrictions on USAID's direct-hire staff entering Gaza, the mission relies heavily on implementing partners to manage their projects and monitor and evaluate their own progress.[9]

- USAID/West Bank and Gaza's $23 million Enterprise Development for Global Competitiveness Project, known as the Compete Project, was delayed because of funding problems. Members of the U.S. Congress withheld funds for the Palestinian Authority in 2011 and 2012. The USAID mission's lengthy vetting process—required to comply with Executive Order 13224, "Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism"—also delayed implementation. The delay caused activities to lose momentum. For example, the contractor lost most of its original staff during the first year because of funding problems, and that increased administrative and support costs associated with starting, stopping, and restarting activities.

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[6] *Audit of USAID/Pakistan's Pakistan Strategy Support Program*, Report No. G-391-14-004-P, July 30, 2014.
[7] *Audit of USAID/Yemen's Community Livelihoods Project*, Report No. 6-279-14-001-P, October 7, 2013.
[8] *Survey of Selected USAID Syria-Related Activities*, Report No. 6-276-14-001-S, December 1, 2013.
[9] *Audit of USAID/West Bank and Gaza's Palestinian Community Assistance Program*, Report No. 6-294-13-006-P, February 7, 2013.

Haiti. Because of poor-quality infrastructure and the rural locations of many USAID projects, site visits to project locations are difficult, and corruption makes program administration and management challenging. Additionally, chronic shortages of skilled staff and difficulty coordinating with the Department of State have complicated operating in Haiti.

- USAID/Haiti's health infrastructure program made limited progress in improving Haitians' health and nutrition by building and renovating health facilities. OIG's audit[10] found (1) a lack of engineering and contracting staff with construction expertise, (2) a lack of policies and procedures for managing large, complex construction projects, and (3) challenges with key personnel. From July 2012 to August 2013, during a critical phase of the program, USAID/Haiti did not have a mission director. Additionally, a health reconstruction coordinator funded by the State department assumed duties that mission staff believed exceeded the person's mandate to coordinate efforts by the mission and other agencies. The delays hampered construction designed to improve Haitians' medical care.

- USAID/Haiti's $55 million project to build new settlements in the Northern and St. Marc development corridors did not achieve its goals within budget or on schedule. An OIG audit[11] found that one factor in the delay was a shortage of willing partners. USAID/Haiti planned to develop 11,000 sites and services and partner with nongovernmental organizations to fund the construction of houses on these sites, but the mission had difficulties finding partners for the construction projects. The organizations were reluctant to deal with the land tenure and construction challenges in Haiti. Work stoppages due to unrest were another factor.

Somalia. Widespread violence and the presence of terrorists have made areas of the country inaccessible to USAID and made it difficult to monitor the humanitarian assistance that it supports in Somalia.

- OIG's audit[12] of September 2013 addressed the challenges associated with prohibiting support to a terrorist organization.

South Sudan. South Sudan has seen a continuation of conflict. While insecurity and travel restrictions continue to impede project implementation and monitoring, reduced staff, frequent USAID staff turnover, and inadequate handover procedures have exacerbated the situation. In addition, the South Sudanese Government's dearth of experienced employees remains an impediment to USAID's efforts to bring about lasting development in the young nation.

- In South Sudan, USAID's program to improve civil society and local government capacity failed to meet its main goals. An OIG audit[13] requested by USAID found that the program implementer evacuated staff from insecure areas along the border between Sudan and South Sudan, leaving behind incomplete and unmonitored USAID investments and was unable to complete training and capacity building for local government entities.

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[10] *Audit of USAID/Haiti's Health Infrastructure*, Report No. 1-521-14-008-P, April 25, 2014.
[11] *Audit of USAID/Haiti's New Settlement Construction Activities*, Report No. 1-521-14-007- P, April 14, 2014.
[12] *Audit of USAID's Compliance With Executive Order 13-536 Prohibiting Support to Al-Shabaab*, Report No. 4-649-13-011-P, September 17, 2013.
[13] *Audit of USAID/South Sudan's Programs Implemented by Mercy Corps*, Report No. 4-668-12-009-P, May 25, 2012.

USAID reported developing three action plans for fiscal year (FY) 2015 progress on work in nonpermissive environments. The Office of Human Resources reportedly identified necessary training and staff care services for work in nonpermissive environments, and plans to issue policy on mandatory training. The Bureau for Policy, Planning and Learning plans to adapt the program cycle to meet requirements in nonpermissive environments, including shorter time frames, increased flexibility and adaptability, and improved learning. In addition, the Agency's Non-Permissive Environment Working Group is drafting a policy for Agency review and approval to fund and create a new operating unit within the Office of Security to provide training specific for nonpermissive environments.

Lack of Focus

The Agency's many initiatives and priorities, coupled with external mandates, divert missions' attention from core responsibilities and dilute USAID's long-term vision. The number and pace of USAID leadership initiatives and priorities overwhelm staff, who said the Agency has not aligned new initiatives with current strategies and policies, considered field realities, or ensured the success of each initiative before introducing new ones. Many staff members expressed the need for clearer guidance. They also wanted better communication and coordination among all Washington bureaus, offices, and field missions to avoid confusion and excessive or redundant requirements.

External mandates and influences from Congress, the President, and the State Department frequently focus USAID on short-term, political goals instead of sustainable development objectives. Congressional earmarks and diplomatic goals also dictate USAID's activities and constrain its ability to develop programs tailored to each country. Staff confusion about interagency roles and responsibilities also clouds USAID's identity and mission and leads to duplication of effort between USAID and other federal agencies.

Countering trafficking in persons (C-TIP) is one example. C-TIP is a federal mandate, embodied in the Trafficking Victims Protection Act 2003 (Public Law No. 108-193) and 2005 (Public Law No. 109-164); the William Wilberforce Trafficking Victims Protection Reauthorization Act of 2008; and Executive Order 13627, "Strengthening Protections Against Trafficking in Persons in Federal Contracts." OIG reviewed USAID's rollout of its C-TIP policy.[14] The review reported: "The implementation plan does not take into account the level of effort required for certain C-TIP activities or their impact on other activities," and "Mission and bureau staff expressed concern over the number of crosscutting policies they are required to implement and integrate into programming."

USAID reportedly established the Administrator's Leadership Council management system to track core objectives and priorities, and encourage Agency-wide coordination and collaboration. USAID plans to improve policy and strategy clarity, information flow, staff awareness of and the ability to implement directives by enhancing internal communications and organizing outreach campaigns for guidance and Agency activities.

[14] *Review of USAID's New Counter-Trafficking in Persons Program,* Report No. 9-000-14-001-S, November 27, 2013.

Weak Management of Human Resources

USAID's management of its human resources, the backbone of all its operations and programs, is a serious management challenge. USAID continually experiences a shortage of experienced, highly skilled personnel, familiar with USAID guidelines, standards, and processes, for both programming and support functions. The Agency is unable to recruit and hire sufficiently qualified candidates effectively or retain enough quality staff in Washington or overseas. Consequently, the remaining staff shoulder extra responsibilities—a situation that may encourage more high-quality staff to leave.

Surveyed USAID employees gave their managers low ratings and noted the lack of recourse in addressing poor managers. Many said that USAID promotes based on technical rather than management ability, resulting in midlevel managers who are not prepared or trained to be supervisors and continue to focus on technical issues. Many managers do not delegate tasks, recognize employees' strengths and contributions, or encourage innovation. Others either micromanage projects or focus on administrative tasks, such as reporting to upper-level managers, and do not mentor, train, or motivate their staff. USAID's new hires felt discouraged and sidelined upon entering the Agency. In addition, managers reported difficulty firing or improving the performance of underperforming direct-hire and Foreign Service National (FSN) staff.

Survey respondents were also concerned that USAID does not effectively manage or utilize the experience and skills of its Foreign Service officers (FSOs) and FSNs. FSOs' 1- to 4-year rotation cycles do not align with 5-year Country Development Cooperation Strategies, contracts, and grants, preventing FSOs from seeing projects through to completion. FSOs are also not always assigned to programs that fit their technical backgrounds. FSNs, who make up about 57 percent of USAID staff, also feel that USAID does not fully utilize their skills and experiences. Many are frustrated with their inability to take part to a greater degree in program decision making, particularly when they feel more competent and knowledgeable about the programs than their FSO managers. Staff attributed the high turnover of quality FSNs at some missions to their lack of professional development, limited opportunities for promotion, and low compensation.

USAID is realigning its Office of Human Capital and Talent Management (HCTM) to better support the Agency's strategic talent management priorities and to improve human resource management and operations. USAID also plans to evaluate resources needed by HCTM to meet and sustain Agency priorities and customer service improvements.

Unreliable Performance Data

Reliable data enable Agency managers to direct programs, adjust implementation, and analyze program impact. They allow Congress to assess the results of USAID activities against the funds spent. They help OIG determine program effectiveness and identify waste, fraud, and abuse.

OIG found several problems with performance data reported by USAID since 2012. Because USAID has not taken effective comprehensive, Agency-wide action to address data problems, we believe unreliable data merits standing as a management challenge. Examples of weaknesses follow.

- In Indonesia, USAID sought to help district governments be more effective in providing public services in sectors including health and education. OIG's audit[15] of a related program found, for items tested, that results data reported were not always supported, accurate, or reported during the correct reporting period. For example, only 36 of the 109 achievements reported for one indicator occurred during that quarter. The program also reported achievements based on unsubstantiated verbal reports from the field.

- In Kenya, USAID did not adequately verify the quality of tuberculosis data collected by its partners and submitted to a division of the Ministry of Public Health and Sanitation, even after partners reported implausible numbers on patients tested. The mission also relied exclusively on the division's data quality assessment without reviewing it.[16]

- In Tajikistan, OIG audited a family farming program designed to provide more food, increase household income, and improve nutrition.[17] The audit team found that reported results were not reliable. Tests of data on 15 of 20 performance indicators disclosed that results for 14 were not supported. For example, results on the indicator *Number of members of producer organizations and community-based organizations receiving U.S. Government assistance* were based on estimates, rather than on actual results.

USAID bureaus and operating units are working to improve performance monitoring by providing training on USAID's data quality standards—data validity, integrity, precision, reliability, and timeliness—and the practice of using site visits and data quality assessments to identify issues related to these standards. This includes formal classroom training and targeted online training materials.

In addition, the Bureau of Policy, Planning and Learning has created guidance and tools to help operating units improve data quality assurance and procedures, including the Performance Management Plan Toolkit, templates for data quality assessments, and interactive webinars on data quality. The Policy, Planning and Learning Bureau also developed standardized mission orders to improve data quality practices and consistency across all missions.

Limited Sustainability

USAID has launched several efforts to address sustainability throughout the project cycle. Yet increasing the likelihood that benefits will continue after USAID assistance ends also requires the commitment of the recipient. Recipients sometimes fail to deliver on promises and commitments of resources essential to maintain project achievements. In other cases, the arrangements that need to be made are not. Ensuring sustainability requires sufficient planning and continuing oversight.

Examples of difficulties in managing projects for sustainability follow.

- In Mozambique, USAID initiated a $111 million HIV/AIDS services project in 2011 to improve the quality of health services and integrate HIV and related primary health care.

[15] *Audit of USAID/Indonesia's Kinerja Program*, Report No. 5-497-14-001-P, November 5, 2013.
[16] *Audit of USAID Kenya's Tuberculosis Activities*, Report No. 4-615-14-001-P, October 22, 2013.
[17] *Audit of USAID/Central Asian Republics' Family Farming Program for Tajikistan*, Report No. 5-176-14-002-P, January 13, 2014.

OIG found[18] that the project continued to subsidize operating expenses—per diem for drivers transporting medical products and fuel for their vehicles, health-care workers' salaries, utilities, and more—because it had not developed a strategy to transfer the support function to the Mozambican Government.

- In Albania, USAID implements a project to strengthen the justice sector. OIG's audit[19] of the project identified sustainability challenges. The project's crowning achievement was installing digital audio recording capability in courts. This allowed judges to move hearings from their private chambers to public courtrooms, thus increasing transparency and accountability. Yet the Ministry of Justice's director of information technology (IT) said funds were lacking to sustain the court IT infrastructure on which digital audio recording depends.

- In Peru, USAID's activity to improve maternal and child health and family planning in selected locations worked through community institutions like local boards to disseminate information about healthy behaviors—such as washing hands, disposing of waste, and boiling water—and to monitor prenatal and infant care. The implementer was expected to choose a local organization to continue giving technical assistance to community institutions after the activity ended and to document the planned transfer of responsibility. OIG's audit[20] found that the sustainability of the activity was not addressed adequately because the implementer did not choose a local partner organization or prepare a written transfer plan.

According to USAID, the agency will improve project sustainability through the use of new tools to help missions integrate sustainability analysis into all projects. USAID also recently launched the Local Systems Framework to provide practical steps toward locally-owned, -led, and -sustained development, and to strengthen its measures and risk management.

Inadequate Risk Mitigation for Local Solutions

USAID seeks to program 30 percent of mission assistance through partner-country systems. That means providing funding to and relying on government ministries, local NGOs, and local for-profit firms to implement programs. OIG believes the risk inherent in this initiative makes it a management challenge for USAID.

- In Pakistan, USAID's $960 million assistance program[21] relies on the Government of Pakistan and its provincial governments for implementation. To reduce risks for this program, the mission took some risk mitigation measures: it did preaward assessments and used fixed-amount reimbursement agreements. Yet OIG's audit[22] found that USAID did not reassess government implementing entities before giving them more money or validate that training improved their capacity, reintroducing risk.

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[18] *Audit of USAID/Mozambique's Clinical HIV/AIDS Services Strengthening Project in Sofala, Manica, and Tete Provinces*, Report No. 4-656-14-003-P, January 15, 2014.
[19] *Audit of USAID's Albanian Justice Sector Strengthening Project*, Report No. 9-182-13-004-P, September 13, 2013.
[20] *Audit of USAID/Peru's Health Policy and Healthy Communities and Municipalities II Activities*, Report No. 1-527-14-010-P, May 15, 2014.
[21] This program is part of the Enhanced Partnership with Pakistan Act of 2009 (Public Law 111-73).
[22] *Audit of USAID/Pakistan's Government-to-Government Assistance Program*, Report No. G-391-14-002-P, December 20, 2013.

- In Pakistan, the mission's effort to use a local implementer on a basic education program did not succeed, an OIG audit reported.[23] Following the guidance of the Enhanced Partnership with Pakistan Act, in April 2012 the mission selected a local Pakistani firm to implement reading instruction. Seven months later, however, the mission terminated the agreement for lack of progress. Six months into implementation, the local implementer had not set up an office or hired staff because it had received no payment from USAID. The bank had rejected the mission's checks because the implementer had given the mission an incorrect account number.

- In Afghanistan, USAID transferred the $307 million Tarakhil power plant, designed to increase the power supply in the Kabul area, to the Afghan Government in June 2010. For 2 years after that, USAID provided support through a $27.7 million contract to train power plant staff to operate and maintain the plant. OIG's audit[24] found that the plant still depended on external and technical assistance to make needed repairs because the training that staff received did not prepare them to run the plant. Further, the audit concluded that the Afghan Government's utility company was not using the plant as intended (it was not used regularly but as an emergency back-up supply) or supporting the power plant as promised.

- OIG's review of risk assessments conducted in Honduras, Barbados, and Trinidad and Tobago[25] revealed that the missions did not perform detailed testing of the countries' financial management systems to determine their operating effectiveness and assess their internal controls. Because the testing was not completed, OIG questioned the basis on which conclusions were made and risk levels assigned.

- In West Bank and Gaza, an OIG audit found that 37 of 66 preaward survey recommendations regarding implementers for USAID's Peace and Reconciliation Program remained open for more than 18 months, and the mission closed others without documenting corrective action. While the mission made efforts to train implementers on USAID performance, vetting, and financial requirements, there was no evidence that mission staff undertook periodic organizational capacity reassessments to help implementers improve.[26]

According to USAID, it has made progress on this challenge. It revised and reissued Automated Directives System Chapter 220, which officials said fully integrates the Public Financial Management Risk Assessment Framework process and expands the description of risk management practices that apply to government-to-government assistance. The chapter also elaborates on procedures for designing, negotiating, and implementing programs that provide funds directly to partner governments. USAID plans to operationalize ADS 220 through world-wide webinars and training courses. USAID also plans to work with government audit institutions and private sector auditors and accountants to improve accountability and transparency.

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[23] *Audit of USAID/Pakistan's Sindh Basic Education Program*, Report No. G-391-14-003-P, March 21, 2014.
[24] *Review of Sustainability of Operations at Afghanistan's Tarakhil Power Plant*, Report No. F-306-14-002-S, June 19, 2014.
[25] *Review of Stage 2 Risk Assessments for the Latin America and Caribbean Region Under Local Solutions*, Report No. 1-598-14-014-S, September 30, 2014.
[26] *Audit of USAID/West Bank and Gaza's Peace and Reconciliation Program*, Report No. 6-294-13-016-P, September 15, 2013.

Cumbersome Design and Procurement Processes

Complex procurement processes and requirements limit USAID's ability to program or implement activities in a timely manner, with some projects taking up to 2 years to design and fund. USAID staff requested more flexible procurement mechanisms. For example, centrally managed awards have strict deadlines for processing task orders that many missions cannot meet because they do not yet know what their budgets will be. USAID staff also said the Agency's efforts to reform procurement by advancing local solutions have not streamlined the process, but made it more inefficient.

USAID also has a shortage of contracting staff able to design and administer awards effectively and efficiently, recommend appropriate mechanisms, apply consistent language and provisions in contracts and agreements, and provide technical support. Staff said they are overwhelmed with the number of awards they manage, leading to long delays in designing programs and approving new awards. In addition, contracting staff receive pressure from missions to bend procurement rules and requirements to approve awards quickly, leading to errors, weak terms and conditions, and poorly drafted statements of work, program descriptions, and evaluation criteria that require additional time later to amend or resolve.

The Agency's efforts to work more with local partners further complicate procurement, especially given current staff levels and resources. Contracting staff cannot ensure under current conditions that organizations new to U.S. procurement requirements and processes use funds properly, heightening the risk of fraud, waste, and abuse.

Uncertain Budget Environment

The unpredictability of and delays in the annual budget process make it difficult to initiate large, multiyear programs. Unforeseen funding increases or decreases lead missions to pad, suspend, or end projects, according to survey respondents. Delays in receiving funds force missions to obligate funds hastily before they expire, a practice that can lead to poor implementation and programs with limited long-term impact. USAID employees called for more flexible timing of programs, decoupling them from the unpredictable budget process—for example, not forcing agricultural programs designed around growing seasons to be implemented according to budgeting cycles.

Discretionary funding, which represents a small part of many missions' budgets, is often inadequate to address development challenges not covered by earmarks or other funding streams. According to staff, certain activities, such as promoting health and combating climate change and AIDS, receive ample budgets, while funds for education and democracy and governance continue to decrease without commensurate reductions in expected outcomes. Funding for operating expenses is also inadequate for hiring and training enough contracting and agreement officers to provide sufficient program oversight. In addition, priority countries, particularly critical priority countries, receive more funds than they can absorb or USAID staff can obligate prudently. Staff from the missions with excess funding struggle to design and implement efficient, sustainable programs.

USAID acknowledges the challenge of an uncertain budget environment that requires making difficult trade-offs among competing priorities when it receives appropriations below the President's budget request. USAID indicates it is educating staff across the agency on the budget and appropriations calendar, congressional directives, and special notification requirements that may delay fund availability.

Decentralized Management of Information Technology and Information Security

The Federal Information Security Management Act of 2002 (FISMA) requires agencies to develop, document, and implement an agency-wide information security program to protect their information and information systems. USAID has developed and documented the majority of the information security policies and procedures required under FISMA, but the Agency's decentralized management of information technology and information security makes it a challenge to ensure that those policies and procedures are implemented.

- In November 2012 and October 2013, OIG reported that USAID had not established an effective risk management program.[27] The lack of an effective risk management program, combined with a substantial number of open recommendations from prior FISMA audits represents a significant deficiency in systems security, including USAID's financial systems. In response to this significant deficiency, USAID developed a three-phase action plan, expected to be complete in December 2014.

- USAID continues to face challenges in implementing Homeland Security Presidential Directive 12 (HSPD-12), which requires agencies to implement a common identification standard for federal employees and contractors. In 2008 OIG reported that USAID lacked the resources to comply with this U.S. Government-wide directive. In 2009 USAID reported that the Agency met the requirements for credentials that allow access to buildings at headquarters, and in March 2014 the Agency reported that it had completed the deployment of Personal Identification Verification card readers for USAID/Washington Windows desktops and laptops. Nevertheless, complying with HSPD-12 overseas, where USAID is following the direction of the State Department, will continue to be a challenge because USAID's progress depends on State's. According to the FYs 2014-2017 State-USAID Joint Strategic Plan, the target date for fully complying with HSPD-12 is September 30, 2017.

- In January 2013, OIG reported that USAID did not implement selected controls over its badges to prevent unauthorized access to facilities by former employees. To address the issue, Office of Security officials said they reemphasized the need to train sponsors on their responsibility to return badges, reviewed monthly reports on direct hires and personal service contractors who left the Agency to ensure their access was deactivated, and automatically deactivated badge access after a period of nonuse. Nonetheless, until staff responsible for requesting badges (sponsoring official/office) ensure that those badges, when no longer needed, are returned, USAID will continue to have challenges in retrieving badges.

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

Audits of USAID's for-profit contractors traditionally are conducted by the Defense Contract Audit Agency (DCAA) under a reimbursable agreement with USAID. In the past, USAID has

[27] *Audit of USAID's Fiscal Year 2012 Compliance With the Federal Information Security Management Act of 2002*, Report No. A-000-13-003-P, November 14, 2012, and *Audit of USAID's Fiscal Year 2013 Compliance With the Federal Information Security Management Act of 2002,* Report No. A-000-14-001-P, October 15, 2013.

not made timely requests for many of these audits due to insufficient funds. DCAA also has been slow to respond to audit requests. As a result, as of September 30, 2014, USAID continues to have a backlog of about 157 incurred-cost audits; in FY 2013, the backlog was about 210.

To clear the backlog, the Agency has taken or plans to take the following actions. First, it 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. Second, USAID is using contracts with public accounting firms to augment DCAA's audit efforts. Third, USAID has funded a liaison position at DCAA to monitor audits requested by USAID, facilitate resolution of problems with those audits (e.g. taking action on delayed audits), and see that USAID receives periodic status reports. Finally, DCAA has dedicated six virtual incurred-cost teams at field offices to conduct USAID's incurred-cost audits.

During FY 2014, USAID focused on completing incurred-cost audits for contractors with the largest dollar awards. These efforts have resulted in the completion of 97 audits. USAID established and exceeded its goal during FY 2014 to fund 60 percent of complete audit submissions provided by contractors and accepted by the Office of Acquisition and Assistance. USAID actually funded all submissions submitted and accepted during FY 2014. USAID also established a goal of clearing the backlog of incurred-cost audits within the next 4 years.