



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF USAID COUNTRY AND REGIONAL DEVELOPMENT COOPERATION STRATEGIES

AUDIT REPORT NO. 9-000-15-001-P  
FEBRUARY 20, 2015

WASHINGTON, D.C.



*Office of Inspector General*

February 20, 2015

**MEMORANDUM**

**TO:** USAID/PPL, Assistant to the Administrator, Alex Thier

**FROM:** IG/A/PA Director, Jon Chasson /s/

**SUBJECT:** Audit of USAID Country and Regional Development Cooperation Strategies  
(Report No. 9-000-15-001-P)

This memorandum transmits our final report on the subject audit. In finalizing the audit report, we considered your comments on the draft report and included them, without attachments, in Appendix II.

The report contains six recommendations to help the Agency develop and implement its country development cooperation strategies (CDCSs). In your comments on the draft report, your office agreed with Recommendations 1, 3, 4, and 5, and partially agreed with Recommendations 2 and 6. We acknowledge management decisions on all six recommendations.

We do not agree with the management decision for Recommendation 6 because we do not believe that the proposed actions will address the problem. As discussed in the finding, missions and bureaus were unclear about the role the budget plays in the development of the CDCS, and we believe that clarity and guidance is needed to resolve this. Please refer to our evaluation of management comments on page 11. The Audit Performance and Compliance Division will determine final action after your office completes the proposed corrective actions.

Thank you for the cooperation and assistance extended to the audit team during this audit.

# CONTENTS

- Summary of Results** ..... 1
- Audit Findings**..... 5
  - Strategies Are Taking Longer Than Expected ..... 5
  - Bureau Did Not Have Documentation on Which Missions Got Exemptions ..... 7
  - Missions Were Unclear About Budget’s Role in Process..... 8
- Evaluation of Management Comments** ..... 11
- Appendix I—Scope and Methodology** ..... 13
- Appendix II—Management Comments** ..... 16

**Abbreviations**

The following abbreviations appear in this report:

- ADS            Automated Directives System
- BRM           Office of Budget and Resource Management
- CDCS         country development cooperation strategy
- FY             fiscal year
- OIG            Office of Inspector General
- PPD-6        Presidential Policy Directive on Global Development
- PPL            Bureau for Policy, Planning, and Learning
- QDDR         quadrennial diplomacy and development review

# SUMMARY OF RESULTS

The Presidential Policy Directive on Global Development (PPD-6), issued in September 2010, outlined a new approach to U.S. Government foreign assistance. It states:

Moving forward, the United States will: Be more selective about where and in which sectors we work. We cannot do all things, do them well, and do them everywhere. Instead, we must focus our efforts in order to maximize our long-term impact. . . . USAID will work in collaboration with other agencies to formulate [CDCSs] that are results oriented and will partner with host countries to focus investment in key areas.

PPD-6 requires the State Department and USAID to conduct a quadrennial diplomacy and development review (QDDR) every 4 years to assess how they can become more efficient, effective, and accountable. One of the outcomes from the first QDDR, released in December 2010, was to have USAID oversee the development of CDCSs in countries where it operates.

That same year USAID embarked on its own new approach to foreign assistance, known as USAID Forward. The Bureau for Policy, Planning, and Learning (PPL) was established to lead the Agency's policy and planning efforts under USAID Forward, which includes helping missions prepare their CDCSs.<sup>1</sup> Tracking the number of completed CDCSs is one of eight indicators the Agency is supposed to use to measure any progress made in meeting USAID Forward's goals.

PPL's instructions for creating CDCSs were incorporated into USAID's Automated Directives System (ADS). Effective for 5 years, each one should have the following:

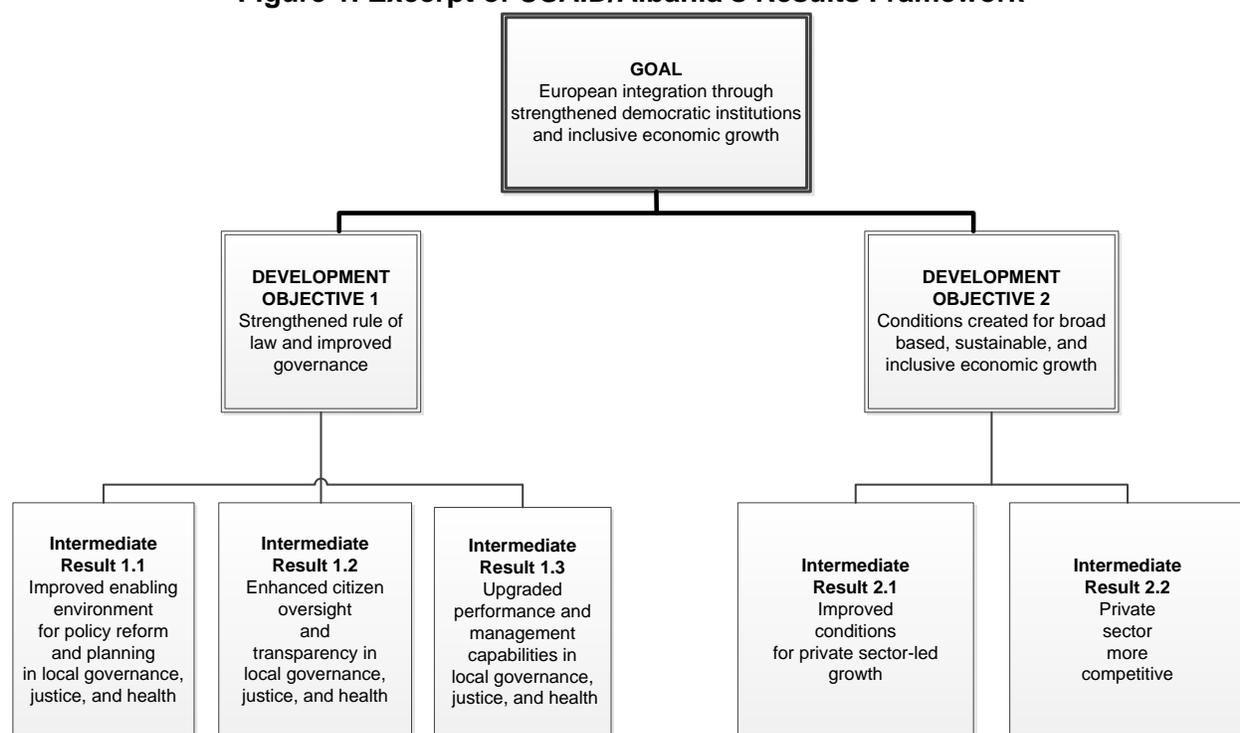
- A goal, which is the biggest impact possible. It should reflect the development challenges and opportunities of the country or region.
- A development objective, which is the most ambitious result that a mission and its partners can achieve to contribute to the goal.
- Intermediate results that lead to the development objective.
- Performance indicators that show what the mission will measure to assess expected outcomes.

All of these are brought together in a diagram called a results framework, an example of which is shown on the next page.

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<sup>1</sup> In ADS 201, country mission strategies are referred to as CDCSs, and regional mission strategies are referred to as regional development cooperation strategies (RDCSs). In this report, we refer to both as CDCSs.

**Figure 1. Excerpt of USAID/Albania's Results Framework**



Source: USAID/Albania's 2011-2015 CDCS

The CDCS is one of the first steps in the cycle of a USAID program. It helps missions determine the kinds of activities they will conduct and the amount of money they will need from Congress to do so.

The CDCS also is one of the ways the Agency supports PPD-6's goal of increasing the focus of USAID's programming. By investing resources in countries, regions, or sectors where they are likely to have the greatest impact (what the Agency refers to as "selectivity") and ensuring that the total volume of resources is large enough to have a meaningful, measurable, and lasting effect (referred to as "focus"), USAID aims to achieve greater results for its development assistance.

The Office of Inspector General (OIG) Performance Audits Division conducted this audit to determine (1) whether CDCSs complied with USAID policy and guidance, and (2) whether using them improved the selectivity and focus of programming.

For the first audit objective, the audit tested 12 CDCSs for up to 15 attributes of compliance with policy and guidance.<sup>2</sup> We found that:

- All CDCSs were based on evidence, research, and analyses.
- All CDCSs addressed critical assumptions, risks, and evaluation.
- All missions completed the required gender and biodiversity analyses.

<sup>2</sup> Because missions followed different versions of CDCS guidance and because 2 missions had not completed their CDCSs at the time of testing, not all 15 attributes were applicable to all 12 missions.

- All had the required results framework components.
- All but one mission adequately documented their consultations with host governments and implementing partners.
- All but two CDCSs had the necessary sections and design requirements.
- All completed most of the required deliverables.
- One mission did not address three required gender equality outcomes.
- Four CDCSs were not publicly available.
- Six had insufficient documentation of required clearances from PPL, the Office of Budget and Resource Management (BRM), or both.
- None of the missions completed their CDCSs within the specified time frame, and two were still working on them by the end of September 2014.

For the second audit objective, we found that CDCSs contributed to improved selectivity and focus by (1) limiting missions to no more than four development objectives, and (2) considering geographic and sectoral focus during development. Employees in 9 of the 12 missions and in regional bureaus said their selectivity and focus had improved as a result of CDCSs. One mission focused on the region with the highest poverty and crime rates. Officials at another mission said their CDCS reduced the number of program areas from ten to five, narrowing the focus of a previous strategy that was “a mile wide and a foot deep.” Officials at a regional mission said the CDCS process helped them avoid duplicating activities of other missions within their purview and focus their health programs in 4 to 5 countries instead of the 14 they previously covered.

This heightened focus on selectivity also was apparent in the missions’ project designs and implementation. For those that had granted assistance awards after their CDCSs were approved, all of the award documents we reviewed proposed activities that aligned with the missions’ strategies.

PPL’s contributions to the CDCS process have been significant. Employees in the bureau not only wrote, updated, and incorporated the guidance into the ADS, but they also trained others in the Agency to use the process. Overall mission and bureau staff were complimentary of PPL’s role.

The audit found some problems, however, which are discussed below.

- CDCSs are taking longer than expected (page 5). ADS 201 estimates that a mission needs 5 to 7 months to complete a CDCS, yet none of the missions selected for testing completed them in that amount of time. Those that had completed one took three times longer on average.
- PPL did not have documentation for all the missions that were granted exemptions from doing a CDCS (page 7). It has documentation for only six, and the justification for three of them did not meet established criteria.

- Missions were unclear about the role budget plays in the CDCS process (page 8). Employees said the budget often trumped local priorities, and nondiscretionary funding—such as presidential initiatives and earmarks—drove the selection of development objectives. In addition, budget allocations did not always align with the CDCSs, and some objectives were not funded.

To address these concerns, we recommend that USAID/PPL:

1. As part of its next planned CDCS policy revision, survey relevant Washington and mission staff to find ways to streamline the process to address these issues, and make sure these changes are written into the updated policy (page 7).
2. Work with relevant Washington staff to develop a written process and plan for reviewing and commenting on CDCSs, and set deadlines for getting feedback (page 7).
3. Define, track, and update regularly the complete list of USAID countries and regional missions, and maintain a list of those granted exemptions from having CDCSs (page 8).
4. Revise policy to include documentation required to exempt a mission from having a CDCS, as well as verification, approval, and tracking procedures (page 8).
5. Coordinate with the Administrator and BRM to determine how to increase the focus on local priorities considering budgetary constraints, and document the results (page 10).
6. Revise policy to (1) clarify how local priorities and budget are weighted and to what extent the CDCS should reflect these needs, and (2) include guidance on increasing the focus on local priorities, as needed, based on its coordination efforts with the Administrator and BRM (page 10).

Detailed findings appear in the following section. Appendix I contains information on the scope and methodology. OIG's evaluation of management comments is on page 11, and the full text of management comments is in Appendix II.

# AUDIT FINDINGS

## Strategies Are Taking Longer Than Expected

ADS 201 estimates that missions need between 5 and 7 months to complete their CDCSs. It also states that PPL is responsible for guidance, policy, and procedures related to all aspects of program planning, and that includes helping missions prepare CDCSs.

Ten of the 12 missions we reviewed needed an average of 22 months to complete their CDCSs—more than three times longer than estimated. The remaining two missions did not finalize their CDCSs by the time we finished fieldwork in September 2014, though both had already spent 2 to 3 years developing them. We also found that CDCSs approved in 2014 took almost three times as long as the ones approved in 2011.

Employees in 11 of the 12 missions said the time frames in ADS are unrealistic, and none of them completed or planned to complete their CDCSs within that amount of time. In fact, all of the selected missions with approved CDCSs needed more than 7 months, as shown in Table 1.

**Table 1. Time Spent Developing CDCSs**

Number of Months	Number of Missions
10 to 12	3
13 to 15	2
21 to 25	3
38 to 50	2

Note: Two missions were not included because they had not finished their CDCSs by October 2014.

Missions gave several reasons why CDCSs were taking longer than expected.

**Limited Resources.** Officials in five said it was unrealistic to complete the CDCS within 5 to 7 months because of the limited number of employees at the missions and other competing priorities that took precedence. Several strategies were delayed because of staff turnover, changes in leadership, visits by top U.S. officials, or other work related to USAID Forward initiatives, portfolio reviews, annual budgeting, and implementation of existing programs.

Mission officials said they needed full-time staff to devote to the CDCS process, and two missions brought in consultants to help.

**Contradictory Reviews and Lack of Coordination and Communication.** ADS 201 requires a number of consultations and reviews with regional and technical bureaus, offices, PPL, and BRM officials in Washington. This included a digital video conference for each phase of the process and a review of the key deliverables.

Nine missions blamed delays on this process. One official said the number of consultations, meetings, and phone calls with Washington were not productive or useful. Another said officials in Washington demanded documents within 2 weeks and then took 4 months to respond. A

third said Washington officials were overly involved in the details of the CDCS and provided more than 150 comments, which she felt was excessive.

Three missions said the Washington officials' comments and guidance were contradictory. One received conflicting comments from reviewers and said nobody in Washington would clarify them.

Seven missions commented on the overall lack of coordination or communication. One mission employee said he got mixed messages from the different offices and bureaus: one told the mission to focus on activities they knew would get funded, and another asked them to do pet projects of that particular division. As a result, the mission had to rewrite its results framework two or three times.

An official from another mission cited a similar experience: the different technical bureaus provided conflicting advice about the types of activities and interventions the mission should focus on. Additionally, some mission staff said there was a lack of coordination when bureau leadership changed and new directors wanted the mission to shift directions.

PPL's own reviews of the CDCS process—known as after action reviews—were consistent with these findings. They noted long delays between submitting draft strategies for review and receiving comments back from Washington. They also said missions received conflicting advice and support from Washington. An evaluation conducted of USAID's program cycle implementation<sup>3</sup> had similar observations and found that PPL could have improved consistency throughout the review process.

**Numerous Changes to Guidance.** PPL released three versions of CDCS guidance and two versions of policy between 2010 and 2013. Officials in four missions said this delayed the process; officials at one said they followed up to three different versions of guidance or policy over the course of developing their CDCS. One of PPL's after action reviews confirmed that these changes were counterproductive.

ADS 201, revised September 30, 2013, has nearly 130 mandatory and nonmandatory provisions related to CDCS development, review, and approval. Officials in seven missions said the process itself could be shorter; officials in three said the actual strategy document could be shorter; and officials in two questioned whether a CDCS should be effective for more than the current 5-year period. Four mission officials said standardizing the process through checklists or templates could be helpful.

**Lack of Understanding About Budget's Role.** Missions were unclear about the role that budgets play in developing their CDCSs. This issue is discussed in a subsequent finding on page 8.

**New Process.** Mission officials said their employees needed a lot of time initially to learn the CDCS process because it was new.

**External Factors.** Factors outside the missions' or PPL's control also delayed the process for

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<sup>3</sup> PPL contracted for an independent evaluation of the program cycle, which included the CDCS process. The evaluation is called *Bureau for Policy, Planning and Learning: Evaluation of Program Cycle Implementation* (<http://usaidlearninglab.org/library/bureau-policy-planning-and-learning-evaluation-program-cycle-implementation>), accessed October 3, 2014).

some. For example, one mission timed the CDCS to coincide with local presidential elections so it would reflect the new administration's priorities. Another mission had to evacuate its staff due to unstable security conditions.

The initial deadline for completing all CDCSs was the end of fiscal year (FY) 2013. However, only 20 of the 63 missions required to have the strategies finished theirs by then. So PPL pushed the deadline back to the end of FY 2014 and has since acknowledged that some missions would not meet that deadline either. As of July 2014, 13 missions—or 21 percent—still had not completed a CDCS nearly 4 years after PPD-6 and QDDR called for them.

While officials at most missions said the strategies were helpful, those at five said the cost of developing them outweighs the benefit. Improvements in the CDCS process can allow missions to allocate staffing resources to high-priority areas faster and avoid devoting extensive resources to the process at the expense of their normal duties.

PPL officials said they were aware of the problems discussed above and were preparing to revise guidance again to streamline the process. In doing so, we believe that PPL should talk to mission staff to find out what worked and what did not during the first CDCS cycle, to avoid making the same mistakes. Therefore, we are making the following recommendations.

***Recommendation 1.** We recommend that USAID's Bureau for Policy, Planning, and Learning, as part of its next planned country development cooperation strategy policy revision, survey relevant Washington and mission staff to find ways to streamline the process to address these issues, and make sure these changes are written into the updated policy.*

***Recommendation 2.** We recommend that USAID's Bureau for Policy, Planning, and Learning work with relevant Washington staff to develop a written process and plan for reviewing and commenting on country development cooperation strategies, and set deadlines for getting feedback.*

## **Bureau Did Not Have Documentation on Which Missions Got Exemptions**

According to ADS 201, countries or regional missions can be exempt from having a CDCS if they meet one of three exceptions:

1. All of their programming is in a single sector, such as agriculture, education, or economic growth.
2. They are closing by the end of FY 2014.
3. They are “[s]pecial-purpose [m]issions, such as those in non-presence countries.”

Such an exemption should be documented, according to the 2009 edition of the Government Accountability Office's *Standards for Internal Control in the Federal Government*; this states that documentation on significant events needs to be prepared and maintained.

However, PPL did not develop and maintain appropriate documentation to show that all countries or missions were planning to do a CDCS or had completed one, or that they had received an exemption based on the ADS criteria. Although the USAID Web site listed a total of

108 countries and regional missions where USAID operates,<sup>4</sup> PPL initially reported that for FY 2014, only 73 countries or regional missions needed CDCSs. According to PPL staff, the number was then reduced to 70 and finally 63.

PPL had documentation justifying exemptions for only six countries. Moreover, the documented reasons for three of them did not meet any of the ADS exceptions. Countries were exempted for reasons such as political instability or questions about programming. Because of inadequate documentation, we could not determine whether others should not have been granted exemptions either.

PPL staff said defining which countries or missions should have CDCSs was complex because “mission” was defined in various ways and for various purposes. For example, the financial office may include in its count countries that receive funds even though there is no physical USAID mission. Additionally, there is no formal review process or requirements in ADS for documenting, verifying, approving, or tracking exemptions.

Better documentation and tracking would help ensure compliance with ADS and progress toward meeting the goals of PPD-6 and QDDR. The process of documenting key events and decisions also can help identify whether policies need to be adjusted.

***Recommendation 3.*** We recommend that USAID’s Bureau for Policy, Planning, and Learning define, track, and update regularly the complete list of USAID countries and regional missions and maintain a list of those granted exemptions from having country development cooperation strategies.

***Recommendation 4.*** We recommend that USAID’s Bureau for Policy, Planning, and Learning revise policy to include documentation required to exempt a mission from having a country development cooperation strategy, as well as verification, approval, and tracking procedures.

## **Missions Were Unclear About Budget’s Role in Strategy Process**

PPD-6 calls for USAID to develop locally driven strategies that respond to country priorities and focus on activities that will have the greatest impact on a country’s stability and prosperity. This requires greater flexibility in funding from Congress and the ability to reallocate resources from less effective programs to ones that are more effective.

USAID’s responsibilities in developing CDCSs are outlined in ADS 201. This states that missions should develop their CDCSs based on activities that address local development priorities, not just on the amount of resources available for those activities. The mission defines these strategic priorities by using information from research, analysis, and consultations with host-government officials, international and civil society organizations, other U.S. Government agencies, and partners. The CDCS then becomes the basis for the mission’s resource request and the Administrator’s annual budget recommendations to the Secretary of State “to the maximum extent possible.”

Despite this guidance, some mission employees did not understand the role budgets played in CDCS development and implementation, and they discussed the following problems.

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<sup>4</sup> USAID, <http://www.usaid.gov/mission-directory>, last updated July 29, 2014, accessed July 29, 2014.

**Budget Trumped Local Priorities.** Officials from 11 of the 12 selected missions and all the regional bureaus said budget ultimately played a dominant role in the development of their CDCSs and that presidential initiatives and earmarks drove the selection of development objectives.

Officials in five missions said they followed ADS guidance and drafted their CDCSs based on local priorities, but were later told by Washington to revise them to reflect budget realities, such as presidential initiatives and earmarks. One said Washington told the mission what some of its development objectives would be, and had them remove one that embassy and mission officials considered a priority because there was no funding for it. Officials at four missions said they wanted to discontinue programming in certain areas, but had to keep it because of earmarks or to comply with Washington's instruction.

At least two missions ignored ADS guidance from the beginning and drafted their CDCSs based on the budget instead of local priorities. An official in one said they had a history of receiving funding for certain types of activities and did not expect they would get funding for others even if those activities were included in the CDCS.

The *Bureau for Policy, Planning, and Learning: Evaluation of Program Cycle Implementation* study found that, consistent with our audit, "There is frustration and confusion with the misalignment between the CDCS's systematic approach to strategy [and] the need to prioritize Presidential Initiatives over that process." It also noted that CDCS documents had been written to reflect budget realities.

**Budget Allocations Do Not Always Align With Objectives.** Although CDCSs were supposed to determine the budget, some missions found that their budget allocations did not align with their requests. For example, 3 of the 12 did not receive money for all of their development objectives that relied on discretionary funding.<sup>5</sup> One mission's objective on democratic governance was the only one that was not funded by a presidential initiative or an earmark; funding for it was eliminated for fiscal years 2013 and 2014, even though it was deemed a local priority and PPD-6 lists democratic governance as a U.S. Government priority. Another mission did not receive FY 2014 funding for democratic governance activities, which was one of their development objectives, and an official there said it was unlikely that they would receive funding for FY 2015 either.

Officials from a third mission said they did not receive funding in FY 2014 and will not for FY 2015 for their development objective on economic growth, which is also a U.S. Government priority in PPD-6. The mission's CDCS stated that eliminating funding for this objective would "squander the major influence [USAID] has in [that country]."

Last, despite PPD-6's push to reallocate funding to more effective programs, PPL's evaluation report noted that no differences were found related to the percentage of funding coming from presidential initiatives after a CDCS was finished. One respondent commented, "The real question is whether those Initiatives and earmarks align with what is most needed to develop the country."

Mission CDCSs were not always based on local priorities because staff did not believe ADS guidance was realistic and that the CDCS would influence budget decisions. Regional bureau

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<sup>5</sup> During interviews with mission and regional bureau staff, and in this report, nondiscretionary funds refer to presidential initiatives and earmarks, while discretionary funds refer to money from other sources.

staff agreed that the ADS was unrealistic and stressed that the budget must be considered in developing a CDCS.

In addition, the lack of discretionary funding available to missions discouraged officials from proposing activities other than ones funded by presidential initiatives and earmarks. According to BRM officials, at least 75 percent of the Agency's funding is nondiscretionary. PPL officials concurred that the number was probably similar, or higher than that for most missions. Among the 12 missions tested, officials in 8 said nondiscretionary funding accounted for at least 80 percent of their annual budgets in FY 2014. BRM reported that from FY 2013 to FY 2014 funding for earmarks actually increased by more than \$300 million while discretionary funding decreased by \$858 million.

Since missions were unclear about the role budget plays in the CDCS process, it has taken them longer than expected to complete them. Because of budget's dominant role and the fact that the vast majority of missions' funds are committed to presidential initiatives and earmarks, not all strategies reflect what missions and their partners consider to be local priorities. And when a mission's development objectives are not funded, it affects the mission's ability to implement its strategy and the Agency's ability to achieve its development goals.

***Recommendation 5.*** We recommend that USAID's Bureau for Policy, Planning, and Learning coordinate with the Administrator and Office of Budget Resources and Management to determine how to increase the focus on local priorities considering budgetary constraints, and document the results.

***Recommendation 6.*** We recommend that USAID's Bureau for Policy, Planning, and Learning revise policy to (1) clarify how local priorities and budget are weighted and to what extent the country development cooperation strategy should reflect these needs, and (2) include guidance on increasing focus on local priorities, as needed, based on its coordination efforts with the Administrator and Office of Budget Resources and Management.

# EVALUATION OF MANAGEMENT COMMENTS

USAID/PPL agreed with four of the six recommendations and partially agreed with the other two. Based on comments from PPL, management decisions have been reached on all recommendations. We disagree with PPL's management decision for Recommendation 6 because we do not believe that PPL's proposed actions will address our stated concerns. Our detailed evaluation of management comments follows.

**Recommendation 1.** PPL agreed with the recommendation and initiated corrective action. PPL officials said they met with key stakeholders—including mission directors and staff from regional and technical bureaus—to assess how useful the current guidance is and identify potential adjustments to the next version. They said they also conducted focus groups, convened working groups, and consulted with other donors underdoing similar reforms. PPL plans to establish advisory groups to discuss proposed policy changes and revise ADS guidance by the first quarter of FY 2016. It plans to take final action by November 15, 2015. We acknowledge PPL's management decision.

**Recommendation 2.** PPL partially agreed with the recommendation. PPL officials said establishing fixed processes or deadlines for reviewing and commenting on the CDCS would not expedite the process; they set deadlines in the past for the review process, but found they were impractical because employees were not always available when needed.

PPL agreed that it should be possible to shorten the review process and will consult with missions and regional bureaus to examine options. PPL said the revised ADS will include the most useful options identified during these consultations and will provide a framework for promoting a more streamlined, flexible process. PPL stated that final action would be taken by November 15, 2015. PPL's planned actions will address the recommendation, and we acknowledge the management decision.

**Recommendation 3.** PPL agreed with the recommendation. PPL said it would work with the Bureau for Management and regional bureaus to define the complete list of USAID missions, indicate which missions have been granted exemptions, and establish procedures for tracking and updating this list. PPL stated that final action would be taken by March 31, 2015. We acknowledge PPL's management decision.

**Recommendation 4.** PPL agreed to establish clear guidance in the next version of ADS on the documentation required for missions to get exemptions. PPL said it would coordinate with regional bureaus to specify the documentation process and would establish a system to verify, approve, and track exemptions. PPL stated that final action would be taken by November 15, 2015. We acknowledge PPL's management decision.

**Recommendation 5.** PPL agreed to work with BRM and the Agency's leaders to discuss ways to use the CDCS to increase the focus on local priorities identified by missions, including during budget formulation and allocation processes. PPL said it would document the results of the discussions and that final action would be taken by June 30, 2015. We acknowledge PPL's management decision.

**Recommendation 6.** PPL officials disagreed with the recommendation as it is currently stated, but agreed with what they perceived to be the intent—to clarify tradeoffs between local and Agency priorities and budget. They said the bureau would not establish a specific weighting system or develop guidance mandating a focus on local priorities. But it would work with BRM to provide missions with more realistic budget forecasts and encourage discussions of the implications of budget decisions on local priorities. PPL stated that final action would be taken by November 15, 2015.

We acknowledge PPL's management decision but disagree with it because the proposed actions do not address the problem. The finding highlighted that missions are unclear about the role budget plays in the development of the CDCS and whether the process is driven by budget or local priorities. Missions and bureaus need to know what the priority is, and if the priority is budget, then they need specific policy guidance on how to increase focus on local priorities within budget parameters.

The recommendation was not meant to establish tradeoffs between local priorities and budget in an "either/or" scenario. It was to build on discussions between PPL, BRM, and the Administrator from Recommendation 5 in exploring ways to increase focus on local priorities in light of budgetary constraints; provide guidance to bureaus and missions on how to incorporate this into their CDCS development process; clarify the role budget plays in the process; and clarify how much flexibility missions have to deviate from budgetary forecasts.

# SCOPE AND METHODOLOGY

## Scope

OIG Performance Audits Division conducted this audit in accordance with generally accepted government auditing standards. They require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, in accordance with our audit objectives. We believe that the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine (1) whether CDCSs complied with USAID policy and guidance, and (2) whether implementation of CDCSs improved selectivity and focus of programming. The audit covered the period since PPD-6 was issued in September 22, 2010, to September 30, 2014. Fieldwork was conducted in Washington, D.C., from March 11, 2014, through September 30, 2014.

The audit team assessed whether sufficient internal controls were used for the CDCS process. We held interviews and reviewed the following documents to validate responses about CDCSs.

1. Minutes from meetings with host-country governments, international organizations, civil society organizations, other donors, and implementing partners.
2. Biodiversity and gender analyses.
3. Lists of evaluations and analyses referenced.
4. Required deliverables (consultation note, results framework paper, issues papers and matrix, draft and final CDCSs) and documentation of required approvals.
5. PPL's after action review memos.
6. A past evaluation of program cycle implementation.
7. USAID notices on the CDCS and selectivity and focus.
8. BRM documentation on budget requests and allocations.
9. Mission assistance awards issued after a CDCS was approved.

## Methodology

To gain an understanding of the CDCS and the requirements, OIG reviewed PPD-6 and QDDR, CDCS guidance and ADS policy, PPL's CDCS work plan, USAID Forward reports, and Agency notices. The audit team also reviewed guidance for the mission resource request, congressional budget justification, and integrated country strategy to understand how the CDCS fits into budget requests and the U.S. Government's overall strategies.

To answer the audit objectives, OIG judgmentally selected 12 missions out of 63 (nearly

20 percent) to review. Given the differences between missions and because we could not verify the total number of USAID countries and regional missions, we could not statistically sample or project our audit results. The selection was made from PPL's work plan, dated March 20, 2014, and included at least two missions from each geographical region. For each region, it also included at least one mission with an approved CDCS and one mission with a pending CDCS (except for the Europe and Eurasia region in which all missions had approved CDCSs).

We chose the following missions: Rwanda, Southern Africa Regional, and West Africa Regional (Africa Region); Bangladesh, Cambodia, and Nepal (Asia Region); Albania and Moldova (Europe and Eurasia Region); Guatemala and Mexico (Latin America and the Caribbean Region); and Morocco and Yemen (Middle East Region).

To test for compliance with the Agency's CDCS guidance and policy requirements, we obtained and reviewed the approved or pending CDCS for the 12 missions. For the ten missions with approved CDCSs, we used the internal documents for testing. For the two CDCSs that were not finished, we used the most recent draft version available until the end of September 2014. Because not all CDCSs followed the same version of guidance and policy, we tested each one against the appropriate version used.

The audit team judgmentally selected 15 attributes, listed below, for testing. Because missions followed different versions of CDCS guidance and policy and because 2 had not finished their CDCSs by the end of September 2014, not all 15 attributes were applicable to all 12 missions.

1. Was the CDCS approved?
2. Did the mission comply with content and design requirements?
3. Was the CDCS based on evidence and analysis?
4. Did the mission engage in consultations with partners?
5. Did the CDCS explain critical assumptions and assess risks?
6. Did the mission complete a biodiversity analysis?
7. Did the mission complete a gender analysis?
8. Did the CDCS have all the required results framework components?
9. Did the mission address evaluation in the CDCS?
10. Did the CDCS narrative address the three gender equality outcomes?
11. Did the mission complete all the required deliverables?
12. Did the mission get the required approval and clearance from the Assistant Administrator, PPL, and BRM?
13. Did the CDCS exceed the recommended page limit?
14. Was the CDCS made publicly available?

#### 15. Were suggested time frames followed?

Attributes were selected to represent the various phases of the CDCS process, based in large part on mandatory requirements. There were a few attributes that were not mandatory but that we thought were important to the process. We performed this testing primarily by reviewing documents.

To determine the length of time missions spent developing their CDCSs, we counted the number of days from when the mission staff said that they started brainstorming and held initial consultations until final CDCS approval by the regional bureaus' assistant administrators.

To review the CDCS process and assess improvements in selectivity and focus, we interviewed USAID employees. We conducted telephone interviews with staff from each of the selected missions to get information about CDCS development, review, approval, and implementation. We interviewed PPL, BRM, and regional bureau staff about their roles in the process, challenges encountered, budget considerations, and evidence of improved selectivity and focus. We asked about the role of presidential initiatives and earmarks in the development of the CDCS and the amount of discretionary funding available to missions to pursue local priorities not covered by initiatives or earmarks.

To assess whether CDCSs were being implemented as planned and further assess selectivity and focus, we asked missions to send us the last five awards they made after their strategies were approved. Five had issued a total of 21 awards, and together they had 63 program objectives. We reviewed the award documents and verified that they aligned with CDCS development objectives by matching the objectives in the award to the missions' objectives. We did not verify whether they changed in subsequent award documents or whether the projects were implemented as intended. We also interviewed mission officials to verify whether they had received adequate funding to implement their CDCSs.

# MANAGEMENT COMMENTS



## MEMORANDUM

**TO:** IG/A/PA Director, Jon Chasson

**FROM:** AA/Bureau for Policy, Planning and Learning (PPL), Alex Thier

**SUBJECT:** Audit of USAID Country and Regional Development Cooperation Strategies (C/RDCS) (Report No. 9-000-15-0XX-P)

This memorandum transmits PPL's response to the draft report on the subject audit. We are pleased that the OIG had no findings related to the two objectives of the audit, which were to determine: (1) whether C/RDCSs comply with USAID policy, and (2) whether using them has improved selectivity and focus of programming. We are also pleased that PPL's contributions to the C/RDCS process were found to be significant.

PPL generally agrees with the problems that were identified through the audit, namely, that (1) that the strategy development process is taking longer than expected, (2) PPL has not adequately documented which missions are exempt from the strategic planning and why, and (3) there is confusion about the role of budgets in the CDCS process.

PPL agrees that the challenges specified above must be addressed and has already begun a process to address them. PPL will take into consideration OIG recommendations as part of this process, but does not concur with all of the audit recommendations that are intended to address them.

Below we explain completed, in-process or planned actions in relation to those recommendations with which we agree; or offer explanations for those recommendations with which we do not agree, and offer plans for arriving at alternative actions that we believe will be more likely to result in the desired outcomes.

***Recommendation 1.*** We recommend that USAID's Bureau for Policy, Planning, and Learning, as part of its next planned country development cooperation strategy policy revision, survey relevant Washington and mission staff to find ways to streamline the process to address these issues, and make sure these changes are written into the updated policy.

**PPL Response:** PPL agrees with the recommendation and has already initiated corrective action. Beginning in May 2014, PPL initiated an extensive stocktaking exercise of USAID's current strategic planning process, engaging with key stakeholders from across the Agency to assess the utility of the current guidance and identify potential adjustments to the next iteration of the ADS 200 series. To date, SPP has interviewed approximately 15 Mission Directors, conducted five field focus groups, convened three targeted working groups, conferred with all regional bureau and three pillar bureau program offices. Consultations with pillar bureaus and initiative owners, as well as other donors undergoing similar reforms (including the World Bank and DFID), continue. The results of these efforts were documented in a power point presentation titled "Strategy Stocktaking Process and Findings," dated December 9, 2014 (Attachment 1), and then summarized in a blog on ProgramNet "CDCS Stocktaking Update" on December 10, 2014 (Attachment 2).

Additional planned actions include forming a Program Cycle policy revision team, including staff from the SPP and the Learning, Evaluation and Research (LER) Offices, which will be specifically tasked with drafting revised guidance. One of the team's first tasks will be to establish advisory groups that will include people from the field and USAID/Washington with which it will consult on proposed policy changes. It will also develop a timeline for completing the revisions; PPL expects that the revised ADS guidance will be circulated for clearance during the final quarter of the FY15 and published in the first quarter of FY16.

Anticipated date for closing Recommendation 1: November 15, 2015

**Recommendation 2.** *We recommend that USAID's Bureau for Policy, Planning, and Learning work with relevant Washington staff to develop a written process and plan for reviewing and commenting on country development cooperation strategies, and set deadlines for getting feedback.*

**PPL Response:** PPL partially agrees with this recommendation. PPL does not believe that establishing fixed processes or deadlines in the ADS for reviewing strategies and collecting comments will expedite the C/RDCS review process. PPL does acknowledge however, that there are gaps in the guidance and opportunities to establish a more flexible process based on the individual circumstances of each mission.

In the early versions of ADS 201, a process calendar was included, specifying the number of days for reviews and to provide comments, yet this proved to be unworkable in practice, as the availability of both AID/W reviewers and Mission staff to respond to set time periods was variable. Therefore, if the revised guidance were to include a common, precise timeline for all bureaus to adopt, it is highly unlikely that it would be maintained, or that it would expedite or improve the review process. However, PPL plans to include provisions in the revised policy that refine the review process, providing an overall framework and principles to promote a more streamlined, flexible process that focuses on critical strategic questions.

Therefore, PPL agrees that it should be possible to reduce C/RDCS review periods through ADS revisions and the terms of reference for the policy revision team will include identifying potential options for shortening the process. The Team will consult with missions and regional bureaus to determine the feasibility of various options, and the most useful options identified will be included in the revised guidance.

Anticipated date for closing Recommendation 2: November 15, 2015

**Recommendation 3.** *We recommend that USAID's Bureau for Policy, Planning, and Learning define, track, and regularly update the complete list of USAID countries and regional missions and maintain a list of those granted exemptions from having country development cooperation strategies.*

**PPL Response:** PPL agrees and will work with the Management (M) and Regional Bureaus to define the complete list of USAID bilateral and regional missions and indicate which missions have been granted exemptions. PPL will establish internal procedures for tracking and regularly updating the list.

Anticipated date for closing Recommendation 3: March 31, 2015

**Recommendation 4.** *We recommend that USAID's Bureau for Policy, Planning, and Learning revise policy to include documentation required to exempt a mission from having a country development cooperation strategy, as well as verification, approval, and tracking procedures.*

**PPL Response:** PPL agrees to establish in the next iteration of the ADS clear guidance concerning the documentation required to establish that a mission meets the criteria for exemption. To accomplish this, PPL's policy revision team will coordinate with regional bureaus to define and articulate the process for documenting which countries and regional missions are not required to prepare a C/RCDS and why. PPL also agrees to establish a system for verifying, approving, and tracking the list of countries/regional missions that meet the criteria, per Recommendation 3.

Anticipated date for closing Recommendations 4: November 15, 2015

**Recommendation 5.** *We recommend that USAID's Bureau for Policy, Planning, and Learning coordinate with the Administrator and Office of Budget Resources and Management to determine how to increase the focus on local priorities considering budgetary constraints, and document the results.*

**PPL Response:** PPL assumes that this recommendation aims to address the tension between priorities identified by missions in coordination with local stakeholders, and Agency priorities and budget allocations. PPL agrees to engage BRM and Agency leadership to determine options for using the CDCS to increase the focus on priorities identified by missions, including during budget formulation and allocation processes. PPL will document the results of the discussions.

Anticipated date for closing Recommendation 5: June 30, 2015

**Recommendation 6.** *We recommend that USAID's Bureau for Policy, Planning, and Learning revise policy to (1) clarify how local priorities and budget are weighted and to what extent the country development cooperation strategy should reflect these needs, and (2) include guidance on increasing focus on local priorities, as needed, based on its coordination efforts with the Administrator and Office of Budget Resources and Management.*

**PPL Response:** PPL disagrees with this recommendation as currently stated, but agrees with its intent, assuming that it aims to clarify tradeoffs between local and Agency priorities and budget. PPL will not establish a specific weighting system or develop guidance mandating a focus on local priorities. The policy revision group will work with BRM to develop options for improving CDCS parameter setting in order to provide missions with more realistic budget forecasts and to encourage candid discussions of the implications of budgeting decisions on

local priorities. PPL will document related discussions with BRM and Agency leadership.

Anticipated date for closing Recommendation 6: November 15, 2015

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