U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

July 22, 1992

MEMORANDUM FOR THE EXECUTIVE STAFF, AID/W AND OVERSEAS

The Administrator

SUBJECT: Management Improvement in the Agency for International Development (A.I.D.)

Over the past 18 months, an Agency-wide effort has been made to improve the management and effectiveness of our assistance programs. In December 1990, a management initiative, "Towards Strategic Management," was issued. A central goal of this initiative was to do fewer things--and to do them well. Principal features involved a strengthened evaluation system and improved accountability and oversight through the establishment of the Management Control Review Committee.

In succeeding months, attention focused on the reorganization of the Agency and, in May of 1991, the new A.I.D./W organizational structure was announced. An integral part of that reorganization was an Agency Management Action Plan. Results and accountability remained the core theme of the Action Plan, which included reforms in the design and approval of A.I.D. programs and projects, the Agency's incentives and performance measurement system, and contracting and contract management.

Over the past six months, senior Agency staff have been working collaboratively with their counterparts in the Office of Management and Budget on a joint "SWAT Team" effort. The SWAT Team effort is a major component of the Agency's management improvement program. The final report has now been issued, and a copy of this report is attached to this memorandum.

The SWAT Team effort has been very helpful to the Agency. It focuses on four Agency functions that are integral to the delivery of foreign assistance funds--project management and accountability, personnel utilization, audit, and evaluation. These functions are largely within our control. Improving our performance in these areas will strengthen project and program implementation, resulting in even more "bang for the buck" for the foreign assistance funds we administer.

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The SWAT Team report contains 30 recommendations. The Agency agrees with these recommendations and is committed to their full and timely implementation. The implementation plan that we will develop to carry out the recommendations of the SWAT Team report will be a major part of our continuing management improvement effort. The plan presents a special opportunity to reaffirm our commitment to excellence and to rededicate our efforts to accomplish that goal.

Management improvement must be given your highest priority. I need your thoughts, your creativity and your continued effort to ensure that the management improvements outlined in the SWAT Team report are not only completed but finished on or ahead of schedule.

Associate Administrator for Finance and Administration, Richard Ames, and his Deputy for Management Improvement, Bradshaw Langmaid, are in charge of our management improvement program. They will be providing regular reports to me, to the employees of the Agency and to outsiders on the status and accomplishments of our reform efforts. They must have the enthusiastic support and help of you and your staff if we are to succeed.

I urge you to circulate this report to your staff and discuss it with them so they will understand the tasks we must yet undertake and the goals we have set.

Ronald W. Roskens

Attachment: a/s

Improving Management at the Agency for International Development

Overview

The U.S. Agency for International Development (AID) has been criticized over the past decade for management problems resulting in instances of inefficiency and ineffectiveness. As a consequence, AID has been subjected to an extraordinary degree of outside review. In the past two years, for example, Congress authorized a President's Commission on the Management of AID Programs and the General Accounting Office (GAO) began a lengthy general management review of AID. AID itself has conducted several internal reviews of its operations and the AID Administrator has launched a series of important reforms.

In a joint effort to address these management problems, the Office of Management and Budget (OMB) and AID agreed in mid-January 1992 to constitute a joint SWAT team to examine management problem areas and recommend solutions. For two and one half months, about 30 professional staff from both agencies worked in teams to carry out this task. In addition to intensive work with Washington staffs, the teams met with AID Mission Directors and other AID professionals, who were impressive in their competence and dedication.

The teams also reviewed the report of the President's Commission on the Management of AID Programs (the Ferris Commission) as it pertained to the areas of SWAT team interests. The Commission, for example, recommended that AID management:

- Install a performance management system that links Agency objectives, annual employee work plans or "contracts" and employee evaluations.

- Strengthen AID's internal control review process, provide assistance to the operating units on vulnerabilities they have identified and use the results in developing an Agency-wide management plan.

- Continue to emphasize results-oriented evaluations.

In order to make improvements quickly, the SWAT team focused on steps management could take in the short and medium term, without legislation, and regardless of any broader debate about the role of U.S. foreign assistance. As a result, this report does not discuss more fundamental, long term changes in foreign aid priorities or approaches.

In FY 1992, U.S. foreign assistance consists of:

- $4.1 billion in bilateral military assistance, administered by the Departments of Defense and State;

- $1.8 billion in contributions to international organizations such as the World Bank or the United Nations, administered by the Departments of Treasury and State;

- $1.6 billion in refugee assistance, food aid, the Peace Corps and other miscellaneous foreign aid accounts administered by the Departments of State and Agriculture, and independent agencies; and

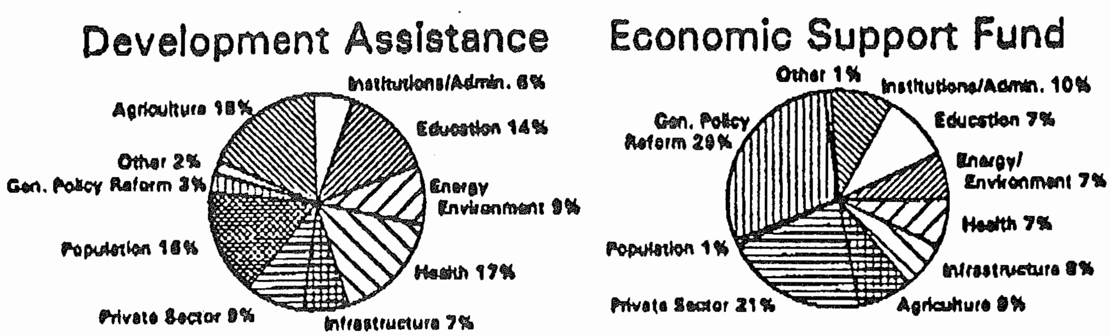
- $7.5 billion in bilateral economic and humanitarian assistance, administered by AID in cooperation with the Department of State.

This report deals exclusively with AID's management of most of the last item, bilateral economic and humanitarian assistance. This assistance is primarily channeled through three broad programs: 1) $ 2.8 billion in development assistance, including the Development Fund for Africa and aid to Eastern Europe; 2) $ 1.0 billion in PL 480 grant food assistance; and 3) $3.2 billion in the Economic Support Fund (ESF). Approximately sixty percent of the ESF account is allocated to Israel and Egypt.

The effectiveness of AID-administered programs depends in part on AID's capacity to understand and affect (i) the structure and flows of national economies; (ii) the impact on those economies of external investments (private and public, multilateral and bilateral); and (iii) the host country's social and political environment.

AID provides project and non-project assistance to more than 100 countries for a variety of purposes as the following pie charts show.

DISTRIBUTION OF DA & ESF PROJECTS BY CATEGORY, 1991



Combines DFA & FDAP

Excludes Payments to Israel and Turkey.

Project assistance involves more than 60 distinct activities: e.g., agricultural credit, irrigation, pest management, urban and industrial pollution, energy management, and diarrheal disease. Non-project assistance consists of cash payments for economic policy reforms, and payments for military base rights and commodity import programs.

Most AID projects have a life cycle of 5 to 10 years. As a rough rule of thumb, about 80 percent of each year's development assistance budget funds the costs of projects initiated in previous years and about 20 percent partially funds new projects. In addition, AID reports $9.8 billion in unexpended obligations as of September 30, 1991. Of this amount, $4.8 billion involve current year appropriations and $5.0 billion involve prior year appropriations to fund continuing projects.

Many of the perceived problems at AID stem from decentralization, the lack of a centralized management information system and the absence of rigorous evaluations of AID's programs and staff. AID appears to spend more energy designing new projects than it does implementing or evaluating on-going projects, notwithstanding the fact that roughly 80 percent of AID's annual appropriations fund on-going projects. The SWAT team found, for example, that AID:

- lacks clear-cut goals translated into employee work plans;
- lacks uniform guidance for oversight of field activities;
- does not always effectively evaluate contractor performance and does not always hold contractors strictly accountable for specific results; and
- has no comprehensive system to evaluate all important projects or to identify problem projects.

For these reasons, AID too often does not know whether its programs are efficiently run or how effective they are. Similarly, all too often, it does not know whether its employees or contractors are working in an efficient or effective manner.

The SWAT team examined three areas where AID was perceived to have management problems:

-- Personnel Appraisal and Accountability;

-- Project Management, Contracting and Audit; and

-- Program Evaluation.

The SWAT team made 30 recommendations to improve AID's management in all three areas. Their implementation will not "reform" foreign assistance, but should improve AID's management of its programs. The last point is important because whatever directions new assistance policies might take, AID's programs will continue to fund project contracts and grants to assist countries' development. Improved AID management of these project contracts and grants (their design, implementation and evaluation) will be essential if either new, or existing, foreign assistance policies are to attain their objectives.

Senior AID management is committed to improving agency management and has initiated a number of management improvement actions. Many of the recommendations in this joint report build on work already underway.

The AID Administrator recognizes the importance of timely action and will prepare an action plan by August 31st -- including milestones, performance measures and resource implications -- to implement this report's recommendations. The AID Administrator and the OMB Director will review and approve this plan. AID will submit progress reports on its action plan implementation with its budget submissions.

AID Personnel Appraisal and Accountability

At its peak in 1966, AID had 18,000 direct hire employees, of whom 5,000 were in Vietnam. Since then, AID's full-time, non-contract employment level has come down while the number of countries it serves has increased:

	1990	1991	1992
Foreign Service	1,793	1,765	1,736
Civil Service	1,609	1,587	1,564
U.S. Direct Hires	3,402	3,352	3,300
Foreign Nationals	1,104	1,049	1,027
Total Direct Hires	4,506	4,401	4,327

Today, about 530 AID Foreign Service Officers and all of the agency's Civil Service employees are based in Washington. In addition, AID uses about 6,300 personal services contractors (PSCs) to support its field missions and assist in implementation of its programs. About 5,900 of the PSCs work overseas, while 400 are in Washington. About 1,300 PSCs are American citizens. PSCs perform work ranging from air conditioner repair to sophisticated economic analysis.

AID's Office of the Inspector General (IG) has approximately 286 direct hire employees based in Washington and abroad.

The Ferris Commission, GAO, the AID Inspector General, and AID employees themselves have criticized some of the agency's personnel management practices. These reports have raised serious questions about how AID manages its workforce. There are also, as the Ferris Commission notes, underlying issues of work force planning and hiring strategy that the SWAT team did not address. The team did examine how AID might better use personnel appraisal systems to improve employee accountability for expenditure of public funds and for program results.

AID uses three personnel management systems to manage its direct-hire employees:

- The Foreign Service, principally to staff overseas missions and senior management positions in Washington as well as overseas.

-- The Civil Service for support, technical expertise, and some senior management positions in AID's Washington headquarters.

-- The Foreign Service National (FSN) system for local hires of non-U.S. citizens in AID missions abroad.

All three systems use formal appraisal processes with similar features: 1) the development of assigned duties or work requirements; 2) standardized rating forms and rating periods; 3) annual employee evaluations by supervisors; and 4) various incentive and award programs. The Foreign Service differs in that employee boards appointed by management make recommendations on tenuring, promotion and performance pay, as mandated by the Foreign Service Act of 1980.

There is agreement that AID's organizational mission has become diffuse with many competing Congressionally-mandated objectives -- 39 according to the Ferris Commission. This diffusion has a direct impact on employee evaluations. The Ferris Commission notes: *"AID management has not clearly defined and communicated its objectives and priorities, specified annual unit goals, or identified performance standards against which employees could be rated."*

Some AID supervisors have allowed the formal appraisal process to become "a paperwork exercise." Some employees assert that annual performance ratings have little to do with promotions and awards. Others contend that Foreign Service promotion panels do not give adequate consideration to the employee's record of meeting management objectives when making promotion decisions. According to AID IG staff, agency supervisors could do more to encourage employees to flag problems early in individual projects. The absence of a uniform program evaluation system, combined with poorly defined and communicated priorities, leads to poor accountability.

AID management emphasizes awards and incentives as important personnel management tools. For example, in FY 1991, the agency paid $2.4 million in performance based incentive awards to about 1,700 employees. In that year, 43 percent of the Foreign Service staff received awards and 59 percent of the Civil Service employees received awards.

In the same year, AID separated only five people for substandard performance.

In July 1991, Administrator Roskens created an Incentives Reform Committee to recommend improvements in the personnel area. AID has begun to implement the Committee's recommendations for:

-- New employee rating criteria emphasizing program results.

-- New career development standards defining experience and training for different grade levels.

-- New award selection criteria tying incentives to program accomplishments.

-- New awards to recognize individual achievement.

The Incentives Reform Committee is on the right track but there should be more emphasis on better specification of work requirements, project staff training and skill levels.

Finding: AID lacks clear-cut agency goals translated through specific unit objectives into annual employee work plans.

Recommendation # 1

The AID Administrator should provide written guidance to newly-assigned Mission Directors and other senior managers (similar to the Secretary of State's letter of instruction to new Ambassadors) clearly defining program and management objectives.

Recommendation # 2

AID supervisors and employees should jointly prepare new Employee Work Requirement Agreements at the beginning of each rating cycle, and allow for feedback during the cycle. The agreements should include specific work requirements directly linked to agency goals, with measurable indicators of successful performance. The agreements should specify the projects and activities for which officers would be responsible. They should also have, where appropriate, specific work elements for contract management, oversight of field activity, and effective use of program evaluations. Work Requirement Agreements of employees engaged in project management and oversight must be especially specific and focused on results. The employee appraisal rating system should be revised to reflect the new work requirement agreements.

Finding: AID's management has not demonstrated clearly and on a sustained basis that the personnel appraisal process and employee accountability are important to the agency.

Results-oriented performance appraisal must become an integral part of the agency's management system and operations.

Recommendation # 3

AID management should make Foreign Service unit review panels responsible for ensuring that work agreements are sufficiently specific, tied to Agency goals and that there is evidence of supervisor feedback during the rating cycle. The Associate Administrator for Finance and Administration should provide formal written guidance to the panels, which should be involved early in the appraisal process.

Recommendation # 4

AID should re-write the current promotion and performance pay guidelines, policies and standards to require employee fulfillment of the work agreements as a condition of promotion and performance pay.

Recommendation # 5

The rating periods for performance appraisal and performance pay should be synchronized.

Finding: **AID personnel, especially those directly engaged in project management, do not always have the skills necessary to fulfill their work requirements successfully.**

Each year AID spends about $4 million on training, including project design and development, management skills and mandatory programs, e.g. foreign language training. The SWAT team found that project staff, including current employees as well as new hires, often do not have sufficient experience and training for the work they are expected to do. The greatest weaknesses are in project implementation and contract administration, financial management and foreign language proficiency.

The Ferris Commission noted that *"AID's training programs are a collection of ad hoc courses which evolved over time and lack a focus as to agency goals or employee career development objectives."*

Recommendation # 6

AID should implement a system for training and then "certifying" AID employees prior to assigning them to key project management positions -- especially in AID missions abroad.

A formal qualifications certification process would increase the skill-level of project staff and ensure preparation for responsible management, implementation, and oversight of projects. Such a system would require setting up specific training and assignment regimes that would have to be completed to receive a qualification certificate for key AID/Washington and overseas positions. The U.S. military uses similar qualification systems (e.g., the Navy's 'Qualification for Command' program). AID training should concentrate on project management, including both design and implementation, contract administration, financial management, procurement, and ethics.

Finding: **AID has not clearly defined the organizational values and personal conduct expected of its personnel.**

AID is responsible for the expenditure each year of billions of dollars in more than 100 countries across a wide range of activities, employing often new and untested strategies and procedures. Given the fiduciary nature of their employment, it is essential that Agency personnel at all levels have a clear sense of the standards of personal conduct they are expected to meet.

Recommendation # 7

The Administrator should issue a clear policy statement on the importance of ethics, integrity and personal conduct relating to official duties.

Recommendation # 8

AID should expand its training in ethics to cover all employees, including personal services contractors. The program should include training in organizational values and ethical decision making.

PROJECT MANAGEMENT

AID assists developing countries through projects, such as building elementary schools or repairing irrigation facilities, and through non-project assistance, such as cash or commodity transfers to the host government. Most assistance is channeled through field missions. In some circumstances, AID central offices (such as the Private Enterprise Bureau) also design and implement assistance programs directly in the field. The SWAT Team's review of AID's project management covered monitoring of AID activities from the obligation of funds to project completion, and Washington oversight relating to broader responsibilities for management of AID's portfolio. The team concentrated primarily on Washington oversight of field activity implementation and, to a lesser degree, on reporting of field activity performance.

Finding: There is no uniform guidance for oversight of field activities.

A lack of uniform guidance and standards, compounded by inconsistent bureau requirements, creates confusion and weakens oversight. Without clearly articulated responsibilities and standards, neither Washington managers nor Mission Directors can now be held accountable for oversight of field activities. As a result, manpower may be wasted, cost overruns and implementation delays may not be identified in a timely fashion, and correctable problems may go unnoticed until they become major issues.

Over the past decade, AID shifted responsibility for project-related decision making from Washington to the field. As this decentralization of authority took place, the Washington office that should have played a major role in setting standards and defining responsibility for field activity monitoring failed to do so. As a result there is no current central guidance to Mission Directors to assure consistent and adequate field activity monitoring. For example:

- Periodic Project Implementation Reports (PIR) -- a basic management tool -- are not required by all bureaus. Where they are required, the format and content vary.
- Handbook 4 (Non-Project Assistance) provides only minimal guidance for monitoring and oversight of cash transfers and sector grants.

- Almost no formal written standards or expectations exist about field activity monitoring and oversight responsibilities for any management level other than the project officer.

- Almost no guidance, in the form of senior management directives or published policies and procedures, inadequately addresses Washington management's responsibilities for field activity monitoring and oversight.

Recommendation # 9

AID should clearly define the responsibilities for project and program activity monitoring and oversight at all levels. Appropriate responsibilities should be defined for the following levels at a minimum:

-- Mission level (Mission Director),
-- Bureau level (Regional Assistant Administrator),
-- Directorate level (Associate Administrator for Operations, Associate Administrator for Finance and Administration, Director for Policy), and
-- Administrator level (Administrator and Deputy Administrator).

Recommendation # 10

AID should develop and implement Agency-wide standards for reporting project and program activity status to support specific responsibility levels. Agency handbooks should include these up-dated agency standards.

Finding: AID has not defined, and does not collect, much of the information necessary for Washington oversight of field activity.

Despite a wide variety of information systems, such as a Contract Information Management System (CIMS) designed to collect details of all contracts valued over $25,000, AID lacks consistent data and reliable reporting of the Agency's field activities. There is no regular reporting on individual activities or country programs that are encountering problems. To satisfy recurring information requirements managers at all levels must rely too heavily on ad hoc reports.

AID cannot assemble an "official" portrait of AID's large, diverse field activity portfolio because the agency's information systems lack essential data, are not coordinated, and do not collect information in a consistent manner. For example:

- CIMS is incomplete because all field contracts are not yet included.

- Mission Directors are often unaware of centrally funded activities in their countries, such as a rice yield project funded by the Research and

Development Bureau, since reporting to the field on Washington-funded projects is not required or provided systematically.

- There is no clear definition of a project; for example, a single "project" may have several discrete activities or "sub-projects," which in another country program would be treated as several different "projects." In addition, AID cannot report on the full extent of non-project assistance, including cash transfers, commodity programs and sector grants.

- AID cannot always retrieve overall information on how it implements its programs (e.g., by contracts, grants, training and local cost financing).

- AID cannot provide reliable information on PL 480, Housing Guaranty, and local currency projects.

The team also found that managers could not fully define their information requirements. For example, almost all managers say they want "exception" reporting of abnormal events. A common approach to this would require a uniform definition of exceptions.

Recommendation # 11

AID should formally specify the information required for project and program oversight at each level of management and communicate these needs up and down the organizational ladder.

Finding: **AID does not have the information systems necessary to support field activity monitoring and oversight.**

AID uses many automated and manual systems to monitor field activity. AID's systems are not integrated, operate on older proprietary computer technologies, and are often duplicative and overlapping. This leads to inconsistent, inaccurate and incomplete reporting that managers frequently do not trust. For example:

- AID has over ten systems used for field activity budgeting. Frequently, budget formulation systems are not integrated with budget execution systems or with AID accounting systems.

- The budget system provides a much lower dollar figure for non-project assistance than the accounting system.

- There are significant discrepancies in obligation data as reported in the Contract Information Management System (CIMS) and the various budget and accounting systems.

Recommendation # 12

AID should review existing and proposed systems improvement projects with the goal of consolidating and integrating them so that Washington management will get reliable summary information and useful "exception" reporting.

Recommendation # 13

AID management should initiate an agency-wide campaign encouraging employees to bring project shortcomings and questionable activities to the attention of their supervisors, for inclusion in an agency project and program "watch" list.

CONTRACTING

AID manages a large and diverse portfolio of project and contract activity. Direct contracts are awarded and administered by AID following U.S. government procurement procedures. Host country contracts, which are funded by AID under bilateral project agreements, are awarded and directly administered by foreign governments not bound by U.S. procurement rules. Based on available information, the AID portfolio includes 3,008 active contracts collectively valued at more than $7.4 billion, divided as follows:

- 2,896 direct contracts, primarily with U.S. firms and institutions, valued at $6.2 billion, and

- 112 host country contracts valued at $1.2 billion.

AID direct contracting is subject to the provisions of the Federal Acquisition Regulation (FAR) as supplemented by the AID Acquisition Regulation (AIDAR). The AID Procurement Executive also issues Contract Information Bulletins to provide temporary guidance. Procurement personnel are responsible for including appropriate terms in the contracts (e.g., audit clauses), approving contract statements of work, and resolving problems in contract administration. They must rely, however, on project officers to write clear statements of work and to monitor contractor performance.

Host country contracting is funded by AID pursuant to a written project agreement with the host country. AID does not conduct the resulting procurement, nor is AID a party to the resulting contracts, but the agency does approve key steps in the process. While host country contracting is monitored according to the rules in AID Handbooks, the Federal Acquisition Regulation and the AID Acquisition Regulation do not apply.

Over the past decade, AID has increasingly decentralized its program and project management and become increasingly dependent on contractors to implement projects:

- The Ferris Commission noted: *"Systems of program development and management vary by bureau, as do working relationships with field missions, often compromising AID's strong reliance on decentralization. The lack of unified management controls causes the largest single category of adverse findings by the IG."*

- GAO's Report "AID Can Improve its Management and Oversight of Host Country Contracts," noted that AID:

  -- did not assess host country contracting, voucher review, and audit capabilities,

  -- did not determine whether the expected benefits of host country contracting were achieved,

  -- did not monitor and approve key stages of host country contracts consistently, and

  -- did not ensure that host country contracts were audited.

- For seven consecutive years, AID has reported inadequate audit coverage of its grants and contracts with U.S. and foreign entities as a material weakness in internal control in its Federal Manager's Financial Integrity Act (FMFIA) reports.

Despite AID's serious efforts to correct deficiencies (e.g., recent actions to improve host country contracting), there remain major inadequacies in contract and project management guidance, information systems and audits. Contract management practices are particularly weak. For example, essential functions (such as monitoring contract deliverables, managing costs, evaluating and recording contractor performance, and contract closeouts) are not being performed adequately.

Finding: Mission Directors often do not give sufficient priority to contracting functions.

Mission Directors give relatively low priority to management of both direct and host country contracting. Despite repeated mission contracting deficiencies cited by the IG and GAO, Mission Directors have not taken adequate action to improve contracting practices. As a result, AID's overseas contracting program is hampered by inadequate planning, staffing and oversight.

Recommendation # 14

The AID Administrator should issue a comprehensive policy directive on direct and host country contracting which would:

- Require AID Mission Directors to review their contracting procedures and organization using criteria already developed by the AID Senior Procurement Executive, identify any deficiencies, and develop an action plan for correcting them.

- Require AID Mission Directors to certify annually that their contracting programs comply with Procurement Executive criteria.

- Direct that AID Senior Procurement Executive certifications of the AID procurement system, as required by Executive Order 12352, reflect Mission Directors' certifications.

- Establish contract management as a critical element in AID Mission Directors' letters of instruction and in performance appraisals at all levels. Unsatisfactory contract management performance should result in the withholding of performance pay and adversely affect promotions.

- Reinforce AID's Procurement Management Review (PMR) program, which establishes minimum procurement staffing requirements for each mission.

Finding: **Overseas contracting officers lack adequate organizational authority and status.**

Contracting officers in AID missions do not have the independence, authority and status to enforce proper contracting practices. This finding is supported by the GAO, the Ferris Commission Report and AID's Procurement Executive. Contracting officers who do provide effective checks on the contracting function may come into conflict with "higher" priorities. Such instances can be career threatening to contracting officers.

Recommendation # 15

The AID Administrator should ensure that clear lines of contracting authority and accountability are maintained through the AID Senior Procurement Executive to the individual contracting officers. The program should provide that:

- Contracting authority be delegated only to individuals with experience and training in contracting, unless a waiver is granted by the Senior Procurement Executive.

- Principal contracting officers at overseas missions report to the Mission Director or Deputy Director (in the larger missions). Contracting officers' annual performance appraisals should be coordinated with the Senior Procurement Executive.

- Administrative contracting responsibilities, such as approving vouchers and travel expenses, should be delegated only to properly trained project officers.

Finding: Contractor performance is not effectively evaluated and contractors are not held strictly accountable for specific results.

Contracting officers often do not know if contractors are performing efficiently because essential contract administration activities (such as monitoring contract deliverables, managing costs, and evaluating and recording contractor performance and contract closeout) are done ineffectually. As a result, contractual terms may go unfulfilled and future contracts may be awarded to entities or persons that were demonstrably incapable and inefficient in performing their previous contracts. AID procurement system certifications under E.O. 12352 (Federal Procurement Reforms) consistently cite contract administration, including contract close-out and property accounting, as a problem.

Contractor performance problems are compounded by over-reliance on cost reimbursement contracts, which in FY 1991 constituted over 70 percent of AID's contracts. Moreover, many of AID's contracts are "level of effort" contracts, wherein AID pays for a certain number of hours of contractor effort, but does not hold contractors accountable for specific results. In many instances, project officers are unable to provide sufficiently detailed statements of work to permit "completion" type contracts.

<u>Recommendation # 16</u>

- **AID project managers should routinely and consistently evaluate contractor performance and document whether contractors have met contract terms and satisfied project requirements.**

- **Use of "level-of-effort" contracts should be reduced, and their future use should require certification by the Deputy Mission Director. Fixed price contracts should be used to the maximum feasible extent.**

Finding: Although AID now requires Mission Directors to certify a foreign government's capability to manage host country contracts, more can be done.

In its 1991 Federal Manager's Financial Integrity Act Report, AID cited as a material weakness its failure to evaluate adequately host country capabilities to conduct host country contracting. The Ferris Commission and GAO made similar findings. Mission Director certification, introduced by AID management in 1991, has already dramatically reduced reliance on host country contracts, but AID still cannot be sure that host country contracting agencies are properly spending and safeguarding U.S. Government funds.

Recommendation # 17

Delegation of contracting authority, including approval of host country contracts, should flow through the AID Senior Procurement Executive. Where delegations have not been made, the Senior Procurement Executive should review and approve decisions to renew or enter into major (over $10 million) host country contracts. The Senior Procurement Executive should review major extensions of host country contracts to assure proper procedures and safeguards are in place.

- Project implementation letters should (a) contain mandatory provisions for open, properly competed contracting actions following guidelines and model contract provisions already developed by the AID Senior Procurement Executive, and (b) be monitored by AID Contracting Officers.

Finding: **AID does not obtain sufficient pre-award audits and properly clear direct contracts.**

Pre-award audits ensure that contractors have the proper internal controls to account for and administer Federal funds. AID does not routinely request such audits of larger contractors or properly clear AID direct contracts prior to award, despite IG findings that several AID contractors did not have the necessary internal controls.

Failure to use pre-award audits can result in losses to the Government. For example, in a recent examination of expenditures made under a $2.5 million contract, the auditors questioned $400,000 in costs and could not audit the balance of $2.1 million. A pre-award audit would have revealed that the contractor did not have adequate internal accounting and administrative controls.

Vulnerabilities resulting from insufficient pre-award audits are compounded in AID's case because AID's contracting officers are not subject to routine "checks and balances". Contracting officers, by definition, exercise substantial authority -- and properly so -- to commit the U.S. government to sizeable expenditures of funds. AID, for example, has empowered approximately 20 contracting officers to advertise, negotiate, award and administer contracts, without regard to dollar limitations and without second party review before award. While the agency's highly decentralized and dispersed operations may be complicating factors, the absence of a comprehensive control system -- especially for large negotiated contracts -- creates a high, possibly unacceptable, risk.

Recommendation # 18

- **AID should develop in-house capability to conduct pre-award audits in cases where Federal auditors cannot provide timely service.** This capability and responsibility (presently assigned to the Inspector General) should be co-located with the responsibility for scheduling and management of the Agency's contractor financial audit program (see Recommendation # 23)

- **The AID Senior Procurement Executive should establish a system to address the requirements and procedures for obtaining pre-award audits and provide for necessary checks and balances to assure that no one individual has unrestricted control of a procurement action.**

Finding: **Procurement personnel and project officers are not adequately trained in procurement.**

The SWAT team identified gaps in training and preparation of procurement personnel and project officers who become involved in procurement transactions. AID training should emphasize contract administration, procurement planning, and preparation of statements of work for its procurement and project management staff. Ethics should be a vital component of training for all staff who engage directly or indirectly in procurement activities.

Recommendation # 19

- **The AID Administrator should direct implementation of a competency-based contracting training program as part of the procurement career management program required under section 16 of the Office of Federal Procurement Policy Act (41 U.S.C. 414(4).** In its training program, AID should follow the guidelines developed by the Federal Acquisition Institute, adapting them as necessary to AID's special requirements, and establish a contracting-competency certification program. (See also recommendation # 6)

- **AID should develop a special course on "Contracting for Project Personnel" to explain proper contracting techniques:** including preparation of statements of work and purchase requests, contract administration guidelines, and methods to identify indicators of fraud, waste and improper contractor actions.

FINANCIAL AUDITS

Financial auditing of AID contracts and grants consists of audits of: (1) cost reimbursement contracts and systems of U.S. contractors; (2) grantee financial statements, including compliance with Federal laws and regulations; and (3) foreign government grants and contracts (made by auditors selected by either the foreign government or by AID overseas missions). These audits are performed by non-AID Federal auditors and independent Certified Public Accountants. The AID Inspector General concentrates on program performance audits.

For audits of cost reimbursement contracts with U.S. contractors, generally a single Federal agency charged with "cognizant" audit responsibility for that contractor provides routine audit coverage. The cognizant agency represents all awarding Federal agencies, establishes indirect cost rates, and arranges or conducts periodic audits of all Federal contracts received by the contractor. The cognizant agency shares the information about indirect cost rates and the results of audits with all awarding Federal agencies. Under this system, when AID awards a contract to a contractor with a cognizant agency, the audit by the cognizant agency includes the AID contract. In 1991, the DCAA conducted about 90 percent of these audits.

For audits of U.S.-based grantees and their domestic and foreign sub-recipients, AID requires compliance with the provisions of OMB Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Institutions." This Circular requires an audit at least every two years by independent auditors.

With respect to audits of grants and contracts with foreign non-profit organizations, AID has recently revised its requirements for audits on a periodic basis. For audits of foreign governments, the project grant agreement between AID and the host country requires the host country to have its books and records audited each year in accordance with generally accepted auditing standards.

The team found, however, that all of the management controls needed to ensure timely audits are not yet in place. For example, there is no complete inventory of AID's contracts and grants. There are gaps in audit coverage, particularly at overseas missions, but AID does not know how serious or widespread the lack of audit coverage is. In addition, because of analytical and reporting deficiencies, we found Federal Managers Financial Integrity Act (FMFIA) reports to be misleading and not used effectively as a management tool.

Finding: AID does not obtain adequate audit coverage of overseas projects.

Missions have not consistently enforced the audit provisions of project agreements with foreign governments. Consequently, there have been no audits of hundreds of millions of dollars of project funds. Although AID's IG has made reviews at selected missions, we were not able to determine the total dollar value and number of unaudited projects because IG findings were not based on agency wide statistical samples of projects. In Egypt alone, the IG identified over $168 million of project funding spent by the host country over the past four years that had not been audited. Also, IG data showed that during a similar period only 18 percent of $1.4 billion in funding for projects conducted in 11 Latin American countries had been audited.

Over the past four years, audit reports attributed inadequate audits of project funds to the following:

- Handbook 3, "Project Assistance, " does not provide appropriate guidance for acceptable audit standards, audit timing, and audit plans.
- Most missions do not have a system for tracking host country compliance with audit requirements.
- Appropriate audit provisions are not included in most project agreements.
- Mission officials often do not understand the audit requirements.

Recommendation # 20

AID should revise and strengthen its audit policy guidance in the Project Assistance Handbook (Handbook 3), particularly with regard to the audit of host country contracts. AID should also revise its audit procedures in the Country Contracting Handbook (Handbook 11) for requesting, funding and performing audits of host country contracts.

Recommendation # 21

The IG should assess the effectiveness of AID's new audit management resolution program one year after the program is implemented, using agency wide statistical samples of AID's projects, grants and contracts.

Finding: AID does not use the FMFIA internal control review process to improve audit coverage.

The team found that, while the most recent FMFIA report addressed audit coverage of grants and contracts with foreign governments, it was not useful for tracking follow up actions, because of an absence of corrective action milestones. Because of analytical and reporting deficiencies, the FMFIA reports were misleading and not effective as a management tool. For example, the most recent FMFIA report stated, "because of lack of funds, the IG can cover only about one third of the billings submitted by for-profit contractors for which it has audit responsibility." The team could find no basis for this statement. The team found no evidence of a shortage of funds for audit. The IG who handles the billings and the OMB budget examiner were not aware of audit funding constraints.

Recommendation # 22

In cooperation with OMB, AID should revise its internal control review process under the FMFIA as it relates to audits of grants and contracts to:

- More accurately describe the control deficiencies and related impact.
- Provide more detailed specific milestones and dates to enable AID management and OMB to track the issuance of final policy guidance and progress made in implementing this guidance.
- Provide for senior management and IG review of the process and related FMFIA reports.

Finding: **AID does not have an adequate system for scheduling and tracking audits.**

AID's organizational structure for scheduling, tracking and following up on audits in Washington does not assure proper and timely audit coverage. For example, because of a backlog, AID is currently waiting for DCAA to complete three audits requested in FY 1988, 13 audits requested in FY 1989, and 41 audits requested in FY 1990. While these delays do not always present a problem, there are cases where early completion of an audit is critical to prevent contractor overpayment and for effective grant and contract management.

Based on a pilot program, the IG believes that non-Federal audits may be more cost effective than Federal audits in some cases. For example, the non-Federal auditors questioned one contractor's costs of $1.3 million, whereas a previous DCAA audit identified no questioned costs.

AID does not have a complete inventory of grants and contracts, therefore there is no mechanism to make sure grants and contracts receive timely and necessary audits.

Responsibility for contractor and grantee financial audit scheduling and follow up is divided between the IG and AID management. The IG is responsible for scheduling, tracking and funding audits. AID management has the responsibility for audit follow up. Divided audit management responsibilities inhibit the effectiveness of grant and contract management.

Recommendation # 23

Audit functions presently assigned to the IG should be assigned to the Office of Procurement should be located in a new Contract Audit Management Branch within the Procurement Support Division. The branch should have responsibility for scheduling, monitoring and paying for audits by outside firms, and it should be properly staffed. Related shifts in resources would be addressed in the implementation plan.

Recommendation # 24

AID must complete, and maintain, a comprehensive inventory of U.S. and overseas contracts and contractors requiring audits.

Recommendation # 25

AID should use non-Federal auditors whenever practical to reduce backlogs and to perform critical audits.

AID Program Evaluations

During fiscal years 1989 and 1990, AID evaluated roughly 125 of its 1,900 active projects, covering about $3 billion of a $38 billion project portfolio. Evaluation topics ranged from assessing AID's export promotion efforts in developing countries to examining whether specific projects promoted child survival or increased agricultural production.

Approximately 80 percent of AID's evaluations are intended to help missions improve implementation of individual projects. For this purpose, AID defines a "project" as a specific "intervention" -- such as a grant agreement on nutrition or education -- with a single budget allotment. A "program" is a cluster of "projects" that have a single objective. Usually, the AID staff, whose work is being evaluated, help prepare the evaluation's scope of work. AID/Washington prepares about 20 percent of the evaluations, largely to determine if sectoral or country programs are achieving their self-defined objectives.

AID spends an estimated $15 million a year on evaluations, most of which are done by private contractors.

During the 1980s, GAO, OMB, the AID Inspector General and AID staff criticized AID's evaluations. One study, covering evaluations done in FY 1989-90, concluded that:

- Only 6 percent of the evaluations were analytically rigorous. About 70 percent relied on impressionistic interviews, and only 12 percent relied on externally defined standardized indicators.

- Only 22 percent of the evaluations examined whether goals had been achieved, and only 43 percent examined whether the project was sustainable.

- Only 5 percent of the evaluation teams included individuals with specific evaluation skills.

Many of the problems with specific evaluations stemmed from a weak evaluation process. In self-criticism before the 1990 Evaluation Initiative, the AID/Washington evaluation office, the Center for Development Information and Evaluation (CDIE), noted AID's evaluation process:

- Relied too heavily on contractors and staff from other AID offices to conduct its evaluations.

- Lacked authority to select evaluation sites, leading to sample biases favoring "successful" projects.

- Allowed review by AID mission "stakeholders" to become at times a "clearance" process.

- Did not allow enough time for systematic data collection in the field.

The most fundamental criticism, however, was that AID senior managers frequently did not use evaluations to set program priorities and budgets. As Thomas Schelling notes in an assessment of foreign aid budgeting, *"modern techniques of evaluation require a consumer, some responsible person or body that wants an orderly technique for bringing judgement to bear on a decision."* A 1988 AID study revealed that only 30 percent of AID senior managers read evaluations. The AID "evaluation consumer" was missing, largely because AID managers:

- Focused more on obligating and disbursing funds, or inputs, rather than outcomes.

- Based policy and budget decisions on criteria other than the relative success or failure of projects or programs.

In the Spring of 1990, Administrator Roskens requested a thorough review of AID's evaluation efforts. The recommendations of that review led to the announcement of an initiative in October 1990 that would:

- Increase CDIE's evaluation staff from 10 to 33 by the end of FY 1992.

- Increase CDIE's evaluation budget from $2 million to more than $5 million by FY 1992.

- Set an annual evaluation agenda.

CDIE work on an agency wide evaluation system was accelerated. The system was to be results-oriented in that all AID missions would identify development objectives and then set quantitative indicators that measured progress toward those objectives. For example, if a Kenya AID mission objective was family planning, the evaluation system would measure changes in the use of contraceptives and birth rates as indicators of success.

The Ferris Commission reviewed the evaluation initiative and noted that *"AID/W can play an important role in coordinating selective evaluations of projects and broader evaluations of sector historical data in order to help Missions design better projects."*

The AID Evaluation Initiative is on the right track, but is incomplete, particularly in terms of integrating comprehensive, project-level evaluation into AID/Washington analysis and decision making.

Finding: AID has no comprehensive system to evaluate all important projects or to identify problem projects.

AID does not consistently and uniformly report the progress of on-going projects or evaluate finished projects. For example, a 1986 review found that AID staff prepared only 15 percent of the project completion reports that are required by its own published directive. Senior AID managers, OMB and Congress do not have a comprehensive body of information on the final accomplishments of projects or how they compare with initial objectives. Policy makers cannot, therefore, re-examine major resource allocations on the basis of expectations realized or achievements attained.

Recommendation # 26

- **AID should produce a comprehensive annual report on project and program performance.**
- **AID should assign comparative grades (e.g., successful, passing, failure) to each major on-going and completed project or program. Contractor or grantee performance should be explicitly evaluated.**
- **AID should also establish a "watch list" of problem programs and projects.**

Finding: The quality of project evaluations remains weak.

Too many evaluations still tend to be "impressionistic" and to lack adequate empirical evidence. Evaluation guidance is out-dated; quality standards are not routinely monitored; and despite promises, AID still devotes few resources to improving evaluations.

Recommendation # 27

AID/Washington should develop new evaluation guidance, expand training and enforce compliance of policy on project completion reports.

Finding: Senior AID managers, particularly in Washington, typically do not use evaluation findings for policy and budget decisions.

AID has not used evaluations sufficiently in designing or justifying its budget requests.

Recommendation # 28

- **AID should make evaluation findings more accessible to senior managers and require managers to use those evaluations; evaluation findings should be mandatory in budget justifications and Congressional presentations.**

- **AID should ensure that CDIE is integrated into major policy and budget decisions.**

Finding: Managers are not personally accountable for preparing or using evaluations.

There were, for example, no sanctions applied against the AID staff who failed to write project completion reports 85 percent of the time.

Recommendation # 29

AID should include the effective conduct and use of evaluations as an element of personnel performance appraisals, with managers held directly accountable for gathering and analyzing data on the performance of projects and programs.

Finding: AID is still substantially under-investing in evaluation and performance measurement.

AID spends only about 0.2 percent (about $15 million) of its program resources on evaluations compared to the 1 percent that the Department of Health and Human Services or the US domestic food stamp program spend. Despite the AID Evaluation Initiative, as of April 1992, CDIE is short 11 staff and $3 to 4 million in budget resources from planned levels. Although more resources re-directed from other AID programs is not a sufficient condition to ensure quality evaluations, it is a necessary condition.

Recommendation # 30

AID should use substantially more of its program funds to strengthen evaluation and program performance monitoring, and staff and fund CDIE at the planned levels.

USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Associate Administrator for Finance and Administration

July 16, 1992

MEMORANDUM

TO: FA/OMS, Ann Dotherow
FA/IRM, Barry Goldberg
FA/AS, Tom Huggard
FA/MCS, John Koehring
FA/B, Rick Nygard
FA/AMS, Janet Rourke
FA/FM, Mike Usnick

FROM: AA/FA, Richard A. Ames Dick

SUBJECT: A.I.D.-OMB SWAT Team Report

The attached SWAT Team Report has been completed and will be released today with a Press Release (copy attached).

We are pleased with the results of the study. The Agency has committed to implement the thirty recommendations to improve management and results at A.I.D. The focus of the OMB effort was on factors that are largely under the Agency's control. These changes will improve project implementation, management, evaluation, and accountability. When implemented, they will improve results irrespective of the nation's foreign policy direction.

A number of people from F&A, (including Jack Owens, Brad Langmaid, Jim Murphy, Tony Cauterucci, Terry McMahon and David Johnson) have played an important role in the joint SWAT Team's effort and deserve considerable credit for the Team success.

Now we turn to implementation. We are developing a detailed implementation plan for all thirty recommendations (including action steps, performance measures, time lines and resource implications) that will provide a road map for our ongoing implementation effort.

The SWAT Team recommendations will provide a foundation for the Phase II Management Improvement Program. These actions will be integrated, as appropriate, with recommendations from the Presidential Commission and the GAO review to be completed later this year.

Please call me or Brad if you have any questions.

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

ccs:
w/o att.
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July 16, 1992

For Immediate Release
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ADMINISTRATION RECOMMENDS IMPROVEMENTS IN MANAGEMENT OF FOREIGN AID PROGRAM

Office of Management and Budget Director Richard Darman and Agency for International Development Administrator Ronald Roskens today announced the results of a joint USAID-OMB review of USAID's management operations.

As a result of the review, 30 recommendations were made to strengthen AID's management of staff and overseas projects and programs, and Dr. Roskens ordered development of an action plan by August 31st to carry them out.

"I agree wholeheartedly with the recommendations of the joint review," Roskens said. "They should serve to substantially advance the reforms in management practices and systems that have already been initiated."

The joint AID-OMB SWAT team found:

- AID staff need improved training and experience to strengthen project implementation, contract administration and financial management. Agency goals are frequently not translated into specific objectives towards which AID employees can work.

- AID headquarters does not provide sufficient uniform guidance for oversight of field activities and does not collect adequate information necessary for Washington oversight of those activities. AID staff frequently do not give sufficient priority to contracting, and do not adequately evaluate contractor performance. AID also does not obtain adequate audit coverage of overseas projects, and fails to schedule and track audits on a systematic basis.

- AID headquarters evaluates less than 10 percent of its projects, and many of those evaluations are flawed. Most importantly, most AID senior managers do not regularly use the evaluations to set program priorities and budgets.

The AID action plan will strengthen personnel appraisal policies to ensure better accountability; improve implementation of overseas projects, including audits and contracts; and, make better use of program evaluations in setting policy priorities and budget allocations.

Changes in personnel practices will require more accountability from AID staff and include:

-- Better training and certification in skills directly necessary to fulfill work requirements for overseas projects, contracting and procurement.

-- Translation of broad agency goals into operational objectives for AID staff reflected in employee appraisal rating forms.

-- New Employee Work Requirement Agreements specifying the projects and activities for which AID employees would be responsible.

Changes in management of overseas projects and contract and audit activity will include:

-- Clearer definition of responsibilities of key officers and staff.

-- Development and implementation of Agency-wide standards for managing and reporting field activity.

-- Creation and maintenance of a comprehensive inventory of contracts and contractors in the U.S. and overseas requiring audits.

-- Use of non-Federal auditors whenever practical to reduce backlogs and perform critical audits.

To make better use of project and program evaluations, USAID will:

-- Establish a comprehensive system to evaluate all important projects and identify problem projects;

-- Improve the quality of AID evaluations and allocate more budget and staff resources in evaluations; and

-- Require managers to use the results of evaluations to improve project implementation, and set policy and program directions.

USAID is the U.S. Government agency that administers $7.5 billion in bilateral and humanitarian assistance in more than 80 countries worldwide.

The USAID-OMB SWAT Team was one of 33 SWAT and review teams established by the Bush Administration to improve the management of the Federal Government. The team was headed by Ambassador C. Anthony Gillespie, assisted by Richard Ames of USAID and Rodney Bent of OMB.

29