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Office of  
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General

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The Standards for Success Accomplishment Report  
is available on the Internet at  
<http://www.usaid.gov/oig>

**Standards For  
Success  
Accomplishment  
Report  
Fiscal Year  
2003**



*UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT*



**Message from Andrew S. Natsios  
Administrator, U.S. Agency for International Development**

I am pleased to reflect on the Achievement Report for the Standards for Success for fiscal year 2003. The standards for success are a new and innovative tool that the Office of Inspector General instituted to work jointly with USAID managers in the identification of management challenges and the solutions necessary to overcome these challenges. The standards for success initiative is well regarded by the Office of Management and Budget and we have made a good start in this effort.

The standards of success have given USAID benchmarks by which to measure progress in addressing the Agency's recognized challenges. This report documents the Agency's progress in the past year in meeting the criteria identified in the report. It assures me that we are attaining progress that advances USAID's management agenda.

Revitalizing USAID is my number one priority. I have set forth five priority areas and the work of the Office of Inspector General is helping me meet that commitment in several ways. It is not easy to get results. It takes hard work and time but with our many management initiatives and the help that our Office of Inspector General is providing, we hope to get there even sooner.

Attaining these goals is essential to USAID's long-term strength and growth in its service to our nation as the U.S. Government's foreign assistance agency. USAID's operations are vital to the President and the Secretary of State as they set forth our nation's foreign policy goals. World events are challenging USAID as never before. USAID faces many complexities in the delivery of essential aid programs worldwide.

I value the independent and objective reporting on USAID's programs and operations by the Office of Inspector General. And I appreciate the productive relationship that the office has in working with the Agency in moving forward to make USAID strong and able in its operations. I believe this Accomplishments Report gives us a good start to major improvements.

1300 PENNSYLVANIA AVENUE, N.W.  
WASHINGTON, D.C. 20523

*UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF THE INSPECTOR GENERAL*



**Message from Everett L. Mosley  
Inspector General, U.S. Agency for International Development**

The Office of Inspector General is committed to helping USAID managers improve the accountability of USAID's foreign aid program and operations. We can readily appreciate the challenges that USAID managers face especially in difficult field locations as they strive to meet the complex and changing USG foreign policy goals it is called upon to address.

To promote economy and efficiency, OIG must responsibly organize and manage our resources to provide the critical audit and investigation services that support USAID's mission. The task of ensuring that our work supports the Agency's goals begins with our long-range planning of auditing and investigation services.

Our Strategic Plan is developed with consultation from USAID's senior leadership. For FY 2003, we took a new approach to our planning by incorporating the standards for success. The standards for success identify the benchmarks that need to be reached to ensure that progress is made in reaching the goals.

This Accomplishments Report on the FY 2003 Standards for Success sets forth the Agency's progress in attaining the standards established at the start of the year, what OIG has done to assist in this effort and changes needed to the plan for improvement.

Highlights of the report include the improvements to the Financial Reporting System that have enabled the OIG to issue an overall Unqualified Opinion on all five financial statements produced by USAID for FY 2003. This was the first year in which the OIG was able to issue an Unqualified Opinion on all of the statements. This is a good outcome for USAID and demonstrates progress in financial management systems.

I want to acknowledge the thoughtful input from USAID management in establishing and reporting on the standards for success. In the coming years, I trust that USAID will see even greater benefits from this approach.

**1300 PENNSYLVANIA AVENUE, N.W.  
WASHINGTON, D.C. 20523**

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U.S. Agency for International Development

Office of Inspector General

# Standards for Success Accomplishment Report 2003

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# EXECUTIVE SUMMARY

For a number of years, the Office of Inspector General (OIG) has focused its efforts on management challenges facing USAID in its program and administrative operations. Beginning in fiscal year (FY) 2003, with the concurrence of USAID management, the OIG developed 58 standards for success to define incremental steps that USAID needs to take to overcome the management challenges. The OIG developed the standards for success on the basis of criteria from such sources as laws and regulations, the President's Management Agenda, administration priorities, and USAID policies and procedures. The standards for success have been shared widely with USAID staff, Office of Management and Budget (OMB) officials, and congressional staff members.

The OIG has committed to a long-term effort to address USAID's management challenges and the standards for success. Through its strategic planning process, the OIG has developed strategic goals and objectives and a five-year program of audits and investigative activities from FY 2003 through FY 2007 to help USAID achieve the standards for success. The first year of this five-year program was completed on September 30, 2003, and the OIG has updated its plans to focus on the standards for success over the period from FY 2004 through FY 2008.

This report describes USAID's progress toward achieving the standards for success and summarizes the results of OIG work during FY 2003 related to the standards for success. Where sufficient information is available, the report provides an overall assessment of progress toward each standard for success. However, for many of the standards for success, OIG work scheduled for future years must be completed before the OIG can provide an overall assessment. In those cases, the report presents USAID's self-assessment of progress toward meeting the standards for success and, where possible, relates the findings of outside authorities, such as OMB and the General Accounting Office (GAO), regarding USAID's progress in each area.

While FY 2003 was the first year the standards for success were established, USAID is taking action to achieve the standards for success and address the management challenges that confront it. Of particular note, USAID has just received its first unqualified opinion on its FY 2003 consolidated financial statements, and OMB has rated USAID's progress in implementing the budget and performance integration, human capital, financial performance, and e-government initiatives in the President's Management Agenda as green (the highest possible rating). Completely addressing the management challenges and the standards for success will require sustained effort, and the standards themselves may need to be amended from time to time as priorities and legal and regulatory requirements change. But we are convinced that the standards for success help focus attention on the incremental steps that USAID management needs to take to address USAID's management challenges.

The following sections of this executive summary present a high level report on USAID's progress toward meeting the standards for success. For this purpose, we have aggregated the 58 standards for success into 7 groups dealing with (1) measuring performance and integrating performance information with budget decisions, (2) procurement, (3) managing large scale emergencies, (4) human capital, (5) financial management, (6) information technology, and (7) protecting integrity.

## **Measuring Performance and Integrating Performance Information with Budget Decisions**

Federal agencies are expected to focus on achieving results. Agencies seeking resources for new programs should be in a position to explain what results that were achieved from monies spent as well as what results they expect to achieve from future resources. Agencies seeking resources for

continuing existing programs should be able to present persuasive evidence that the programs are achieving intended results and are operating efficiently. Officials who are entrusted with making budget decisions need to be able to compare the performance of competing programs so that they can direct resources to programs that are performing well. These expectations underlie the Government Performance and Results Act of 1993, the President's Management Agenda, and related initiatives dealing with performance measurement issues and integrating performance information with budget decisions.

To help USAID develop an organizational culture that is focused on achieving results, the OIG has established 17 standards for success that deal specifically with program performance and performance measurement issues. Two of the most far-reaching standards for success are discussed in this executive summary and all 17 standards for success are discussed in the accompanying narrative.

One standard for success, which parallels the requirements of the Government Performance and Results Act, is that USAID should put in place the following:

- A new strategic plan every three years setting out a course of action and accomplishments covering a period of at least five years.
- An annual performance plan that sets annual goals with measurable target levels of performance.
- An annual performance report that compares actual performance with the annual goals.

Although USAID has not fully met this standard for success yet, it has made progress toward meeting the standard, particularly the first two parts dealing with planning. USAID and the U.S. State Department recently completed a joint strategic plan that will provide overall direction for USAID's programs. USAID also has an annual performance plan with FY 2004 targets for most of the performance indicators in the plan. However, USAID's

most recent annual performance report, covering FY 2003, was largely based on information from FY 2002.

Another important standard for success, which is based on the budget and performance integration initiative in the President's Management Agenda, is that USAID should systematically apply performance data to budget decisions and be able to demonstrate how program results inform budget decisions. Moreover, its budget processes should be efficient and should enhance operational efficiency. USAID has demonstrated progress toward meeting this standard of success by using OMB's program-assessment rating tool (PART) and developing budgeting models based on criteria such as program performance, country performance, foreign policy priorities, and other factors. Yet, while recognizing USAID's progress in this area with a green light (highest rating), OMB in its September 30, 2003, scorecard still gave USAID a red light (lowest rating) for its status in integrating performance information and budget decisions. USAID still needs to use performance measures that will allow meaningful comparisons across programs.

## **Procurement**

Efficient and effective acquisition and assistance systems are critical to USAID's overall success because USAID achieves development results largely through intermediaries – contractors or recipients of grants or cooperative agreements. The OIG objective related to procurement focuses on USAID's processes for awarding and administering contracts and grants. This objective is consistent with, but not identical to, the competitive sourcing initiative in the President's Management Agenda.

The importance of USAID's procurement activities is illustrated by its intense efforts, starting in January 2003, to award ten contracts valued at \$1.5 billion, as well as grants and cooperative agreements, for reconstruction and other activities in a postwar Iraq. The OIG has completed reviews of six of these contracts valued at approximately \$1 billion and noted, with a few exceptions, general compliance with acquisition regulations. USAID is taking

action to implement several recommendations resulting from these reviews. The OIG will continue to review USAID's Iraq program activities in Washington and in Iraq.

USAID is improving management of its procurement activities to address the nine standards for success in this area. For example, in conjunction with the Department of State, USAID plans to procure an automated procurement system that will be integrated with its accounting system on an agency-wide basis. However, OIG audits and OMB assessments indicate that certain standards for success will require more attention in the future.

To cite an example, USAID's Bureau for Management has reported on a major effort to train Cognizant Technical Officers (CTOs) in Washington and overseas. This training recognizes the key role of CTOs in the procurement process and aims to improve knowledge and competencies in procurement and financial management processes. As of September 2003, the Bureau for Management reported that 372 CTOs had received the required training and had received CTO certification. However, OIG audit work during FY 2003 at three USAID/Washington Bureaus and three USAID overseas missions indicated that USAID (1) has not provided CTOs with enough training for them to acquire core competencies or for ensuring that they understand and can perform the tasks assigned to them, (2) does not hold most of its CTOs accountable for performing CTO responsibilities, and (3) does not evaluate CTOs on how well they perform their duties. In general, the USAID offices have concurred with these findings, and they have taken or will take action to implement the recommendations.

As another example, USAID believes that it is making progress in managing service contracts but also believes that chronic staffing shortages within the Office of Procurement have affected its ability to perform adequate management and oversight. On the basis of audit work during FY 2003, the OIG recommended that USAID develop a comprehensive workforce plan for its procurement workforce and improve

internal controls to help ensure that service contractors are complying with certain security requirements.

### **Managing Large Scale Emergencies**

USAID has a mandate to respond to foreign disasters and emergency situations, both natural and man-made. In a major unplanned emergency, the urgent need to respond quickly to save lives and reduce suffering, coupled with uncertain information about the extent of the emergency and the context, can create a difficult environment for maintaining accountability. The standard for success for such emergencies is that USAID should use resources effectively and efficiently while maintaining accountability over its resources. The expectations of effectiveness, efficiency, and accountability are all well-established criteria for the Federal Government's management of public resources and are implicit in the President's Management Agenda.

USAID has well-established management systems for delivering humanitarian assistance during the initial phases of an emergency situation. The Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA) has noted that disaster responses are normally preceded by needs assessments to help ensure the appropriateness and efficiency of the response. Further, for emergency food aid, USAID's partners are held accountable for agreed-upon results, and shipping companies and partners are accountable for safe delivery of food to targeted beneficiaries. Relief commodities are strategically prepositioned around the world to minimize delivery transit time and to achieve results more quickly. USAID has reported that, in FY 2003, it responded to 62 declared emergencies within 72 hours.

After the initial emergency phases of a disaster situation, overseas missions assume increasing responsibility for USAID's response. For larger scale emergencies such as the relief and reconstruction programs in Iraq and Afghanistan, USAID formed task forces to plan for and manage USAID's response until USAID established an in-country mission.



The OIG has partnered with USAID management on several larger-scale emergencies that engender intense congressional interest, such as the USAID assistance programs for Iraq and Afghanistan and the Earthquake Reconstruction Program in El Salvador. The OIG thus has been able to influence the allocation of resources to help assure that accountability concerns are appropriately addressed. It has also enabled the OIG to provide timely training on cost principles and fraud prevention to USAID staff, contractors, and grantees. Based on OIG risk assessments and expressions of congressional interest, the OIG has provided an increased level of audit and investigative oversight for each of the larger-scale emergencies described above. The intended result is to help ensure that USAID meets this standard for success.

## Human Capital

The ability of USAID to carry out its mission in the 21<sup>st</sup> century will depend, in part, on how well it manages all segments of its diverse and widespread workforce. USAID has recognized that a reduction-in-force in the mid-1990s and high current and prospective attrition have left the Agency with skill gaps. For these reasons, as well as the fact that 59 percent of the workforce is eligible to retire in the next three years, human capital management is very important in USAID.

The OIG objective on human capital, with eight related standards for success, emphasizes providing timely, high-quality services that contribute to (1) the acquisition and development of a workforce whose number, skills, and deployment meet Agency needs; (2) strategies for succession planning and leadership continuity; (3) and strategies that integrate workforce planning into the Agency's budgets and strategic plans. This objective mirrors the human-capital initiative in the President's Management Agenda.

OMB's September 30, 2003, Scorecard rated USAID's progress in implementing human capital initiative in the President's Management Agenda as green (the highest rating). The Scorecard noted that USAID

has made significant improvements in human capital management, particularly in the areas of strategic workforce planning and workforce analysis. However, OMB still rated USAID's overall status in the area of human capital as red (the lowest rating). The Scorecard said that USAID needs to evaluate mission needs and develop strategies for closing skill gaps, link individual performance to USAID's strategic goals, develop succession plans, and take other actions to make the best use of its human capital. In an August 2003 report, GAO came to a similar conclusion.

USAID believes that it is making progress in addressing the eight standards for success under the human capital objective. For example, regarding the standard related to ensuring that the "human capital strategy is consistent with OPM's Human Capital Scorecard," USAID stated that its Business Transformation Executive Committee (BTEC) has approved a draft human capital strategy and the related top-priority action items. However, USAID realizes that the strategy will not be complete until the action items have been turned into fully developed strategic objectives.

## Financial Management

Financial management in the Federal government has been identified as a problematic area for decades. In the 1990s, several pieces of reform legislation were passed to focus attention on improving internal control and accounting systems.<sup>1</sup> In addition, the President's Management Agenda assigns a high priority to getting a clean financial audit of the Federal Government. Complying with the reform legislation and the financial performance initiative in the President's Management Agenda are urgent matters requiring the attention of USAID's top management.

In collaboration with USAID management, the OIG has developed nine standards for success that will help measure USAID's progress toward meeting the requirements

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<sup>1</sup>This reform legislation includes the Government Management Reform Act, the Federal Financial Management Improvement Act of 1996, and the Debt Collection Improvement Act of 1996.

of the reform legislation and the financial performance initiative in the President's Management Agenda.

USAID has made substantial progress toward meeting these standards for success. For the first time ever, the OIG issued a clean opinion on USAID's FY 2003 financial statements for 2003, and we did it by November 14, 2003. This was a year ahead of OMB's schedule to have financial statements audited within 45 days after the close of the fiscal year.

USAID has also deployed Phoenix, a new core accounting system, in support of its headquarters operations. Phoenix is a customized application of a commercial off-the-shelf system called Momentum, which is certified as compliant with the Federal Government's Joint Financial Management Improvement Program. USAID plans to begin pilot testing Phoenix at three overseas locations in May 2004. As another example, USAID is preparing timely and accurate quarterly financial statements in accordance with a timetable agreed upon with the OIG.

Nonetheless, several gaps exist between the standards for success and progress to date. For example, USAID still needs to implement an accounting system at its overseas accounting stations that processes transactions in accordance with the U.S. Government's standard general ledger. Moreover, to comply fully with reform legislation and Federal Government accounting standards, USAID needs to establish a fund-control system that will better ensure that USAID staff do not obligate or expend funds in excess of appropriations and apportionments, strengthen general controls over its financial management systems,<sup>2</sup> and develop an effective system for identifying and reporting all costs against appropriate USAID goals.

Complete information on USAID's progress toward meeting each standard for success, and a description of what remains to be done for fully achieving each standard for

success, is presented in the accompanying narrative.

## Information Technology

The Federal Government must effectively manage assets to ensure that scarce public resources are wisely invested. Investments in information technology are of particular interest because of their potential to increase productivity and in some cases offer convenient Internet-based access to government services and information. At the same time, the security of sensitive information is a real concern. The five standards for success in information technology management are based on applicable laws and OMB implementing guidance governing major information technology investments, computer security, and e-government, as well as on the e-government initiative in the President's Management Agenda.

During FY 2003, the OIG performed several audits related to computer security and kept abreast of USAID's progress in information technology investment management and e-government by observing the meetings of BTEC subcommittees addressing those areas. OIG auditors determined that USAID has made progress in improving its computer security through such measures as accelerating replacement of operating systems software and deploying common firewall platforms at its operating units. The auditors further noted areas needing continued attention, such as controls for limiting access to financial systems and data and controls over software changes to help ensure that only authorized and tested changes are placed in production. As observers at BTEC subcommittee meetings, the OIG noted positive accomplishments in the information technology investment planning and e-government.

In its September 30, 2003 Scorecard, OMB recognized USAID's continuing progress in information technology capital investment planning, e-government, and computer security by rating USAID's implementation progress as green (highest rating). In an earlier Scorecard, OMB also took note of USAID's continued progress in correcting security weaknesses in information

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<sup>2</sup> General controls are the structure, policies, and procedures that affect the overall effectiveness and security of computer operations.

technology. However, OMB's September 30, 2003 Scorecard gave USAID an overall status rating of red (lowest rating), stating that USAID needs to establish baselines for its information technology projects in terms of their cost, schedule, and performance; agree on risk management plans for projects experiencing cost or schedule overruns or performance shortfalls; and take actions to improve computer security.

### **Protecting Integrity**

USAID, like all Federal Government agencies, needs to maintain high standards of program and employee integrity. These high standards help maintain public confidence in U.S. foreign assistance programs. USAID faces unusual challenges in this respect because many of the countries where USAID works have weak accountability and law enforcement mechanisms. These deficiencies contribute, in many cases, to a high perceived level of corruption. Therefore, our top priorities are the elimination of fraud in USAID contracts, grants and cooperative agreements and the prevention of employee integrity issues.

USAID has established controls for promoting program and employee integrity. For example, USAID maintains a field presence in many of the countries where USAID programs operate, helping to deter fraud and wasteful uses of USAID funds. USAID operating units perform annual assessments to evaluate management controls, identify risks and vulnerabilities, and establish corrective-action plans for addressing them. USAID employees are subject to prosecution or disciplinary action or both for any violations of standards of personal integrity.

USAID contractors and grantees are subject to criminal or civil prosecution, suspension, or debarment. Often contractors and grantees are made to repay Agency funds that were not used for appropriate purposes. Fraud awareness training and promotion of the OIG Hotline have proven to be very effective fraud prevention techniques.

The OIG helps protect USAID's program and employee integrity primarily through its investigation program, its audit activities, and proactive initiatives designed to help USAID staff, contractors, and grantees prevent fraudulent and abusive activities.

# A PROGRESS REPORT ON ACHIEVING THE STANDARDS FOR SUCCESS

## INTRODUCTION

The Office of Inspector General (OIG) focuses its efforts on management challenges facing USAID in its program and administrative operations. These management challenges concern managing for results, procurement, human capital, financial management, and information technology management.

With the benefit of substantive participation by USAID's Administrator and staff, the OIG jointly developed 58 standards for success that define incremental steps that USAID needs to take to overcome its management challenges. By laying out incremental, realistic steps, the standards for success help foster a shared understanding by the OIG and other USAID offices of what USAID needs to do to overcome the management challenges.

The standards for success are based on criteria from such sources as laws and regulations, the President's Management Agenda, administration priorities, and USAID policies and procedures. The standards for success have been shared widely with USAID staff, Office of Management and Budget (OMB) officials, and congressional staff members.

The OIG and USAID are committed to a long-term effort to address USAID's management challenges and the standards for success. Through its strategic planning process, the OIG has developed strategic goals and objectives and a five-year program of audits and investigative activities from fiscal year (FY) 2003 through FY 2007 to help USAID achieve the standards for success. The first year of this five-year program was completed on September 30, 2003, and the OIG has updated its plans to focus on the standards for success over the period from FY 2004 through FY 2008.

This report describes USAID's progress toward achieving the standards for success and summarizes the results of OIG work during FY 2003 related to the standards for success. Where sufficient information is available, the report provides an overall assessment of progress toward each standard for success. However, for many of the standards for success, OIG work scheduled for future years must be completed before the OIG can provide an overall assessment. In these cases, the report provides USAID's self-assessment of progress toward meeting the standards for success and, where possible, relates the findings of outside authorities, such as OMB and the General Accounting Office (GAO) regarding USAID's progress in each area.

## **OIG STRATEGIC GOAL 1**

**Keep the Administrator and Congress fully informed of the status on USAID's administration and operations and the need for and progress of corrective actions.**

**Objective 1.1: Provide timely reports and briefings to the Administrator and Congress on the major challenges identified by audits and investigations.**

### **Standard for Success for OIG**

*1.1.1. Provide prompt notification to the Administrator and Congress on issues of significant importance impacting USAID operations in accordance with the Inspector General Act of 1978.*

The USAID Inspector General keeps the Administrator and Congress informed of significant issues affecting USAID operations through its audit and investigative reports, briefings, testimony, and its Semi-Annual Reports to the Congress.

The Inspector General prepares and transmits the Semiannual Report to

Congress in accordance with the Inspector General Act (IG Act) requirements. The IG Act sets forth the requirements for the content of the Semiannual Report to Congress. The IG Act also defines the reporting process and required deadlines. The USAID IG reporting is in compliance with the IG Act.

The Inspector General holds regular meetings with the Administrator and other senior OIG leadership brief key USAID officials on critical issues identified by OIG work throughout the year. OIG planning procedures involve USAID, the African Development Foundation and the Inter-American Foundation management in the annual planning process. This process is intended to identify critical problems requiring OIG assistance. Where possible, establishing a work plan to meet the interests of management at the start, allows the OIG to elicit cooperation and follow-up by management to address findings.

The Inspector General and Deputy Inspector General meet weekly with the Administrator to brief him on important issues such as the rollout of the Phoenix Operating System to the field. These meetings serve as a regular reporting mechanism for the Administrator and Deputy Administrator to learn about current issues, ongoing audit work, and sensitive investigations.

The Inspector General participates in the Administrator's weekly staff meeting for senior USAID leadership. The IG may provide guidance or comment on critical problem issues at this meeting. The Inspector General and Deputy Inspector General also attend the Administrator's Thursday meeting that has expanded participation. Senior OIG staff also attend these meetings on a rotating basis. The OIG may provide guidance or comment on critical problem issues at these meetings.

The Inspector General and senior OIG leadership maintain regular contact with relevant oversight, and appropriation committees for the foreign affairs agencies as well as the Government Reform Committee in the House and the Governmental Affairs Committee in the Senate. The Inspector General and OIG

staff brief these six committees quarterly or more often if circumstances dictate based on our work.

We have briefed each of these Committees on high profile work including:

- Iraq
- Afghanistan
- West Bank/Gaza
- Hurricane Mitch
- Government Performance and Results Act
- USAID's Management Challenges
- Government Management Reform Act

The OIG distributes all audit reports to the interested parties on the Hill. Agency management of course receive work products in the course of investigations or audits. To promote e-government, the OIG provides links with the OIG website which further enhances timely delivery of OIG findings.

The Inspector General also provided testimony on three occasions during the past year. The testimony concerned mandatory spending programs, general accountability issues, and the financial accounting system at USAID. The testimony identified the major challenges facing the Agency and otherwise responded to the interests of the committees inviting the Inspector General's testimony.

## **OIG STRATEGIC GOAL 2**

**Promote improvements in the way that USAID manages for results.**

**Objective 2.1: Provide timely, high-quality services that contribute to improvements in USAID's processes for planning, monitoring, and reporting on program activities and integrating performance information into budget decision-making.**

## **Standards for Success for USAID**

*2.1.1. USAID has a process of strategic planning, program execution, and reporting that includes the following:*

- *A new strategic plan every three years setting out a course of action and accomplishments covering a period of at least five years.*
- *An annual performance plan that sets annual goals with measurable target levels of performance.*
- *An annual performance report that compares actual performance with the annual goals.*

*(Government Performance and Results Act of 1993, OMB Circular A-11)*

While USAID has not yet fully met this standard for success, it has made progress toward meeting the standard, particularly the first two parts of the standard dealing with planning.

### Strategic Plan

In September 2003, USAID submitted a new joint U.S. State Department and USAID strategic plan covering fiscal years 2004 through 2009, to Congress and OMB. The strategic plan lays out four strategic objectives that USAID and the State Department will strive to achieve in order to (1) protect the nation, (2) advance sustainable development and global interests, (3) promote international understanding, and (4) strengthen diplomatic and program capabilities. Within these objectives, the parties will focus their work on 12 strategic goals. Their annual performance plans will flow from these goals and policy direction and will discuss those programs and activities that are focused on shorter-term performance targets.

### Annual Performance Plan

USAID's draft annual performance plan for FY 2004<sup>3</sup> incorporates the new strategic

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<sup>3</sup> USAID issued the final annual performance plan for FY 2004 on September 26, 2003.

plan discussed above. The plan includes targets for a majority of the performance indicators. Of the 28 performance indicators listed in program areas, 21 have targets applicable to FY 2004 and the other 7 lack targets. Of the 16 performance indicators in the management section, 15 have targets for FY 2004 and 1 does not.

### Annual Performance Report

USAID's most recent annual performance report was incorporated into USAID's performance and accountability report for FY 2002. The information on program results in the performance and accountability report for FY 2003 was not current because most of the agency-wide performance information was from FY 2002 or earlier. However, information in the management goal section provides current data from FY 2003.

Several other organizations have also described actions that USAID should take to fully meet this standard for success:

- OMB has reported that USAID's performance system relies on performance measures that are at the project level and therefore does not allow meaningful comparisons across programs. OMB has advocated that USAID develop a streamlined reporting system with fewer but more meaningful measures that can facilitate cross-program comparisons. OMB also realizes that USAID faces unique challenges in reporting on the results of its programs because USAID programming is often only one factor among many affecting a desired outcome, making attributing results to USAID programs difficult.
- The Association for Government Accountants reviewed USAID's FY 2002 performance and accountability report under their "Certificate of Excellence in Accountability Reporting Program." The Association noted that USAID's performance and accountability report continues to improve and commended USAID for their

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# Standards for Success Accomplishment Report FY 2003

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active engagement in the program over the last five years. The Association emphasized that more of the performance data needs to be for the current year, even if the data are presented as preliminary or estimated. They further advocated that the performance report targets and actual performance information be for the same year, even if the latter needs to be qualified as being incomplete or preliminary.

- Researchers from the Mercatus Center at George Mason University conducted their fourth annual evaluation of the annual performance reports produced by the 24 agencies covered under the Chief Financial Officers' Act. Their assessments looked at the quality of the agencies' reports but not the quality of the results achieved. The research team used 12 evaluation factors grouped under the 3 general categories of transparency, public benefits, and leadership. The USAID report did not score well in their ratings because the researchers generally considered the report difficult to follow and unclear. Regarding performance reporting, the researchers noted that the performance data were not always timely. Furthermore, the base year, the number of years of baseline trend data, and the completeness of reporting varied widely throughout the report.

USAID's progress in meeting this standard for success is discussed in the OIG's *Audit of USAID's Efforts to Meet the Requirements of the Government Performance and Results Act of 1993* (Audit Report No. 9-000-03-011-P, dated September 30, 2003). In addition to this audit, the OIG plans to conduct an audit of USAID's 2003-2008 strategic plan in FY 2005.

2.1.2. "Management's Discussion and Analysis" (part of USAID's annual financial statements) contains meaningful performance information addressing the extent to which programs are achieving their intended objectives. (OMB Bulletin Nos. 97-01, 01-02)

USAID is making progress in this area but has not yet met this standard for success.

"Management's Discussion and Analysis" (MD&A) is a narrative prepared by management that describes the reporting entity and its mission, activities, program and financial results, and financial condition. As part of its audit of USAID's FY 2003 financial statements, the OIG reviewed the draft FY 2003 MD&A and found that USAID has made notable improvements compared with the prior year. This year's draft MD&A reported more current year information, including FY 2003 results for important programs in Iraq and Afghanistan. The draft MD&A also reported FY 2003 results for the Global Development Alliance and selected activities under each of the six strategic goal areas. The draft MD&A was also reorganized to allow readers to link performance results with the associated goal category in the Statement of Net Costs. However, readers could not compare planned and actual performance for FY 2003 because much of the agency-wide performance information was from FY 2002. Even where FY 2003 performance data were reported, the data were often not clearly linked to performance targets.

Moreover, three OIG audits and surveys issued in the last year, covering 10 USAID operating units, have identified deficiencies in operating unit performance measurement systems.<sup>4</sup> The deficiencies – such as not performing required data quality assessments – could result in reporting unreliable performance information or incorrectly assessing progress toward meeting certain strategic objectives.

The OIG will continue to review USAID's "Management Discussion and Analysis" as part of the OIG's annual audit of USAID's consolidated financial statements.

2.1.3. USAID systematically applies performance data to budget decisions and can demonstrate how

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<sup>4</sup> See *Audit of Selected USAID Operating Units' Monitoring of the Performance of Their HIV/AIDS Programs*, (Audit Report No. 9-000-03-004-P dated February 3, 2003), *Audit of USAID-Financed Human Rights Activities in Colombia*, (Audit Report No. 1-514-03-002-P dated December 13, 2002), and *Survey of USAID-Financed Assistance to the Democratic Republic of the Congo* (Report No. 7-660-03-001-S dated October 1, 2002).

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*program results inform budget decisions. Budget processes are efficient and enhance operational efficiency. (OMB Scorecard)*

USAID is making progress toward achieving this standard for success but, according to OMB, does not yet systematically use meaningful performance measures to compare programs or to inform the budget process.

USAID is involved in three major efforts to improve budget and performance integration: (1) development of a joint State Department-USAID strategic plan, (2) development of strategic budgeting models, and (3) use of the program assessment rating tool developed by OMB.

- 1) As discussed in greater detail under 2.1.1 standard for success above, the joint State Department-USAID strategic plan will help USAID set priorities among competing programs. The strategic plan and the accompanying annual performance plan lay the framework for developing performance measures and targets against which program performance will be measured and reported.
- 2) According to USAID's Bureau for Policy and Program Coordination, USAID has developed a set of budgeting models that take objective criteria, such as program performance, country performance, workforce availability, foreign policy priorities, and needs, into account to determine what an "ideal" allocation of resources would be. According to the Bureau, this model allocation is taken into all budget decision meetings and is used to frame the debate on why and whether a particular program should receive more or less than its "ideal" amount.
- 3) The program assessment rating tool was first used by OMB and USAID to evaluate three programs in USAID's FY 2004 budget: population, food aid, and global warming. Subsequently, in consultation with OMB, USAID elected to change its approach from a sector focus to one that is more geographic.

OMB and USAID reportedly plan to use the program assessment rating tool to evaluate three more programs in USAID's FY 2005 budget: Latin American and Caribbean programs, Eastern European programs, and Transition Initiatives programs.

In addition to these major efforts, USAID reports that it has taken other actions to make budget processes more efficient and enhance operational efficiency, as illustrated by reducing the number of performance indicators that are aggregated at the USAID level for external reporting, from 3,443 in 1997 to 57 in FY 2003, and developing a measure of operational efficiency (total cost of program administration at the operating unit level).

In its most recent Scorecard on USAID's performance in implementing the President's Management Agenda, reflecting the status as of September 30, 2003, OMB gave USAID a green light (highest rating) for progress toward budget and performance integration but a red light (lowest rating) for its status in integrating performance information and budget decisions. OMB has praised USAID for its continued success in accomplishing planned actions and its improved coordination with the State Department. However, in its June 30, 2003 Scorecard, OMB has also noted that USAID's performance system relies on performance measures that are at the project level and therefore do not allow meaningful comparisons across programs. The standard aggregate measurement is "percent of strategic objectives meeting or exceeding expectations."

OMB has also reported that USAID faces unique challenges in reporting on the results of its programs because USAID programming is often only one factor among many affecting a desired outcome, making attributing results to USAID programs difficult. Furthermore, OMB has noted, the State Department is ultimately responsible for USAID's budget.

The OIG plans to conduct an audit of USAID's Congressional Budget Justification and an audit of USAID's use of the operating expense appropriation during FY 2005.



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2.1.4. *USAID-funded food aid is provided to intended beneficiaries, and USAID accurately tracks and reports on this aid. (President's Management Agenda and Administration priority)*

OIG audit work underway now, as well as three additional audits planned for FY 2005 through FY 2007, will provide a basis for an overall assessment of progress toward achieving this standard for success.

USAID, through funding provided by Public Law (P.L.) 480, Title II, makes commodity donations to cooperating sponsors (private voluntary organizations and non-governmental organizations) and the United Nations World Food Program. These programs address (1) food aid to vulnerable groups in emergency situations, and (2) long-term development programs to improve food security.

During FY 2002, USAID reported that it provided 1.1 million metric tons of emergency food aid valued at \$622 million to 34 million persons affected by natural disasters and/or emergencies in 35 countries. USAID also provided over \$466 million of non-emergency food resources to implement longer-term development programs.

Food aid officers based in USAID missions monitor food aid programs. This food aid is tracked through a reporting system managed by USAID's Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA) and through an annual report prepared by the DCHA Bureau. According to USAID, this allows it to adequately monitor and report on activities not covered by a country strategy.

The United Nations World Food Program provides periodic reports on the status of their operations. The reports are available on the World Food Program website and also are transmitted to the Food for Peace backstop officer in Washington as well as to the cognizant contract technical officer in the relevant USAID mission. Moreover, the United Nations Food and Agriculture Office in Rome provides additional oversight of World Food Program food aid activities.

As part of its FY 2003 audit plan, the OIG has an ongoing worldwide audit of USAID's distribution of P.L. 480 Title II non-emergency assistance in support of its direct food aid distribution program. The audit covers four countries (Ethiopia, Ghana, Guatemala, and Madagascar) and is specifically examining whether food aid is delivered to the intended beneficiaries. The OIG plans to perform future audits of USAID's management of P.L. 480 programs as follows: (1) non-emergency monetization programs (FY 2005), (2) emergency assistance programs (FY 2006), and (3) procurement of freight services (FY 2007).



**USAID Auditor interviewing food aid recipients in Sema, Guatemala, June 2003**

2.1.5. *Training is provided cost-effectively to USAID-funded participants, who use their increased skills in their country of origin. (Administration priority)*

An OIG audit that is currently underway will contribute information on the degree to which this standard for success has been met.

As part of its FY 2003 audit plan, the OIG has an ongoing worldwide audit of USAID's participant training activities. This audit covers seven countries (Bulgaria, Dominican Republic, Egypt, Mongolia, Nicaragua, Nigeria, and Tanzania) and has the following three objectives: (1) Has USAID complied with selected requirements for administering participant training conducted in the United States? (2) What have been the non-returnee rates for overseas participants from USAID who were trained in the United States, and did USAID take appropriate

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actions when these participants failed to return to their home countries? (3) What additional actions should USAID take to meet new requirements for selecting, monitoring, and reporting on participants training in the United States?

As of September 2003, the OIG completed audit work at two of the seven missions. Some of the findings from these missions concerned (1) trainees not traveling on the proper visa, (2) the need for background checks on trainees, and (3) the need for real-time tracking and monitoring on trainees to better ensure that trainees return to their home countries when they complete their training programs. Upon completion of audit work at the seven missions, the OIG will prepare a capping audit report with recommendations that are applicable on an agency-wide basis.

2.1.6. *USAID can adequately monitor and report on activities not covered by a country strategy. (Administration priority)*

USAID has reported taking steps to achieve this standard for success. Two OIG audits planned for FY 2007 will provide information and confirmation on the degree to which the standard for success has been met.

USAID has established a Web-based "Activities Not Managed In-Country Database" that provides information on activities that are not covered by a country strategy. These include activities in countries where there is no USAID mission and activities that are not managed by mission staff.

The database includes funding information, a description of each activity, information on how the activity will be monitored, and other information. According to USAID, the database has been populated by 941 information sheets on individual activities as of September 2, 2003. Each activity information sheet is cleared by the appropriate regional bureau (signifying that the bureau is aware of the activity and is not aware of any coordination issues) and by the Office of General Counsel (signifying that the activity is legally permissible).

Future OIG audits planned for this standard for success are (1) USAID Activities Not Managed by Resident USAID Staff (FY 2007), and (2) Efforts To Determine/Allocate The True Cost Of USAID Activities (FY 2007).

2.1.7. *USAID has a performance measurement process that verifies and validates the reliability of data in the annual reports of individual operating units. (Government Performance and Results Act of 1993 and USAID notice dated December 5, 2001)*

USAID has not yet achieved this standard for success.

USAID requires that, for all data submitted in annual reports, the operating units must have conducted data quality assessments within the last three years. However, two recent OIG audits indicated that performance monitoring plans developed by USAID missions did not consistently describe assessment procedures for data quality, a condition that could lead to assessments not being performed as required.<sup>5</sup>

In fact, two OIG audits indicated that data quality assessments frequently are not performed as required. The *Audit of Selected USAID Operating Units' Monitoring of the Performance of Their HIV/AIDS Programs* reported that, of 23 HIV/AIDS indicators reported by 8 operating units, data quality assessments were performed for only 6 indicators reported by 2 operating units.

<b><i>Operating Units and Number of HIV/AIDS Indicators Tested</i></b>	<b><i>Data Quality Assessments Described in Performance Monitoring Plan?</i></b>	<b><i>Data Quality Assessments Conducted?</i></b>
USAID/Zambia (3)	No	No
USAID/India (2)	Yes	Yes

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<sup>5</sup> *Audit of Selected USAID Operating Units' Monitoring of the Performance of Their HIV/AIDS Programs, (Audit Report No. 9-000-03-004-P dated February 3, 2003), and Audit of USAID-Financed Human Rights Activities in Colombia, (Audit Report No. 1-514-03-002-P dated December 13, 2002).*

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<b>Operating Units and Number of HIV/AIDS Indicators Tested</b>	<b>Data Quality Assessments Described in Performance Monitoring Plan?</b>	<b>Data Quality Assessments Conducted?</b>
USAID/Senegal (3)	No	No
USAID/Rwanda (3)	No	No
USAID/Uganda (4)	Yes	Yes
USAID/Nigeria (3, but data was reported for only 2 indicators)	No	No
USAID/Cambodia (3)	No	No
USAID/South Africa (3)	No	No

Similarly, the OIG's *Survey of USAID-Financed Assistance to the Democratic Republic of the Congo* (Report No. 7-660-03-001-S dated October 1, 2002) found that the Mission had not conducted data quality assessments for its program consisting of child survival and health activities, democracy and governance activities, and environmental activities.

In FY 2004, the OIG plans to perform an audit of USAID operating units' performance monitoring for indicators appearing in their annual reports. In addition, the OIG plans to perform nine audits in FY 2004 at the mission level concerning programs such as democracy, basic education, population and health, and water resources management. It is expected that these audits will include work on the reliability of data reported on these programs.

**2.1.8. USAID provides quick, reliable, and economical program and administrative services to field missions. (Administration priority)**

An audit planned for FY 2004 will help the OIG assess progress toward achievement of this standard for success. In the meantime, information provided by two USAID bureaus indicates that USAID is making progress toward or perhaps has already achieved the standard for success.

USAID's Global Health Bureau handles a significant amount of all field support<sup>6</sup> in the Agency. According to the Bureau, in FY 2002, the Bureau received more than 1,000 separate field support requests, totaling \$390 million, from 67 missions that accessed 82 agreements that were managed by the Bureau. The Bureau reportedly received an overall 65 percent positive rating on the Administrator's employee survey conducted in November 2002, among the highest scores for bureaus in Washington. The Bureau has developed customer service standards, and the Administrator's survey will be expanded to measure the standards.

In addition, according to USAID's Bureau for Economic Growth, Agriculture, and Trade (EGAT), EGAT has established a Program Analysis and Mission Support Team within the Office of Program Analysis, Implementation, and Communications Outreach. This operational unit, with a staff of regional coordinators, works closely with USAID's regional bureaus to ensure that timely and reliable program and administrative support and technical assistance are provided quickly as requested. Consultation meetings are scheduled monthly with respective regional bureaus and are chaired by the EGAT Assistant Administrator or Deputy Assistant Administrator.

As part of its FY 2004 audit plan, the OIG will conduct an audit of field support mechanisms in the Global Health Bureau. The planned audit objectives are (1) Did USAID's Bureau for Global Health manage its field support agreements to ensure desired results? (2) Can field support agreements be managed more efficiently?

**2.1.9. USAID ensures the security of its employees and implementing partners. (Administration priority)**

OIG audits planned for FY 2004 and FY 2007 will contribute to an overall

<sup>6</sup>"Field support" is the process by which missions and other technical operating units obtain commodities or services by providing funds to the Global Bureau or to other bureaus.

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assessment of progress toward this standard for success. In the meantime, USAID's Office of Security has provided the OIG with information indicating that the Office of Security has been successful in carrying out its mission and has made significant progress toward achieving the standard for success.

USAID's Office of Security provides USAID management with advice and recommendations regarding threats against USAID employees and facilities. Specific examples include security advice and assistance to USAID management for high-profile missions in Afghanistan, Iraq, and Liberia.

According to the Office of Security, its continued liaison throughout the year with the Department of State's Diplomatic Security Service (DS), the U.S. Intelligence Community, and the Secretary's Office of the Counter-Terrorism Coordinator forged strong working relationships and resulted in the timely receipt and delivery of pertinent information. In addition, the Office of Security represented USAID on the Overseas Security Policy Board throughout the year. This, according to the Office of Security, promoted USAID's best interests in the development and implementation of overseas security policies and related standards. In one case, the Office of Security stated that their representation on the Overseas Security Policy Board's Armor Working group enabled a greater selection of new vehicles this year, ensuring that adequate assets were available for the Iraq mission.

As part of its FY 2004 audit plan, the OIG will conduct an audit of USAID missions' office and residential building security in the Latin America and Caribbean region. The audit will determine if USAID office and residential buildings in the Latin America and Caribbean region meet U.S. Department of State security guidelines. Another FY 2004 audit will review the Office of Security's warehouse operations. The audit will determine if the Office of Security manages its warehouses effectively and efficiently and if it maintains adequate controls and physical security for sensitive equipment. The OIG also plans to perform an overall audit of USAID's Office of Security in FY 2007.

2.1.10. *USAID implements effective and accountable programs that facilitate conflict resolution and transition to and consolidation of democracy. (Administration priority)*

Audits planned for FYs 2004, 2005, and 2007 will help the OIG make an overall assessment of progress toward achieving this standard for success.

USAID's overseas missions and the Bureau for Democracy, Conflict, and Humanitarian Assistance implement conflict resolution and democracy programs. These programs focus on (1) strengthening rule of law and respect for human rights, (2) encouraging credible and competitive political processes, (3) promoting the development of a politically active civil society, (4) encouraging more transparent and accountable government institutions, and (5) mitigating conflict.

In FY 2004, The OIG plans to audit democracy programs in Egypt, Russia, Macedonia, and Serbia. The OIG plans to do a risk assessment of USAID's Office of Transition Initiatives in FY 2005 and an audit of USAID's Rule of Law activities in FY 2007.

2.1.11. *USAID reduces the HIV transmission rate and the effect of HIV/AIDS on developing countries. (Administration priority)*

An audit planned for FY 2006 will help the OIG make an overall assessment of progress toward achieving this standard for success.

The OIG issued its *Audit of Selected USAID's Operating Units' Monitoring of the Performance of Their HIV/AIDS Programs* on February 3, 2003 (Audit Report No. 9-000-03-004-P). For the 23 HIV/AIDS performance indicators tested, USAID operating units achieved intended results for 10 indicators and did not achieve intended results for 5 indicators. For the remaining 8 indicators, the auditors could not assess

whether the operating units met the intended results because performance data were not available because of civil turmoil in the host country, performance targets had not been established, or performance target data were not yet due. The OIG recommended that USAID provide training to the appropriate operating units on performance monitoring development and requirements and on performing and documenting data quality assessments. USAID has taken final action on the audit report's recommendations.

The OIG plans to perform an audit of selected HIV/AIDS activities in FY 2006.

2.1.12. *USAID ensures that child survival and health funds are used in accordance with federal laws and achieve desired results. (Administration priority)*

Audits planned for FY 2004 and FY 2006 will help the OIG assess progress toward achieving this standard for success.

According to the Global Health Bureau, standards for using Child Survival and Health funds according to Federal laws are set forth in USAID's *Guidance on the Definition and Use of the Child Survival and Health Programs Fund: FY 2003*. The major principles of this guidance are that funds are to be used for activities that respond to two key criteria, "direct impact" and "optimal use of funds." USAID/Washington approvals are required if activities are proposed that do not meet these criteria. Routine monitoring of program progress and achievements, including annual portfolio reviews of each program instrument and the Bureau for Global Health's annual report, ensures achievement of desired results.

In FY 2004, the OIG plans to conduct audits of USAID's health programs in the Democratic Republic of Congo, Guinea, and Mali. A worldwide audit of child survival and health activities is planned for FY 2006.

2.1.13. *USAID maintains appropriate controls over global development alliances to ensure accountability*

*for USAID funds and achieve desired results. (Administration priority)*

An audit planned for FY 2005 will contribute to an overall assessment of progress toward achieving this standard for success.

According to the Global Development Alliance Secretariat, the Secretariat used an incentive fund in FY 2002 and FY 2003 to fund global development alliances; however, each alliance is transferred to a cognizant operating unit for management, oversight, and result reporting. USAID operating units manage any alliances that they fund themselves.

The Global Development Alliance Secretariat monitors USAID's overall success in developing alliances and encourages the sharing of best practices in the management of public-private alliances. In addition, the Secretariat has provided input to annual report guidance and the USAID policies and procedures on planning, implementing, and reporting included in the Automated Directives System, chapters 200 through 203. The Secretariat also has developed a database to capture agency-wide data on alliances beginning in FY 2002.

The OIG plans to review Global Development Alliance agreements and activities during FY 2005.

2.1.14. *USAID basic education programs result in increased literacy. (Administration priority)*

An audit planned for FY 2006 will help the OIG assess progress toward achieving this standard for success.

USAID's Bureau for Economic Growth, Agriculture, and Trade manages several activities for achieving increased literacy in the countries where USAID works. For example, the Educational Quality Improvement Project, a major effort directed at increasing literacy, provides for policy reform and institutional strengthening, pilots and operations research for improving educational quality, and programs specifically focused on children, youth, and young adults.

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USAID's geographical bureaus provided us with the following information on their basic education activities.

- Over the last 30 years, the Bureau for Latin America and Caribbean states that primary school enrollments have grown nearly 50 percent and exceed 90 percent in all but two countries (Guatemala and Haiti). In FY 2003, USAID basic education programs were being carried out in eight countries (Guatemala, El Salvador, Honduras, Nicaragua, Jamaica, Haiti, Dominican Republic, and Peru). The Bureau also is strengthening the capacity of three existing teacher-training institutions (one each in the Caribbean, the Andean region of South America, and Central America) to serve as regional teacher-training and resource centers.
- For the last decade, the USAID basic education program in the Bureau for Africa has concentrated on education system reform through adoption of policies and strategies for increased sustainability, efficiency, and equality of basic education services. Working through mission programs, the education-sector support approach, which addressed the ability of an education system to provide high-quality education, was adopted by 11 African countries. Before concentrating on increased literacy and improved learning, the programs had to focus on education systems to help ensure that once children are in school, the quality of the education will help increase basic literacy.

Starting in FY 2003, USAID's focus shifted from reforming the education system to increasing learning opportunities, especially for girls. The Bureau's operative strategic objective of improving education-sector programming in Africa ties directly to increasing literacy rates through improving access to learning (250,000 scholarships for girls); better preparing pre-service and in-service teachers (training 160,000 new teachers and 260,000 in-service teachers); and increasing the availability of high-quality learning materials (4.5 million textbooks and other learning tools).

- The Bureau for Asia and Near East began to accelerate programs in education, particularly to improve literacy, beginning in FY 2002. The Bureau has ongoing and planned programs in Afghanistan, Pakistan, Yemen, Morocco, and Cambodia. In addition, new education programs are being developed for the Philippines, Indonesia, Bangladesh, and India. The Bureau's efforts are focused on improving (1) literacy; (2) enrollment, especially for girls; (3) retention, especially through grade 6 and beyond; and (4) the transition from school to jobs. Although the Bureau believes that it is too early to measure change as a result of these efforts, performance monitoring plans are being developed to provide a good baseline and annual measures of effect and change.



**USAID/Pakistan Education Officer (Seated in front 2<sup>nd</sup> from left) and RIG/ Manila auditor (standing in front 3<sup>rd</sup> from left) observing a USAID-funded teaching program in a 1<sup>st</sup> grade class at the Federal Government Junior Model School in Islamabad, Pakistan August 26, 2003.**

- The Bureau for Europe and Eurasia is undertaking analysis to determine its future strategic direction in education. In comparative terms, the region has achieved a very high level of literacy (85 percent and up), and the challenge for the last decade has been to stem the tide of decreasing primary and particularly secondary school completion rates. There are two significant programs in

the Central Asia Republic and in Macedonia centered on basic education. Because these are new programs, the Bureau cannot, at this stage, show that they have increased literacy. However, these programs include a component of teacher training dealing with child-centered methods of instruction and emphasis on critical thinking. The Bureau stated that they know that these approaches lead to greater literacy and better learning achievement.

The OIG plans to audit USAID's basic education activities in FY 2006.

*2.1.15. USAID-sponsored agricultural business programs result in increased production and increased incomes. (Administration priority)*

Audits planned for FY 2004 and FY 2007 will help the OIG assess progress toward achieving this standard for success.

USAID's bureaus provided us the following information on their agricultural programs:

- USAID's Bureau for Economic Growth, Agriculture, and Trade, through its indefinite quantity contract for "Broadening Access and Strengthening Input Market Systems" strives to provide USAID/Washington and missions worldwide with services for improving the market for land, water, labor, and financial capital to support broad-based, sustainable economic growth with an emphasis on increased agricultural production and increased incomes.
- The Bureau for Latin America and Caribbean stated that it regularly incorporates agriculture and agribusiness concerns into programs that work to improve policies, legislation, regulations, and practices that define the business environment. USAID programs in Central America emphasizing trade-led rural competitiveness through

diversification and penetrating agricultural niche markets are a response to protracted drought, collapse of coffee prices, and retrenchment of seasonal agricultural workers. As part of its alternative development program in South America, USAID is working to establish trade links between small agricultural producers and buyers and to improve product quality and availability. In FY 2003, USAID missions in 11 countries in the region (plus USAID regional programs) have activities aimed at increasing agricultural productivity and incomes of the small producer. Agriculture and agribusiness also are included in programs aimed at improving financing and other business services for the small- and medium-enterprise sector.

- The Bureau for Africa informed us that the primary objective of its agricultural programs is the adoption of improved agricultural policies, programs, and strategies that will result in greater agricultural productivity and increased incomes for farmers. The Bureau measures its results in the agricultural sector by tracking the adoption of new agricultural technologies; the adoption of policy options for enhancing input supply (e.g., seed, fertilizers, pesticides, equipment); program options for increasing the micronutrient content of foods, and the adoption of policies for enhancing regional, national, and international trade and investment.
- According to the Bureau for Asia and Near East, the primary objectives of their agricultural programs are to (1) ensure food security, (2) improve agriculture policy and regulatory environments to promote growth of agro-enterprises and off-farm business development, and (3) harness new advancements in crop science to increase agricultural productivity and increase incomes for farmers. USAID has ongoing agriculture programs in Afghanistan, Egypt, Indonesia, the Philippines, Bangladesh, and Morocco.

- The Bureau for Europe and Eurasia stated that they regularly incorporate agriculture and agribusiness concerns into programs that work to improve policies, legislation, regulations, and practices that define the business environment in a country. Likewise, agriculture and agribusiness are incorporated into programs aimed at improving financing and other business services for the small and medium-enterprise sector. The Bureau believes that USAID's work in land privatization and titling has had an important effect on enabling many farmers to make investments in their farms and to use credit for producing the products required by agricultural processors and thus to benefit from the development project. Concrete targets are established for specific program indicators, and regular reports are prepared to track performance against the targets. The Bureau believes that USAID-sponsored agricultural business programs result in increased production and increased incomes.

During FY 2004, the OIG plans to audit the regional quality coffee program in Latin America. In addition, the OIG plans to audit agriculture programs on a broader agency-wide basis during FY 2007.

2.1.16. USAID assists disaster-prone nations to prepare for emergencies. (Administration priority)

The OIG will perform audits in FY 2004 and FY 2007 to help inform an assessment of progress toward achieving this standard for success.

According to the Office of Foreign Disaster Assistance, the Office supports a wide range of rehabilitative and disaster prevention activities that reduce vulnerability to recurring emergency events. The Office works to improve early warning systems through support to such activities as the Famine Early Warning System Net. USAID collaborates with the National Oceanic and Atmospheric Administration and other partners to improve regional climate forecasting. USAID-supported activities aim

to reduce the effect of floods by constructing check dams, cleaning and rehabilitating drainage canals, and reseeding degraded watershed areas to improve soil retention. In drought-prone areas, the Office of Foreign Disaster Assistance supports borehole and water-well rehabilitation and maintenance activities to enhance the availability of potable water.

To improve food security for drought-affected populations, the Office supports the development and distribution of disease- and drought-resistant seed varieties. The Office promotes earthquake-resistant construction in seismically active areas and partners with the U.S. Geological Survey to provide communities with advance warning of impending volcanic eruptions. Creative outreach methods also are sponsored by the Office, including programs for providing disaster information through wind-up radios and digital broadcasts. Finally, the Office supports disaster preparedness and mitigation training.

As part of its FY 2004 audit plan, the OIG will review the Central America Mitigation Initiative, which aims to reduce or negate the effect of natural disasters in Central America. The audit will determine if the program activities achieved planned results and if unused funds have been either reprogrammed or deobligated. In FY 2007, the OIG plans an audit of USAID's emergency preparedness efforts.

2.1.17. USAID provides rapid, appropriate responses to requests for disaster assistance. (Administration priority)

The OIG plans audits in FY 2006 and FY 2007 that will contribute to an overall assessment of progress toward meeting this standard for success.

USAID's FY 2003 Performance and Accountability Report stated that USAID responded to 62 declared emergencies within 72 hours. In addition, USAID reported that, in FY 2002, 73 percent of all USAID strategic objectives related to humanitarian assistance met or exceeded performance targets. The other 27 percent were not required to report.



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The OIG plans to conduct an audit of USAID's management of P.L. 480 Title II emergency assistance programs during FY 2006. The OIG will audit USAID's emergency response efforts in FY 2007.

**Objective 2.2: Provide timely, high-quality services that contribute to improvements in USAID's processes for awarding and administering contracts and grants.**

## **Standards for Success for USAID**

*2.2.1. Cognizant Technical Officers (CTOs) are effective participants in the procurement process (Office of Federal Procurement Policy Best Practices and USAID Performance Goal 3.2.1)*

Although USAID is providing training to its CTOs to help them participate effectively in the procurement process, current OIG audit work indicates that USAID has not yet achieved this standard for success.

The CTO is an important member of any USAID acquisition or assistance team. The CTO's responsibility is to ensure, through liaison with the contractor or grant recipient, that the terms and conditions of the acquisition and assistance instrument are accomplished.

The Bureau for Management informed us that USAID is undertaking extensive training for its CTOs in USAID/Washington and overseas. According to the Bureau, as of September 2003, 372 CTOs had received the required training and had received CTO certification.

As part of the OIG's multiyear strategy for auditing USAID procurement activities, the OIG is conducting a worldwide audit to determine if USAID CTOs were adequately trained and held accountable for performing their procurement responsibilities. As of September 2003, the OIG had completed audit work at three USAID/Washington bureaus and three USAID overseas missions. In general, the audits found that USAID (1) had not provided CTOs with enough training to acquire core competencies or to ensure that they

understand and can perform the tasks assigned to them, (2) did not hold most of its CTOs accountable for performing their responsibilities, and (3) did not evaluate CTOs on how well they perform their duties. After all of the CTO audits are completed, the OIG will prepare a capping audit report that will make recommendations that are applicable on an agency-wide basis.

*2.2.2. USAID's management of service contracts improves USAID operations and programs. (Office of Federal Procurement Policy Letter 93-1)*

Recent OIG audits have described some weaknesses in this area. An audit planned for FY 2005 will provide additional information that will help the OIG assess overall progress toward achieving the standard for success.

USAID believes that it is improving its management of service contracts to benefit the Agency in improved operations and programs, but it also believes that chronic staffing shortages within the Office of Procurement (OP) have affected its ability to perform adequate management and oversight of these contracts.

A November 2002 OIG audit disclosed that procurement employees consistently report that their workloads are unmanageable and unfairly distributed between individuals and offices, causing stress and necessitating significant overtime.<sup>7</sup> The audit recommended that OP develop a comprehensive workforce plan that covers its entire workforce. To address the recommendation, USAID is taking several actions, including a change in the organizational structure of the procurement operations to provide more flexibility in distributing work across the divisions.

In a September 2003 audit report on USAID/Washington's classified administrative support contractors, the OIG concluded that USAID generally ensures that selected classified contractors comply

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<sup>7</sup> *Audit of USAID's Workforce Planning for Procurement Officers (Audit Report Number 9-000-03-001-P, dated November 13, 2002)*

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with the security requirements in their contracts.<sup>8</sup> However, the audit also concluded that the OP lacks an adequate internal control system to ensure that all contractors are complying with the security requirements relating to visitation letters, termination letters, security training, and the return of USAID building passes. OP is taking actions to correct this weakness.

In FY 2005, the OIG plans to audit USAID's service contracts to determine whether service contracts accomplish their intended purposes, are cost-effective, and preclude contractors from performing inherently governmental functions.

*2.2.3. USAID follows procedures for using performance-based contracting where applicable to achieve or exceed OMB targeted goals. (Office of Federal Procurement Policy Letter 92-1 and USAID Performance Goal 3.1.2)*

A planned FY 2006 audit will help the OIG assess progress toward achieving this standard for success.

USAID reports that it hired a contractor to provide training on foreign assistance development work appropriate for performance-based contracting. However, the contractor's performance was not satisfactory and USAID plans for another contractor to begin work in November 2003.

The OIG plans to audit USAID's solicitation and award process during FY 2006. This audit is expected to determine if acquisition teams (1) translate requirements into essential outputs, (2) explain outputs in precise terms, and (3) implement best practices for acquisition actions.

*2.2.4. USAID ensures consistent application of acquisition and assistance procurement policies and procedures. (Office of Federal Procurement Policy)*

Several planned audits in FY 2004 and FY 2007 will contribute to an assessment of progress toward achieving this standard for success.

In the meantime, USAID's Bureau for Management reports that the Bureau has taken several steps to better ensure consistent application of acquisition and assistance policies and procedures:

- USAID's Contract Review Board reviews Washington acquisitions expected to exceed \$10 million to ensure compliance with USAID policy and practices and to ensure clarity and consistency of acquisitions. This review process will be expanded in October 2003 to include a review of all new mission solicitations exceeding \$10 million.
- OP's Policy and Evaluation Divisions conduct evaluations of acquisition and assistance operations to assess compliance with statutory and regulatory requirements as well as USAID policy and practices.
- The Policy Division manages a Procurement Management Certification Program to ensure that Acquisition and Assistance Officers possess and maintain appropriate knowledge competencies. In addition, the Policy Division formulates policies that promote consistent practices.
- USAID's Acquisition and Assistance Ombudsman is tasked with handling specific complaints as well as cross-cutting issues related to the acquisition and assistance process at USAID. For specific complaints, the Ombudsman facilitates the achievement of fair resolution by reviewing the action in question in relation to relevant regulations and, where appropriate, consulting with senior agency management and other Federal Government and USAID experts.
- The Chief Acquisition Officer has issued best practice guidance regarding adherence to the fair-opportunity process under indefinite-quantity

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<sup>8</sup> *Audit of USAID/Washington's Classified Administrative Support Service Contractors (Audit Report Number 9-000-03-008-P, dated September 10, 2003)*

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contracts, timely debriefings for awards, financial reporting requirements, appropriate use of assistance instruments vs. acquisition instruments, and expanded use of draft statements of work.

- USAID's Competition Advocate issued a best-practice paper that was drafted because of concerns about the unusual number of justifications recently submitted for approval of "other than full and open competition" procedures.
- OP has established quarterly meetings with business partners to confer about inappropriate business practices encountered when doing business with USAID.

Starting in January 2003, USAID awarded ten contracts valued at \$1.5 billion, as well as grants and cooperative agreements, for reconstruction and other activities in a postwar Iraq. The OIG has completed reviews of six of these contracts valued at approximately \$1 billion and noted, with a few exceptions, general compliance with acquisition regulations. The reviews resulted in OIG recommendations to USAID management to (1) issue a policy directive for providing guidance to procurement officials on the requirements for documenting contractor facilities clearances during the procurement process, (2) coordinate with the contracting officer and attorney advisor when entering into discussions with partners during the initial stages of a procurement process, (3) maintain sufficient records of meetings with outside organizations, (4) develop administrative procedures for ensuring that timely award notification and debriefings are performed in accordance with Federal Acquisition Regulations requirements, and (5) issue an agency-wide notice that will ensure that items discussed in pre-solicitation meetings with potential offerors are documented. In general, USAID concurred with these recommendations. The OIG will continue to review USAID's Iraq program activities in Washington and in Iraq.

In addition, the OIG plans to perform several audits at the mission level during FY 2004

that will address selected procurement policies and procedures. During FY 2007, the OIG plans to perform an audit of USAID's agency-wide application of targeted assistance and acquisition models.

*2.2.5. USAID ensures increased competitiveness and access to procurement opportunities for U.S. small businesses. (Office of Federal Procurement Policy)*

The OIG began a worldwide audit in late FY 2003 to determine whether USAID has ensured increased competitiveness and access to procurement opportunities for U.S. small businesses in accordance with applicable laws and regulations. This audit will permit an overall assessment of USAID's success in meeting this standard for success.

Meanwhile, USAID reports that it intends to establish a system for automating its database registration function for small business vendors. USAID anticipates that this system will assist contracting and program officers to better match small business vendors to USAID business opportunities.

*2.2.6. USAID adopts practices that enable it to manage its procurement workload efficiently. (USAID Performance Goal 3.1.1)*

USAID has not yet met this standard for success.

As was discussed under standard for success 2.2.2 above, according to a November 2002 OIG audit, USAID procurement employees consistently report that their workloads are unmanageable and unfairly distributed between individuals and offices, causing stress and necessitating significant overtime.

USAID reports that it is using metrics to monitor the equitable distribution of workload by branch and division within OP. Annual evaluations of employees include performance measures that are consistent with the attainment of customer service goals. OP also is expanding the use of General Services Administration (GSA)

schedules and GovWorks (a Department of Interior procurement site that performs procurements for other Federal agencies on a fee basis) as tools to provide greater professional resource capacity. Finally, OP is collaborating with the Bureau for Policy and Program Coordination on actions that can be taken to accelerate internal distribution of USAID's operating-year budget. This would permit a more even distribution of procurement workload throughout the year.

The OIG will audit USAID's use of GovWorks (a source of acquisition services for Federal agencies) in FY 2005.

*2.2.7. USAID's internal evaluations of its contracting systems are sufficient and complete for ensuring accurate reporting of system compliance and integrity.*

An audit planned for FY 2006 will help the OIG assess overall progress toward achieving this standard for success.

As discussed under standard for success 2.2.4 above, USAID reports that OP's Policy and Evaluation Divisions conduct evaluations to assess compliance with statutory and regulatory requirements as well as USAID policy and practices. In addition, USAID's Procurement Executive and Chief Acquisition Officer conduct a mandated annual review of the status of USAID's Procurement Management Certification Program training, business processes and procedures, and automated systems.

The OIG will audit the procurement evaluation program in FY 2006.

*2.2.8. USAID identifies and implements applications for on-line procurement. (Office of Federal Procurement Policy, OMB Scorecard, and USAID Performance Goal 3.1.3)*

Two audits planned for FY 2007 and FY 2008 will help the OIG address progress toward achieving this standard for success.

USAID reports that OP is working with the Office of Information Resources Management to ensure compliance with e-government requirements. Two former OP staff members have been transferred to the project management office and will assist OP in compliance matters. In addition, GSA has provided training for OP staff in using the E-Buy Web-based procurement system to access GSA supply schedules.

In FY 2007, the OIG will audit USAID's solicitation, award, and payment processes. Tentatively, this audit will determine if USAID is maximizing electronic means to receive and disseminate procurement information. The OIG also will audit USAID's processes for collecting, updating, and using procurement data in FY 2008. The expectation is that this audit will determine if data are used effectively across procurement functions to minimize redundant information requests.

*2.2.9. USAID ensures that contractors and grantees meet applicable integrity standards.*

USAID has established controls to help ensure that contractors and grantees meet applicable integrity standards. These controls include the following:

- USAID Acquisition and Assistance Officers must make a pre-award responsibility determination before signing awards. The finding for a positive determination indicates that the contractor or applicant possesses, or has the ability to obtain, the necessary management competence in planning and carrying out assistance programs; that it will practice mutually agreed upon methods of accountability for funds and other assets provided by USAID; has a satisfactory record of integrity; and does not appear on the "List of Parties Excluded from Federal Procurement and Non-procurement Programs" published by the GSA. USAID obtains information for supporting responsibility determinations by checking references, analyzing Dun and Bradstreet Reports, and assessing contractor performance reports for current or prior contracts.

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The determination is documented in the negotiation memorandum that is reviewed by the signing official.

- Pre-award certifications and representations by offerors are reviewed for anomalies.
- Pre-award audits are conducted when appropriate and upon request from the signing official.
- USAID staff review all vouchers submitted to ensure that services and products billed have been provided.
- USAID staff meet periodically with contractors/grantees to discuss performance and identify potential issues with performance and integrity.
- If integrity issues are identified, USAID employees are expected to report them to the OIG.

In addition, in accordance with U.S. *Government Auditing Standards*, the OIG includes work steps in all audit programs to help identify potential fraud. The OIG's efforts related to integrity are discussed more fully under the OIG's strategic objective number 5 "Preserve and protect USAID program and employee integrity."

**Objective 2.3: Provide timely, high-quality services that contribute to better management of USAID activities that address significant, often unplanned, conditions or engender intense congressional interest.**

## **Standard for Success for USAID**

*2.3.1. USAID achieves effective use of, and accountability for, resources in implementing humanitarian and relief programs as well as other emergency and unforeseen activities.*

*USAID achieves efficient and economical delivery of desired results in executing significant unforeseen activities.*

*(Implicit in OMB October 30, 2001 Memorandum and President's Management Agenda)*

USAID has not yet completely achieved this standard for success, although it has many accomplishments related to the standard for success.

Regarding delivery of desired results, in USAID's FY 2003 Performance and Accountability Report, USAID reported that all strategic objectives that were required to report met performance targets under USAID's strategic goal entitled Lives Saved, Suffering Associated with Natural or Man-Made Disasters Reduced, and Conditions Necessary for Political and/or Economic Development Reestablished. It should be noted that this conclusion was based on FY 2002 data.

Further, the Bureau for Democracy, Conflict, and Humanitarian Assistance noted that cooperating sponsors implementing emergency food aid programs are held accountable for the results agreed upon during the approval process for their programs.

As described under standard for success 2.2.4, the OIG has reviewed USAID's contracting activities for Iraq reconstruction activities. The reviews resulted in OIG recommendations to USAID management to (1) clarify requirements for documenting contractor security clearances during the procurement process, (2) coordinate with the contracting officer and attorney advisor when entering into discussions with partners during the initial stages of a procurement process, (3) maintain sufficient records of meetings with outside organizations, (4) ensure that timely award notification and debriefings are performed and (5) ensure that items discussed in pre-solicitation meetings with potential offerors are documented.

An OIG audit of USAID/EI Salvador housing activities under its earthquake reconstruction program found that, of the 7,135 houses that were planned to be completed by July 31, 2002, only 3,903 houses (55 percent) were actually completed by that date. In general, the shortfall was caused by coordination and planning problems at the outset of the program, delays in obtaining verification of land titles and approvals for environmental assessments, inflexible payment procedures that caused liquidity problems for some contractors, and weak supervision over some contractors. On the other hand, after reviewing policies and procedures

for the selection of beneficiaries and interviewing 140 applicants (90 of whom received housing and 50 who did not), the auditors concluded that eligibility criteria were properly applied to potential beneficiaries.<sup>9</sup> In response to the OIG audit, USAID/EI Salvador developed new procedures and timeframes for completing environmental assessments and developed plans for accelerating housing construction in FY 2003.

Also, the U.S. General Accounting Office (GAO) issued an interim report on USAID's earthquake recovery program in El Salvador.<sup>10</sup> The auditors reported that USAID established a number of oversight measures for the program. The auditors found no substantive problems after reviewing the reports issued by various oversight organizations operating in the country, except for delays in housing construction. In addition, the auditors found that USAID was not duplicating the efforts of other donors. Finally, although USAID had made progress in implementing the program, several activities were behind schedule and housing construction did not meet its initial target completion date.

Regarding the "efficiency" aspect of the standard for success, the Bureau for Democracy, Conflict, and Humanitarian Assistance reported that disaster responses normally are preceded by needs assessments carried out by USAID staff, U.S. Government personnel, or trusted partners, helping ensure the appropriateness and efficiency of the response. It also noted that the Office of Foreign Disaster Assistance prepositions relief commodities at strategically located warehouses around the world to minimize delivery transit time.

Further, agreements for emergency food aid programs outline the terms and responsibilities under the programs, including the cooperating sponsors' responsibility for safe delivery of food commodities

to the targeted beneficiaries. The Bureau also noted that reviews have been performed on Contracts with U.S. carriers for shipping food aid selected programs to review commodity "leakages," packaging, and the condition of food once it arrives. state that the carriers must safely deliver the cargo to the approved destination point, and the carriers are responsible for all costs incurred, including any damage or storage costs. The Bureau stated that the contract terms ensure accountability for cost, timeliness, and performance.

Furthermore, the Bureau stated that it has improved management efficiencies by working with a consortium of several private voluntary organizations through a grant managed through one representative.

In response to recommendations in a March 2001 audit report on USAID's cargo preference reimbursements under Section 901d of the Merchant Marine Act of 1936, USAID is working with the Department of Transportation and the Department of Agriculture to recover millions of dollars in reimbursements due to USAID for the shipment of goods on privately-owned U.S.-flag commercial vessels.<sup>11</sup>



**U.S.-flag vessel carrying 5,000 metric tons of bulk corn from Beaumont, Texas to the Cape Verde Islands under USAID's P.L. 480 Title II program.**

<sup>9</sup> *Audit of USAID/EI Salvador-Financed Housing Reconstruction Activities (Audit Report 1-519-03-001-P, dated November 19, 2002)*

<sup>10</sup> *USAID's Earthquake Recovery Program in El Salvador Has Made Progress, But Key Activities Are Behind Schedule (GAO-03-656, dated May 15, 2003)*

<sup>11</sup> *Audit of USAID's Cargo Preference Reimbursements under Section 901d of the Merchant Marine Act of 1936, (Audit Report No. 9-000-01-003-P, dated March 30, 2001)*

In September 2003, the OIG began an audit of the maintenance of roads and bridges constructed in Honduras by USAID in the aftermath of Hurricane Mitch. This audit will determine whether the Government of Honduras is meeting its responsibilities and protecting USAID's \$50 million investment in the transportation sector. In addition, the OIG has multiple financial and performance audits planned for FY 2004 covering activities in Iraq, Afghanistan, Pakistan, the West Bank and Gaza, El Salvador, Mozambique, and Madagascar. The audits are designed to provide an appropriate level of audit oversight, considering congressional requests as well as the high-risk environments in which USAID is challenged to implement these programs. The OIG also plans to conduct an audit of USAID's management of P.L. 480 Title II emergency assistance programs during FY 2006. All of the OIG's concurrent financial audits performed at USAID's request or directed by Congress (e.g., in Iraq, Afghanistan, and Pakistan) also fall within this standard for success.



**USAID-supported subcontractor paving a section of Kabul-Kandahar highway in August 2003.**

### **OIG STRATEGIC GOAL 3**

**Promote improvements in the way USAID manages its human capital.**

**Objective 3.1. Provide timely, high-quality services that contribute to the acquisition and development of a workforce whose number, skills, and deployment meet Agency needs; strategies for succession planning and**

**leadership continuity; and strategies that integrate workforce planning into the Agency's budget and strategic plans.**

### **Standards for Success for USAID**

**3.1.1. No skill-gap deficiencies exist in mission-critical positions. (OMB Management Initiative, USAID Performance Goal 2.1, and OPM Scorecard/Strategic Competency Goal)**

It is not possible at this juncture to assess progress toward achieving this standard for success because USAID has not yet prepared a workforce analysis that identifies (1) the competencies and skills needed to accomplish its mission and (2) the competencies and skills available in USAID's current workforce.

According to USAID's Management Bureau, its Office of Human Resources has completed a scope of work for acquiring technical assistance to perform a comprehensive and integrated workforce analysis. This workforce analysis will (1) identify mission-critical competencies needed to accomplish USAID work at present and in the next three to five years, (2) identify competency gaps based on a comparison of existing and required competencies, and (3) incorporate recruitment, retention, and training strategies for narrowing or closing any critical competency gaps.

The September 30, 2003 OMB Scorecard rated USAID's progress in implementing the human capital initiative in the President's Management Agenda item as green (highest rating), noting that much progress had been made during the latest quarter. The Scorecard noted that USAID has made significant improvements in human capital management, particularly in the areas of strategic workforce planning and workforce analysis. However, OMB still rated USAID's overall status in the area of human capital as red (the lowest rating). The Scorecard said that USAID needs to identify mission-critical occupations and develop strategies for closing skill gaps, link individual performance to USAID's strategic goals, develop succession plans, and take other actions to make the best use of its human capital.

In August 2003, the GAO completed a comprehensive review of USAID's strategic workforce planning that reached similar conclusions.<sup>10</sup> The report acknowledged that USAID has begun identifying the core competencies that its future workforce will need, is conducting a workforce analysis, and is planning pilots at three headquarters units that will include an analysis of current skills that will eventually cover the entire workforce. Despite this progress, the report noted that USAID has not yet conducted a comprehensive assessment of the critical skills and competencies of its current workforce. Further, the report stated that USAID strategies to address critical skills gaps are not comprehensive and have not been based on a critical analysis of current capabilities matched with future requirements. The GAO recommended that USAID develop and institutionalize a strategic workforce planning and management system that reflects current workforce planning principles.

USAID agreed with GAO's findings and recommendations, noting that USAID had recently established a working group to carry out comprehensive and integrated workforce analysis and workforce planning that covers its entire workforce. USAID stated the working group will assess the critical skills and competencies of USAID's workforce, identify the gaps between what USAID has and what it needs for the future, and design the strategies for closing the gaps.

In late FY 2003, the OIG began work on a worldwide audit of USAID's management of personal services contractors. The worldwide audit will include six mission audits as well as a capping report that will make recommendations that are applicable at the agency-wide level. During FY 2004, the OIG will also perform an audit of regionalization efforts in Latin America and the Caribbean and an audit of USAID/Morocco's management controls after implementation of a reduction-in-force.

*3.1.2. Human capital strategy is consistent with OPM's "Human Capital Scorecard." (OMB Management Initiative and OPM Scorecard)*

USAID has not yet achieved this standard for success, but USAID and OMB report significant progress in this area.

According to USAID's Bureau for Management, USAID has drafted a human capital strategy but the strategy is not complete. According to the Bureau, OPM and OMB have given qualified assent to the strategy but are waiting to see the fully-developed strategy.

OMB's September 30, 2003, Scorecard rated USAID's progress in this area as green (highest rating) but still scored USAID's status as red (lowest rating). OMB noted that USAID has made significant progress in workforce planning and analysis but needs to identify its mission-critical occupations, competencies, and skills and develop a plan that will close skill gaps.

During FY 2003, the OIG conducted an *Audit of USAID's Human Capital Data* (Audit Report No. 9-000-03-002-P, dated December 20, 2002). The audit determined that USAID data on its workforce are neither complete nor totally accurate. The audit also noted that the U.S. direct-hire workforce is aging and is concentrated at higher grades because of limited hiring during the last decade. The OIG made several recommendations for helping to improve the quality and completeness of the human capital data collected by USAID. USAID is taking corrective actions to implement the recommendations.

During FY 2004, the OIG plans to audit USAID's human capital strategy.

*3.1.3. Human capital strategy is integrated into the budget and strategic plans. (OMB-Management Initiative and OPM Scorecard/Strategic Alignment Goal)*

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<sup>12</sup> *Strategic Workforce Planning Can Help USAID Address Current and Future Challenges* (GAO report number GAO-03-946, dated August 22, 2003)



USAID has not yet met this standard for success since a prerequisite will be to develop a human capital strategy (see standard for success 3.1.2 above).

The OIG plans to audit USAID's incorporation of human capital strategy into the budget and planning processes in FY 2006.

*3.1.4. USAID strategically uses existing personnel flexibilities, tools, and technology. (OMB-Management Initiative and OPM Scorecard)*

An audit to be performed in FY 2008 will help the OIG provide an overall assessment of progress toward achieving this standard for success.

In the meantime, USAID's Bureau for Management has noted that USAID has used existing personnel flexibilities in opening several new missions overseas, most notably the Iraq mission. According to the Bureau, Foreign Service retirees have been recalled, Civil Service retirees have been reemployed, and Foreign Service Officers and Civil Service employees have been detailed to Iraq, pending establishment of a USAID mission.

The OIG plans to audit USAID's use of existing personnel flexibilities during FY 2008.

*3.1.5. USAID implements effective succession plans. (OMB-Management Initiative and OPM Scorecard/Leadership Goal)*

USAID has not yet achieved this standard for success.

The Bureau for Management stated that its Office of Human Resources has developed a development readiness initiative that is the cornerstone of the Agency's succession planning efforts. In addition, according to the Bureau, USAID has started recruiting to replace attrition and plans to hire above attrition in the next couple of years if monies requested from Congress are received. The Bureau stated that, if received, the monies

also will enable USAID to provide training positions for placing junior officers under senior officers who can mentor, train, and pass on institutional knowledge to them. In the meantime, the Bureau states that USAID has developed an emerging leaders training curriculum and that approximately 150 employees took senior leadership and executive leadership courses in FY 2003.

OMB's September 30, 2003 Scorecard noted that USAID still needs to develop succession plans.

The OIG plans an audit of USAID's succession planning for top leadership and management positions in FY 2008.

*3.1.6. USAID sustains a high-performing workforce that is continually improving in productivity. (OMB-Management Initiative and OPM Scorecard/Leadership and Performance Culture Goals)*

USAID has not yet achieved this standard for success.

USAID's Bureau for Management has stated that USAID is negotiating changes in its performance appraisal process that will place more emphasis on communication between rating officials and employees, the expected result being increased productivity. In addition, USAID plans to deliver training to all affected parties, emphasizing performance management as a continual process throughout the year. The Bureau for Management stated that USAID representatives are negotiating with the unions on the performance evaluations and hope to have an agreement in place by the fall of 2003.

OMB's September 30, 2003 Scorecard noted that USAID needs to link individual performance to Agency strategic goals and develop a performance management system that ties recognition to accomplishment of Agency goals.

The OIG plans to review USAID's programs to improve employee performance during FY 2005.

*3.1.7. Human capital strategy complies with standards for internal accountability systems to ensure effective merit-based human resources management. (OMB Management Initiative and Executive Order 13197)*

USAID has not yet met this standard for success.

According to the Bureau for Management, USAID has created a human capital accountability working group to design and develop a human capital accountability system. By the fall of 2003, the working group is scheduled to complete its plan for developing the system.

OMB's September 30, 2003 Scorecard noted that USAID still needs to design and implement an accountability system.

OIG plans to perform an audit of USAID's human capital strategy for compliance with standards for internal accountability systems in FY 2007.

*3.1.8. USAID employees maintain high standards of honesty and integrity. (OPM Scorecard /Leadership Goal)*

USAID requires annual ethics training for (1) all new direct-hire employees and (2) all employees who are required to fill out the "Confidential Financial Disclosure Report" (Office of Government Ethics Form 450).

In addition, according to the Bureau for Management, USAID has designed its leadership and supervisory training courses to reinforce the values of honesty and integrity.

In accordance with U.S. *Government Auditing Standards*, the OIG includes work steps in all audit programs to identify potential fraud. In addition, the OIG provides fraud awareness briefings to USAID employees and personal services contractors. The OIG's efforts related to integrity are discussed more fully under the OIG's strategic objective number 5 "Preserve and protect USAID program and employee integrity."

## **OIG STRATEGIC GOAL 4**

**Promote improvements in USAID's accounting for and reporting on financial and program activities and protecting information.**

**Objective 4.1: Provide timely, high-quality services that assist USAID in improving its financial systems that contribute to preparation of reliable and useful information that managers can use to manage the Agency.**

### **Standards for Success for USAID**

*4.1.1. USAID has financial management systems that substantially meet Federal financial management system requirements and applicable accounting standards. This includes a financial management system that does the following:*

- 1. Complies with the Joint Financial Management Improvement Program.*
- 2. Processes transactions in accordance with the Standard General Ledger.*
- 3. Complies with federal accounting standards.*

*(Government Management Reform Act of 1994 and OMB Scorecard)*

USAID has not yet met this standard for success, although it has made progress toward achieving the standard through deployment of a new core accounting system in its headquarters and other actions.

USAID has deployed Phoenix, a new core accounting system, to support Washington operations. USAID's Bureau for Management describes Phoenix as a customized application of the commercial-off-the-shelf software product Momentum, which is reportedly one of only three financial systems that currently meet federal financial management system requirements and is certified as compliant with the Joint Financial Management Improvement Program. The Bureau for Management believes that the standard for success will be achieved upon completion of the

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worldwide Phoenix deployment and closure of an identified material weakness in the primary accounting system.

The OIG's *Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Years 2003 and 2002* (Audit Report No. 0-000-04-001-C dated November 14, 2003) included an unqualified opinion on USAID's financial statements – the first clean opinion USAID has received. At the same time, the audit report discussed several shortfalls with respect to the standards for success outlined above. USAID has agreed to take action to address the four recommendations in the audit report, and six recommendations from prior OIG audits are awaiting final management action. The issues in the November 14, 2003 audit report are discussed below:

- According to OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, each Federal agency is responsible for establishing a funds-control system that will ensure that the agency does not obligate or expend funds in excess of those appropriated or apportioned. Because USAID does not have an integrated financial management system and used a separate system to process obligations for its overseas missions, the appropriation amount shown as available in the core accounting system was overstated by the amount of the mission obligations. To compensate for this weakness, USAID allowed only a few users to apportion funds. Further, those users had access to “cuff records” (i.e., informal, unofficial records) to track mission obligations and determine the correct amount available for apportionment. This issue should be corrected with the deployment of the core financial system to the overseas missions.
- OMB Circular A-130, Appendix III, *Security of Federal Automated Information Resources* requires agencies to implement and maintain

a program for ensuring that adequate security is provided for all agency information systems. The OIG found that computer security weaknesses continue to exist. For example, USAID did not implement an information security training program as required. USAID's Information System Security Officer did not have the authority to enforce mandatory training requirements. As a result, USAID's information systems were not fully protected from risks and vulnerabilities.

- Federal Financial Accounting Standard No. 1 states that Federal agencies should record advances as assets. Advances are reduced when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire. USAID had not recorded about \$30 million in expenses related to advance liquidations by grantees. Progress has been made in this area since our FY 2002 GMRA audit identified about \$88 million in expenses related to advances that were not recorded by USAID. However, this condition continues to exist because USAID does not have a worldwide integrated financial management system that includes procurement and assistance data.
- Federal Financial Accounting Standard No. 1 requires that a receivable be recognized (recorded) when a claim to cash or other assets has been established. USAID does not have an adequate system or process for recognizing its worldwide accounts receivable in a timely manner. Currently, USAID records receivables only when its Office of Procurement, missions, and contractors/grantees report them to its Office of Financial Management. This situation occurred because USAID lacked coordination and integration of various systems, adequate policy and procedural guidance, and an integrated financial management system.

- Federal Financial Accounting Standard No. 4 requires agencies to match costs with the related outputs and requires them to report the full cost of outputs. A cost methodology, once adopted, is required to be used consistently so that cost information can be compared from year to year. USAID does not have an effective system of identifying and reporting all costs against appropriate USAID goals. As a result of the OIG audit, USAID made a \$2.1 billion adjustment to reallocate expenses to the correct goal. However, since USAID was required to make such a large adjustment of costs between goals, the data on expenses within each of USAID's six goals cannot effectively be compared to the FY 2002 financial statement data. As mentioned in Standard No. 4, Congress and Federal executives, including the President, make policy decisions on program priorities and allocate resources among program using this cost information. These users need cost information to compare alternative courses of action, to make program authorization decisions, and to evaluate program performance but USAID's current system does not allow this to be accomplished successfully.
  - Federal Financial Accounting Standard No. 15 states that Management's Discussion and Analysis (MD&A) should include, among other things, information on performance goals and results that relate to the financial statements. However, the draft MD&A, dated October 10, 2003, did not contain a clear picture of USAID's planned and actual performance results for FY 2003. As a result, the MD&A did not adequately link costs and results for the current fiscal year.
  - The Federal Financial Management Improvement Act of 1996 requires agencies to implement and maintain systems that comply substantially with the United States standard general ledger at the transaction level. This requires that the agency's recording of financial events be consistent with all applicable account descriptions and posting models/attributes reflected in the standard general ledger issued by the Department of the Treasury. The OIG previously determined that USAID did not substantially comply with the standard general ledger at the transaction level. In FY 2001, it was reported that USAID did not record mission activities using the standard general ledger at the transaction level which accounted for approximately 52 percent of USAID's cost of operations.
  - The Computer Security Act of 1987 requires Federal agencies to protect information by (1) identifying sensitive systems, (2) developing and implementing security plans for sensitive systems, and (3) establishing a training program for increasing security awareness and knowledge of accepted security practices. This was followed by the Government Information Security Reform Act of 2000 and the Federal Information Security Management Act of 2002. Although USAID has taken steps to improve computer security, more work is needed to ensure that sensitive data are not exposed to unacceptable risks of loss or destruction.
- Finally, USAID has not complied with all elements of the Debt Collection and Improvement Act of 1996 that requires Federal agencies to report to the Department of the Treasury any receivables that should be included in the Treasury's offset program. This situation occurred primarily because USAID does not have an effective process for establishing accounts receivable.

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4.1.2. *USAID provides accurate and timely interim financial information. (OMB Bulletin 01-09)*

USAID is providing accurate and timely interim financial information.

The President's Management Agenda calls for improving financial performance by providing timely, reliable, and useful information. Accordingly, OMB has accelerated financial reporting due dates significantly. Beginning with the quarter ending March 31, 2004, agencies will be required to submit quarterly unaudited financial statements to OMB 21 days after the end of each quarter, and beginning with the fiscal year ending September 30, 2004, agencies will have to submit audited financial statements to the President, OMB, and Congress by November 15, 2004 – 45 days after the end of the fiscal year. In an effort to identify any issues that affect USAID's ability to meet these accelerated timeframes, USAID and the OIG have entered into a memorandum of understanding that establishes accelerated reporting timeframes for FY 2003. Among other major milestones, USAID agreed to issue unaudited quarterly financial statements 45 days after the end of each quarter, beginning with the quarter ending on March 31, 2003, and issue final unaudited financial statements 31 days after the end of the fiscal year ending September 30, 2003.

USAID met the agreed-upon timeframes enabling the OIG to issue its final audit report on November 14, 2003. USAID has therefore demonstrated its ability, a year in advance, to meet OMB's accelerated financial reporting due dates for FY 2004. Further, for the first time, the OIG rendered unqualified opinions on all of USAID's five financial statements.

Implementing an integrated core financial management system will greatly enhance USAID's ability to provide accurate and timely interim financial information without resorting to heroic efforts to assemble the information.

4.1.3. *USAID has integrated financial and performance management systems supporting day-to-day operations for both Washington and overseas accounting stations. (OMB Scorecard)*

USAID has not met this standard for success although it has implemented a new core financial system (Phoenix) in Washington. Subsequently, it completed efforts to upgrade or interface five major systems with the core system.<sup>13</sup> USAID has not yet deployed Phoenix to its overseas accounting stations. In a joint memorandum issued by the OIGs of the Department of State and USAID, the OIGs recommended additional studies for considering the possibility of jointly deploying the system overseas as a means to maximize potential efficiencies. These studies may affect the timeframe for deploying the core financial system overseas. In addition, in conjunction with the Department of State, USAID plans to procure an automated procurement system that will be integrated with its accounting system on an agency-wide basis.

With respect to performance management systems, USAID has made notable improvements. This year's draft MD&A reported more current year information, including FY 2003 results for important programs in Iraq and Afghanistan. The draft MD&A also reported FY 2003 results for the Global Development Alliance and selected activities under each of the six strategic goal areas. The draft MD&A was also reorganized to allow readers to link performance results with the associated goal category in the Statement of Net Costs. However, readers could not compare planned and actual performance for FY 2003 because much of the agency-wide performance information was from FY 2002. Even where FY 2003 performance data were reported, the data were often not clearly linked to performance targets. Similarly, the information on program results achieved that was incorporated into USAID's

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<sup>13</sup> The systems were the Acquisition and Assistance System (procurement system), the National Finance Center Payroll System (payroll system), the Management Accounting and Control System Auxiliary Ledger, the letter-of-credit grant-processing system, and the loan-processing system.

performance and accountability report for FY 2003 was not current because most of the agency-wide performance information was from FY 2002 or earlier.

Moreover, OMB has reported that USAID's performance system relies on performance measures that are at the project level and therefore do not allow meaningful comparisons across programs. OMB has advocated that USAID develop a streamlined reporting system with fewer but more meaningful measures that can facilitate cross-program comparisons.

**4.1.4. USAID posts all financial transactions accurately and on a timely schedule. (Government Management Reform Act of 1994)**

USAID has not yet met this standard. The narrative for standard for success 4.1.1 above describes problems reported by the OIG that affect accurate and timely posting of overseas obligations, expenses related to advance liquidations, and accounts receivable.

USAID's Bureau for Management believes that this standard for success will be achieved when Phoenix is deployed worldwide and an identified material weakness in USAID's primary accounting system is corrected.

**4.1.5. USAID provides timely reconciliation of financial data. (GAO internal control guidance)**

Reconciliation of financial management information remains a challenge to USAID. This has been consistently reported in previous financial statement audit reports pursuant to the Government Management Reform Act.

USAID's missions have not consistently reconciled, researched, and resolved differences between their records, State Department disbursing office records, and U.S. Treasury records. In FY 2003, USAID's Office of Financial Management made unsupported adjustments of about \$201 million to bring its fund balance into

agreement with the U.S. Treasury for the year-end closing statement and the annual financial statement. This was a slight improvement over the \$203 million adjustment in FY 2002. In FY 2003, USAID implemented a new reporting system that will be used to determine its missions' reconciling item at the end of each accounting month. The OIG will be evaluating the effectiveness of this new reporting system during upcoming audits.

USAID also has had difficulty in reconciling and classifying advances to grantees, although progress has been made in this area as well. As of September 30, 2003, USAID had not recorded about \$30 million in expenses related to advance liquidations submitted by grantees. For comparison, the OIG's audit of the FY 2002 financial statements identified about \$88 million in expenses related to advances that were not recorded by USAID. This condition continues to occur because USAID does not have a worldwide integrated financial management system that includes procurement and assistance data.

USAID established and implemented procedures for prompt recording of grant documents and data within its Office of Financial Management and Office of Procurement. However, some grant officers were not following the established procedures.

**Objective 4.2: Provide timely, high-quality services to assist USAID in ensuring proper accountability of funds provided to contractors, grantees, and host governments.**

**Standards for Success for USAID**

**4.2.1. Enhance accountability of U.S.-based grantees and contractors. (OMB Circular A-133, Single Audit Act, and Federal Acquisition Regulations)**

USAID has established controls to accomplish this standard for success.

Under the Inspector General Act of 1978, the OIG is responsible for supervising all audits of USAID programs, including programs carried out by grantees and

contractors. Many of these audits are financial audits conducted by external auditors. For these audits, the OIG performs quality control functions and tracks audit recommendations through the management-decision stage (which is reached when USAID management decides on a firm plan of action for implementing the audit recommendations, including determining the amounts, if any, to be recovered from grantees and contractors). USAID management also plays an important role in the audit program by making sure that financial audits are scheduled and performed when required, tracking audit recommendations from the management-decision stage to the final-action stage (when all actions agreed to by management as part of their management decision have been fully implemented), and taking action on audit recommendations.

### Audits of U.S.-Based Grantees

As required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," nonfederal auditors perform annual financial audits of USAID grantees that expend over \$300,000 of federal funds annually.

The OIG performs oversight of the nonfederal auditors performing these audits and reviews nonfederal audits to determine whether auditors prepared audit reports in accordance with Circular A-133 reporting requirements. The OIG also conducts quality control reviews to determine whether the underlying audits complied with Circular A-133 audit requirements. In some instances, the OIG contracts with the Defense Contract Audit Agency (DCAA) to perform specialized financial audits of U.S.-based grantees.

During FY 2003, the OIG:

- Reviewed and issued 38 non-Federal audit reports covering \$674 million in USAID funds.
- Completed 11 quality control reviews covering \$170 million in USAID funds.

- Transmitted 12 DCAA reports covering \$7 million in USAID funds to USAID management.

### Audits of U.S.-Based Contractors

The DCAA conducts audits, reviews, and pre-award surveys of U.S.-based contractors for USAID on a reimbursable basis. The OIG then reviews these reports and transmits them to USAID management.

During FY 2003, the OIG reviewed and transmitted to USAID management 29 reports on U.S.-based contractors covering approximately \$306 million in USAID funds. During FY 2004, the OIG will audit the effectiveness of USAID's recovery audit program.

*4.2.2. Enhance accountability of non-U.S.-based grantees and contractors. (USAID Automated Directives System Chapter 591 and Federal Acquisition Regulations)*

USAID has established controls to achieve this standard for success.

OMB Circular A-133 does not apply to foreign-based contractors and grantees. However, given the high-risk environment in which USAID operates, USAID has extended similar audit requirements to its foreign-based contractors and grantees through standard provisions included in grants, cooperative agreements, and contracts and through *Guidelines for Financial Audits Contracted by Foreign Recipients*, issued by the OIG.

Under the recipient-contracted audit program, audits are required for all foreign nonprofit organizations that expend \$300,000 or more in USAID funds during their fiscal years. USAID also may request financial audits of nonprofit organizations that fall below the \$300,000 threshold. With respect to foreign for-profit organizations, incurred cost audits of direct awards or of cost-reimbursement host-country contracts and subcontracts must be performed annually.

The OIG reviews all audit reports, and if they are found to be in compliance with *Guidelines for Financial Audits Contracted*

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by *Foreign Recipients*, transmits the report to the appropriate USAID mission. Audit firms are notified of any problems identified in the review of the audit reports.

During FY 2003, the OIG reviewed and transmitted 232 audits of foreign-based organizations, covering \$812 million in USAID funds. The OIG also completed 27 quality control reviews of audits to ensure that the audits were completed in accordance with appropriate audit standards.

*4.2.3. Enhance accountability of USAID's enterprise funds. (Support for Eastern European Democracy Act of 1989)*

USAID has established controls to accomplish this standard for success.

Enterprise funds are U.S.-based nonprofit organizations established under the Support for Eastern European Democracy Act of 1989. USAID has established 11 Enterprise Funds, 10 of which invest in countries in Eastern Europe and Eurasia and 1 that invests in South Africa. Enterprise funds are subject to annual financial statement audits performed by private accounting firms and reviewed by the OIG. During FY 2003, the OIG reviewed and transmitted to USAID 12 nonfederal audit reports on enterprise funds covering \$53.2 million in USAID funds.

*4.2.4. USAID obtains contractor, grantee, and host-country audits that meet standards and provide assurance that financial information is reliable. (Support for Eastern European Democracy Act of 1989 and OMB Circular A-133)*

As described in standards for success 4.2.1, 4.2.2, and 4.2.3 above, during FY 2003, the OIG obtained 323 audits that met applicable auditing standards and provided assurance that reported financial information was reliable.

**Objective 4.3: Provide timely, high-quality services that will promote improvements in the creation of systems and IT infrastructures that are able to leverage capital investments, provide**

**blueprints for IT solutions, and share data and information within USAID and with its customers.**

## Standards for Success for USAID

*4.3.1. USAID attains full compliance with the Clinger-Cohen Act of 1996.*

*For example, the Act requires but is not limited to the following:*

- 1. Capital planning and investment controls.*
- 2. Performance-based and result-based management of information resources.*
- 3. Assignment of responsibilities within the Agency for management of IT.*

Audits planned for FY 2004 and FY 2005 will help the OIG assess progress toward meeting this standard for success. According to OMB's September 30, 2003 Scorecard, USAID is making good progress in this area. Specifically, USAID has developed policies and procedures for the Business Transformation Executive Committee (BTEC), which has been given investment approval responsibility, and has established an enterprise architecture team with roles and responsibilities and tools for the team's use. However, OMB noted that USAID needs to baseline its IT projects in terms of cost, schedule, and performance goals.

USAID has also obtained contractor support to assist with performance- and results-based management of information resources.

Finally, USAID has designated a Chief Information Officer (CIO), who has overall responsibility and authority for approving the agency-wide information IT budget and overall responsibility for planning and budgeting activities for IT-related investments that benefit USAID.

During FY 2004, the OIG plans to audit (1) USAID's investment technology capital planning in accordance with the Clinger-Cohen Act and (2) the performance standards for USAID's information system's



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contractor. During FY 2005, the OIG plans an audit to assess USAID's progress in updating its enterprise architecture.

*4.3.2. USAID's major system investments comply with OMB Circular A-11. (OMB Circular A-11, Exhibit 53, Form 300)*

*The circular's provisions require but are not limited to the following:*

*1. Submitting to OMB, for all major system investments, a business case that complies with the circular's provision.*

*2. Planning, budgeting, and acquisition of capital assets.*

*(For example, IT investment should include the basis for selection of investment, principles of financing, and strategies for strengthening accountability for achieving project cost, schedule, and performance goals.)*

Several audits planned for FY 2005 through FY 2007 will provide a basis for an overall assessment of progress toward meeting this standard for success. According to OMB's September 30, 2003 Scorecard, USAID is making good progress in this area.

USAID has submitted several business cases (OMB A-11, Exhibit 53, Form 300s) to OMB. According to USAID, business cases have been submitted for all investments requiring submittals per OMB definition. For the FY 2004 budget cycle, agency business case development staff met with OMB analysts several times to ensure that cases were prepared to address OMB's requirements. For the FY 2005 cycle, business cases are under development. For the FY 2005 cycle, USAID staff have made efforts to comply with circular provisions by attending OMB-sponsored training on business case development, meeting with OMB analysts on business case development concerns, and having the assistance of consultants who are expert in business case development.

Regarding planning, budgeting, and acquisition of capital assets, USAID stated that, for its FY 2005 IT budget, the Deputy

CIO for Policy is implementing a more rigorous investment ranking and analysis regime. This regime is to include scrutinizing and scoring proposed investments against criteria for value, risk, cost, security, alternatives analysis, and architecture relationship. The scored investments are to be ranked and presented for consideration to the BTEC. Improved procedures for uniform quarterly reporting to the Capital Investment Planning and Control Subcommittee also are envisioned to enhance the ability of the Agency to improve IT project oversight.

The OIG plans four audits under this standard for success in FY 2005 through FY 2007 as follows: (1) an audit of USAID's selected business processes for information technology opportunities (FY 2005), (2) an audit of USAID's modernization plans for upgrading systems (FY 2006), (3) an audit of USAID's strategic plan for information resources management (FY 2007), and (4) an audit of USAID's management of information technology projects (FY 2007).

*4.3.3. On average, all major IT projects operate within 10 percent of Form 300 cost, schedule, and performance targets. (OMB Circular A-11, Exhibit 53, Form 300)*

No progress reviews have been performed to see if USAID's major IT projects are operating within 10 percent of cost, schedule, and performance targets. USAID stated that for FY 2003, USAID received its capital investment fund allocation late in the year (June). Therefore, the capital investment fund projects were late in getting started, delaying any progress review of the projects.

The OIG plans to audit USAID's monitoring of contractor performance for IT projects in FY 2006.

*4.3.4. E-Government and Government Paperwork Elimination Act (GPEA) implementation must show department-wide progress or participation in a multi-agency initiative in the following areas:*

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- *Integrating citizen one-stop service delivery through [www.firstgov.gov](http://www.firstgov.gov), cross-agency call centers, and offices or service centers.*
- *Minimizing the burden on business by reusing data previously collected or using ebXML or other open standards to receive transmissions.*
- *Achieving productivity improvements by implementing customer relationship, supply chain, enterprise resource, or knowledge management best practices.*

*(President's Management Agenda-Expanding E-Government and OMB Scorecard)*

An audit planned for FY 2004 will help the OIG provide an assessment of progress with respect to this standard for success. OMB's September 30, 2003 Scorecard noted that USAID is making progress in this area.

USAID has undertaken taken several e-government initiatives:

- Cross-servicing of payroll processing with the USDA National Finance Center.
- Carrying out a government paperwork elimination plan.
- Working with e-payroll, e-training, and e-travel initiatives.

The OIG plans to conduct an audit of USAID's E-Government in FY 2004. Specifically, the OIG plans to determine whether USAID adequately integrated E-commerce software solutions into the Agency's systems architecture.

**Objective 4.4: Provide timely, high-quality services that will contribute to the development, promotion, and monitoring of security awareness and processes for protecting USAID's critical information systems from loss, misuse, and unauthorized access or modification.**

## **Standards for Success for USAID**

### **4.4.1. Security of USAID's information systems**

*fully complies with federal requirements. (Federal Information Security Management Act of 2002, Computer Security Act of 1987, and OMB Circular A-130, Appendix III)*

*The Federal Information Security Management Act of 2002.<sup>14</sup> For example, the Act's requirements include the following:*

1. *Annual agency reviews*
2. *Annual Inspector General or independent evaluations*
3. *Annual OMB reports to Congress that summarize the Inspector General and Agency reports.*
4. *Annual Agency performance plan that describes time periods for implementing the agency-wide security program.*
5. *Agency incorporation of security practices throughout the life cycle of all systems.*

*The Act also requires agencies to do the following:*

1. *Develop policy and procedures that are founded on a continuous risk management cycle.*
2. *Implement controls that assess information security risk.*
3. *Continually monitor and evaluate policy and control effectiveness.*

*The Computer Security Act of 1987. For example, the Act requires but is not limited to the following:*

1. *Identification of sensitive systems.*
2. *Security plans and privacy for federal computer systems and federal computer system security training.*

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<sup>14</sup> The Federal Information Security Management Act of 2002 superseded and replaced the Government Information Security Reform (GISR) provisions included in the FY 2001 Defense Authorization Act. The OIG's Strategic Plan for 2003-2008 previously had cited the GISR provisions as one of the requirements underlying this standard for success.

OMB Circular A-130, Appendix III. For example, the circular requires but is not limited to establishing an automated information security program and management structure that includes controls for access (passwords, intrusion detection, antivirus software, and system protection devices), application software development, system software (operating systems and related utilities), segregation of duties, and contingency planning.

USAID is making progress toward correcting computer security weaknesses although actions are still needed to fully achieve this standard for success.

In its November 14, 2003 audit report on USAID's FY 2003 financial statements,<sup>15</sup> the OIG reported that USAID needs to strengthen its computer security. Specifically, OIG audit work determined that USAID has made progress in improving its computer security by (1) centralizing control of firewalls deployed throughout USAID's network, (2) integrating encryption capabilities into three communication paths being used through USAID's network, (3) executing a performance measurement program that monitors overseas information security risk levels, (4) developing an assessment guide to determine USAID's network intrusion detection capabilities, and (5) developing security training for personnel in key information security positions. However, more work is needed to ensure that sensitive data are not exposed to unacceptable risks of loss or destruction.

OMB and GAO have reached similar conclusions regarding USAID's computer security efforts. For example, OMB's June 30, 2003 Scorecard stated that USAID continues to demonstrate progress in correcting IT security weaknesses. Similarly, GAO has noted that USAID has taken steps to upgrade security, including updating security policies and providing

security training, but needs to take additional steps to ensure effective security.<sup>16</sup>

According to USAID, it has taken the following steps to strengthen computer security:

- Conducting annual reviews of all systems.
- Performing monthly vulnerability scans and assigning system technical vulnerability grades of A through F to each system owner.
- Developing an incentive awards system to encourage responsible managers to eliminate risks.

Planning and providing for information security throughout the life cycle of each information system. For all major applications, this includes a documented risk assessment, a review of security controls, documented configuration management and quality assurance.

## **OIG Strategic Goal 5**

**Preserve and protect USAID program and employee integrity.**

**Objective 5:1: Investigate allegations of fraud, waste, and abuse in the programs and operations of USAID.**

### **Standards for Success for USAID**

*5.1.1. USAID maintains the highest possible level of program integrity.*

In Strategic Goal No. 5, our focus is to preserve and protect the integrity of USAID's programs and its human capital (employees). Our first Objective 5.1 which directs us to investigate allegations of fraud, waste, and abuse in USAID programs and operations, addresses the management challenges, financial management and managing for results. In concurrence with the OIG, the Agency has conducted

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<sup>15</sup> *Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Years 2003 and 2002 (Audit Report No. 0-000-04-001-C, dated November 14, 2003).*

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<sup>16</sup> *Major Management Challenges and Program Risks: U.S. Agency for International Development (GAO-03-111 dated January 2003).*

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activities in compliance with the standards for success as outlined below.

Under current Agency guidelines, program integrity is addressed via the Automated Directives System (ADS), Series 200, on USAID programming policies, which is the responsibility of the Office of the Policy and Program Coordination. The ADS is intended to help Agency employees understand their responsibilities and achieve the agency's development goals, consistent with applicable rules, and sound policy and management practices. It was substantially revised and updated in January 2003.

Furthermore, USAID staff reported that they review vouchers and other procurement documents to ensure that billed services and products were provided and to ensure that the documents adequately reflect costs and services authorized in contracts and grants in accordance with the following:

- ADS Series 400, Personnel
- ADS 202.3.9, Avoiding Conflict of Interest, Ensuring Procurement Integrity and Complying with Ethics Rules
- Federal Manager's Financial Integrity Act (FMFIA): ADS-596.3.5, Annual Reporting on Management Controls

Also, USAID has developed and carefully evaluated guidance for the use of Child Survival and Health funds. All operating units are cognizant of the policy and required to follow it. The major principles of the guidance are that funds are to be used for activities that respond to two key criteria: direct impact and optimal use of funds. There are specific approvals required if activities are proposed that generally do not meet such criteria.

During the fiscal year, the OIG has conducted numerous investigations involving contractors and grantees. There were multiple investigations involving product substitution and bid rigging under the Commodities Import Program (CIP). A construction contractor was suspended from doing business with the government for violating nationality rules under the CIP. A foreign construction contractor was

debarred from doing business with the government for three years for conspiring to submit false bids under the same program. OIG investigations have resulted in criminal prosecutions, the levying of substantial fines and penalties, and served as the basis for administrative actions to recover additional funds, as well as the suspension and debarment of contractors or grantees. See tables below.

## OIG INVESTIGATIVE ACTIONS

<b>CRIMINAL</b>	
<b>PROSECUTIVE REFERRALS</b>	<b>4</b>
<b>PROSECUTIVE DECLINATIONS</b>	<b>2</b>

<b>ADMINISTRATIVE</b>	
<b>PERSONNEL SUSPENSIONS</b>	<b>4</b>
<b>RESIGNATIONS/TERMINATIONS</b>	<b>7</b>
<b>RECOVERIES</b>	<b>8</b>
<b>SUSPENSIONS/ DEBARMENTS</b>	<b>4</b>
<b>SAVINGS</b>	<b>4</b>

## OIG INVESTIGATIVE RECOVERIES

<b>RECOVERIES/SAVINGS</b>	
<b>ADMINISTRATIVE RECOVERIES</b>	<b>\$1,033,844</b>
<b>SAVINGS</b>	<b>\$63,186,638</b>
<b>TOTAL INVESTIGATIVE SAVINGS/ RECOVERIES</b>	<b>\$64,220,482</b>

According to a GAO report dated January 2003, financial management was cited as a major management challenge. However, OMB's September 30, 2003 Scorecard gives USAID a green light (highest rating) for progress in this area. Policy revision, establishing and enforcing program policy governing the use of Agency funds, and review of Agency financial documents reflects that the Agency has made considerable progress in the area of financial management. Improved financial systems, policies and procedures will help USAID maintain the highest level of program integrity.

*5.1.2. USAID reduces fraud in major programs and contracts.*

USAID strives to reduce fraud in major programs and contracts through compliance and enforcement of policies as follows:

- ADS Series 400, Personnel
- ADS 202.3.9, Avoiding Conflict of Interest, Ensuring Procurement Integrity and Complying with Ethics Rules
- FMFIA: ADS-596.3.5, Annual Reporting on Management Controls

Per the Office of Financial Management, the ADS Series 200 has a section on mandatory technical analyses for developing strategic plans. Analysis helps planners determine whether strategic objectives and intended results are appropriate and effective and whether the plan can be implemented with the available resources in the timeframe proposed. Per ADS 203.3.10, bureaus must now conduct intensive program reviews of each operating unit or program (for which the Bureau is responsible) at least once every three years. The purpose of the program review is threefold: 1) to examine thoroughly how each program is performing; 2) to provide an opportunity for Washington offices to examine planned and actual progress toward results set forth in the “Results Framework and Performance Management Plan” for each strategic objective; and 3) to review future resource requirements for each strategic objective.

Specifically, the Bureau for Global Health (GH) conducts annual portfolio reviews for each strategic objective (SO), “Activity Authorization Document,” contract, cooperative agreement, and grant in the GH portfolio. In addition, the GH portfolio is subject to the annual Agency-level portfolio review regarding implementation of reorganization shifts in programming to the pillar bureaus.

The OIG has focused on program integrity cases, prioritizing cases involving major fraud. Additionally, the OIG coordinates with the Agency to report significant investigative activities through the media, Agency website and internal newsletters.

Other investigative results that directly impact Agency programs are also communicated to the Agency as well.

Measuring performance and results is mandated under OMB and GPRA. Specifically under GPRA, Federal agencies are required to develop performance measurements and reporting systems linked to annual and strategic plans that set targets, track progress and measure results. USAID has made significant progress in this area.

### **Objective 5.2: Prevent fraud, waste, and abuse in USAID’s programs.**

This objective addresses management challenges in the areas of managing for results, human capital, and financial management. In concurrence with the OIG, USAID has conducted activities in compliance with the standards for success as outlined below.

#### **Standards for Success for USAID**

##### *5.2.1. USAID proactively prevents fraud in its programs and operations.*

USAID reports that, in addition to attending annual ethics courses, selected staff are required to attend other courses such as CTO training, sign confidentiality statements before engaging in any procurement action, and submit to annual financial certifications. USAID conducts and mandates that the staff attend annual ethics courses that address ethical issues and clearly establish the employee’s responsibilities. In many Missions, these courses are also open to contractors and grantee staff. USAID also highlights and reminds employees of their responsibility for preventing fraud, waste, and abuse through workplace reminders, such as notices.

USAID performs assessments of the general accountability environment of a country to determine the potential for fraud, waste, and abuse. USAID augments the assessments by ensuring that audit clauses are incorporated into its financing mechanisms and by ensuring that required audits are performed. It should be noted that many

Missions in Africa have reduced the audit threshold on the basis of an assessment of the accountability environment.

In addition to the interventions described above, USAID missions in Africa perform annual internal control assessments as called for by the FMFIA. They also perform general and/or host-country contracting capability assessments to help them make informed management decisions.

The Bureau of Management manages the Agency's management controls program and implementation of the FMFIA, which is an internal program for reviewing management controls, identifying risks and deficiencies, and establishing corrective-action plans to address the issues.

As previously stated under Objective 5.1, within the Bureau for Global Health, USAID has developed and carefully evaluated guidance for the uses of Child Survival and Health funds. All operating units are cognizant of the guidance and required to follow it. The major principles of the guidance are that funds are to be used for activities that respond to two key criteria: direct impact and optimal use of funds. Specific approvals are required for exceptions to this guidance.

USAID utilizes the OIG to conduct all investigations of fraud, waste, and abuse in its programs. OIG's field presence and staff visits to project sites are key deterrents. The OIG periodically conducts fraud awareness training sessions to alert employees, contractors, and grantees to fraud schemes and fraudulent practices.



**USAID/Philippines RIG Investigator and USAID/Afghanistan Cognizant Technical Officer conducting a site visit at the Afghanistan highway project between Kabul and Kandahar.**

## 5.2.2. USAID corrects identified systemic problems.

Corrective actions for systemic problems occur through the Agency's audit follow-up and management control programs. For systemic problems identified through audit recommendations, M/MPI analysts monitor the status of management decisions and final actions for all bureaus, offices and missions. The Agency standard is to close audit recommendations with acceptable supporting documentation reflecting actions taken while providing priority attention to audit recommendations that are more than a year old and those needing management decisions. To do this, they coordinate and work closely with the responsible Audit Management Officer (AMO) and Audit Action Officer (AAO) of the bureau, office or mission. For systemic problems identified through the management accountability and control program, on a quarterly basis, MPI analysts monitor and review the status of corrective actions for the internal-control weaknesses identified by the bureaus or offices and missions and work with the operational units to facilitate corrective action.

As part of the GH submission to the Administrator for the FMFIA review, GH has identified the agency-wide field support processes as material weaknesses in both FY 2002 and FY 2003. An OIG audit of the processes is scheduled for FY 2004.

During the investigative process the OIG also recommends actions for systemic improvements if weaknesses are uncovered in agency programs or operations or operations and works with the Agency to correct the problem(s). To cite one example, at the conclusion of an OIG investigation, a USAID contractor working on a matter under the auspices of the Bureau for Africa initiated systemic changes to include: 1) the implementation of a new housing policy to prevent the over-billing of expenditures; and 2) a monthly review process for project expenditures.

In another investigative matter, a USAID grantee working under the auspices of the Bureau for Europe and Eurasia initiated systemic changes by publishing and disseminating a corporate code of conduct and a new compliance manual. In addition, formal training was provided to the corporate headquarters staff.

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*5.2.3. USAID is able to identify potential threats and vulnerabilities to programs and operations before major problems develop.*

USAID operating units conduct ongoing evaluations of agency management controls through risk assessments and use of a management control checklist that is updated annually by Bureau for Management staff. The idea is to prevent potential problems by identifying and correcting them internally. Resource constraints, delegation issues, policy conflicts, etc., are brought to the attention of higher-level management, who, according to the management control mandates, must address all problems brought to their attention.

USAID missions in the Bureau for Latin America and the Caribbean region also perform annual internal control assessments as called for by the FMFIA and, general and/or host-country contracting assessments. Missions in Africa and the Bureau for Europe and Eurasia also perform internal control assessments. These assessments help the missions to make informed management decisions. In addition, USAID missions routinely request OIG assistance for carrying out risk assessments of country programs to identify potential threats and vulnerabilities.

The FMFIA exercise is taken very seriously in GH. Various offices participate in identifying and describing both material weaknesses and concerns for the Bureau as part of the FMFIA review.

The OIG has conducted risk assessments in Afghanistan. These assessments allow USAID to identify program vulnerabilities before they become major problems. Similar work is also being conducted relative to USAID-funded activities in Iraq.

*5.2.4. USAID employees, contractors, grantees, and others are aware of procedures for reporting fraud, waste, and abuse.*

As previously stated, USAID conducts and mandates that staff attend annual ethics courses that address ethical issues and clearly establish the employee's

responsibilities. In many missions, the courses also are open to contractors and grantee staff. In addition, USAID ensures that audit clauses are incorporated into its financing mechanisms and arranges for required audits to be performed in a timely manner.

In addition to the interventions described above, USAID highlights and reminds employees of their responsibility for preventing fraud, waste, and abuse through workplace reminders, such as Agency notices.

Within the Bureau for Global Health, Agency procedures are highlighted on the GH homepage on the USAID intranet, which many GH staff use as their personal homepage for the Internet. This part of the Agency Website also will house sections on GH policies, such as delegation of authority; standard operating procedures, such as those for unsolicited proposals; and program documentation procedures for easy access and routine use by GH staff.

USAID reports that procedures for reporting fraud, waste, and abuse are communicated through policies and procedures, primarily in the ADS 500 and 600 series, which include management and financial and budget policies. In addition, General Notices and Agency training, such as the Financial Management Overview course and required CTO certification courses, facilitate understanding and awareness.

USAID frequently tasks the OIG to conduct fraud awareness training for USAID employees, contractors, and grantees. During these training sessions, the OIG promotes the OIG Hotline as a means to report fraud, waste and abuse. See tables below.

<b>FRAUD AWARENESS TRAINING - FY 03</b>	
<b>Number of Participants</b>	<b>2154</b>
<b>Number of Countries</b>	<b>31</b>
<b>HOTLINE CONTACTS - FY03</b>	
<b>Number of Contacts</b>	<b>2369</b>



**Investigator presenting fraud awareness training to staff of local CPA firms in Ramallah, West Bank.**

The OIG will continue to offer support and advice to USAID on proactive prevention strategies through meetings, presentations, conferences, and other forums.



**Investigator presenting fraud awareness training to staff USAID/West Bank and Gaza in Tel Aviv, Israel, in September 2003.**

In summary, Objective 5.2 addressed several issues. Ethics training and fraud awareness training serve to expand employee awareness of potential fraud indicators and ethical issues. Again note that measuring performance and results is mandated under GPRA. The Agency is progressing in this area by conducting internal control assessments, implementing management reviews under FMFIA, and monitoring the status of recommended corrective actions resulting from these reviews or OIG activities. Lastly, increased

focus on policy guidance, ethics and program training, general accountability and internal control assessments, integrated with OIG fraud awareness efforts reflect the Agency's diligent efforts to address the standards under objective 5.2.

**Objective 5.3: Preserve USAID employee integrity by investigating and concluding integrity investigations efficiently and expeditiously.**

This objective does not specifically address a management challenge; however, the OIG will continue to work with the Agency to raise the standard for employee integrity. In concurrence with the OIG the Agency has conducted activities in compliance with the standards for success as outlined below.

**Standards for Success for USAID**

**5.3.1. USAID maintains the highest possible level of personnel integrity.**

USAID mandates that the staff attend annual ethics courses that address issues of ethics and personal integrity and clearly establish the employee's responsibilities. In many Missions, the courses are also open to contractors and grantee staff. Furthermore, selected staff is required to attend other courses, including CTO training; sign confidentiality statements before engaging in any procurement action; and submit the annual financial certifications.

USAID reported that when an investigative report reflects employee misconduct and is supported by evidence, the USAID Human Resources (HR) staff member contacts the appropriate supervisory official to discuss the issues raised in the report. After researching the applicable case law, HR prepares documentation for Agency management to propose disciplinary action, if appropriate. Further guidance also is obtained from the Office of General Counsel, Office of Ethics and Administration. After consultation, Agency management proposes action. When needed, deciding officials receive consultation and guidance from HR after the notice of proposed action is issued.



Because Agency operations are global, USAID policy requires that all personnel working within USAID space be subject to a personnel security investigation. These security investigations are conducted for all USAID employees, using investigative standards mandated under Executive Order (EO) 10450 and EO 12968. Security investigations are also conducted on all Foreign Service nationals and third-country nationals serving in USAID Missions overseas as well as non-USAID personnel who must have access to the USAID headquarters building space. The security investigations include coordination with the OIG to determine if the applicant has an adverse history on record with the OIG.

The OIG is frequently tasked by the Agency to perform a search of investigative data relative to security investigations, congressional inquiries, and investigation of political appointees. Each request is handled in a confidential manner and acted upon expeditiously.

*5.3.2. USAID has an expeditious process for resolving personnel integrity issues.*

USAID reported that all actionable personnel integrity cases are presented to HR. Once all relevant information has been obtained and reviewed, a proposal notice of pending disciplinary action is issued to the employee. Timelines for action are established by statute, regulation, agency policy, and collective bargaining agreements.

USAID must balance its goal of expeditious processing with the statutory requirement for providing the employee with due process.

During the fiscal year, the OIG has conducted numerous employee investigations within various Agency bureaus. To cite a few examples: an Agency contracting officer was prosecuted and convicted for submitting false receipts for travel expenses; bills of collection were issued to foreign nationals who failed to return home from training trips to the United States; another Foreign Service National employee was terminated for embezzlement; and a Foreign Service National project officer was terminated for soliciting a bribe. In many other instances, the allegations were unsubstantiated, and the employees were exonerated.

The Agency has definitely achieved the standards under Objective 5.3. During fiscal year 2003, USAID staff totaled 7, 943. As of the end of the fiscal year, OIG employee integrity investigations totaled 39, which indicates that less than one-half of a percent of total Agency personnel were the subjects of an investigation. Only 16 of those investigations resulted in criminal, civil, or administrative action. These statistics reflect that the Agency maintains a high standard of employee integrity.

The OIG will investigate all allegations of personnel misconduct received from USAID personnel, contractors, grantees, the Hotline, and other sources. During the investigative process, USAID works diligently with the OIG to resolve these matters expeditiously.