

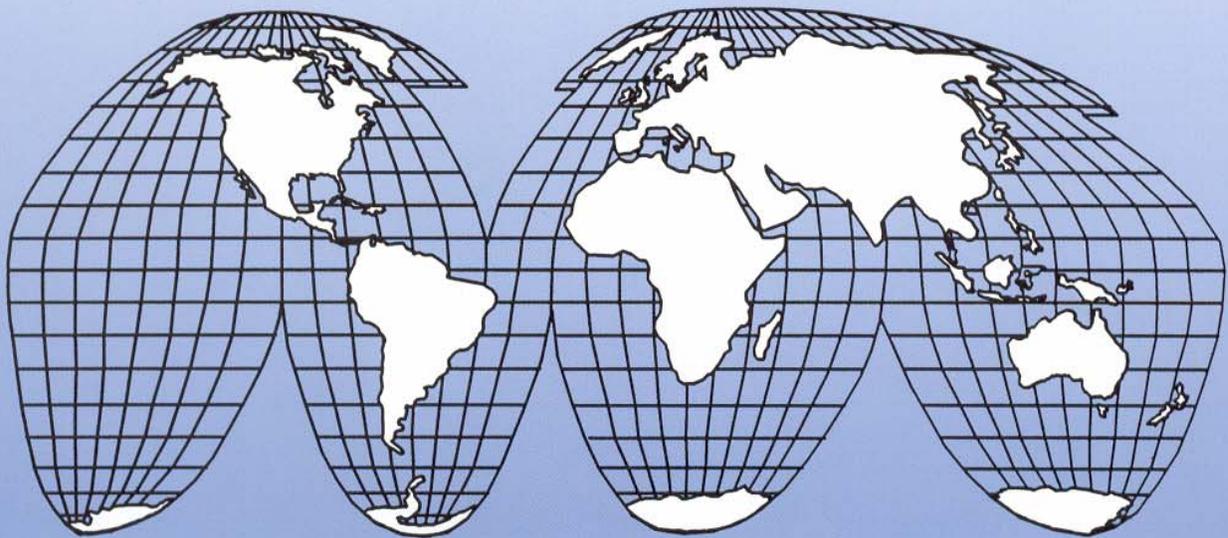
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID's Human Capital Strategy

Audit Report Number 9-000-05-003-P

January 11, 2005



Washington, D.C.



January 11, 2005

MEMORANDUM

FOR: M/HR/OD, David E. Eckerson

FROM: IG/A/PA, Nathan S. Lokos /s/

SUBJECT: Audit of USAID's Human Capital Strategy
(Report No. 9-000-05-003-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on our draft report and have included your response as Appendix II.

This report does not include any recommendations.

I appreciate the cooperation and courtesy extended to my staff during the audit.

(This page intentionally left blank.)

Table of Contents

Summary of Results	5
Background	5
Audit Objective	6
Audit Findings	6
Does USAID's Human Capital Strategy incorporate select best practices?.....	6
Evaluation of Management Comments.....	11
Appendix I - Scope and Methodology.....	13
Appendix II - Management Comments.....	15

(This page intentionally left blank.)

Summary of Results

In August 2004, in response to the President's Management Agenda (PMA) initiative on human capital, USAID issued its Human Capital Strategy Plan (HCS) for FY 2004-2008. This plan addresses both USAID's particular needs and the PMA requirements.

The Office of Inspector General conducted this audit to determine whether USAID's HCS incorporates select best practices. We concluded that USAID's HCS does incorporate select best practices (page 6.)

USAID management agreed with our finding. Their response is included in its entirety in Appendix II (page 15.)

Background

Since its inception in 1961, USAID has experienced two large reductions in force. The first occurred towards the end of the Vietnam War. The second occurred in the aftermath of the Cold War; with a government-wide move toward reducing the federal workforce, USAID's direct-hire workforce was reduced by 37 percent.¹

USAID responded to the initial decline in its personnel by fundamentally changing the way it does business. USAID gradually shifted from being an agency that directly implements foreign aid programs to one that monitors grants and manages contractors. When the Agency was founded in 1961, it hired and deployed people to provide technical assistance directly. By 1980, USAID's staff had shrunk considerably, and the Agency began to shift towards managing assistance through intermediaries under grants and contracts in order to meet its program objectives. USAID also changed its human capital structure qualitatively because it now needed people with procurement and contract management skills instead of agricultural specialists, nutritionists and other experts in basic needs development.

In the 1990s, the government-wide move toward reducing the Federal workforce led to declining direct hire-staff levels at USAID. This decade of downsizing generated a host of human capital challenges, as outlined in the USAID Human Capital Strategy FY 2004 – FY 2008, such as:

- An aging workforce with increased retirements, leading to the loss of the most experienced officers and their institutional memory.
- A dearth of junior and mid-level officers to fill front-line jobs.
- A lack of “surge capacity” to respond to emergencies, post-conflict situations or new strategic priorities.

¹ According to the GAO, the number of USAID's direct-hire staff decreased by 37 percent from 1992 through 2003 (GAO Report No. GAO-03-1171T).

-
- Long gaps both in field missions and Washington before replacement staff arrive.

Similar human capital and management challenges affected the rest of the U.S. government as well. The President's Management Agenda (PMA) to improve management in the Federal government addresses these challenges in its Strategic Management of Human Capital initiative. This initiative is intended to transform how organizations employ, deploy, develop and evaluate their workforce.

The Federal government's Strategic Management of Human Capital Initiative is being led by the Office of Personnel Management (OPM). To guide Federal agencies toward achieving this initiative, OPM, the Office of Management and Budget and the Government Accountability Office jointly developed and established the six Human Capital Standards for Success in the Human Capital Assessment and Accountability Framework (HCAAF). The six human capital standards for success, which reflect select best practices in strategic management of human capital, are (1) Strategic Alignment, (2) Workforce Planning and Development, (3) Leadership and Knowledge Management, (4) Results-Oriented Performance Culture, (5) Talent and (6) Accountability.

In response to the PMA's initiative on human capital, USAID's Business Transformation Executive Committee established a Subcommittee for the Strategic Management of Human Capital. The Subcommittee's charter included developing the Agency's human capital strategy.

Audit Objective

The audit was conducted as part of the annual plan to answer the following question:

- Does USAID's Human Capital Strategy incorporate select best practices?

Appendix I contains a discussion of the audit's scope and methodology.

Audit Findings

Does USAID's Human Capital Strategy incorporate select best practices?

USAID's Human Capital (HC) Strategic plan for FY 2004-2008 does incorporate select best practices.

We identified the select best practices as the six Human Capital Standards for Success in the Human Capital Assessment and Accountability Framework (HCAAF), which were jointly developed by Office of Personnel Management (OPM), Office of Management and Budget and Government Accountability

Office. Those Standards of the HCAAF were based on Fortune 500 company experience in managing human capital and are described below.

- Strategic Alignment - The human capital strategy is aligned with the mission, goals and organizational objectives of the Agency and integrated into the strategic plan, performance plans and budgets.
- Workforce Planning and Development - The Agency is citizen-centered, de-layered and mission-focused, and leverages e-Government and competitive sourcing.
- Leadership and Knowledge Management - Leaders and managers effectively manage people, ensure continuity of leadership and sustain a learning environment that drives continuous improvement in performance.
- Results-Oriented Performance Culture - The Agency has a diverse, results-oriented, high-performing workforce and has a performance management system that effectively differentiates between high and low performance and links individual/team/unit performance to organizational goals and desired results.
- Talent - The Agency has closed most mission-critical skills, knowledge and competency gaps/deficiencies, and has made meaningful progress towards closing all of them.
- Accountability – The Agency’s human capital decisions are guided by a data-driven, results-oriented accountability system.

The HCAAF, which incorporates the six Human Capital Standards for Success, provides consolidated guidance and integration so that all those involved in developing human capital strategies can understand what is to be done, how it can be done, and how to gauge progress and results.

The HCAAF includes a hierarchy which effectively forms a pyramid. At the top of this hierarchy are the six Human Capital Standards for Success. The second level of the hierarchy is composed of “critical success factors”, and each of the Human Capital Standards for Success have several critical success factors which are considered necessary for achieving that Standard for Success. The third level of the hierarchy includes diagnostic questions and—for each critical success factor—there are several diagnostic questions that help determine whether the related critical success factor has been achieved. The fourth level of the hierarchy includes “elements of yes” for each diagnostic question. These “elements of yes” provide guidance on how to determine whether a diagnostic question may be answered “yes”. Finally, the HCAAF also includes suggested performance indicators for each diagnostic question, which can be used to track progress toward achieving a positive answer for that question. Agencies that address the critical success factors are most likely to meet those Standards for Success.

Accordingly, in determining whether USAID's HC Strategic Plan incorporated the Human Capital Standards for Success, we identified those standards in the plan and then confirmed that the plan also addressed the HCAAF's critical success factors. For example, one of the critical success factors for the Human Capital Standard for Success on Strategic Alignment requires the Agency to have a system in place to continually assess and improve human capital planning and investment and its impact on mission accomplishment. Following are some of the ways USAID addresses this critical success factor:

- In its HC Strategic Plan, 2004-2008, USAID presents both long-term goals and near-term activities to revitalize the Agency and rebuild the quantity and quality of human and intellectual capital. To achieve its long-term goals, USAID plans, over the next five years, to pursue the following five strategic objectives (SO), the implementation of which will be led by five senior managers in the Office of Human Resources (M/HR):
 - Achieving a high-performing work force
 - Strategically aligning staff with Agency priorities
 - Establishing a more flexible workforce
 - Creating a more diverse workforce
 - Increasing USAID's M/HR capacity to support the Agency's mission and to implement the Agency's HC Strategic Plan

Some of the activities USAID is developing and/or has developed to accomplish these SOs include:

- a template for the allocation of USAID's overseas USDH staff;
- a business model to better align Agency operations with U.S. foreign policy, development, and humanitarian relief objectives; and
- an integrated workforce planning capability that can analyze key competencies, identify skill gaps, and provide managers with necessary information for recruitment, training, and deployment of staff.

The most important near-term activities for USAID include filling vacant Foreign Service (FS) positions, implementing the overseas staffing

template, determining the proper staffing to perform USAID's work ("rightsizing"), and creating supported ceilings or training positions.²

- USAID plans to emphasize a number of initiatives that promote human capital analysis, planning, investment, management, and alignment to achieve strategic goals and objectives. Some of the initiatives are:
 - Filling the most critical existing skill and staffing gaps. Some of the Agency's specific actions to fill existing skill and staffing gaps include establishing hiring targets and recruiting staff, using existing authorities, establishing training positions for new entrants, and improving the supervisor-to-staff ratio. USAID has undertaken the recruitment of 135 career and non-career FS and General Service (GS) positions in FY 2004. It has also proposed a Development Readiness Initiative that parallels, to some extent, the State Department's Diplomatic Readiness Initiative. In addition, the Agency plans to use existing hiring and assignment mechanisms, including mandated assignments, recall appointments and additional GS excursions and conversions.

Once on board, USAID expects that new entrants will receive training and mentoring for at least two years before graduating from junior officer status and taking over full responsibilities on their own. Furthermore, the Agency plans to identify mechanisms to achieve a new supervisor-to-staff ratio of 1:7, thereby removing layers and put more people on the Agency's front lines.

- Establishing a surge capacity to meet new program requirements and respond to emergencies. The Agency plans to establish up to 100 second positions for junior Foreign Service Officers (FSOs) to serve overseas in training under seasoned FSOs. It will also create 45 positions for interns to understudy senior civil servants in critical technical and management positions who are likely to retire and create succession problems. Finally, USAID will also share development expertise and leadership with other U.S. foreign affairs agencies and international organizations, including the Millennium Challenge Corporation, by allowing for the detail of up to 40 officers.
- Undertaking further workforce planning that will allow the Agency to determine the starting point for further "right-

² The intent would be to create a training and reassignment buffer or "float" to cover positions during vacancy periods between assignments and/or extended training (e.g., language training).

sizing” analysis of the whole Agency. While USAID knows which employees are currently on board and where they are located, further workforce planning capacity is required. The Agency is now undertaking comprehensive workforce planning through several separate but related analyses. Some of these actions include identifying key competencies and mission-critical skill gaps, assessing current workforce competency requirements, and conducting annual updates of the overseas workforce template.

USAID’s HC Strategic Plan also addresses the remaining critical success factors related to the Strategic Alignment Human Capital Standard for Success.

Similarly, one of the critical success factors on the Leadership and Knowledge Management Standard for Success requires that Agency leaders establish a clear vision for change and make the commitments necessary to achieve results. Some of the ways USAID addresses this critical success factor are:

- Taking visible actions to support new ways of working. USAID has commenced an initiative called “Knowledge for Development” to (a) synthesize knowledge sharing and resources and (b) lay a strong foundation on which to build a cross-cutting USAID-wide knowledge for development capability.
- Holding people accountable for performance results and meeting their commitments to the change process. USAID plans to develop transparent incentives, assignment, training, and career development systems at all levels. Moreover, USAID’s leadership will use a consistent set of incentives, rewards and motivations for higher levels of performance, as well as legitimate and credible sanctions for poor performance.
- Having Agency leaders establish a clear vision for change and make the commitments necessary to achieve results. The Performance Management Working Group has examined current standards for promotion into the Senior FS and developed proposals to reform the precepts for promotion into and within senior ranks. The working groups preliminary results have indicated that the most important criteria are articulating a vision for an operating unit; respect for staff and diversity, integrity, courage, and devotion to duty; concern for the wellbeing of others; teaching and mentoring; team building; and “knowing the ropes.”

The other critical success factors related to this Human Capital Standard for Success have been addressed, as well as the critical success factors related to the other four Human Capital Standards for Success.

In our opinion, by addressing OPM’s Human Capital Standards for Success and the related critical success factors in its Human Capital Strategic Plan, USAID has incorporated the select best practices in its Human Capital Strategy.

**Evaluation of
Management
Comments**

USAID management accepted our report in its entirety.

(This page intentionally left blank.)

**Scope and
Methodology****Scope**

The Office of Inspector General conducted this audit in accordance with generally accepted U.S. government auditing standards. The audit fieldwork was performed between January 2004 and August 2004 in Washington, D.C. This audit was designed to answer the following question:

- Does USAID's Human Capital (HC) Strategy incorporate select best practices?

The audit reviewed internal controls relevant to the audit objective, such as minutes from the Business Transformation Executive Committee's (BTEC) subcommittee on human capital meetings, BTEC bulletins and other BTEC documents on human capital as well as the Human Capital Assessment and Accountability Framework (HCAAF).

Methodology

In planning and performing our audit work related to the objective, we reviewed USAID's Provisional Final Draft Human Capital Strategy as well as the final report to determine if it incorporated the suggested performance indicators, Elements of YES, and the critical success factors for all six human capital standards recommended in the Human Capital Assessment and Accountability Framework (HCAAF). (The HCAAF was developed jointly by Government Accountability Office (GAO), Office of Management and Budget and OPM to evaluate each Federal agency's progress towards meeting the goals set by the President's Management Agenda.) We also verified that the various working groups on human capital strategy had incorporated the Critical Success Factors and Elements of YES for all six standards for success into its development of human capital strategy. Since NASA received high marks on its human capital plan from OPM, we obtained a copy of NASA's Strategic Human Capital Plan to analyze its strengths. Additionally, we reviewed previous audit reports by USAID/OIG related to human capital and human capital models designed by GAO, the World Bank, and the IMF. We did not independently verify the organizations' responses regarding their specific human capital strategies, policies, and practices, nor did we speak with the organizations' employees or unions regarding the organizations' practices.

(This page intentionally left blank.)

**Management
Comments:**

DATE: December 28, 2004
TO: Nathan Lokos, IG/A/PA
FROM: David Eckerson, M/HR /s/
SUBJECT: IG Audit of USAID Human Capital Strategy

Thank you for the excellent work of your team on their audit of the USAID Human Capital Strategy. M/HR accepts their report in its entirety and we have no issues with the report findings.