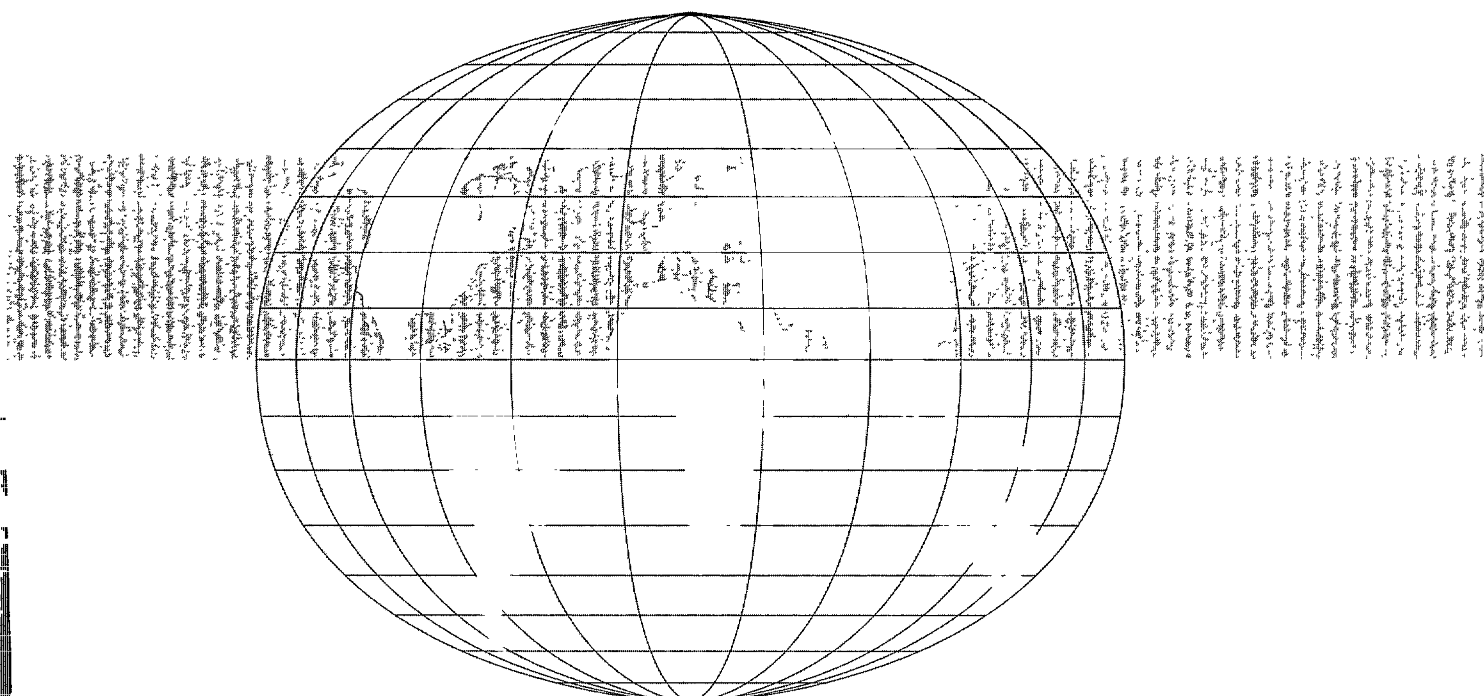
# Report of Audit

## Audit of USAID's Actions to Correct Financial Management System Planning Deficiencies

Audit Report No. A-000-00-003-P
August 24, 2000



IG/A/ITSA

OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

August 24, 2000

**MEMORANDUM FOR AA/M, Peter Benedict, Acting Chief Information Officer**
**M/FM, Michael Smokovich, Chief Financial Officer**

FROM: IG/A/ITSA, Theodore P. Alves

SUBJECT: Audit of USAID's Actions to Correct Financial Management System Planning Deficiencies (Audit Report No. A-000-00-003-P)

The Federal Financial Management Improvement Act of 1996 (PL 104-208) requires Agencies to determine whether its financial management system meets Federal requirements that are designed to ensure that managers receive reliable information to report financial and performance results and to manage agency operations.[1] In December 1997, the Administrator determined that U.S. Agency for International Development's (USAID) systems did not meet those federal requirements and in December 1998 prepared a remediation plan to correct system deficiencies.

In March 1999[2], we reviewed USAID's remediation plan and reported that the plan was inadequate. We also reported that USAID lacked an agency-wide information technology target architecture, a financial management system portfolio that met Office of Management and Budget's (OMB) guidelines for selecting information technology investments, a modular acquisition strategy, and a program management office to oversee the development of an integrated financial management system.

This report shows that USAID has made progress in correcting the above five financial management system planning deficiencies. However, only two of the five deficiencies

[1]OMB Circular A-127 and the Chief Financial Officers Act call for agencies to implement a single integrated financial management system, which is a unified set of financial systems and the financial portions of mixed systems (those systems that support both financial and non-financial activities). Working together using standardized information and electronic data exchange, these systems provide the information managers need to (1) carry out their fiduciary responsibilities; (2) deter fraud, waste, and abuse; and (3) relate financial consequences to program performance. Thus, in addition to basic accounting functions, a single integrated financial management system includes financial and performance data from supporting systems that perform performance measurement, budget, procurement, payroll, human resource, and other functions. Because USAID has not implemented a single integrated financial management system, this report refers to USAID's financial management systems.

[2] Audit of USAID's Progress Implementing a Financial Management System That Meets Federal Financial Management Improvement Act Requirements, Audit Report No. A-000-99-003-P dated March 1, 1999.

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have been fully corrected. The remaining three deficiencies have been partially, but not fully corrected by USAID management.

The audit report contains three recommendations, which call for USAID management to (1) develop and implement a process for selecting information technology investments in accordance with OMB and General Accounting Office (GAO) guidelines, (2) revise the USAID's financial management system remediation plan, and (3) strengthen the authority of the Office of Financial Systems Integration.

Responding to a draft of this report, the Acting AA/M stated that USAID management generally accepts the findings and recommendations regarding the need to implement a process to select financial management system investments (Recommendation No. 1), and to revise the financial management system remediation plan (Recommendation No. 2). Although the AA/M did not agree with the third recommendation as it was worded in the draft report, he did agree to clarify and strengthen the responsibility and authority of the Office of Financial Systems Integration (Recommendation No. 3). The response, in fact, identified eight specific oversight activities that would be assigned to the Office of Financial Systems Integration. The AA/M also stated that management would continue working to clarify the Office's responsibilities and welcomed a continuing discussion with the OIG.

We believe these comments are generally responsive to the findings contained in the report and that management has made a management decision to implement Recommendation Nos. 1 and 2. In response to management's comments on Recommendation No. 3, we revised the recommendation to provide additional flexibility in assigning responsibility and authority. We look forward to further discussions towards reaching a management decision on Recommendation No. 3.

USAID's complete comments to our draft report have been included as Appendix II.

Thank you for the cooperation and assistance extended to our auditors during this assignment.

## Background

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that comply substantially with federal financial management system requirements, applicable federal accounting standards, and requirements to post transactions to the United States Standard General Ledger (SGL)[3] at the transaction level. Incorporating these capabilities will help USAID ensure that all assets, liabilities, revenues, expenditures and the full cost of programs and activities are consistently and accurately recorded, monitored, and reported.

The Act also requires financial statement audit reports to address whether the financial management system complies with these system and accounting requirements. In our March 2, 1997 report on USAID's financial statements, we reported that the system did not substantially comply.[4] As required by the Act, our report described the nature and extent of noncompliance; the cause of noncompliance; and the organization responsible.

The Act further requires the USAID Administrator to consider the audit report and other information and make a determination as to whether USAID's financial management system substantially complies with the requirements. If the system does not substantially comply with the requirements, USAID must prepare a remediation plan that includes the resources, remedies, and intermediate target dates needed to bring the system into substantial compliance. In that case, the Act requires the Inspector General to report to the Congress if USAID does not meet the intermediate milestones identified in the plan.

In a December 1998 financial management system status report to the OMB, USAID's Chief Financial Officer (CFO) reported that USAID's systems did not substantially comply with FFMIA's requirements, and presented a remediation plan to correct the problems. In a March 1999 report on USAID's progress in implementing an FFMIA-compliant financial management system[5], we reported that USAID's remediation plan was not adequate and recommended that USAID revise the plan. We also reported that USAID's progress had been limited by planning and organizational challenges which threatened its efforts to successfully modernize its systems and made recommendations for USAID to (i) complete an agency-wide information technology target architecture, (ii) use the target architecture to define USAID's financial management system portfolio, (iii) complete a modular acquisition strategy, (iv) revise and update its financial management system remediation plan, and (v) establish a strong program management office to guide system modernization efforts.

[3]The SGL provides a standard chart of accounts and standardized transactions that agencies use to record accounting transactions and events consistently across the federal government.

[4] Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Years 1997 and 1996, Audit Report No. 0-000-98-001-F, dated March 2, 1997.

[5] Audit of USAID's Progress Implementing a Financial Management System That Meets Federal Financial Management Improvement Act Requirements, Audit Report No. A-000-99-003-P dated March 1, 1999.

## Audit Objective

This audit was designed to answer the following question:

- **Has USAID corrected the five planning deficiencies identified in the Audit of USAID's Progress Implementing a Financial Management System That Meets Federal Financial Management Improvement Act Requirements[6]?**

To answer this question, we analyzed actions taken by USAID to correct weaknesses that we reported in a March 1999 report on USAID's progress in implementing an FFMIA-compliant system. A full description of our scope and methodology is contained in Appendix I. This audit was included in our annual audit plan.

## Summary of Results

USAID has made progress in correcting the five financial management system planning deficiencies identified in the Audit of USAID's Progress Implementing a Financial Management System That Meets Federal Financial Management Improvement Act Requirements, but only two of the five deficiencies have been fully corrected. The remaining three deficiencies have been partially, but not fully corrected by USAID management.

The five planning deficiencies that were identified in the FFMIA audit report included the following:

(1) the lack of an agency-wide information technology target architecture,
(2) the lack of a financial management system portfolio that met OMB's guidelines for selecting information technology investments,
(3) the lack of a modular acquisition strategy,
(4) an inadequate financial management system remediation plan, and
(5) the lack of a program management office to oversee the development of an integrated financial management system.

Since we reported the above deficiencies, USAID has developed an agency-wide information technology target architecture, a financial management system portfolio, a modular acquisition strategy, and a financial management system remediation plan. It also established a program management office to oversee the development of an integrated financial management system.

However, we found that USAID's financial management system portfolio was not developed in accordance with OMB guidelines, and that the remediation plan was not

[6] Audit Report No. A-000-99-003-P dated March 1, 1999.

adequate. In addition, we found that the lines of authority for the program management office need to be clarified. Regarding the remediation plan, we were unable to assess the reliability and reasonableness of target dates that had been established because USAID management excluded us from its review and analysis of a detailed plan. USAID determined that the review of the plan, which was delayed, would proceed without OIG participation. Therefore, the OIG was prevented from doing the tests necessary to render a professional opinion on USAID's schedule of milestones that outlined how USAID planned to install a core accounting system in Washington and at two overseas offices by March 31, 2001.

A more detailed explanation of each of the five planning deficiencies and the actions USAID has taken to correct them is discussed below.

### USAID Has Made Progress in Developing an Information Technology Target Architecture

In our March 1999 FFMIA audit report, we reported that USAID had not developed an information technology architecture that met OMB requirements and that USAID was planning to award a contract for a new core accounting system without having completed such an architecture. An architecture is essential to the success of creating a complex information system because it provides the blueprint for how related agency systems will be acquired and work together to achieve strategic mission goals and to satisfy business requirements.

OMB's Memorandum 97-16 provides guidance on minimum requirements for an information technology architecture. The requirements include the need to develop (i) an enterprise architecture, and (ii) a technical reference model and a standards profile. An enterprise architecture describes the relationships among agency business processes, and a technical reference model describes information services (i.e., database standards, communications functions, and system security requirements) that are used throughout the Agency.

Since our report, USAID has made progress in developing an Agency-wide information technology target architecture. To illustrate, USAID developed such an architecture that contained all elements identified in OMB's guidelines at a sufficient level of detail to proceed with the award of a contract for a new core accounting system. For example, it:

- Developed and finalized three reports describing USAID's options for an enterprise-wide target architecture. The reports described the: (1) functional characteristics and capabilities of USAID's January 2000 information technology architecture; (2) current information system architecture and identified agency goals for changes to information systems; and (3) high level functional, data, performance, security, and operational system requirements.

- Drafted a preliminary technical reference model that identifies USAID's standards and profiles to insure interoperability in its information technology systems.

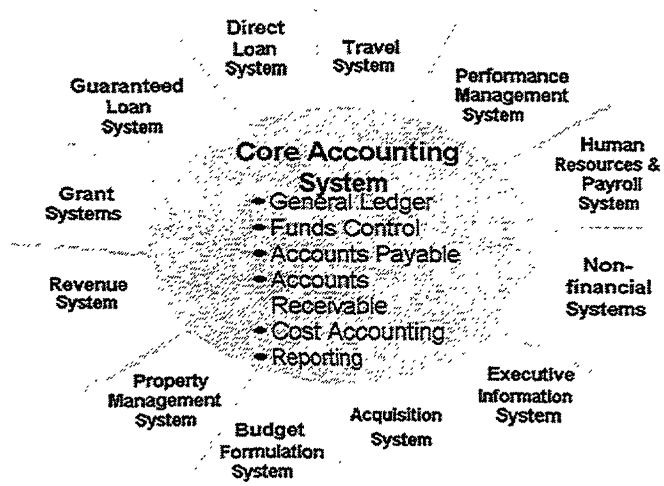
Based on our review of USAID's information technology target architecture, USAID has made significant progress in developing a target architecture that meets OMB's requirements for having an enterprise architecture and a technical reference model and a standard profile. Accordingly, USAID has addressed the architectural deficiency identified in our March 1999 FFMIA report. However, USAID needs to continue to develop and complete the target architecture at a sufficient level of detail that meets OMB's requirements.

### USAID Has Not Developed a Portfolio of Financial Management System Investments in Accordance With OMB Guidelines

In March 1999, we reported that USAID had not developed a prioritized list (referred to as a portfolio) of financial management system investments in accordance with OMB's guidelines for selecting investments for funding. These guidelines call on agencies to prioritize their planned investments by reviewing projects for relevance and feasibility; analyzing risks, benefits, and costs; prioritizing projects based on expected return-on-investment; and then determining the right mix of projects to fund. Since our report was issued USAID developed a prioritized list of financial management system investments, but it did not develop its list in accordance with OMB's guidelines. That is, contrary to OMB's guidelines, USAID did not complete the necessary analysis of project benefits, costs, and risks to (1) prioritize its projects based on expected return-on-investment, and (2) properly determine which projects should be funded. USAID had not followed OMB guidelines because it has not fully implemented a process for selecting information technology investments.

Per the Joint Financial Management Improvement Program, the following diagram represents the components of an integrated financial management system investment portfolio.

**Integrated Financial Management System**
**Logical Model**



OMB's Evaluating Information Technology Investments: A Practical Guide provides guidance for selecting information technology investments and calls for agencies to follow the following four-step process:

(1) screen proposals for relevance and feasibility,

(2) perform detailed evaluations of each proposal's supporting analyses,

(3) rigorously compare projects against one another to create a prioritized list of all investments under consideration, and then

(4) decide the right mix of projects to fund considering budget constraints, risk level, expected impact, etc.

In evaluating and selecting capital assets using an investment approach, GAO's Leading Practices in Capital Decision Making states that best practices call for (1) establishing a review and approval framework supported by analyses, and (2) ranking and selecting projects based on established criteria. It also states that the establishment of a decision-making framework that encourages the appropriate levels of management review and approval, supported by the proper financial, technical, and risk analyses, is a critical factor in making sound capital investment decisions.

Although OMB and GAO call for using a disciplined approach, including analyzing costs, benefits, technical feasibility, and risks, to select capital investment projects for funding, USAID did not do so. Instead, USAID's CFO developed a portfolio of financial management system investments by relying on the subjective opinions of responsible managers instead of conducting analyses of costs, benefits, technical feasibility, and risks. That is, USAID's analysis was limited to conducting interviews of Agency managers to obtain their opinions regarding the (i) criticality, (ii) current adequacy, and (iii) replacement urgency of USAID's current systems. Using the results of these interviews, USAID developed a prioritized ranking of the order in which USAID's systems should be replaced. It then decided which system projects to fund in its fiscal year 2001 budget submission. Thus, USAID significantly strayed from OMB's guidelines by not following OMB's four-step process to (1) screen proposals, (2) perform detailed evaluations of supporting analyses, (3) rigorously compare projects against one another to create a prioritized list of investments, and (4) decide the right mix of projects to fund.

To point out the impact of using a subjective method as a means to prioritize investments, we noted that USAID's Capital Investment Review Board (CIRB), which is chaired by the Chief Information Officer (CIO) and responsible for selecting and prioritizing investments in information technology, had also prepared a prioritized list of investments using interviews. Because both the CFO and CIRB's rankings were developed through subjective interviews instead of through sound analysis, and because two different sets of decision-making criteria were used, the CFO and the CIRB defined the financial management system components differently and reached different conclusions about system priorities. The following table shows the two lists:

| Rank | CFO's Ranking | CIRB's Ranking |
|---|---|---|
| 1. | Core Accounting System Replacement | Financial Management |
| 2. | Procurement System Replacement | Procurement |
| 3. | Performance Data Collection System | Budget |
| 4. | Managerial Cost Accounting | Human Resources (HR) |
| 5. | Cross-Servicing HR & Payroll Processing | Operations (Performance System) |

Although the CFO and CIRB ranked USAID's financial management and procurement systems numbers one and two in priority, they ranked priority numbers three through five differently. That is, the CFO ranked performance data collection system as number three, managerial cost accounting as number four, and Human Resources/Payroll as number five while the CIRB ranked Human Resources as number four, performance data collection/operations as number five, and did not specifically rank or address a managerial cost accounting system. Because of the inconsistency in the rankings and because sound analysis was not used to develop the rankings, USAID is at risk of allocating resources for projects that do not represent the highest return-on-investment for USAID.

USAID did not prepare a prioritized list of investments in accordance with OMB and GAO guidelines because it has not implemented a capital planning investment selection process with sufficient management controls. The Clinger-Cohen Act makes the CIO responsible for developing a selection process and for ensuring that the process is implemented. In part, because it lacks such a process, USAID officials have also misinterpreted OMB and GAO's guidelines.

USAID has developed an outline of its capital planning process, but the outline does not include steps for prioritizing investments. Instead, the outline focuses on preparing detailed analyses to support and justify decisions to acquire individual projects. The outline has also not been implemented in the form of policies and procedures that explain what types of analysis are required, what organizations are responsible for various tasks, and what decision-making criteria should be used to make the prioritization decisions.

When we discussed this issue with responsible officials, they agreed that USAID had not prioritized its investments in accordance with OMB and GAO guidelines. They stated that they prioritized the investments based on management interviews because USAID did not have the resources to perform the detailed analyses for all planned projects. They also stated that performing detailed cost/benefit, risk, and return-on-investment analyses for all planned projects would have delayed USAID's ability to begin correcting the existing financial management deficiencies. Consequently, they stated that USAID's approach has been to prioritize the investments based on management's judgement and then to perform the detailed analyses before seeking CIRB approval to acquire individual systems. This approach is consistent with USAID's capital investment process outline, but does not meet OMB and GAO guidelines calling for agencies to prioritize investments based on analyses of costs, technical feasibility, benefits, and risks.

In addition, USAID managers' conclusion that USAID lacks the resources to complete detailed analyses of all planned investments may be due to a misinterpretation of the level of detail required by OMB and GAO guidelines. Although OMB and GAO's guidelines call for using a disciplined and structured approach to prioritize investments, the guidelines also recognize that the amount of documentation and depth of analysis will vary depending on the type of project and its acquisition phase. For example, less detailed analyses would be required for projects in the early planning stages than for projects that are ready for implementation. Thus, investment analysis is an iterative process that provides more precise information to decision-makers as the project matures. Although OMB recognizes that less information is needed early in a project life cycle, both OMB and GAO also recognize that some level of quantitative analyses of costs, benefits, risks, and expected return-on-investment are necessary to prioritize projects and establish a sound investment portfolio.

Because USAID has not analyzed costs, benefits, and risks associated with its planned financial management system investments, USAID is not in compliance with OMB's guidelines and is at risk of allocating resources for projects that do not represent the highest return-on-investment for USAID. To address this deficiency, we recommend the following:

**<u>Recommendation No. 1:</u> We recommend that the Chief Information Officer, in conjunction with the Capital Investment Review Board and the Chief Financial Officer:**

**1.1 develop and implement a process for selecting information technology investments that meets the requirements of OMB's Guidelines for Selecting Information Technology Investments and GAO's Executive Guide: Leading Practices in Capital Decision Making; and**

**1.2 apply the process to prioritize USAID's financial management system investments as part of a portfolio of planned information technology investments for USAID's Fiscal Year 2002 budget submission to OMB.**

**USAID Has Developed a**
**Modular Acquisition Strategy,**
**<u>But It May Need to be Revised</u>**

In March 1999 we reported that, contrary to OMB's guidelines requiring a comprehensive approach for selecting information technology investments, USAID had not developed a modular acquisition strategy to implement an integrated financial management system. Since our report was issued, USAID has developed a Modernization Plan, which represents a high-level, modular acquisition strategy for implementing an integrated financial management system. However, the Plan may need to be revised after USAID develops and implements a process for selecting information technology investments in accordance with OMB's guidelines (see Recommendation No. 1).

USAID's Modernization Plan includes the CFO's vision for an integrated financial management system and describes USAID's approach to acquire and implement a modern integrated financial management system over a five-year period. The Plan also includes a discussion of the capability shortfalls of USAID's current systems and a plan to rectify those system deficiencies. In addition, the Plan also includes performance goals and objectives and classifies investment projects under one of the following three initiatives:

- **Initiative 1: Financial Management Systems** (including accounting and procurement),

- **Initiative 2: Performance Management Systems** (including budget formulation, managerial cost accounting, results tracking, and an Executive Information System), and

- **Initiative 3: Resource Management Systems** (including human resources, payroll, property management, and travel management).

By breaking down USAID's planned financial management system into individual projects and then grouping the projects into separate initiatives, the Plan identifies a comprehensive, high-level modular acquisition strategy for implementing a new financial management system.

Although the Modernization Plan presents a modular approach, the Plan may need to be revised after USAID develops and implements a process for selecting information technology investments in accordance with OMB's guidelines (see Recommendation No. 1). Because a modular acquisition strategy needs to flow from an agency's investment portfolio (i.e., its listing of proposed capital investments), once USAID properly defines a financial management system portfolio and determines in which order individual projects should be undertaken, USAID may need to revise its current acquisition strategy to reflect a revised project implementation order.

**USAID's Remediation Plan Has Improved, But Its Resources, Remedies, and <u>Target Dates Still Need to be Defined</u>**

In March 1999, we reported that USAID had not developed an adequate FFMIA remediation plan because USAID's plan (i) focused almost exclusively on accounting systems controlled by USAID's Financial Management Division, and (ii) did not describe all significant current or planned financial management systems. We also reported that the plan did not adequately describe the projects needed to meet federal requirements or the remedies, resources, and intermediate target dates needed to implement the plan as called for by the FFMIA. Since our report was issued, USAID has revised its FFMIA remediation plan. Although the revised plan represents a significant improvement over last year's plan, it still does not fully meet OMB's requirements for a remediation plan.

According to USAID officials, USAID's financial management systems' remediation plan includes the CFO's Five-Year Plan, a Modernization Plan, and USAID's Circular A-11 Budget Schedules. Together, these documents represent a much improved version of the remediation plan that we reviewed last year because this year's plan is more detailed and addresses all of USAID's financial management systems. Despite the above improvement, the remediation plan still does not meet the requirements of the FFMIA because the plan does not identify the resources, remedies, and target dates needed to fully implement the plan.

Regarding the target dates, we were unable to assess the reliability and reasonableness of target dates that had been established because USAID management determined that the review of the remediation plan would proceed without OIG participation. Instead, OIG would be provided the work products from the review. The review entailed an analysis of a detailed schedule that outlined how USAID planned to install a core accounting system in Washington and at two overseas offices by March 31, 2001. However, the review was delayed. The delay, combined with USAID's decision to exclude the OIG from the ongoing analysis, prevented us from doing the tests necessary to render a professional opinion on the reliability and reasonableness of USAID's schedule of milestones.

The following sections discuss the weaknesses we identified in the resources, remedies, and target dates that are included in the remediation plan.

**<u>Resources</u>**

In its remediation plan, USAID identified the resources needed to implement a core accounting system, a procurement system, and to partially implement a human resources/payroll system. However, USAID did not identify the resources needed to implement a budget formulation module, a managerial cost accounting system, an Executive Information System, a Property Management System, and several other projects listed in the remediation plan. Accordingly, contrary to FFMIA requirements, USAID has not identified the resources needed to implement the remediation plan as a whole. Further, without resource estimates for each part of the plan and for the plan as a whole, USAID has not identified the resources needed to complete its remediation plan, and thus, does not know how much it will cost to implement the plan or whether the costs will fit within budget constraints.

In regards to the resources that were identified, the Clinger-Cohen Act requires agencies to provide a means for senior management to obtain timely information regarding the progress of an investment through a system of cost milestones for measuring progress. OMB Circular A-11 requires agencies to have cost goals for all proposed and ongoing acquisitions. It also states that realistic baseline costs should be established before proceeding to full acquisition and that the establishment and analysis of cost goals should include a risk assessment that discusses the probability of achieving them. Contrary to the Clinger-Cohen Act and OMB's guidelines, at the time of its fiscal year 2001 budget submission USAID had not established cost goals when it requested full funding for the following financial system projects:

| | |
|---|---|
| Financial Systems Integration (FSI) Project | $8.10 million |
| Procurement System Project | $3.15 million |
| Financial Management Systems (FMS) Project | $11.20 million |

Without these cost goals, USAID is not managing its capital investments in accordance with the Clinger-Cohen Act, and there is little assurance that USAID has identified the resources needed to fully fund the projects listed in its budget submission.

**Remedies**

Regarding remedies, the FFMIA requires agency remediation plans to include the remedies necessary to bring the agency's financial management systems into substantial compliance with the FFMIA. According to GAO, remedies mean identifying corrective actions for all instances of noncompliance.

In its Modernization Plan for Integrated Financial Management Systems, USAID states that fundamentally, USAID's accounting and related systems are incapable of meeting the basic requirements for funds control, accountability, and reporting. It also states that there are numerous business functions that are not adequately supported in both the accounting system and other financial and mixed systems including: accounting, budgeting, acquisition and assistance, operations/program management, human resources, and property management.

Despite the FFMIA requirement to include remedies in agency remediation plans, USAID's remediation plan does not include the remedies needed to bring its financial management systems into substantial compliance with the FFMIA. Even though USAID's remediation plan suggests potential remedies for those systems, the plan does not identify the corrective actions actually needed to bring the systems into substantial compliance. For example, the plan identifies USAID's main business areas and potential system solutions for those areas including a commercial, off-the-shelf software package to replace the procurement system and the outsourcing of payroll to a commercial or Federal provider. However, the plan does not identify any actual remedies other than a commercial, off-the-shelf software package to replace the core accounting system. Without this key information on needed remedies, it is difficult, if not impossible, to determine how USAID will bring its systems into compliance with the FFMIA.

**Intermediate Target Dates**

In regards to intermediate target dates, USAID has developed target dates to guide the installation of a commercial software package to replace the current core accounting system in Washington and at two overseas missions by March 31, 2001 (i.e., Core Accounting Phase I) and at USAID's remaining overseas missions by September 30, 2002 (Core Accounting Phase II). However, target dates for USAID's other financial management systems have not been established. For example, in its remediation plan, USAID discusses the need to replace its procurement and budgeting systems, but it does not set any intermediate target dates to do so. In addition, the remediation plan does not establish a date for when USAID expects its financial system to be substantially compliant with the FFMIA. Without reliable intermediate target dates to guide individual system remediation efforts and without a target date for being FFMIA-compliant, USAID managers can have little assurance that the remediation plan is achievable and on schedule. In addition, without these dates the remediation plan does not meet FFMIA requirements.

Regarding target dates that were established for Core Accounting Phase I, USAID had developed a detailed schedule of significant milestones, such as planned dates for system validation testing, interfaces, data migration, and training, and had agreed to provide us with the results of an internal review and analysis of the milestone schedule. However, the review was delayed, and USAID management excluded us from its ongoing analysis. The delay, combined with USAID's decision to exclude us from the ongoing analysis, prevented us from doing the tests necessary to render a professional opinion on the reliability and reasonableness of USAID's schedule of milestones. Accordingly, we can not comment on how realistic these Phase I milestones are.

**Summary on Remediation Plan**

Overall, although we believe USAID's current remediation plan is much improved over its December 1998 plan, the remediation plan still does not identify the resources, remedies, and target dates needed to fully implement an integrated financial management system. A responsible official told us that USAID had not established resources, remedies, and target dates for systems other than core accounting because it did not have the resources to plan for these systems. Regarding milestones, the official stated that USAID did not set milestones for events past March 31, 2001 because it did not want to be held accountable for milestones more than 18 months in the future[7].

[7] Once established, a baseline goal is used to determine whether an acquisition is meeting congressional policy to achieve at least 90 percent of cost, schedule, and performance goals.

Although OMB does state that investment projects should be broken into planning segments, the FFMIA requires agencies to develop a remediation plan that includes the resources, remedies, and target dates necessary to bring the agencies' financial management systems, not just individual planning segments, into substantial compliance with the FFMIA. In addition, the Clinger-Cohen Act makes the CIO responsible for developing a process to control information technology investments. Controlling investments, in turn, requires implementation of a disciplined planning process.

Without having identified the resources, remedies, and target dates needed to implement USAID's plan, senior managers, OMB, and the Congress can not have assurance that USAID will correct its financial management deficiencies on schedule and within costs. To address this issue, we make the following recommendation:

> Recommendation No. 2: **We recommend that the Chief Financial Officer revise the financial management systems remediation plan (i.e., the Chief Financial Officer's Five-Year Plan, Modernization Plan, and Office of Management and Budget Circular A-11 budget schedules) to include the estimated resources, remedies, and intermediate target dates needed to implement an integrated financial management system as required by the Federal Financial Management Improvement Act of 1996.**

**Strengthen the Authority of the Office Of Financial Systems Integration**

In March 1999, we reported that USAID had not established a program management office to manage the development of an integrated financial management system. Since our report was issued, USAID made significant progress by establishing the Office of Financial Systems Integration (FSI) and making FSI responsible for providing business planning, acquisition planning, and systems implementation for an integrated financial management system. However, we found that FSI has not actually been given the responsibility and authority to implement financial management system components other than the core accounting system. As a result, USAID continues to encounter increased risk that planning deficiencies or systems integration problems could lead to cost increases, schedule delays, or system performance problems. The continuing fragmented organization structure may also have prevented USAID management from correcting the remaining deficiencies cited in this report. The fact that USAID has not developed an adequate investment portfolio and an adequate remediation plan occurred because USAID has not completed the required planning activities for system components other than the core accounting system.

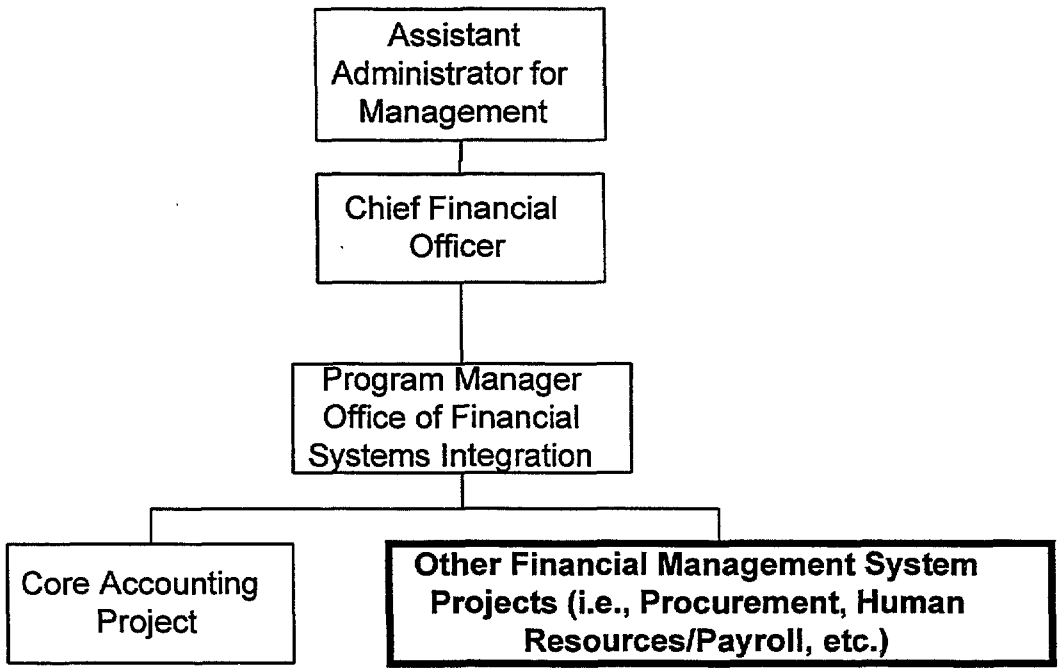
On March 11, 1999, the Assistant Administrator for Management (AA/M) signed an action memorandum establishing a program management office to implement an integrated financial system. The intent of the memorandum was to provide a clear and unambiguous line of authority and accountability for implementing an integrated financial management system. The memorandum designated a program manager, reporting to the CFO to lead the office, and specifically assigned the FSI office responsibility for: requirements management, market research, investment analysis, acquisition planning and source selection, and monitoring contractor activities.

The FSI office's responsibilities were further documented in the FSI Project Management Plan. That Plan called for the FSI office to direct the planning, design, development, and deployment of the Integrated Financial Management System (IFMS) Program. The Project Management Plan stated that the IFMS Program includes both financial systems and mixed systems, including the core accounting, human resources/payroll, and procurement system projects.

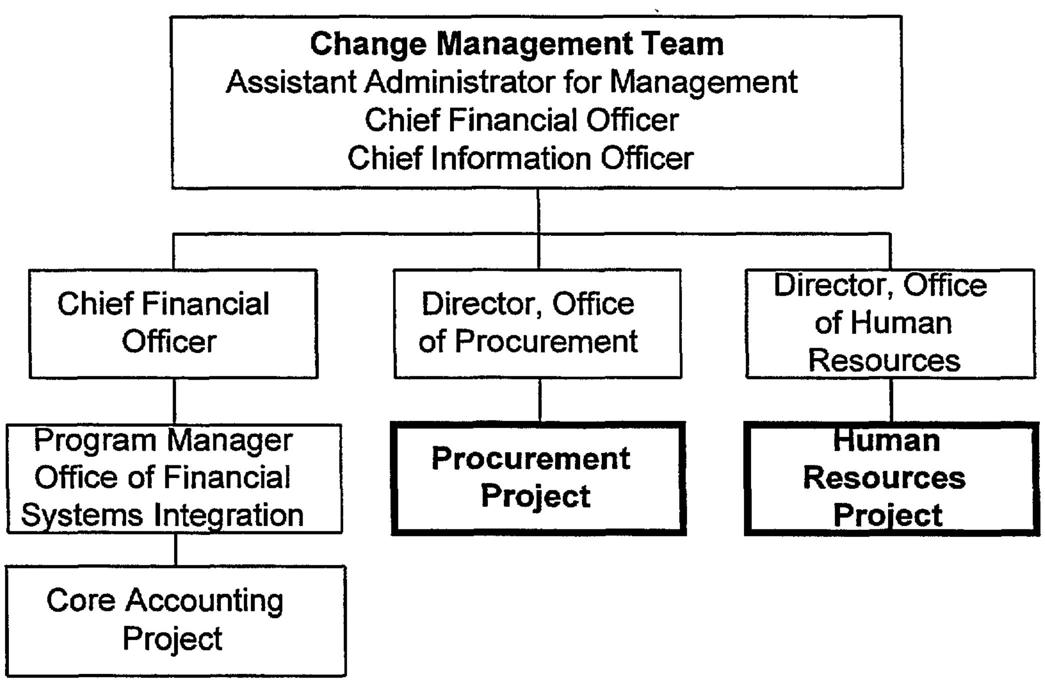
Although the FSI office was assigned responsibility for implementing the IFMS Program, we found that the office has not actually been given the authority to manage all components of the IFMS program. That is, the FSI office has been given the authority to implement the new core accounting system, but not to implement the other system components that are required to implement an integrated financial management system. For example, the FSI office was not directly responsible for overseeing USAID's Procurement and Human Resource/Payroll projects—projects that are currently being planned or implemented and are included in USAID's fiscal year 2001 budget. Instead, the Office of Procurement was directing the procurement system project, and the Office of Human Resources was directing the human resources project. These offices, in turn, reported not to the FSI office, but to a Change Management Team, which included the AA/M, CFO, and CIO.

The following organization charts reflect our understanding of how the FSI office should have been operating compared to how we found it to be operating.

# Financial Systems Integration Project Organization Per the Action Memorandum and the Office of Financial Systems Integration Project Management Plan




# As Implemented



As shown on page 17, although the program office action memorandum and the Project Management Plan aimed to establish a program management office with clear lines of authority and responsibility for developing an integrated financial management system, we found that the FSI office lacked the necessary authority to oversee the planning and implementation of critical components of an integrated system.

The need for a strong, unified program management office and the application of disciplined practices to implement complex systems at USAID have been noted by several groups including the USAID/OIG. Deficiencies were first pointed out in a study conducted by the Software Engineering Institute in June 1995. That study concluded that undefined organizational roles and responsibilities, undisciplined management processes, and a poorly defined decision-making and commitment process created significant project risks. A February 1998 report by a USAID contractor hired to independently analyze NMS problems concluded that the lack of a development organization with clearly defined roles, responsibilities, and authorities had fragmented efforts and eroded accountability for results.

USAID officials believe that current organizational structure is adequate to ensure effective implementation of an integrated system. They pointed out that, at the time the FSI office was established, only the project to replace the core accounting system had been approved, and that other mixed system modernization efforts, such as the procurement and human resources projects, were only being contemplated. Further, they stated that the other projects were being coordinated with the FSI office to ensure that interfaces between financial and mixed financial systems are developed.

Although we agree that the other projects were in the planning stage when the FSI was formed, we believe it is important that the FSI office provide oversight during the planning phases of all financial management system projects. One of the key reasons for a strong program office is to ensure that related systems are adequately planned. The continuing fragmented organization structure may also have prevented USAID management from correcting the remaining deficiencies cited in this report. The fact that USAID has not developed an adequate investment portfolio and an adequate remediation plan occurred because USAID has not completed the required planning activities for system components other than the core accounting system. We believe these deficiencies are due, at least in part, to the fact that the FSI office is not responsible and accountable for these related systems.

USAID officials also stated that the Change Management Team provides the coordination and oversight contemplated by a strong program office. They pointed out that the AA/M utilized a Change Management Team as the executive-level oversight body for financial management systems modernization efforts. According to the FSI Project Management Plan, the Change Management Team provides overall direction of the IFMS Program and plays an important oversight role in ensuring that the priorities of the system modernization efforts remain focused on meeting USAID requirements and achieving substantial compliance with FFMIA. The Change Management Team, which includes the AA/M, the CFO, and the CIO, is also responsible for evaluating and approving modernization plan priorities that are scheduled for investment analysis and submission to the CIRB.

Although we believe that the Change Management Team provides an important oversight function, the team may not be in a position to perform the role of a strong program management office. The Change Management Team strengthens executive-level oversight of USAID's modernization efforts, but it is not clear whether the team has the resources, time, or management structure to provide the day-to-day direction expected of a program office. The General Services Administration has stated that an effective program office is essential to successfully modernize complex systems. Best practices call for the program office to be headed by a program manager who is responsible for ensuring that the organization's long- and short-term needs are met by its planned acquisitions. The program manager should be responsible for ensuring that acquisitions are adequately planned and implemented, preparing program-related portions of solicitation documents, monitoring contractor performance, and establishing program performance goals.

Overall, we are encouraged that USAID has taken action to establish a strong program management office to implement an integrated financial management system. However, the effectiveness of this office is being compromised because it has not been given the authority to manage projects other than the core accounting system.

> **<u>Recommendation No. 3:</u> We recommend that the Chief Information Officer and the Chief Financial Officer work with the Assistant Administrator for Management to ensure that the Change Management Team and the Office of Financial Systems Integration collectively have the responsibilities, the authority, and structure to direct the planning, design, development, and deployment of all financial and mixed financial system components of the Integrated Financial Management System Program.**

## Management Comments and Our Evaluation

In response to our draft report, management comments stated that USAID generally accepts the findings and recommendations regarding prioritizing financial management system investments and the financial management system remediation plan (Recommendation Nos. 1 and 2), but not Recommendation No. 3 regarding the authorities of the Office of Financial Systems Integration, as currently written. Management's comments are reproduced in Appendix II.

After reviewing the management comments, we revised Recommendation No. 3 to recognize that USAID management plans to use the Change Management Team and the Financial Systems Integration Office to perform responsibilities that are functions of the Program Management Office.

USAID/OIG looks forward to continuing the dialogue with USAID management to further clarify the authority and responsibilities, and reviewing clarified roles and responsibilities, within the Financial Systems Integration Office.

Based on USAID's management comments, management decisions have been reached on Recommendation Nos. 1 and 2. Recommendation No. 3 will require further discussions with USAID management before agreement is reached on a management decision. Evidence of final actions on recommendations should be provided to USAID's Office of Management Planning and Innovation for consideration in closing recommendations.

# SCOPE AND METHODOLOGY

## Scope

Our audit of the actions USAID has taken to correct the five financial management system planning deficiencies identified in the Audit of USAID's Progress Implementing a Financial Management System That Meets Federal Financial Management Improvement Act Requirements (Audit Report No. A-000-99-003-P dated March 1, 1999) included examining the actions that USAID had taken as of June 7, 2000.

Our audit included a review of the CFO's Financial Management Five-Year Plan: Fiscal Years 1999–2003 and Financial Management System's Modernization Plan and exhibits from USAID's fiscal year 2001 budget submission to the OMB. It also included a review of USAID's Information Architecture, capital investment planning process, and other planning documents.

Our audit was conducted from November 1, 1999 to June 7, 2000 in accordance with generally accepted government auditing standards. Audit fieldwork was primarily conducted in the Office of Financial Management at USAID/Washington.

During our review, there was a scope impairment. Regarding the target dates, we were unable to assess the reliability and reasonableness of target dates that had been established because USAID management determined that the review of the remediation plan would proceed without OIG participation. Instead, OIG would be provided the work products from the review. The review entailed an analysis of a detailed schedule that outlined how USAID planned to install a core accounting system in Washington and at two overseas offices by March 31, 2001. However, the review was delayed. The delay, combined with USAID's decision to exclude the OIG from the ongoing analysis, prevented us from doing the tests necessary to render a professional opinion on the reliability and reasonableness of USAID's schedule of milestones.

## Methodology

To identify actions USAID has taken to correct the previously reported financial management system planning deficiencies, we reviewed USAID's CFO's Financial Management Five-Year Plan: Fiscal Years 1999–2003, USAID's Modernization Plan for Integrated Financial Management Systems, and exhibits from USAID's fiscal year 2001 budget submission to the OMB. Together, these documents described USAID's financial management system remediation plan. Although we focused on analyzing USAID's remediation plan, we also reviewed other planning documents, including estimated resource requirements and milestones, which described USAID's plans and activities to implement an effective financial management system.

In addition, we reviewed minutes from USAID's CIRB, USAID's Information Target Architecture Board, and Managerial Cost Accounting project documents. We also interviewed responsible USAID and contractor officials from the Office of Financial Management and the Office of Information Resources Management.

USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

AUG 1 2000

**MEMORANDUM**

**TO:** IG/A/ITSA, Theodore P. Alves

**FROM:** Acting AA/M, Richard C. Nygard

**SUBJECT:** Audit of USAID's Actions to Correct Financial Management System Planning Deficiencies (Audit Report No. A-000-00-xxx-P)

Thank you for the opportunity to respond to the subject draft report. I am pleased to see that a number of the issues and comments regarding the audit findings discussed during the exit conference have been reflected in the draft report. We generally accept the findings and recommendations regarding prioritizing financial management system investments and the financial management system remediation plan (recommendations 1 and 2). The Agency already has a series of on-going actions in support of these recommendations. I do not agree with recommendation 3 regarding the authorities of the Office of Financial Systems Integration, as currently written. Further discussions on this recommendation will be required before agreement is reached on a management decision.

Prioritizing and Selecting IT Investments

The CIO is leading an effort to improve the Agency's IT budget planning and portfolio analysis process. The Agency's current IT capital planning process will be expanded to include screening projects, ranking projects and selecting a portfolio of projects. The ranked list of proposed IT projects will grow over time. OMB staff have met with the team to discuss their expectations for the Agency's IT capital plans as part of the FY 2002 budget submission. For the FY 2002 budget submission, the Agency will work with OMB to ensure that the process used to prioritize IT investments results in projects that provide the highest return-on-investment and directly contribute to Agency efforts to be substantially compliant with Federal laws, regulations and standards.

Remediation Plan

The CFO is leading an effort to improve the Agency's financial management systems' remediation plan. The Agency will submit a consolidated financial management budget justification, as required by OMB Circular A-11, as part of the FY 2002 budget submission. It will include a discussion of the Agency's financial management systems modernization strategy and the projects we are planning. It will also include an updated remediation plan that describes resources, remedies and interim target dates to bring the Agency's financial

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management systems into substantial compliance with the Federal Financial Management Improvement Act of 1996. Aspects of the remediation plan are critical components of the overall systems modernization plan.

Office of Financial Systems Integration

The CFO and CIO are working with me, as members of the Change Management Team (CMT), to ensure that effective management oversight is provided to the Agency's financial management systems' modernization efforts. I concur that the Office of Financial Systems Integration (FSI) has a critical role to play in planning, designing, developing and deploying the next generation of compliant financial management systems. I do not agree with the recommendation, as drafted, that the FSI office must necessarily have the authority to direct all of the design, development and deployment work for mixed system components of the integrated financial management system (IFMS) program.

One of the responsibilities of the CMT is to control integration risk. Prior experience with the New Management System integration challenges has informed the Agency's current strategy to make incremental investments toward an IFMS. We are continually assessing the integration risks associated with each new project based upon where it is in the project life cycle and its impact on the current work of the FSI office in implementing the new core financial system. I am also working with the CFO to further clarify the authorities and responsibilities of the FSI office for the Agency's IFMS modernization program.

In the case of financial system modernization projects and the on-going maintenance and operations of financial systems, the FSI office will direct the planning, design, development and deployment for these systems. The CMT may authorize exceptions to this when the scope, complexity and risks can be effectively managed. For example, the CMT determined that the integration risks of implementing a cross-servicing agreement with the USDA National Financial Center for payroll transactions processing services could effectively be managed without the FSI office directly overseeing that project.

In the case of mixed system modernization projects (e.g. procurement system replacement) and the on-going maintenance and operations of mixed systems, the CMT will further clarify the oversight role of the FSI office for the financial portions of these systems through a variety of disciplined processes. For example, the FSI office will:

- Support the CFO and CIO in the definition of the target structure of the IFMS and incorporate the target structure in the Agency's target enterprise information technology architecture.
- Support the CFO in the definition and promulgation of financial data standards and financial data stewardship roles and responsibilities for all Agency systems.
- Conduct reviews, as part of the Agency's capital investment planning process, for all mixed system project proposals to ensure that they comply with the target IFMS structure, Agency financial data standards and other Federal financial management requirements and standards.

- Review and approve all financial requirements for mixed system acquisitions and evaluate conformity to available Joint Financial Management Improvement Program (JFMIP) requirements.
- Serve on acquisition teams and project teams during the design, development and deployment of mixed systems.
- Participate on change control boards and interface control boards for mixed systems to ensure that changes to Agency financial requirements, JFMIP requirements and integration requirements are analyzed, coordinated, and implemented in a controlled manner.
- Manage, on behalf of the CFO, system security oversight for mixed systems security risk assessments, and certification & accreditation.
- Conduct periodic mixed system compliance reviews mandated by OMB Circular A-127 as part of Agency-wide financial management system compliance reviews.

Such additional authorities and responsibilities would ensure that the FSI office has the needed oversight authorities for the Agency's financial management systems to ensure that the goals of the IFMS program are achieved. I welcome further discussions toward reaching an agreement on this recommendation.