MEMORANDUM FOR THE ACTING ADMINISTRATOR

FROM: Catherine M. Trujillo /s/
Acting Deputy Inspector General

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

This memorandum transmits the Office of Inspector General’s statement on the most serious management and performance challenges for the U.S. Agency for International Development in fiscal year 2015.

The Reports Consolidation Act of 2000 (Public Law 106–531) requires that each federal agency include in its performance and accountability report a statement by its inspector general summarizing the most serious management and performance challenges facing the agency and assessing its progress in addressing those challenges.

OIG identified this year’s challenges based on our work and assessments. They include findings from a 2014 employee survey updated with recent work. The first three are longstanding challenges, which we highlight because of the apparent lack of progress on addressing them.

I would be pleased to discuss these challenges with you.
Statement by the Office of the Inspector General on USAID’s Most Serious Management and Performance Challenges

Of all the programs USAID manages—development programs, humanitarian relief and emergency response programs, and stabilization operations in conflict settings—those in conflict settings (also called nonpermissive environments) present the most serious challenges to accountability for USAID’s operations and programs. The most difficult conflict settings this year were Syria, Iraq, and Afghanistan. Beyond difficult locations and emergencies, USAID experiences chronic, systemic weaknesses. Audit after audit has shown inadequate management attention to results reporting, issues with the sustainability of development activities, poor mitigation of risks associated with local implementation, and weaknesses in human capital management.

In prior years we cited the backlog of audits of U.S.-based, for-profit entities as a management challenge. Because USAID has made progress addressing this challenge, we do not consider the backlog a management challenge for fiscal year (FY) 2015.

This year, OIG identified nine serious management and performance challenges for USAID, which follow in order of importance:

1. Work in Nonpermissive Environments and Overseas Contingency Operations
2. Unreliable Performance Data
3. Limited Sustainability
4. Inadequate Risk Mitigation for Local Solutions
5. Lack of Focus
6. Weak Management of Human Resources
7. Cumbersome Design and Procurement Processes
8. Uncertain Budget Environment
9. Decentralized Management of Information Technology and Information Security

The first three are longstanding, as Agency leadership has not made noticeable progress in addressing them. To help Agency management facilitate progress, we considered the challenges in executing our FY 2015 audit plan and raised them in our discussions with USAID missions as we planned FY 2016 work. Over the next year we will continue to test and evaluate USAID’s progress in addressing these challenges.

Most of the examples on the following pages come from this year’s audit work and assessments. Most have also appeared in published reports, which we cite in footnotes: however, audits in process continue to confirm these challenges.

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1 In planning and reporting to ensure efficiency, USAID OIG coordinates closely with the Special Inspector General for Afghanistan Reconstruction and other offices of inspector general, including those for the Departments of Defense, State, and Health and Human Services. USAID also coordinates with the Government Accountability Office.
Work in Nonpermissive Environments and Overseas Contingency Operations

In a March 2015 notice, USAID identified 18 nonpermissive countries: Afghanistan, Democratic Republic of the Congo, Egypt, Honduras, Iraq, Jordan, Kenya, Lebanon, Mali, Mexico, Niger, Nigeria, Pakistan, South Sudan, Sudan, Uganda, Ukraine, and Yemen. USAID works in all of these. In some it supports overseas contingency operations (OCOs), coordinated efforts involving the Departments of Defense and State and USAID in conflict and crisis settings. During the fiscal year, OCOs were ongoing in Afghanistan, Iraq, and Syria (Operation Inherent Resolve), as well as in Guinea, Liberia, and Sierra Leone, battling Ebola (Operation United Assistance).

In these locations and others, conditions are extremely difficult. For example, in Syria efforts to help people are restricted due to internal conflict, there is limited capability to monitor programs, and large populations of refugees and displaced persons require tremendous resources. Because of U.S. national security priorities, the need for interagency collaboration, the dollar value of USAID programs, and the priority placed on obtaining highly visible results, this category of programming is the most serious management challenge for USAID.

Recent OIG audit work verifies these challenges, and we have highlighted selected observations from this work below.

Egypt, Libya, Tunisia, and Yemen. In 2010, demonstrations in a number of countries in the Middle East, collectively referred to as the Arab Spring, brought about changes in national governments. The Arab Spring drastically changed the environment in which USAID operated. USAID and the Department of State began working more closely together to meet foreign policy goals, and the focus of projects shifted. At the same time, increasing insecurity limited USAID employees’ ability to travel and monitor project activity. An OIG survey of staff assessed the impact of the Arab Spring and the lessons learned from working in transitional environments.2 The survey contained suggestions such as adapting guidance on project design to individual country circumstances, increasing flexibility in contracts and other award instruments, and strengthening the capacity of local implementers.

Jordan, Lebanon, and Syria. OIG conducted a survey of humanitarian assistance and related transportation and distribution mechanisms from Turkey and Jordan into Syria, which has experienced rising levels of civil conflict as armed groups challenge Syria’s formal government.3 Two additional audits of programs managed by USAID’s Office of Transition Initiatives and Office of Food for Peace found similar issues.4 OIG found that USAID is beset by difficulties in performing monitoring even though USAID has used modern technology and in-country monitors. U.S. Government humanitarian assistance may be taken by combatants from the populations intended to receive it.

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2 Survey of USAID’s Arab Spring Challenges in Egypt, Tunisia, Libya, and Yemen, Report No. 8-000-15-001-S, April 30, 2015.
3 Survey of Selected USAID Syria-Related Activities, Report No. 6-276-14-001-S, December 1, 2013.
Iraq. While doing a survey of selected USAID/Office of Foreign Disaster Assistance (OFDA) programs in Iraq, OIG learned of an environmental and health risk. At a camp for internally displaced persons in the Kurdistan Region, an engineer working for the USAID-funded implementer said septic tanks were overflowing. The partner had responded by increasing desludging and dumping sludge in a nearby river. OFDA officials said they did not know about the dumping because their ability to monitor activities is limited: for security reasons, site visits must be approved by the U.S. Consulate in Erbil. The lack of oversight could lead to health and environmental hazards caused by the desludging activity that USAID’s grant is financing. OIG issued a management letter that contained four suggestions for immediate corrective action.5

According to USAID officials, they have responded to challenges working in nonpermissive environments and preparing staff to work in these countries by designing training and conducting pilot sessions covering the program cycle, security, and staff care in nonpermissive environments. If funding is available, Agency officials expect to make the training mandatory by FY 2016 for all staff transferring to these posts. Officials believe this training, together with policy revisions under way by the Bureau for Policy, Planning and Learning, will address weaknesses identified in OIG audit reports. While the Agency has a plan in place, until the training is completed and the impact is realized, this will continue to be a significant management challenge.

Unreliable Performance Data

Inaccurate and especially overstated performance data are recurring themes in our audit reports. For FYs 2013 through 2015, OIG published 196 performance audit and survey reports. Of these, 72 (37 percent) reported problems with data quality or insufficient data.

A weakness in data reporting was evident, for example, in an environmental project we examined in Manila.6 The person in the lead organization who collected, analyzed, and reported data from other members of the consortium did not follow the monitoring plan’s prescribed methods for data collection. Further, the office compiling data did not implement safeguards to prevent transcription errors or manipulation before forwarding results to USAID. Consequently, after spending $1.7 million on the project, the mission does not have accurate information to assess its effectiveness and make informed decisions about current and future programming. Good data reporting requires ensuring that staff members have adequate skills to perform the checks required by USAID’s policy and mission procedures, and training and retaining qualified staff has also been a challenge for USAID.

An audit of the Leveraging Effective Application of Direct Investments in Haiti Program found that instead of providing data on the number of jobs the program created directly, progress reports claimed credit for jobs created indirectly, overstating results on the primary performance

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5 Management Letter Regarding Environmental Concerns Identified During the Survey of Selected USAID/Office of Foreign Disaster Assistance Programs in Iraq (Task No. 88151715), September 16, 2015.

indicator. Overstatement could obscure the program’s underperformance: after 3 years, it had awarded only 12 grants out of an expected 40, resulting in less impact for the $6 million in resources obligated as of March 2014. To help address the data weakness, the mission agreed to revise indicator definitions in response to an OIG recommendation.

**Limited Sustainability**

USAID’s long-term goal is to transfer ownership of its development initiatives so that the progress and results from USAID-funded projects continue. To that end, USAID tries to build sustainability into its projects, often planning for follow-on activities by local or national governments. But our audits continue to find that planning for the end of projects is inadequate. Of the audit reports OIG issued for the last 3 fiscal years, 23 percent contained recommendations to do more to ensure sustainability.

A project in Jordan illustrates the challenge. In 2010, USAID initiated a 5-year, $34.1 million water infrastructure project to help the Government of Jordan manage its scarce water resources. However, OIG auditors documented that the Government of Jordan was not recovering the full cost of operating, replacing, and building essential water system infrastructure under the project.\(^7\) USAID is aware of the underpricing of water services, which has been ongoing for decades. The Government of Jordan views the low price of water as essential to political stability and continues to seek assistance from USAID and other donors for its water infrastructure expenses. Because the Government of Jordan has not made the required policy reforms to recover the true costs, U.S. Government resources are being used to fund capital projects that are not sustainable.

In Peru, USAID is working with the national government to transfer responsibility and resources for public service delivery to regional, provincial, and local governments. After examining these efforts, OIG auditors questioned the outlook for sustainable results based on the limited role of the private sector. They noted that private companies could have teamed with local officials to offer on-site collection points for recycling and trash or sponsored educational activities, and medical schools could have helped place graduates in understaffed health clinics. The mission instructed the implementing partner to make sure the private sector is more involved.\(^9\)

OIG auditors also questioned the sustainability of a project to strengthen Indian health institutions.\(^10\) The project was designed to improve HIV prevention efforts by building state-level societies’ capacity for controlling AIDS. After 3 years, the project still lacked a formal transition plan, making it unlikely the societies were prepared to take over the monitoring of municipal and other local health-care service providers and jeopardizing the mission’s $11 million investment.

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Inadequate Risk Mitigation for Local Solutions

Endorsing the international community’s call for improved aid effectiveness, USAID launched Local Solutions. This initiative promotes greater ownership of development outcomes by governments, nongovernmental organizations, and private entities in partner countries to increase the likelihood that those results will endure.

Several large programs involve direct government-to-government assistance. Although these programs have high-level support and, in Afghanistan and Pakistan, reflect U.S. Government commitments to obligate 50 percent and 35 percent of USAID funds, respectively, to local entities, OIG continues to find that accountability for the funds is insufficient. Continued close attention is needed to mitigate risk, as documented in the cases below.

Fiduciary risk is especially high in Afghanistan, given the amount of assistance. Between October 1, 2011, and January 31, 2014, USAID committed $997 million in government-to-government assistance to Afghanistan.11 After USAID’s own risk assessments found the government’s systems unreliable, OIG conducted a review of the financial management controls for projects implemented during that time.12 OIG found that as of July 2014, USAID-contracted audit firms had not issued reports on five of seven required audits of Afghan Government entities, $90 million had been disbursed to projects that had not been audited according to Agency guidance, and 27 percent of accounting transactions reviewed were recorded late. Further, mission staff responsible for monitoring these projects and the funds channeled through the Afghan Government’s core budget were unclear on their roles. In September 2014, as a result of an OIG financial audit,13 USAID issued a bill of collection to the Independent Directorate of Local Governance for $700,000 in questioned costs for one project. Overall, OIG issued nine recommendations to improve accountability and the USAID mission agreed with and is acting on them all.

As for programmatic risk, in Pakistan OIG found that the Khyber Pakhtunkhwa Municipal Services Program, implemented under Local Solutions, had not achieved significant results 3 years into the 5-year program and only $4.9 million of the $84.8 million for infrastructure projects had been disbursed.14 The auditors found the mission had not worked with the provincial planning department to identify and select projects, relying instead on the department’s steering committee and management unit, which lacked capacity. Similarly, the mission did not promptly conduct an environmental assessment needed for the rehabilitation of two wastewater treatment plants in Peshawar, leading to a significant delay. OIG concluded that

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11 USAID/Afghanistan committed a total of $3.2 billion in on-budget assistance for projects between October 1, 2011, and January 31, 2014. Of that amount, $997 million was committed to government-to-government assistance.
14 Audit of USAID/Pakistan's Khyber Pakhtunkhwa Municipal Services Program [Revised], March 27, 2015.
if the mission did not take a more active role in working with the grantee—as is required for a
government-to-government grant—the program would be delayed further or fail. A lack of
adequate oversight will continue to risk funds that could be put to better use.

In connection with oversight for Local Solutions, agency officials reported that
USAID/Afghanistan launched a series of workshops and training sessions in June 2014 for all of
its project managers covering a multi-tiered approach for performance monitoring. Officials also
indicated that the mission issued March 2015 guidance outlining the roles and responsibilities of
program managers responsible for overseeing funds channeled through the Afghan Government.
OIG is in the process of reviewing USAID’s multi-tiered monitoring approach in Afghanistan.

Lack of Focus

A multitude of demands from other government agencies, and from within USAID to meet them,
make it difficult to focus and detract from USAID’s core development mission. This challenge,
identified in OIG’s 2014 survey of Agency staff, has been validated in numerous audit findings.

OIG’s audit of USAID’s Country Development Cooperation Strategies documents a lack of
focus. It found that budget considerations directed priorities, and that nondiscretionary funding
(presidential initiatives and earmarks) drove the selection of development objectives. To
address this problem, OIG recommended that the Policy, Planning and Learning Bureau
coordinate with the Administrator and the Office of Budget and Resource Management to
determine how to focus more on local priorities, given budgetary constraints.

The majority of respondents to OIG’s survey of challenges related to the Arab Spring said that
State Department influence over USAID programs has increased. A staff member in Tunisia
wrote, “Everything has been driven by an embassy that does not seem to feel USAID is anything
other than an implementer of whatever they want to do.” A respondent from Egypt wrote that
State Department control “makes long-term planning difficult and constrains USAID’s ability to
design and execute technically sound development projects.” Others expressed frustration at
having to take direction from State Department advisers who did not have development
backgrounds.

According to USAID, it took action to improve the scope of its operations by reducing the
number of program areas from 785 in FY 2010 to 461 in FY 2015 and revising USAID guidance
around strategic planning to bear in mind the constraints while ensuring meaningful focus and
emphasis on results achievement. However, it is too early to tell whether these changes will
bring sufficient focus to Agency programs.

15 Audit of USAID Country and Regional Development Cooperation Strategies, Report No. 9-000-15-001-

16 Survey of USAID’s Arab Spring Challenges in Egypt, Tunisia, Libya, and Yemen, Report No. 8-000-15-
001-S, April 30, 2015.
Weak Management of Human Resources

In 2014 we reported that USAID continually experiences a shortage of experienced, highly skilled personnel, familiar with USAID guidelines, standards, and processes, for both programming and support functions. The following audits detailed weaknesses in human resources.

OIG’s survey of newly hired staff participating in USAID’s Development Leadership Initiative, which the Agency launched to address staff shortages, revealed problems including retention. Under the initiative, some 820 staff received more than 2 years of training and hands-on experience at a cost of $540 million, Although supervisors and mission directors considered the initiative an effective way to address the Agency’s staffing crisis, survey respondents identified problems including being made to take irrelevant training, given supervisors who did not prepare the recruits for overseas tours, and assigned roles that were less than those of full employees. Although USAID officials estimated attrition of around 10 percent, respondents expected large-scale resignations unless USAID provides adequate opportunities for professional development.

OIG found that projects for youths in the Eastern and Southern Caribbean did not have sufficient staff, putting them at risk. While the projects sought to strengthen the juvenile justice system and increase educational and employment opportunities, many were not reporting results that the mission could use to track progress, and those that reported results were not meeting expectations. The mission did without a director for 15 months, and monitoring officials were overworked. As a result the mission fell behind schedule, reducing the likelihood that the program would achieve its goals and objectives. In response to the audit, the mission updated its staffing plan to substantially increase the number of people.

Only after an OIG audit did USAID take action to address issues associated with the staffing at its Zambia mission. Mission staff said they recognized the importance of monitoring visits, but their workloads prevented them from conducting visits as often as they would like. They said supervisors often cancelled visits when other matters in the office took priority. Because contracting and agreement officer representatives had not found time to perform monitoring visits, USAID hired additional staff and reallocated roles to make time for adequate contract oversight, including project monitoring.

OIG’s audit of the contract for monitoring and evaluation of Agency activities in Somalia identified weaknesses in oversight by contracting officer’s representatives (CORs) responsible for monitoring implementers’ performance. OIG recommended that the mission make staff who were responsible for Somalia programs aware of available monitoring and evaluation tools.

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resources and identify a COR for the follow-on Program Support Services contract who has the skills or can learn to manage the program effectively.

An audit of a project in Bangladesh revealed that employees at three health clinics that got grants through the project had not been paid in 2 months. Project officials said they had submitted the budget to USAID/Bangladesh in September 2014, but 3 months later it had not been approved. Mission officials said heavy staff turnover caused the delay.

Cumbersome Design and Procurement Processes

Under the USAID Forward initiative, USAID sought to work with new partners, invest in innovation, and focus on results. Reaching out to new partners has meant new design and procurement processes, which appear to have overwhelmed staff. In OIG’s 2014 survey, staff at all levels identified difficulties in developing and executing programs because of more complex requirements. USAID’s actions to address this situation are not apparent. Reported staffing shortages and pressures to expand work with new partners continue to place enormous pressures on USAID staff and heighten the risk to accountability and results.

A recent OIG audit of USAID/West Africa's Education Support Program in Côte d'Ivoire highlights the problem. A large component of the program was construction of schools. The construction subcontractor quit, leaving the prime award recipient in charge of construction. But since USAID policy requires a contract for construction, and the prime recipient had a cooperative agreement, the mission had to obtain a waiver from Washington. Complying with the procurement policy delayed the program.

Auditors in Haiti found that mission’s delay in awarding the Protecting the Rights of Children, Women, and Youth Program derailed it. The mission took 11 months to issue an award after amending the solicitation three times and extending consideration for an application not received because of computer error. So much time passed that proposed personnel were no longer available, forcing the implementing partner to find a new person to lead the program. Two replacements came and went; the third leader hired disagreed with officials in the implementing partner’s headquarters about how to run the program. In the end USAID terminated the agreement. The protracted award process greatly contributed to the program’s inability to achieve its goals.

Agency guidance instructs missions to “collaborate with and leverage other development actors’ resources” in designing country strategies, but auditors reported that a mission’s efforts to coordinate with another donor in Somalia backfired. USAID/East Africa and the United

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Kingdom’s Department for International Development (DFID) signed an agreement to share the monitoring and evaluation services of a USAID contractor. Although DFID paid the mission for the contractor’s services, it did not pay for managing the funds and did not cover the contractor’s indirect costs. Moreover, it took so much of the contractor’s time that the contractor had to hire more staff, and the monitoring results DFID shared with the mission did not add value to USAID’s activities. The perceived benefits of the collaboration were never realized, and the arrangement ultimately competed with program resources.

USAID officials claimed that some of the delays identified in these audits were not directly attributable to cumbersome design and procurement processes, but rather appropriate application of policies and processes given the specific requirements being undertaken and the matters that needed to be addressed. Regardless of the specific cause of problems identified in each case, OIG audit results as well as input from USAID staff from its 2014 survey, illustrate that complex procurement rules may not be helping staff manage effectively given reported staffing shortages and pressures to expand work with new partners.

**Uncertain Budget Environment**

USAID’s uncertain budget environment has several components. There are delays receiving appropriations that force USAID to quickly obligate the funds received late in the annual cycle. Some programs—HIV/AIDS and climate change—receive ample funding while budgets for education and democracy decrease, and some countries receive more funds than they can prudently use while other countries make do with less. According to our 2014 survey results, budgets for operating expenses are not sufficient.

OIG’s audit of USAID/West Africa's Education Support Program in Côte d'Ivoire illustrates the negative ramifications of budgeting uncertainty.25 As a result of the 2013 federal budget sequestration, USAID/Washington reduced the program’s budget 22 percent, from $6 million to $4.7 million. In response, the mission planned cuts in activities. The implementer decided to reduce the number of schools it would build, from three to two. Although the revised number of schools was not vastly different, the cuts meant one conflict-affected area would not get a school.

The federal budget process is a challenge partly outside the control of USAID. To address this challenge, USAID has taken action to reduce the time it takes to forward allowances to missions and reduce the time required for reviews and clearances. For example, the Agency provided bureaus with initial FY 2015 budget allocations one week faster than in the previous year. In addition, USAID has revised training for contracting officials, desk officers, and all new employees to address the impact of the budget process on the allocation of funds; improved tracking of missions’ use of multiyear funds; and increased the frequency with which it provides written program updates to Congress.

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Decentralized Management of Information Technology and Information Security

USAID continues to face challenges in implementing Homeland Security Presidential Directive 12, *Policy for a Common Identification Standard for Federal Employees and Contractors*, and related standards. One such standard (Federal Information Processing Standard 201), issued by the National Institute of Standards and Technology, pertains to personal identity verification (PIV) cards that give federal employees and contractors physical access to buildings and logical access to information systems. Starting in FY 2012, government agencies were to have physical and logical access control systems that use PIV cards. USAID did not meet that target date, but has continued to make progress. In March 2014, it had installed card readers in Washington, and it is now working with the Department of State to install them overseas. The target date for full compliance with the directive is September 30, 2017.

With regard to compliance with the Federal Information Security Management Act (FISMA), OIG continues to identify problems resulting from decentralized management of information technology and information security. The lack of an effective risk management program, combined with a substantial number of open recommendations from prior FISMA audits, represents a significant deficiency in the security of USAID-wide information systems, including financial systems. USAID developed a three-phase action plan to improve its information security, which is expected to be completed by December 2015.

While the above challenges are on track for full resolution, new ones are emerging. OIG’s audit relating to the privacy program for information technology divulged new weaknesses and risks related to potential noncompliance with major privacy laws, including the Privacy Act of 1974, as amended. Recommendations included the need to assign clear roles and responsibilities, establish policies and procedures, create awareness and training, and monitor the program for compliance.

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