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FOREIGN ASSISTANCE

Management Problems Persist At the Agency for International Development

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here to provide GAO's perspectives on management problems at the Agency for International Development (AID). The Congress, AID and its Inspector General, and we have over the years repeatedly identified significant and recurring management weaknesses. Failure to adequately address these weaknesses has raised questions about AID's capacity to manage its programs and respond to its dynamic environment. While some improvements have been noted, there is a great deal of skepticism about whether the agency has been as responsive as it should have been or as well managed as it must be.

The objectives of our ongoing general management review is to perform a broad-based evaluation of AID's total management capability and overall effectiveness. We have issued two reports concerning strategic management and a statistical profile of the agency.[1] Later this year, we plan to issue three others addressing AID's financial systems and controls, information resources management, and overseas program and project management. Many of the observations that I will discuss today are based on that work.

With that background, let me provide an overview of our findings to date and then discuss some of the issues in greater detail.

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[1] AID Management: Strategic Management Can Help AID Face Current and Future Challenges (GAO/NSIAD-92-100, Mar. 6, 1992) and Foreign Assistance: A Profile of the Agency for International Development (GAO/NSIAD-92-148, Apr. 3, 1992).

RESULTS IN BRIEF

AID has serious and long-standing accountability and control problems that make AID programs more vulnerable than necessary to fraud, waste, and abuse. Certain problems, which increase the risk of misuse in many economic assistance programs, appear to be systemic in AID. These include limitations on AID's ability to monitor decentralized field operations, the lack of standard accountability requirements for the overseas missions, and weaknesses in financial and information management systems.

In recent years, AID has increasingly relied on contractors and other third parties to deliver economic assistance. With AID's long-standing management and oversight problems, its ability to ensure that foreign economic assistance is delivered, controlled, and properly accounted for is limited. In addition,

-- AID has emphasized the process of programming foreign assistance, rather than program effectiveness and results;

-- responsibilities at AID have not been clearly defined and various headquarters offices have overlapping activities;

-- AID's work force does not have the skills to meet its current needs and AID does not have a work force planning system;

-- AID's financial management systems cannot match disbursements with outstanding obligations or produce auditable financial statements; and

-- finally, AID's information resources management systems do not support decision-making and control.

Although AID is taking steps to correct many of these problems, much more needs to be done. An initiative announced by the Administrator in December 1990 recognized the need for strategic management and identified management goals; however, the initiative did not define a process or represent a comprehensive strategic management plan. In August 1991, an AID task force on reforming the programming system found broad agreement within AID on the management problems of the current system. Among other things, the task force concluded that AID "has many sources of policy, but has not established clear program priorities. As a result, operating missions and offices are overwhelmed by multiple objectives--everything is a priority. In response, programs proliferate."

In line with the management initiative, the Administrator assigned working groups to devise strategies for solving some of the agency's key problems. However, AID has not used a disciplined, iterative process that links commitment to planning and goal setting to strategies, budget, and accountability. Without institutionalizing such a process AID does not have an adequate

framework for dealing with the challenges it faces and ensuring that long-term planning continues beyond the tenure of one administrator.

AID has looked at its environment and has candidly acknowledged some major weaknesses. It has groups working to devise strategies and implementation plans to solve key problems. It has strengthened the resources and mission of its evaluation unit to better assess and communicate program and management successes and shortcomings and provide meaningful feedback.

Despite these efforts, AID still lacks a clearly articulated strategic direction shared by the Congress, the executive branch, and other key groups. Without a clear vision of what AID should be doing and why it should be doing it, AID's efforts to reorganize, focus its program, plan for future work force needs, measure program performance, and implement major changes in financial and management information systems may not be complementary. Establishing and following a strategic management process should enable AID to develop an agencywide direction, select effective management strategies to achieve this direction and address critical issues, and assign accountability and monitor feedback.

I'd like to now go back and talk more about the extent of the problems.

AID MANAGEMENT PROBLEMS PERSIST

Internal and external reports have repeatedly noted persistent problems in AID's mission and objectives, program and project management, organizational structure, human resource management, financial systems, and information resources management.

Mission and Objectives

Although established in 1961, AID still does not have a clearly articulated strategic mission. New programs and approaches introduced by each Administrator, added to ongoing activities and congressional directives, have resulted in complicated and incoherent objectives. The Foreign Assistance Act of 1961, as amended, contains more than 30 separate directives covering a wide range of development assistance objectives, such as promoting human rights, protecting tropical forests, integrating women into the economies of developing countries, and using appropriate technology for small farms and businesses. AID is forced to address so many different and diverse objectives that the agency has no clear priorities or meaningful direction.

Nearly 4 years ago, we reported[2] that while each directive may have merit, multiple objectives

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[2] Foreign Economic Assistance Issues (GAO/OCG-89-23TR, Nov. 1988).

-- create confusion in assessing congressional intent regarding the direction of the foreign assistance program,

-- contribute to a lack of consensus between the Congress and the executive branch on program priorities, and

-- reduce the possibility of AID's being held accountable for achieving any particular objective.

In addition, the long-term economic development goals of recipient countries have often conflicted with short-term U.S. foreign policy objectives. These conditions are as prevalent today as they were 4 years ago.

Program and Project Management

In the early 1970s, the Congress changed the emphasis of U.S. development assistance from large capital projects to activities designed to directly address the basic needs of the poor. Accordingly, AID shifted to numerous smaller-scale projects, which created added management burdens, had higher administrative costs, and provided less potential for policy leverage with recipient governments.

Increased congressional appropriation of funds in functional accounts has reduced AID's flexibility to plan a coherent program at the country level. In effect, strategic planning for

development assistance at the country program level has been replaced by a variety of projects undertaken to meet congressional spending directives. The Development Fund for Africa is an exception; it is an example of collaboration between the executive branch and the Congress--both parties recognized that a more flexible programming approach was needed to address the particular needs of sub-Sahara Africa.

AID project implementation and program results have not been emphasized as much as project design and the obligation of funds to ensure that funds do not have to be returned to the Treasury because they were not obligated in time. AID has not collected the baseline data needed and does not have adequate evaluation systems for measuring the impact of its individual projects, country programs, or overall operations.

In April 1991, we reported that AID had an $8.5-billion pipeline of development assistance and economic support funds--unspent funds obligated to finance assistance projects and programs worldwide.[3] At the six missions we visited, $296 million of the $2.8 billion in the pipeline at those missions was not programmed to be spent for use within 2 years. Since these funds were not planned for use within 2 years, they represented a lost opportunity for AID to

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[3]Foreign Assistance: Funds Obligated Remain Unspent for Years (GAO/NSIAD-91-123, Apr. 9, 1991).

redirect scarce resources to higher priorities.[4] An additional $8 million at these missions was obligated for projects that had completed all activities 9 or more months before our review. We found indications other missions also had such excesses.

Some required management procedures are not always followed. For example, in May 1991 we noted that contrary to AID guidance, missions generally did not conduct assessments of host country contracting, voucher review, and audit capabilities before deciding to use a host country contract.[5] Our ongoing review concerning AID cash management practices indicates that AID is making cash transfers and disbursements of non-project assistance funds well in advance of their use by the recipients. This is contrary to federal and AID cash management guidance and adds to the borrowing costs of the United States. In addition, when these funds are not used they remain in accounts earning millions of dollars in interest that accrues to the recipient country. We have not yet determined the full dimensions of this situation, but based on a sample of cash disbursements totaling about $2 billion to 14 countries since fiscal year 1989, we estimate that $25.9 million was earned in interest and transferred to the recipient country.

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[4]To ensure that obligated funds do not simply accumulate in the pipeline but actively advance agency goals, AID's guidance limits to 1 year the amount of planned spending that can be obligated for most ongoing projects. To provide a conservative estimate of AID's pipeline, we used 2 years; amounts beyond this were considered excessive.

[5]Foreign Assistance: AID Can Improve Its Management and Oversight of Host Country Contracts (GAO/NSIAD-91-108, May 29, 1991).

We reported in 1990 that AID had not adequately accounted for project-funded nonexpendable property held by contractors and that AID's policy and reporting requirements were not sufficient to ensure systematic closeout and final audit of completed contracts.[6] We concluded that these weaknesses made AID vulnerable to contractor's misuse of AID-financed property and to paying questionable contract costs.

We also found other problems with AID's multi-billion dollar contracting and procurement activities, such as

-- insufficient information on the number and value of host country contracts,

-- inadequate audit coverage for ongoing and completed contracts,

-- serious shortcomings in controls over payments for goods and services, and

-- poor project commodity procurement procedures.

Our ongoing general management review shows that policy guidance at the overseas mission level is unclear and inadequate. AID's 30-plus handbooks are intended to be the primary source for agency

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[6] Foreign Economic Assistance: Better Controls Needed Over Property Accountability and Contract Close Outs (GAO/NSIAD-90-67, Jan. 22, 1990).

directives, policy, regulations, procedures, and guidance; however, these handbooks are voluminous, inaccurate, outdated, and not well indexed. As a result, a growing volume of cable guidance has been issued by various bureaus in AID headquarters to update and clarify the handbooks. AID mission officials complained that this "management by cable" is often confusing, sometimes contradictory, difficult to track, and can lead the mission away from AID's overall intended direction. We noted similar problems in our report on AID's overseas contracting.[7]

Organizational Structure

AID has been criticized for having too many personnel in Washington, D.C. In addition, some AID officials believe that responsibilities within headquarters are not clearly defined and structural changes are needed to reduce the duplication of efforts by various offices and to improve operations.

A reorganization of AID headquarters on October 1, 1991, was supposed to reduce the number of senior officials reporting directly to the Administrator and to provide more accountability for policy, operations, and finance and administration by establishing three new directorates for these areas. The Policy Directorate, which includes a strategic planning unit, has begun to identify how the dramatic changes in east-west relations and other

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[7]Foreign Assistance: AID Can Improve Its Management of Overseas Contracting (GAO/NSIAD-91-31, Oct. 5, 1990).

emerging global issues will affect AID's mission. However, it is unclear how management decisions on planning, programming, operations, budgets, and personnel levels will be integrated.

It should also be noted that the reorganization left the regional bureau structure largely untouched but made it one additional level removed from the Administrator. AID's overseas structure has remained essentially unchanged for 30 years. AID has missions and offices in over 70 countries. These are expensive to maintain and operate--and some may have outlived their usefulness.

Compared to organizations of other countries providing bilateral economic assistance, AID has one of the largest and most widespread field organizations. AID maintains that its field presence is necessary due to (1) the need for policy dialogue to encourage recipient economic policy reform, (2) the political advantages of having an in-country presence, and (3) planning and design needs for assistance projects. While there may be many good reasons for AID's overseas structure, we noted in a 1988 report that the decentralized operations increased programming complexity, made management and oversight more difficult, and increased administrative and program costs.[8] Similar problems were noted in our report on AID's population program.[9] In that report, we

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[8]Foreign Aid: Problems and Issues Affecting Economic Assistance (GAO/NSIAD-89-61BR, Dec. 30, 1988).

[9]Foreign Assistance: AID's Population Program (GAO/NSIAD-90-112, May 1, 1990).

pointed out that 43 AID units implement the programs with no single program officer or office with overall management authority and oversight responsibility.

Human Resource Management

AID's U.S. direct hire work force decreased from about 8,600 in 1967 to about 3,400 in 1990. AID has only about 1,100 U.S. direct hire staff in-country to manage over 2,000 programs and projects in over 70 countries worldwide. As a result, AID has increasingly relied on foreign national staff and personal services contractors to do much of the day-to-day in-country business of delivering foreign economic assistance. AID has also shifted from directly implementing projects to planning, financing, and monitoring projects through recipient countries, contractors, and grantees. This has contributed to problems in financial and program accountability.

AID has also shifted program directions and development approaches. Many professional staff are not trained in fields such as agribusiness, economic policy reform, sectoral assistance, or international debt issues, even though AID is currently pursuing these areas of interest. Some AID staff assigned overseas have expressed concern over the decreasing numbers of economists at the mission level.

In addition, according to a report by an internal AID working group,[10]

-- AID has no generally accepted definition of its work force--several data bases use different ones--and has not agreed on who and how many are in the work force,

-- AID lacks a system for work force planning or forecasting of personnel requirements,

-- recruitment and assignment systems focus on replacing departing employees and ignore the changes in program directions,

-- women and minorities are under represented in AID's Foreign Service,

-- AID lacks a well thought out entry-level program and career development process, and

-- training programs are often unrelated to career development.

Financial Systems

AID's financial management systems do not effectively control, account for, and report on the use of appropriated funds for AID

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[10] Workforce Planning in A.I.D. (Workforce Planning Working Group, Feb. 8, 1991).

programs worldwide. For over 10 years, AID has attempted to address these problems through two major initiatives that were only partially implemented and consequently did not solve AID's problems. After spending millions of dollars on these systems, AID officials are currently designing a third major, financial management system--the AID Washington Accounting and Control System (AWACS) initiative.

We have identified several problems with AID's financial management structure. Specifically, AID has many nonintegrated financial systems that require the re-keying of financial information received by AID from its overseas offices. According to agency officials, the re-keying has caused errors that have contributed to over $672 million (as of September 30, 1991) in undistributed disbursements in AID's appropriated fund accounts. For example, AID's average monthly error rate for re-keying information was 26 percent in fiscal year 1991. In some cases, these unmatched disbursements have been outstanding for years--we found some dating from 1981.

This means AID cannot match all of its cash disbursements with outstanding obligations, which hampers AID's ability to effectively review and manage $1.9 billion in unliquidated obligations recorded

in the M accounts.[11] Some M account obligations are old and have not been matched with disbursements. More than $715 million of the outstanding obligations relate to fiscal year 1986 and earlier appropriated funds. The outstanding obligations could include (1) pipeline obligations for foreign assistance projects that will be liquidated in the future because of the long time frame needed to fully carry out economic assistance programs in foreign countries, (2) obligations that are no longer valid, and (3) obligations that have not been matched with the $672 million in unmatched disbursements. Unfortunately, AID does not know how the 3 types of outstanding obligations relate to the $1.9 billion in the M account.

AID has implemented financial systems without thoroughly planning or testing and documenting them. As a result, systems are expensive, poorly documented, and in some cases not used. For example, AID developed the Mission Information Decision Assistance System (MIDAS) without having an adequate plan that identified the user's needs. MIDAS was designed for use on equipment that AID was phasing out. After spending $1.4 million in 2 years and pilot-testing the system in four countries, AID canceled the system.

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[11]A successor account into which obligated balances under an appropriation are transferred (merged) at the end of the second full fiscal year following expiration. The M account remains available for the payment of obligations and liabilities charged or chargeable to expired appropriation accounts. Pursuant to P.L. 101-510, M accounts are being phased out over a 3-year period and will no longer exist as of September 30, 1993.

AID's primary systems--the Financial Accounting and Control System (FACS) and the Mission Accounting and Control System (MACS)--do not control and account for AID's assets and liabilities in accordance with governmentwide requirements and cannot generate AID's financial statements. As a result, AID has had to develop several other systems to provide accountability in areas where AID's central systems could not. AID has eight property systems that do not provide effective control and accountability over nonexpendable property; one system could not account for more than 20,000 items. Another property system overstated vehicle acquisitions by 44 percent and disposals by 14 percent. Duplicate and inefficient systems have resulted in AID's incurring large and unnecessary costs.

AID does not have a comprehensive plan or the involvement of top management to ensure the adequate development of a long-term strategy for (1) solving the current problems with AID's financial systems at headquarters and overseas offices and (2) designing and implementing AWACS. AID's 5-year plan for integrating AWACS into its accounting system structure is not sufficiently developed and this could impair the implementation or the continued operations of AWACS. For example, AID's plan does not (1) divide the AWACS initiative into identifiable phases, (2) establish interim milestones necessary to track the progress of AWACS, and (3) establish the provisions for regularly scheduled progress reviews.

Information Resources Management

AID is highly dependent on computerized information systems to manage its economic assistance programs and support its operations in more than 70 developing countries worldwide, but its systems do not support decision-making and control. Although AID's information technology funding requirement for fiscal year 1993 is about $40 million, it has no assurance that this money will be spent in the best interest of the agency since AID does not have an effective information resources management (IRM) program. Current IRM improvement efforts are hindered by several long-standing barriers.

-- AID falls short in key elements of a quality strategic IRM planning process. Its current IRM plan is not based on an overall agency strategy and does not incorporate user requirements to meet information needs. AID also does not hold users accountable, or have the controls in place to ensure implementation of the IRM plan's initiatives agencywide.

-- AID's Administrator has not established an effective organizational structure to manage the information management and technology programs. Although a senior IRM official has been designated, the responsible IRM office lacks the authority necessary to carry out the planned IRM initiatives. Further, the policies and standards to guide the agency's IRM operations are inadequate or outdated.

-- AID collects and administers a great deal of data rather than determining what its information needs are and designing an integrated system to satisfy them. Efforts to meet reporting requirements are not centrally managed but rather are carried out by various offices agencywide. We found no single AID office with central responsibility or control over the flow or availability of AID data. The reports management function, which is key to information management, is not being conducted at all.

-- AID's computer software management is not effective. The IRM office is not sure of the inventory of software applications operating agencywide. The IRM office lacks a mandate requiring the use of its sponsored systems. Where mission officials deem IRM-sponsored systems inadequate, or if they just do not like them, they have authorized development of unique systems to meet their individual needs. At the missions we surveyed, development of the mission-unique systems often was not documented.

-- AID's plan for providing computer hardware may be overly optimistic. AID does not ensure priority for the IRM plan initiatives in the agency budget process and the IRM office has not coordinated the integration of existing software programs with proposed computer hardware purchases.

AID INITIATIVES NOT LINKED TO OVERALL STRATEGY

In September 1990, the Administrator appointed a working group to devise a formal plan to establish minimum staffing standards, develop a coherent staffing pattern based on a skill inventory of all employees, and institute a career development path for each employee. Other ongoing efforts include redesigning the incentives system, developing an agencywide system for measuring program results, and implementing an ambitious agenda for evaluating agency operations. However, our review indicated that these efforts are not being carried out within an overall strategy that links action plans to program and operating expense budgets, assigns accountability, and monitors implementation for lessons learned.

In December 1990, the Administrator announced a strategic management initiative with overall short- and long-term goals. The Administrator also announced four program initiatives intended to focus the agency's programs on the critical issues of the 1990s--a partnership with U.S. business, family and development, natural resource management, and democracy. However, these initiatives were developed by a handful of senior managers at AID headquarters. Some AID officials, congressional staff, and other interested parties did not understand the substance of the initiatives. Some AID officials stationed overseas said that they had not participated in the planning process and were asked to comment only after the initiatives had been announced. In addition, the implementing guidance was vague.

As shown in past AID management efforts, key groups' support of the process and its outcome is critical to its success. While the Administrator may not satisfy all parties on every decision, they may be more inclined to support plans if they have been able to express their concerns and participate in the planning discussions. In this way, they can better understand the context of AID's actions and the reasons for taking them.

A recent AID effort proposes to reform the AID programming system. The proposal calls for reduced headquarters review and paperwork, greater focus on results, improved accountability, and linkage between projects and overall and country-specific program priorities. While the proposal incorporates some of the principles of strategic management, it does not require that the bureaus and missions implement the processes in a standard way nor does it tie mission programs and projects back to an agencywide strategic mission and objectives.

STATUS OF OTHER ASSESSMENTS

In January 1992, the AID Administrator and the Director, Office of Management and Budget, jointly announced the formation of a "SWAT Team" to review AID management and financial systems and procedures. The announcement stated that AID must establish improved measures to hold its managers accountable for the successful completion of AID programs. Individual sub-teams were to examine the effectiveness of policies and procedures related to

AID's personnel and program evaluation and systems for awarding and overseeing contracts. As of last week, the SWAT team was in the process of drafting its report.

The April 16, 1992, report of the President's Commission on the Management of AID Programs concluded that the fundamental cause of AID's persistent management problems was the multiplicity of objectives the agency is required by law to pursue. The report noted that as the United States redefines its role as the major power in the radically changed post-cold war world, it needs to reexamine the objectives and management of foreign assistance. This reexamination should include AID's relationships with other parts of the government and the channels through which the executive branch and the Congress provide foreign aid funds. The Commission recommended that the executive branch, in consultation with appropriate congressional leadership, draft new foreign assistance legislation to reflect more accurately the mission and objectives of AID. To help provide a stronger voice in the executive branch, the Commission also recommended that AID be merged into the State Department.

CONCLUSION

We believe that a well-defined strategic management process would complement the process already begun and enable the Administrator to articulate a clear vision of AID's future, as shared by the Congress, the executive branch, and other key interest groups, and

select effective management strategies to achieve this vision. Institutionalizing such a framework would help ensure that the process of identifying and addressing important issues and setting a management agenda for AID continues beyond one administrator's tenure.

Mr. Chairman, this concludes my remarks. I am available to answer any questions that you or the Subcommittee may have.

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