TOP MANAGEMENT CHALLENGES

Fiscal Year 2018

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

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Message From the Inspector General

Ann Calvaresi Barr
Inspector General

USAID provides humanitarian assistance to people in areas besieged by natural disaster, health crisis, or armed conflict, while supporting the U.S. commitment to help countries confront chronic conditions such as hunger, child and maternal mortality, illiteracy, and gender inequality. The work of the Millennium Challenge Corporation (MCC) complements USAID's mission by investing in countries committed to poverty reduction through policies for sound economic growth. USAID and MCC—together with the U.S. African Development Foundation (USADF), the Inter-American Foundation (IAF), and the Overseas Private Investment Corporation (OPIC)—managed over $30 billion in budgetary resources in fiscal year 2016 to advance economic growth and democracy around the world, which promotes U.S. national security interests.

To help ensure the U.S. Government achieves maximum return on these investments, OIG provides independent oversight of USAID, MCC, USADF, IAF, and OPIC.[1] As part of this oversight, the Reports Consolidation Act of 2000 (Public Law 106–531) requires applicable Federal agencies to include in their performance and accountability reports a statement by their Inspector General summarizing the agencies' most daunting challenges and the progress made in managing them.

From our recent audits and investigations, we identified four top management challenges for fiscal year 2018: [2]

- ***Improving program planning and monitoring.*** USAID policy calls for rigorous planning, design, monitoring, and evaluation to better ensure that foreign assistance programs have the resources needed to achieve objectives and to identify and address fraud and other

1 OIG also provides oversight of overseas contingency operations as part of lead inspector general initiatives (described in section 8L of the Inspector General Act, as amended).
2 Our recent work identified a challenge for MCC related to strengthening local capacity and increasing sustainability in the activities it funds, discussed on pages 13 and 14. No serious challenges were identified for USADF or IAF.

risks. However, effectively putting these policies into effect continues to be a challenge, particularly in overseas contingency operations and the nonpermissive environments USAID frequently works in.[3]

- ***Reconciling interagency priorities and functions to more efficiently and effectively advance international development.*** Providing foreign assistance through multiple U.S. Government agencies has presented significant challenges for USAID in achieving its core development mission. Coordinating with the State Department, which leads multiagency responses to political and security crises, has complicated USAID's project planning and execution. Despite broad interagency guidance on State's role in these environments, key USAID staff remain unclear as to how to manage and respond to additional layers of review, changing priorities, and competing short- and long-term priorities.

- ***Strengthening country ownership and local capacity to promote sustainability of U.S.-funded development.*** To sustain development after U.S. involvement ends, USAID calls for investing in communities that have a stake in continuing activities and services, building the skills of local stakeholders, and ensuring public- or private-sector participation and financial backing. While USAID policies require assessments of country capacity and the risks in providing direct assistance to a sovereign state, the policies lack the clarity needed to ensure rigorous assessments.

- ***Meeting Governmentwide financial and information management and security requirements.*** The Federal Government established strict financial and information management requirements to promote effective stewardship of Government resources. Despite noteworthy actions to better ensure compliance, USAID is still unable to meet all of these requirements.

In addition to meeting the requirements of the Reports Consolidation Act, this document will help inform our work and frame our dialogues with Congress, the new administration, and other stakeholders about their priorities for effective stewardship of U.S. funds dedicated to foreign aid and development.

OIG remains committed to conducting thorough and timely audits and investigations of USAID programs and management—as well as those of MCC, USADF, IAF, and OPIC—and when appropriate, recommending actions to help address the challenges we identify.

If you would like to discuss or have any questions about USAID's top management challenges for fiscal year 2018, please contact me at 202-712-1150.

3 Work in nonpermissive and contingency environments includes overseas contingency operations, which integrate the efforts of the Departments of Defense and State, USAID, and other partners to respond to conflicts and emergencies.

Women and children stand at Zaatari camp in Jordan, which shelters some 80,000 Syrian refugees.
Photo: Khalil Mazraawi / AFP (July 14, 2016)

Chapter 1.
Improving Program Planning and Monitoring

Successful foreign assistance programs rely on rigorous planning, design, monitoring, and evaluation. If carried out effectively, planning and design help ensure programs have the resources needed to achieve objectives. Monitoring promotes accountability, and can help implementers and missions identify and address fraud and other risks that prevent programs from achieving desired results. Evaluation helps inform the design and implementation of future activities. Although USAID policy calls for rigor in planning and emphasizes learning from performance monitoring and evaluations, effectively putting these concepts into practice continues to be a challenge, particularly in overseas contingency operations and the nonpermissive environments the Agency often works in.

Problems with planning and design can derail a project before it begins or limit its impact, as the following examples illustrate:

- USAID/Egypt's design for economic growth projects lacked an established country development cooperation strategy, which is required by USAID policy and Federal standards. Such a strategy would lay out development objectives and provide the basis for coordinating USAID's efforts with those of the partner-country government and other U.S. Government agencies. The lack of a strategy complicated the planning for USAID/Egypt's economic growth projects.

- After planning activities under its $50 million Community Engagement Project that would focus on the problems faced by Syrian refugees and their hosts, USAID/Jordan changed the project to reflect that Syrian refugee surges were just one of several stressors creating challenges in Jordanian communities. USAID's frequent changes to the project's focus and approach undermined monitoring, as they stretched project resources, muddled project goals, and prevented the mission from formally establishing useful performance measures and definitions of success.

- In Lebanon, USAID's $41 million Quality Instruction Towards Access and Basic Education Improvement Project lacked clear goals and metrics. Planning and communication lapses led to project delays, in part because USAID had to cancel two of its main activities in favor of providing services requested by the Lebanese Ministry of Education. USAID and the Ministry agreed to adjust the project's initial approach, but did not develop operational plans for the new activities, creating the risk of developing solutions that are unsustainable or underutilized. Without fully developed plans, the changes to the project may reduce its effectiveness at alleviating strains on the Lebanese public school system and improving access for Syrian refugee students.

Persistent weaknesses in monitoring and evaluation—particularly related to data collection and reporting—can increase the risk of projects not achieving their goals, as these examples illustrate:

- USAID lacked an overall monitoring and evaluation plan to align activities and performance indicators for the Afghanistan Reconstruction Trust Fund (ARTF) with the mission's strategy and development objectives. Despite the U.S. Government's significant contribution—$2.9 billion from ARTF's establishment in 2002 through March 2017—USAID reported results from only one activity between 2013 and 2015, which accounted for just 9 percent of U.S. ARTF contributions. In addition, mission staff did not carry out essential responsibilities for monitoring and reporting ARTF's progress. Specifically, USAID—the largest ARTF donor—has not conducted a formal evaluation of ARTF activities to determine overall performance and justify further funding to constituents. USAID/Afghanistan staff stated that Agency policy on awards to public international organizations (PIO) such as the World Bank condones a hands-off approach to oversight.

- The Regional Development Mission for Asia did not have monitoring tools in place to measure the reported results for a $27 million project intended to support regional economic integration under the Asia-Pacific Economic Cooperation (APEC), an activity that USAID manages for the State Department. Specifically, the project lacked an approved monitoring and evaluation plan for the first 19 months, and staff did not follow the plan in collecting data on 6 of the project's 11 indicators; data either lacked adequate support or were collected using means other than those laid out in the plan. Because of insufficient monitoring by USAID, the project's reported results were not reliable, impeding the Agency's ability to evaluate impact.

- USAID missions in Egypt, Jordan, and the West Bank and Gaza did not adequately develop or use internal controls—policies, procedures, systems, or other tools—to ensure quality data, monitoring, or evaluation. Even when such tools were in place, program management and oversight were not always adequate due to weaknesses such as staffing shortages, insufficient employee training, and managers' lack of enforcement, as well as to continually shifting budgets and priorities. More than two-thirds of the 21 performance audits that we conducted between fiscal years 2011 and 2013 on activities at these missions found unreliable data.

Some actions have been taken to improve the monitoring and evaluation weaknesses we identified. For example, mission officials in Afghanistan recently issued a revised order, requiring staff to capture PIO award information in the mission's database for monitoring and reporting. In response to our recommendations, USAID also plans to review its policies on monitoring and evaluating PIOs. A review that results in effective policies would better position USAID to determine progress toward achieving its long-term development objectives in Afghanistan. We have an ongoing audit to examine the risk assessments USAID offices conduct before awarding funds to PIOs, as well as their risk management strategies.

Effective and timely implementation of such actions is critical to protect USAID funds from fraud, waste, and abuse. Our investigations continue to demonstrate that weak internal controls create opportunities for unprincipled contractors, grantees, and other implementers to exploit these vulnerabilities for personal gain—a concern emphasized in our fiscal year 2017 Top Management Challenges report. Highlights of relevant work follow:

- Our investigations related to cross-border programs in Syria revealed widespread fraud—including procurement fraud, product substitution, bid-rigging, and kickback schemes—which points to poor internal controls on the part of implementers and a lack of adequate monitoring by USAID. Where insecurity and hostility run high, programs are especially vulnerable to exploitation and fraud.

- In working to dismantle organized crime groups that seek to profit from humanitarian commodities—one of our investigative priorities—we have investigated individuals and syndicates in Africa that steal, transport, and resell commodities supplied under the President's Malaria Initiative, such as bed nets and antimalarial pharmaceuticals. Investigations have resulted in a number of arrests and seizures of stolen and counterfeit commodities.

- Relying on prime implementers and their subcontractors to monitor projects and report fraud can be problematic. In some cases, major USAID implementers have failed to promptly notify USAID or OIG of potential fraud or corruption. This has led to critical programmatic disruptions, such as the suspension of approximately $239 million worth of Syria-related programming by USAID last year after serious fraud was uncovered. In June 2017, we advised the Office of Global Health of the risks in relying heavily on implementers to monitor the Agency's $9.5 billion Global Health Supply Chain Procurement and Supply Management Project—the largest contract awarded in USAID history.

In addition to aggressively investigating allegations, OIG provides fraud awareness training and has published a fraud awareness handbook. Our ongoing and planned audits and investigations cover a broad range of high-risk, high-dollar programs and projects. We have recently initiated an audit of USAID's healthcare commodities and supply chain management, and an audit examining what corrective actions one Syria-response implementer has taken to remedy internal control weaknesses identified during OIG investigations.

USAID has also stepped up efforts to improve monitoring. Notably, the Agency had trained more than 2,600 staff in performance monitoring and evaluation as of July 2017, and USAID's Bureau of Policy, Planning and Learning provided courses for training technical and program officers in project and activity design. The bureau also began reviewing skills for effective project management to update core program cycle training courses. Finally, the Agency updated its policy for program design and management in September 2016. However, until these actions translate into improvements, effective program planning and monitoring will remain a significant management challenge.

In addition, USAID's planning requirements, including project approval documents, have been geared to achieving long-term, sustainable development results rather than the short-term objectives of many programs in nonpermissive environments. For example, USAID/Afghanistan's Stabilization Unit—not its program office—developed plans for ARTF in early 2012 when some 90,000 U.S. troops were in Afghanistan trying to help stabilize the country. Although USAID policy requires missions to prepare a detailed plan telling how each project will contribute to the mission's development strategy, the Stabilization Unit did not do so. Specifically, its plan did not describe how contributions to several categories of ARTF helped achieve USAID's objectives. USAID continued to rely on this outmoded planning document until October 2016—nearly 5 five years after it formally adopted updated planning processes. Mission officials said that the inability to meet USAID's planning requirements showed the difficulty of applying peacetime rules in a fluid, conflict setting.

To overcome the challenges of working in nonpermissive and contingency environments, USAID recently revised its planning policy and developed a nonpermissive environment framework and action plan to encourage missions to "manage adaptively." The action plan established workgroups focused on building Agency capacity and developing and sharing resources in areas such as monitoring, evaluation, and learning. According to USAID, these actions will "strengthen the ability of USAID missions and staff to understand and assess the impact of nonpermissive conditions." Although these are important steps, sustained reinforcement will be necessary if tools such as remote and tiered monitoring—the reliance on multiple sources to monitor projects where security restrictions prevent USAID personnel from accessing program sites—and flexible procurements are to be implemented effectively in nonpermissive environments.

Related OIG Products

- "USAID Planning and Monitoring Gaps Weaken Accountability for Results Through the Afghanistan Reconstruction Trust Fund," 8-306-17-004-P, August 16, 2017.
- "USAID Needs Better Monitoring and Focus To Promote and Sustain Economic Integration Under Its APEC Contract," 5-486-17-001-P, June 13, 2017.
- "Global Health Advisory on Internal Control Concerns," June 7, 2017.
- "Shift in USAID Education Activities May Diminish Efforts To Alleviate Strains on Lebanese Public Schools," 8-268-17-003-P, May 18, 2017.
- "Mission's Changing Focus and Approach Made It Difficult To Measure Success of the Jordan Community Engagement Project," 8-298-17-002-P, March 23, 2017.
- "Working in Politically Sensitive Countries With Limited Resources Stymied Monitoring and Evaluation Efforts of Selected Middle East Missions," 8-000-16-003-P, September 30, 2016.
- "Fraud Investigations Expose Weaknesses in Syria Humanitarian Aid Programs," Statement of the Honorable Ann Calvaresi Barr, Inspector General, U.S. Agency for International Development, Before the Committee on Foreign Affairs, Subcommittee on the Middle East and North Africa, United States House of Representatives, July 14, 2016.
- "Fraud Prevention and Implementing Partners," A Pocket Guide for the Middle East Crisis Humanitarian Response, June 1, 2016.
- "Review of USAID/Egypt's Adherence to Policy, Standards, and Best Practices in Designing Economic Growth Projects," 8-263-16-002-S, February 12, 2016.

Workers install the equipment to erect an electricity tower linking Kabul to Kandahar and Helmand, Afghanistan. Photo: USAID/Afghanistan (Jan. 17, 2016)

Chapter 2.
Reconciling Interagency Priorities and Functions To More Efficiently and Effectively Advance International Development

Implementing foreign assistance programs, projects, and operations that involve multiple U.S. Government agencies has presented significant challenges for USAID in achieving its core development mission. In particular, coordination with the Department of State—which makes policy and funding decisions for operations related to political and security crises—has complicated USAID's project planning and execution. Despite broad interagency guidance on the Department of State's role in politically sensitive environments, USAID employees are sometimes unclear how best to manage additional layers of review, nimbly respond to changing priorities, address both U.S. diplomatic and development goals, and balance short- and long-term priorities.

This was the case with the implementation of the Enhanced Partnership with Pakistan Act (EPPA) of 2009, which authorized $7.5 billion over 5 years for civilian assistance. As we reported in September 2016, USAID/Pakistan encountered difficulties reconciling its long-term development objectives with the Department of State's short-term diplomatic aims. For example, before the Department of State issued its initial development plan, the Secretary of State announced a series of high-visibility infrastructure projects, including dams and irrigation systems, that would provide tangible examples of the United States' support for Pakistan. USAID was made responsible for implementing these large infrastructure projects with minimal planning years before it identified its own development goals for EPPA. Almost 4 years into the effort, the mission implemented a formal strategy linking the Department of State's energy activities to a USAID development goal—increasing sustainable energy supplied to the economy—but State's energy priority took precedence over other development priorities, such as health, education, and economic growth.

Addressing overarching U.S. Government priorities can complicate USAID's efforts to manage and safeguard international development funds, as the following examples demonstrate:

- In August 2017, we reported that USAID contributed nearly $300 million to various projects in Afghanistan through ARTF without documenting the rationale for the amounts or the timing for four out of five projects we reviewed, calling into question whether they represented the best use of USAID funds. One mission official stated that contributing to ARTF was the best and easiest way to meet the U.S. commitment to provide 50 percent of its assistance to the Afghan Government on budget,[1] which was driven by a number of diplomatic and military considerations in Afghanistan.

- USAID's Regional Development Mission for Asia implemented the APEC Technical Assistance to Advance Regional Integration Project for more than 31 months for the Department of State without a formal interagency agreement. The lack of an interagency agreement defining roles and responsibilities created vulnerabilities in project management and oversight.

USAID recognizes that coordinating its development priorities with those of other agencies, particularly in politically sensitive environments, is an ongoing challenge. To help ensure USAID's development efforts are part of broader U.S. foreign policy, the Agency has begun working with the Department of State and other agencies to reconcile priorities. For example, in response to a recommendation we made in our EPPA report—that USAID institute an interagency forum so its development goals are taken into account in countries where Department of State is the lead—the USAID Administrator engaged Department of State leadership to discuss how to reconcile any conflicting interests at the beginning of planning and programming, and to help USAID and State simultaneously pursue their respective objectives.

The Agency also revised its programming guidance to address USAID's roles and responsibilities when working with Department of State and other U.S. Government agencies. The guidance outlines expectations for missions to collaborate with and leverage the resources of partners, including U.S. Government agencies, country governments, civil society organizations, the private sector, multilateral organizations, and other donors, to maximize the impact of USAID's assistance, prioritize where it has a comparative advantage, and rationalize resource allocations. The guidance, which was issued in September 2016, also adds requirements related to documenting the specific contributions of donors, including those from the Department of State and other U.S. Government agencies. Effective implementation of the guidance will be critical to addressing the challenge of clearly defining roles and responsibilities.

1 "On-budget" is defined as support given either directly to the Afghan Government or through contributions to multidonor trust funds that international organizations disburse to the Afghan Government. ARTF is a multidonor trust fund.

In addition to revising its programming policy to address roles and responsibilities, USAID participates in the Interagency Policy Coordinating Committee focused on fragile states and stabilization, along with the Departments of State and Defense and other Federal agencies. In June 2017, Department of State and USAID began reviewing interagency efforts in areas liberated from extremist organizations to develop guidance and best practices for optimizing U.S. foreign assistance resources dedicated to stabilization efforts in complex environments. However, until the review is completed and the committee's findings are incorporated into policy and procedure, USAID will continue to be challenged to advance its mission in these environments.

The administration's call for a leaner Federal Government[2]—particularly as it relates to potential agency restructurings—adds a layer of complexity to USAID efforts to address interagency cooperation challenges. Under the Office of Management and Budget's (OMB) guidance, certain executive branch departments and agencies must develop a comprehensive reform plan that includes an analytical framework aligning activities with the agency's mission and role and the performance of its individual functions. This task is particularly complex for USAID given its worldwide mission to promote resilient, democratic societies and advance U.S. security and prosperity by providing foreign aid and development through diverse partners.

Anticipating these challenges, we posed a number of questions in a June 2017 advisory for USAID to consider as it develops its reform framework and plans. We asked USAID to consider how it might do the following:

- Benefit from instituting interagency forums.
- Forge partnerships with other U.S. agencies to implement projects outside USAID's core development activities.
- Further capitalize on shared agency support services.
- Use program and activity data from other Federal agencies and development organizations to identify duplication of efforts and better coordinate U.S. investments.
- Engage with Congress and the administration on USAID's authority and capability to fully implement priority development programs.
- Work with other U.S. agencies to outline and deliberate on the advantages of doing parallel work abroad.

USAID and the Department of State are working on a redesign initiative based on a 2017 survey commissioned by the Secretary of State to gather input from Department of State and USAID employees on how to improve the efficiency, effectiveness, performance, and accountability of the agencies and to determine how the two can structure their processes, workforce, and technology to better achieve their core missions of development and diplomacy. The survey identified areas for improvement as well as areas of duplication and overlap, and resulted in redesign recommendations in five key focus areas:

2 Office of Management and Budget (OMB) Memorandum M-17-22, "Comprehensive Plan for Reforming the Federal Government and Reducing the Federal Civilian Workforce," April 12, 2017, provides guidance for agencies to implement the President's March 13, 2017, Reorganization Executive Order.

- ***Foreign Assistance.*** Analyze current foreign assistance policies and programs at the Department of State and USAID to develop a future vision, ensuring alignment with national priorities.

- ***Overseas Alignment and Approach.*** Assess key diplomatic activities and identify required platforms, including assessing the balance between Washington and the field.

- ***Human Capital.*** Identify ways to promote an agile and empowered workforce as part of an overarching talent map.

- ***Management Support.*** Identify opportunities to streamline administrative support functions at the bureau and agency levels to support frontline effectiveness.

- ***Information Technology Platform Planning.*** Increase the use of new technology and streamline duplicative systems and processes.

The joint initiative—in conjunction with other USAID actions—has the potential to address the challenge of reconciling interagency functions and priorities. However, given the complexity of the types of reforms OMB is calling for, it will be an ongoing challenge turning reforms into actionable initiatives and working with stakeholders, particularly in areas where agencies do not have full authority to act.

Related OIG Products

- "USAID Planning and Monitoring Gaps Weaken Accountability for Results Through the Afghanistan Reconstruction Trust Fund," 8-306-17-004-P, August 16, 2017.
- "Key Considerations for Developing USAID's Comprehensive Plan on Reforming and Reducing the Federal Workforce," Advisory Notice for USAID Management, June 21, 2017.
- "USAID Needs Better Monitoring and Focus To Promote and Sustain Economic Integration Under Its APEC Contract," 5-486-17-001-P, June 13, 2017.
- "Competing Priorities Have Complicated USAID/Pakistan's Efforts To Achieve Long-Term Development Under EPPA," G-391-16-003-P, September 8, 2016.

Community members in the Gwanda District of Zimbabwe stand on the Mbuyane dam, which they built as part of a USAID-funded cash-for-assets activity. Photo: USAID/Zimbabwe (Oct. 25, 2015)

Chapter 3.

Strengthening Country Ownership and Local Capacity To Promote Sustainability of U.S.-Funded Development

Following his swearing in, USAID's new Administrator Mark Green stated that "every president in modern memory has suggested that the purpose of foreign assistance should be ending its need to exist," and emphasized that this tenet should be USAID's organizing principle. To sustain development after U.S. involvement ends, USAID calls for investing in communities that have a stake in continuing activities and services, building the skills of local stakeholders, and ensuring public- or private-sector participation and financial backing.

USAID advanced this concept in 2010, when it launched Local Solutions—an initiative to provide funding for activities to local governments and organizations. The Local Solutions concept entails aligning program design with country priorities and drawing on in-country knowledge, networks, and expertise. In September 2016, USAID updated its policies, underscoring the need for partner governments to perform their defined roles to strengthen local systems and sustain development gains.

USAID's initiatives to strengthen country ownership and capacity have been informed by global compacts that call for country ownership, inclusive partnerships, and delivering results—notably, the 2008 Accra Agenda and the 2011 Busan Partnership. The Accra Agenda calls for wider country participation in formulating policy, stronger country leadership on aid coordination, and more use of country systems for aid delivery; the Busan Partnership additionally calls for increased transparency and accountability.

Providing direct assistance to sovereign states, especially those with a history of weak democratic accountability, has a number of inherent risks. To minimize fiduciary risk, USAID calls for assessing country capacity to manage and be accountable for donor funds before providing assistance. While the Agency has policies on assessing and mitigating risk, its Local Solutions effort lacks clarity on how it measures sustainability and local ownership. As the Government Accountability Office (GAO) reported in April 2014, USAID measures the success of its Local Solutions initiative primarily by the amount of funding it has given to local entities, not by what they have done with the funds.[1] In a review of programs having a Local Solutions component, the Agency acknowledged that "clear results related to sustainability and local ownership were ambiguous, and often not explicitly addressed."[2]

We are currently auditing USAID's Local Solutions efforts worldwide to determine whether USAID is achieving its three Local Solutions goals—strengthening local capacity, enhancing and promoting country ownership, and increasing sustainability—and implementing risk mitigation procedures for vetting and selecting government ministries, local nongovernmental organizations, and local for-profit firms to implement USAID-funded programs.

USAID has also been challenged to build sustainability into development programs that do not have a Local Solutions element. For example, a health services project in Haiti lacked a plan to transfer responsibility for paying the salaries of health workers at 80 health-care facilities from USAID to other sources after the project ended. According to the contract, the mission expected the country's health ministry to assume some of these costs, but the Haitian Government could not take them on. To be viable, the project would need other donors. Similarly, 5 of 19 USAID-funded road construction projects in the West Bank and Gaza showed signs of deterioration, raising questions about their sustainability. A mission-commissioned study found that because of competing budget priorities, the Palestinian Authority did not allocate funds from fuel-tax revenue to support road maintenance. Finally, the contractor responsible for implementing USAID grants supporting renewable energy and electrification projects in rural communities in Colombia did not complete required sustainability plans, do cost estimates for operations and maintenance, or evaluate grantees' technical and institutional abilities to achieve results and safeguard USAID assets.

While cost sharing can encourage local commitment to project sustainability, its use has been problematic in some locations.[3] For example, in 6 of 13 awards made by the Azerbaijan, Belarus, and Ukraine missions that we reviewed, cost-sharing requirements did not effectively align with program goals. These missions could have benefited from additional guidance and training on using cost sharing.

1 "USAID Has Increased Funding to Partner-Country Organizations but Could Better Track Progress," GAO-14-355, April 16, 2014.

2 "Closing the Loop on Learning, A Review of Local Solutions Evaluation Reports," Social Solutions International Inc., December 2016.

3 USAID's Automated Directives System (ADS) defines "cost share" as the resources "a recipient contributes to the total cost of an agreement" (ADS 303.3.10, effective June 18, 2012).

Our investigations of local implementers in Cambodia, Nigeria, Pakistan, and the Philippines pointed to weak corporate governance, which poses a risk to long-term impact and sustainability. Most cases involved allegations of inappropriate or fraudulent actions taken by senior or key staff. We also found that local implementers typically failed to disclose fraud to the Agency or OIG.

The Agency is taking actions to promote sustainability, assess and mitigate risk, and build accountability, and recently updated its guidance to support these measures.[4] Notably, the Agency completed or began the following efforts:

- Revised its program cycle guidance to further strengthen planning and implementation that promote sustainability in projects and activities.
- Began developing new training and tools to help staff implement the new guidance.
- Began developing indicators to track local ownership and identify effective practices for sustained results throughout USAID's development program cycle.

The Agency is also working through external partnerships with the International Organization for Supreme Audit Institutions and GAO to enhance the oversight capabilities of audit organizations in developing countries.

To help ensure these actions are effectively implemented and have their intended effect, we will continue to monitor USAID's efforts to strengthen local capacity, enhance and promote country ownership, and increase sustainability.

The Millennium Challenge Corporation (MCC) also faces a challenge related to strengthening local capacity and increasing sustainability. MCC awards large, 5-year grants or compacts to countries with sound policies that promote poverty reduction through sustainable economic growth. When a country is awarded a compact, it sets up a local, accountable entity to manage and oversee all aspects of implementation. This model, which centers on country ownership, entails risks like those USAID has with Local Solutions.

For example, the capacity of some accountable entities to manage activities is limited. This was the case with a $19.3 million MCC-funded construction project in Morocco. An OIG investigation uncovered a product substitution and false billing scheme facilitated by the supervisory engineering firm that Morocco's accountable entity hired to oversee construction. A survey of the project sites also revealed construction defects and safety hazards due to poor workmanship and materials—defects that neither the supervisory engineer nor Morocco's accountable entity reported. MCC asked the Government of Morocco to remediate the quality and safety issues, which will require an estimated $4.1 million.

4 In September 2016, USAID issued updated policy (ADS 201) and guidance to integrate and elevate sustainability and local ownership. The policy on government-to-government assistance (ADS 220) was issued in July 2014.

Risks related to sustainability planning and monitoring also exist in MCC's projects. Our audit of the Philippines Revenue Administration Reform Project found that two information systems critical to modernizing tax collection were implemented without clear goals, schedules, or sustainability measures, making it difficult for the Philippine Government to manage and sustain the systems. In response to our recommendations, MCC finalized new policy and guidelines to assess sustainability in project design and require reporting on sustainability during project implementation.

We will continue to monitor how these changes in policy are implemented in future compacts. We also have an ongoing audit to determine if MCC has sufficient policies, procedures, and guidance to meet sustainability goals for road infrastructure projects and whether MCC tracks and assesses activities to improve their sustainability.

In determining our oversight priorities, we consider such risks, and our 2017-2018 plan includes audits of infrastructure project planning, monitoring, and sustainability, while our investigative efforts will continue to focus on detecting, deterring, and neutralizing fraud and corruption in infrastructure projects.

Related OIG Products

- "USAID/Colombia's Clean Energy Program Faced Delays in Achieving Intended Results, 1-514-17-002-P," May 5, 2017.
- "Revenue Administration Reform Project in the Philippines Would Have Benefited From Consolidating Its Sustainability Efforts," M-000-17-004-C, February 15, 2017.
- "USAID Top Management Challenges and OIG Initiatives," Statement of the Honorable Ann Calvaresi Barr Before the Senate Committee on Foreign Relations, Subcommittee on State Department and USAID Management, International Operations and Bilateral International Development," December 8, 2016.
- "USAID/Haiti Needs To Improve Oversight of the Quality Health Services for Haiti Central and South Project To Better Ensure Sustainability," 1-521-16-006-P, July 6, 2016.
- "USAID/Azerbaijan, Belarus, Ukraine, and Other Offices Would Benefit From Additional Guidance and Training on Using Cost Sharing," 8-000-16-002-P, July 5, 2016.
- "Audit of USAID/West Bank and Gaza Construction Programs," 8-294-16-001-P, February 22, 2016.

Workers assemble computer tablets at Haiti's Surtab factory in Port-au-Prince, established with USAID funding. Photo: David Rochkind, USAID (Dec. 15, 2014)

Chapter 4.
Meeting Governmentwide Financial and Information Management and Security Requirements

The Federal Government has established strict financial and information management requirements to make sure agencies are effective stewards of Government resources. We have continued to identify USAID's challenges in meeting these requirements. On top of these, during fiscal year 2018, USAID will be faced with effectively implementing new financial management and reporting requirements under the Digital Accountability and Transparency and the Grant Oversight and New Efficiency Acts.

Financial Management

Reconciliation of Intragovernmental Transactions. The Department of Treasury reported that as of June 30, 2017, USAID had $479 million in unreconciled transactions with other Federal agencies, referred to as "trading partners." When USAID and its trading partners record transactions in different accounting periods or use different methodologies to classify and report them, these differences must be reconciled. USAID has increased its efforts to resolve unreconciled amounts, and it has made progress. However, the differences are still significant, presenting a challenge to the Agency. This fall, we will assess USAID's efforts in our annual audit of the Agency's financial statements.

Reconciliation of the Fund Balance With Treasury. Our audit of USAID's financial statements for fiscal years 2016 and 2015 identified a material weakness related to the Agency's Fund Balance with Treasury (FBWT) reconciliations. This weakness indicates that a material misstatement of the Agency's financial statements may not be prevented or readily detected. USAID has made progress reconciling its FBWT account, but large unreconciled differences remain. In the past, USAID did not reconcile the FBWT account with Treasury's fund balance each month or research and resolve any identified differences in a timely manner. Instead, USAID adjusted its FBWT account to agree with Treasury's fund balance. As of September 30, 2016, the net difference between USAID's general ledger and the amount in Treasury's records was approximately $195 million, of which $141 million was unexplained. This difference accumulated because of ongoing problems with a legacy system and data migration, and the lack of an integrated system to control reconciliations performed by missions around the world. USAID reported it that had developed a plan to work with Treasury and OMB to resolve the difference by December 2016. However, as of September 2017, the difference had not been resolved. Until these actions are fully implemented and the impacts assessed in our future financial statement audits, reconciliation will remain a management challenge.

Information Management and Security

Federal Information Technology Acquisition Reform Act (FITARA). FITARA was enacted in December 2014 to reform and streamline the Government's information technology acquisitions, including strengthening chief information officers' accountability for their agencies' IT costs, schedules, performance, and security. We are conducting an audit of USAID's and MCC's compliance with FITARA requirements. According to USAID's baseline implementation plan, most FITARA requirements will not be met until September 30, 2018. Until the plan is implemented, USAID will face a challenge with complying with FITARA requirements.

Privacy Act of 1974. Our 2014 audit of USAID's privacy program for information technology resulted in 34 recommendations for the Agency to address weaknesses and risks related to potential noncompliance with major privacy laws, including the Privacy Act of 1974, as amended. Most significantly, USAID needs to determine and allocate the resources needed for the program. USAID has made progress in addressing these weaknesses by taking final action on 32 of the 34 recommendations, downgrading this area from a significant deficiency to a control deficiency, which it plans to correct by December 2017. Despite progress, until USAID determines and allocates the resources needed for the program, this management challenge will persist.

Executive Order 13526, Classified National Security Information. Executive Order 13526, signed in 2009, established a uniform system for classifying, safeguarding, and declassifying national security information. In September 2016, we reported that USAID's classification policy did not meet the order's requirements, having found persistent and systemic noncompliance related to program management and administration. We also reported that not all of the 11 recommendations we made in 2014 were implemented effectively. Given the depth, sensitivity, and persistence of the weaknesses we found in operations, reporting, and compliance, we considered the noncompliance a significant internal control deficiency. Despite these weaknesses, our review did not find instances of persistent misclassification of derivatively classified information, and USAID's one originally classified document was properly classified.

In response to our 2016 recommendation, USAID's Office of Security implemented a corrective action plan in 2017. We reported the noncompliance as a challenge last year, but acknowledge USAID's progress in addressing it. Continued management attention to implementation in the decentralized security environment at USAID will be critical to achieving sustained effectiveness of recent corrective actions and preventing compliance with the executive order from recurring as a top management challenge.

Related OIG Products

- "Audit of USAID's Financial Statements for Fiscal Years 2016 and 2015," 0-000-17-001-C, November 15, 2016.
- "USAID's Implementation of Executive Order 13526, Classified National Security Information, Needs Significant Improvement," 9-000-16-001-P, September 30, 2016.
- "Audit of USAID's Implementation of Key Components of a Privacy Program for Its Information Technology Systems," A-000-15-001-P, October 10, 2015.

Appendix

Fiscal Year 2018 and Prior-Year Top Management Challenges for USAID and MCC

Table 1. Fiscal Year 2018 and Prior-Year USAID Top Management Challenges

Fiscal Year 2018 Challenges	Prior-Year Challenges
• Improving program planning and monitoring.	• Improving program design and contractor and grantee monitoring.
• Reconciling interagency priorities and functions to more efficiently and effectively advance international development.	• Reconciling interagency priorities to advance international development impact.
• Strengthening country ownership and local capacity to promote sustainability of U.S.-funded development.	• Strengthening local capacity and sustainability while ensuring adequate oversight of USAID funds.
• Meeting Governmentwide financial and information management and security requirements.	• Meeting Governmentwide financial and information management requirements.
• For fiscal year 2018, we did not report working in nonpermissive environments and contingency operations as a separate challenge; rather, we incorporated it in the other top management challenges. We determined that working in nonpermissive environments and contingency operations relates to the challenges and exacerbates them.	• Developing strategies to work effectively in nonpermissive environments and contingency operations.

Table 2. Fiscal Year 2018 and Prior-Year MCC Top Management Challenges

Fiscal Year 2018 Challenges	Prior-Year Challenges
• Our recent work identified one challenge for MCC related to strengthening local capacity and increasing sustainability in the activities it funds. We did not report this challenge in a separate chapter for MCC but incorporated it in the chapter titled "Strengthening country ownership and local capacity to promote sustainability of U.S.-funded development."	• Accurately assessing partner-country capacity. • Designing and implementing compacts. • Sustaining compact benefits. • Being a good steward of corporation resources and information.

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