IG ASSESSMENT OF
MANAGEMENT ISSUES CONFRONTING A.I.D.

September 1992

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BACKGROUND

The Federal Managers' Financial Integrity Act (FMFIA) requires the Offices of Inspector General (OIGs) to provide technical assistance to agency heads in carrying out their FMFIA programs.

In recent years, various organizations have expressed growing concern over the direction and management of A.I.D. During fiscal year 1992, this concern manifested in the initiation of several special studies of A.I.D. and resulted in the following highly publicized reports:

- The President's Commission on the Management of A.I.D. Programs, dated April 16, 1992;
- OMB/Agency Swat Team, Improving Management at the Agency for International Development, dated July 16, 1992;
- GAO, A.I.D. Management, Strategic Management Can Help A.I.D. Face Current and Future Challenges, dated March 6, 1992; and
- GAO, Foreign Assistance, A Profile of the Agency for International Development, dated April 3, 1992.

These reports identify numerous problems and issues confronting A.I.D. and together make over 50 recommendations for improving A.I.D.'s management and operations.

In line with its responsibility under FMFIA, the OIG initiated a review of these and other recent pertinent reports for the purpose of identifying critical A.I.D. programs, systems, functions and other areas with potential internal control material weaknesses.

Our review identified nearly 100 specific problem/issue areas. However, for the purpose of our review, we only included problems/issues within A.I.D.'s management control. In addition, we judgmentally consolidated similar problem/issue areas and grouped them in seven general management categories. Finally, we matched our problem/issue list to the material weaknesses reported in the agency's 1991 FMFIA report.

A description and brief discussion of the management issues confronting A.I.D. which in our opinion have potential internal control material weaknesses follow.

MANAGEMENT ISSUES
CONFRONTING A.I.D.

SIGNIFICANT PROBLEM AREAS	PRESIDENTIAL COMMISSION (1)	OMB (2)	GAO (3)	OIG (4)	AID 1991 FMFIA REPORT (5)
OVERALL AGENCY MANAGEMENT					
Strategic Planning		X	X		
Organizational Structure	X		X		
Management of Missions	X	X	X		
PROGRAM/PROJECT MANAGEMENT					
Monitoring and Evaluation		X	X	X	X
Guidance and Procedures		X	X		
Host Country Contributions & Local Currency Accountability	X		X	X	X
PERSONNEL MANAGEMENT					
Workforce Configuration		X	X	X	
Recruitment	X		X		
Assignments	X		X		X
Training	X	X	X		
Performance Evaluation	X	X			
PROCUREMENT/CONTRACT MANAGEMENT					
A.I.D. Procurement Practice			X	X	
Monitoring Contractor Performance		X		X	
Audit Coverage	X	X	X	X	X
A.I.D.'s Assessment of Host Country's Abilities & Performance	X	X	X	X	X
FINANCIAL MANAGEMENT					
Unliquidated Obligation Review	X		X	X	
Integrated Financial Systems	X	X	X	X	
Primary Accounting System		X	X	X	X
A.I.D. Washington Payments			X	X	X
SELECTED A.I.D. MANAGED PROGRAMS					
Food Aid Program Resources		X		X	X
West Bank/Gaza				X	
Housing Investment Guaranty		X		X	
Private Sector Investment				X	
Participant Training				X	
American Schools & Hospitals Abroad				X	
INFORMATION RESOURCES MANAGEMENT					
Management of Sensitive Information				X	X

(1) The PRESIDENT'S COMMISSION on the Management of A.I.D. Programs, dated April 16, 1992.
(2) OMB/AGENCY Swat Team, Improving Management at the Agency for International Development, dated July 16, 1992.
(3) GAO, A.I.D. Management, Strategic Management Can Help A.I.D. Face Current Challenges, dated March 6, 1992; and GAO, Foreign Assistance, A Profile of the Agency for International Development, dated April 3, 1992.
(4) Recent OIG Reports and Special Studies.
(5) A.I.D.'s 1991 Federal Managers' Financial Integrity Act Report to the President and the Congress.

OVERALL AGENCY MANAGEMENT

Many of A.I.D.'s management problems stem from the Agency's and Congress' inability to set clear and coherent objectives and priorities in order for A.I.D. to successfully carry out its mission. For example, GAO reported that, the Foreign Assistance Act of 1961, as amended, contains more than 30 separate directives covering a wide range of development assistance objectives, such as, promoting human rights, protecting tropical forests, integrating women into the economies of developing countries, and using appropriate technology for small farms and businesses. Although each directive may have merit, multiple objectives

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

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

- reduce the possibility of A.I.D. being held accountable for achieving any particular objective.

OMB and GAO management reports suggest that the lack of clear objectives and priorities has caused overall management problems in the following three areas:

- Strategic Planning

- Organizational Structure

- Mission Management

Strategic Planning

Without establishing clear objectives and priorities A.I.D. cannot effectively plan its work or financial and resource needs. For example, according to the Presidential Commission report, A.I.D. has not established a strategic planning process to identify and justify its highest priority Operating Expense (OE) funding needs. Therefore, annual budget reviews with OMB have resulted in reductions in critical areas such as travel, field direct hire staff and language training. Since fiscal year 1986, U.S. direct hire staff decreased by 2 percent while direct hire staff overseas decreased by 19 percent. This occurred in the face of IG criticism that A.I.D. did not have sufficient project management strength in the field.

Organizational Structure

The Administrator recently reorganized A.I.D. headquarters to reduce the number of senior officials reporting directly to the

Administrator and to provide more accountability for policy, operations, and finance and administration. The Presidential Commission report pointed out that the reorganization added an additional management layer and further removed top management from the substance of the program.

The Presidential Commission report further indicated that a lack of strong and consistent leadership over a long period of time from the Administrator's office encouraged A.I.D./Washington bureaus to operate independently. This has resulted in the bureaus having large programs of their own which, in some cases, duplicate or are not used by the field Missions.

Mission Management

The recent reorganization, according to GAO does not directly affect A.I.D.'s overseas structure which has remained unchanged for 30 years. Compared to organizations of other countries providing bilateral economic assistance, A.I.D. has one of the largest and most widespread field organizations. A.I.D. maintains that its field presence is necessary due to

- the need for dialogue to encourage recipient economic policy reform,
- the political advantages of having an in-country presence,and
- planning and design needs for assistance projects.

However, GAO pointed out that decentralized operations increase programming complexity, make management and oversight more difficult, and increase administrative and program costs.

In addition, policy guidance at the overseas mission level is unclear and inadequate. A.I.D. has more than 30 handbooks that are intended to be the primary source for agency directives, policy, regulations, procedures, and guidance. However, according to A.I.D. officials in the field, the handbooks are voluminous, unclear, outdated, and not well indexed. This has resulted in a growing volume of cable guidance issued by various bureaus in A.I.D. headquarters to update and clarify the handbooks. According to A.I.D. mission officials, this process is often confusing, sometimes contradictory, difficult to track, and can lead the mission away from A.I.D.'s overall intended direction.

FMFIA STATUS

Overall, agency management problems were not recognized in A.I.D.'s 1991 FMFIA report.

PROGRAM/PROJECT MANAGEMENT

According to GAO, in the early 1970's, the Congress changed the emphasis of U.S. development assistance from large infrastructure projects, such as, dams and roads, to activities designed to directly address the basic needs of the poor. Accordingly, A.I.D. shifted to numerous smaller-scale projects, which were more complex to design, created added management burdens, had higher administrative costs, and provided less potential for policy leverage with recipient governments.

All these factors point to the need for A.I.D. to emphasize management of its programs and projects to ensure that the desired results are achieved. This is not happening as evidenced by A.I.D.'s large program and project portfolio pipeline.

In April 1991, GAO reported that A.I.D. had an $8.5 billion pipeline of development assistance and economic support funds - unspent funds obligated to finance assistance projects and programs worldwide. At six missions GAO visited, $296 million of the $2.8 billion pipeline were not programmed to be spent for use within two years. The GAO concluded that A.I.D.'s multi-billion dollar pipeline of obligated but undisbursed funds was an indication of its inefficient use of available funds and of its project implementation difficulties.

Problems in the following areas have seriously effected A.I.D.'s ability to adequately manage its programs and projects.

- Monitoring and Evaluation
- Guidance and Procedures
- Host Country Contributions & Local Currency Accountability

Monitoring and Evaluation

In general, A.I.D. does not emphasize project implementation as much as project design and obligation of funds, due partly to a budget cycle in which funds are returned to the Treasury if not obligated in the year of appropriation.

According to internal policy guidance, A.I.D.'s principal role is to monitor and evaluate the host country agency and the contractors implementing the project. A.I.D. has had problems in monitoring and evaluating development projects because (1) U.S. direct-hire project officer staff is limited in each country and (2) participating in the design of new projects,such as, monitoring often takes a back seat to other duties for which employees are more frequently recognized and promoted. Also, project site visits are not made as frequently as required and more often than not fail to be documented in the project files.

As regards evaluations, these are often made by contractors who are either involved in the implementation of A.I.D. projects in the same country or elsewhere, or who are interested in making more evaluations in the future. Given this obvious lack of independence, the quality of many A.I.D. evaluation reports is suspect as the conclusions and recommendations of the evaluation team are subject to influence by A.I.D. officials who have a vested interest in reporting project successes.

Guidance and Procedures

GAO reported that contributing to the problem of inadequate program and project management is policy guidance and procedures that is unclear and inadequate. A.I.D. has more than 30 handbooks that are intended to be the primary source for agency directives, policy, regulations, procedures and guidance. However, according to A.I.D. officials in the field, the handbooks are voluminous, unclear, outdated, and not well indexed. This has resulted in a growing volume of cable guidance issued by various bureaus in A.I.D. headquarters to update and clarify the handbooks. According to A.I.D. mission officials, this "management by cable" is often confusing, sometimes contradictory, difficult to track, and can lead the mission away from A.I.D.'s overall intended direction.

Host Country Contributions & Local Currency Accountability

The GAO pointed out that to ensure that host governments are committed to projects, Section 110 of the Foreign Assistance Act requires that they normally contribute at least 25 percent of the project's or program's costs. However, host governments do not always contribute their fair share. A.I.D.'s system of internal controls has not provided reasonable assurance that host country partners have complied with this requirement. As a result, A.I.D. has less assurance that project objectives will be achieved and that the U.S. investment is not wasted.

Additionally, GAO stated that management recognized the need to emphasize compliance with the 25 percent contribution requirement in an April 27, 1991 cable to all missions. The cable set forth standards requiring "auditable evidence" with respect to reporting and documenting host government financial contributions. A.I.D. needs to follow-up this initiative through the A-123 process to verify that the needed improvements in performance are in fact achieved.

OIG audits of A.I.D. monitoring of local currency resulting from A.I.D. non-project assistance have consistently disclosed weaknesses in management oversight of these monies earmarked for developmental purposes. For example, a recent audit report of A.I.D.'s Commodity Import Program in Kenya disclosed that

USAID/Kenya did not have an adequate monitoring system to provide reasonable assurance that all local currency funds generated under the Program had been deposited in the host-country-owned Special Account as required.

FMFIA Status

A.I.D. recognized monitoring and evaluation and local currency accountability as problem areas in its 1991 FMFIA report, however, the report did not mention problems with guidance and procedures and host country contributions.

PERSONNEL MANAGEMENT

As in all organizations, public or private, the ability of an organization to successfully accomplish its mission depends on the capabilities and determination of its most vital resource-**its people.**

Recent management studies indicate that A.I.D. has fallen short in developing the workforce necessary to accomplish its mission. The weaknesses fall into the following categories:

- Workforce Configuration
- Recruitment
- Assignments
- Training
- Performance Evaluation

Workforce Configuration

According to GAO, A.I.D. does not have a staffing or work force plan. There is little or no logic in how A.I.D. staffs its overseas missions. A.I.D. has not rationalized what its work force should look like or be capable of doing.

A.I.D. faces a constantly changing global situation that often results in quickly shifting program priorities. It is expected to respond to a variety of demands on its program and resources; however, according to GAO, its operating funds and staff levels are not keeping pace with these demands. A.I.D.'s U.S. direct hire work force has decreased from about 7,500 in 1970 to 3,500 in 1991. A.I.D. has about 1,500 U.S. direct-hire staff overseas--less than one per A.I.D. project.

As a result, A.I.D. has shifted its delivery methods from directly implementing projects to planning, financing, and monitoring projects through contractors, recipient countries, and grantees. For instance, personal services contractors (PSCs) make up more than two-thirds of A.I.D.'s overseas staff. However, A.I.D. has not adjusted its work force to ensure that they have the requisite knowledge, skills, and abilities to effectively monitor and control these third parties.

Recruitment

The Presidential Commission report stated that A.I.D.'s recruitment strategy for Foreign Service Officers was mostly concerned with replacing those who had left and responding to emergencies. This was a major mistake because it disregards the continuous global changes that A.I.D.'s personnel must have the skills to challenge. Therefore, human resource managers and program managers must be working on a continuous basis to identify trends and related personnel implications.

Assignments

The Commission report further stated that the Foreign Service assignment process does not meet the needs of the Agency nor is it fair to many employees. The main problem is that an informal system has evolved below the executive level wherein a majority of assignments are negotiated by all parties except the personnel office in advance of assignment board meetings. This means that less desirable assignments are all that is left to be handled by the rules. Assignment precepts, meant to set standards for equitable treatment of all employees , are not well applied.

Training

According to the Presidential Commission report, A.I.D.'s training programs are a collection of ad hoc courses which have evolved over time and lack a focus as to Agency goals or employee career development objectives. Training strategies, policies and programs need to be part of broader organizational planning which identifies program operational needs, estimates staff requirements and matches current staff with these needs.

The Foreign Service Act mandates the establishment of a "professional development program to assure that the members of the service obtain skills and knowledge required at various stages of their career". This is not happening in A.I.D. Supervisory roles and responsibilities for career development of subordinates are poorly defined and backup in the personnel office is weak.

Performance Evaluation

The Presidential Commission report indicates that in regard to personal accountability within the formal personnel system, A.I.D. has separate evaluation systems for its Foreign Service and Civil Service employees. A.I.D. management has not effectively employed either system, or other incentive/award mechanisms , to improve personal accountability and productivity. A.I.D. 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.

FMFIA Status

A.I.D. recognized problems with assigning staff in its 1991 FMFIA report, but did not mention any problems with workforce configuration, recruitment, training and performance evaluation.

PROCUREMENT/CONTRACT MANAGEMENT

A.I.D. is responsible for the delivery of a foreign assistance program valued at over $7.0 billion per year. To help accomplish this objective, A.I.D. depends heavily on contractors and host governments to execute projects. Consequently, A.I.D. oversight of contractors, host governments and other entities receiving A.I.D. funds is expected to assure adequate accountability for USG funds.

As discussed below, A.I.D.'s procurement and contract management have been highlighted by the Presidential Commission, the joint OMB/A.I.D. Swat Team effort, and GAO as well as the Inspector General. They are:

- A.I.D. Procurement Practice
- Monitoring Contractor Performance
- Audit Coverage
- A.I.D.'s Assessment of Host Country's Abilities and Performance

A.I.D. Procurement Practice

A.I.D. contract officers have a responsibility to ensure that contracts are written to foster accountability, that the award process follows Agency procedures and that closeout procedures are complete and timely. The Inspector General reports have documented instances where the execution of these responsibilities could be vastly improved. In the July 1992 audit of USAID's control over direct contracts in Indonesia, the auditors found that the Mission did not establish provisional indirect cost rates in accordance with requirements. In addition, final indirect cost rates were not properly established with the result that A.I.D. paid contractors $4.7 million for indirect costs without reasonable assurance that the claims were proper.

The same problem has been found in other field Missions. According to one Contracting Officer, confusion over various offices/agencies' roles and the problem of ensuring accurate and timely information contributed to the problem. The Inspector General has recommended that the Associate Administrator for Finance and Administration clarify A.I.D.'s policy on finalizing indirect cost rates and procedures to implement it.

Finally, recent audits have shown that deficiencies exist in the Contracting Officers' undertaking of contract close-out procedures. In a recent audit of USAID/Sri Lanka, and elsewhere, close-out procedures had not been established and/or fully implemented. As a result, adequate control was not exercised for A.I.D.-funded property, unliquidated commitments, and payments to contractors.

The development and implementation of procedures to assure host country contracts are properly and promptly closed out is required to address this vulnerability. In the case of Sri Lanka, the Inspector General stated that the absence of procedures to ensure that all expired A.I.D. direct and host country contracts were properly and promptly closed out was a material weakness of the Agency.

Monitoring Contractor Performance

Contractors have been increasingly implementing A.I.D. projects. A.I.D. project officers are therefore increasingly responsible for the oversight of contractors in the delivery of technical service for A.I.D. Specific instances where A.I.D. project officers should have done more to account for USG resources were identified by Inspector General reports. Reports recommend that A.I.D. seek to improve the quality of contractor work plans and reports which are required by Agency policies and procedures. For example, at USAID/Sri Lanka, the Mission did not require contractors to include measurable performance standards in work plans and to report against these standards. The Inspector General concluded that the effectiveness of $4.8 million spent for technical assistance could not be assessed adequately.

Adequate guidance and good systems of accountability would help to strengthen contract performance. GAO concluded that overseas contracting was hindered by poor project design, a fragmented Mission procurement structure, insufficient training, confusing Handbook guidance and the absence of specific follow-on contract guidance. GAO further identified the lack of accountability for certain property in the possession of contractors as an issue needing attention.

The Inspector General issued an audit of USAID/Indonesia's control over technical assistance contracts which found similar problems. The work plans and reports again lacked sufficient data to measure contractor performance. This occurred because USAID did not require contractors to include measurable performance standards in work plans and to report progress against these standards.

Audit Coverage

To assure that contracts are audited as required, the Agency is undertaking a review of Mission programs to develop an inventory of contracts and grants. The effort is expected to produce a data base of required audits. A GAO review pointed out that A.I.D. audit coverage was inadequate. GAO concluded that A.I.D. was vulnerable to contractor misuse of A.I.D.-financed property and paying questionable costs. Inspector General audits also documented the problem of contract audit provisions during 1992.

The audit of USAID/Pakistan's Transformation and Integration of the

Provincial Agricultural Network (TIPAN) Project in 1991 identified the need for general improvements in monitoring the work of contractors. The report specifically recommended that USAID ensure that required records on project activities were maintained and that audits were undertaken.

A.I.D.'s identification and response to the "high risk" area of inadequate audit coverage was acknowledged in the President's Commission report. A.I.D. has instructed Missions to ensure that required audits are identified and enforced.

A.I.D.'s Assessment of Host Country's Abilities & Performance

Host country contracting problems are well-known in A.I.D. and have been highlighted for action by OMB, GAO and A.I.D.'s own management reports. In response to these problems, the Agency undertakes assessments of the ability and performance of host countries to contract for project services and commodities in ways which meet A.I.D. accountability requirements.

The President's Commission report contains specific actions that the agency could take to reduce abuse and fraud in this area. The Commission recommendations included: 1) host country contracting should be limited to construction projects funded by ESF, 2) independent professional firms should certify whether host county's are capable of managing the host country process, and 3) only Missions with qualified personnel should use host country contracting to execute development projects.

The Agency's FMFIA report of 1991 committed the Agency to corrective actions with a target date of 1992. While new guidance has been issued which requires Mission assessment of host country capacity, the results and application of those assessments will need to be evaluated.

FMFIA Status

The 1991 FMFIA report recognized problems with audit coverage and assessment of host country ability to contract, but did not recognize problems with:

- A.I.D. Procurement Practices; and
- Monitoring Contractor Performance

FINANCIAL MANAGEMENT

The deficiencies in the Agency's financial management system have been well-documented by internal and external sources. Inspector General audits have identified major problems in the area of A.I.D.'s financial management. These problems, and of particular note--the absence of substantive management reform--are evident to those outside the agency who have recently reviewed A.I.D.'s management. As stated in the 1991 FMFIA, the Agency is committed to correcting the financial management deficiencies.

For example:

- The President's Commission on the Management of A.I.D. programs observed that "Since 1988, A.I.D. has identified its financial systems operation as its primary 'high risk' area in its annual reports to the President and Congress." The Commission further concluded that A.I.D. has failed to comply with government requirements and has no strategy for solving identified problems.

- The GAO reports identified unrealistic or overstated planning and Agency management emphasis on the obligation of funds as contributing to poor financial management. The GAO identified "inadequate financial management systems" as a major management issue in its letter to Congressman Conyers of February 21, 1991.

Specific problem areas within the area of financial management include:

- Unliquidated Obligation Review
- Integrated Financial Systems
- Primary Accounting System
- A.I.D. Washington Payments

Unliquidated Obligation Review

A large amount of funds at any time in the unliquidated obligation category is a cause for concern. A.I.D.'s obligation of funds was reviewed by GAO. According to GAO, A.I.D. emphasizes project design and fund obligation at the expense of program management, including evaluation. GAO found that poor management direction resulted in the creation of excess funds in the project "pipeline." GAO observed that the size of the pipeline could be an indicator of management problems in timely and effective economic assistance.

The OIG just completed an audit in the same area and found that the agency continues to do an inadequate job in reviewing unliquidated obligations. For example, the audit found that about $200 million in unliquidated obligations were potentially invalid or not properly supported. A review of Agency policy and practice with regard to unliquidated obligations with the objective of reducing the over $8 billion pipeline is warranted.

Integrated Financial Systems

Serious shortcomings in the Agency's financial systems, with regard to the integration of the systems has been reported by the Presidential Commission, OMB's team report and recent GAO reviews. The Presidential Commission found that the current financial management structure contains many non-integrated systems. It further concluded that such systems were designed and implemented without thorough planning, testing and documentation. OMB also observed that A.I.D. has over ten systems for field activity budgeting and that budget formulation systems are not integrated with budget execution systems or with A.I.D. accounting systems. As a result, significant discrepancies were observed between the obligation data, as reported in the Contract Information Management System (CIMS) and various budget and accounting systems. GAO findings supported this OMB conclusion. GAO noted that financial management has many non-integrated systems that delay and require re-keying financial information received by A.I.D. from overseas offices. OMB includes A.I.D. among those federal agencies under the Chief Financial Officers Act (CFO) with High Risk financial systems.

In the absence of an integrated financial system the agency cannot produce financial statements which can be audited. The cause can be attributed to poor planning and management ineffectiveness in bringing adequate resources to bear on correcting the problem. As a consequence, compliance with government-wide standards of financial management is hampered.

Primary Accounting System

A.I.D. is charged with the establishment and maintenance of an accounting system to provide information for management decisions, to account for expenditures and to support budget requests. A.I.D. recognized problems with the primary accounting system in the 1991 FMFIA report. In that report, A.I.D. identified the AWACS as the accounting and control system currently under development. The Joint OMB/A.I.D. Swat team report noted that the systems currently in place did not contain comparable data in contract, budget and acccunting systems.

In 1989, the Inspector General advised the Administrator that the Agency Financial Accounting Information System (FAIS) did not meet the objectives of financial and accounting systems required in A.I.D. Handbooks. This weakness resulted from inadequate attention and direction to Agency requirements as well as poor internal controls. Until such time as the new accounting system is in place, the Agency cannot provide assurance that funds are used for authorized purposes with minimal risk of misuse.

A.I.D. Washington Payments

The A.I.D. Office of Financial Management makes about 70 percent of Agency disbursements, more than $4 billion annually, by check or wire transfer through the U.S. Department of the Treasury. These disbursements are for a variety of activities including Agency operating expenses, grants, and contracts.

OIG audits have shown that the disbursement process suffers from major internal control weaknesses. An audit of A.I.D. direct payment procedures completed in June 1990 found that:

- Vouchers were not always administratively approved or when they were approving officials frequently relied on fragmented and inadequate knowledge of whether the services had been received or requirements of A.I.D. contracts had been met;

- There were unreconciled differences between A.I.D.'s disbursement records and those of the Treasury Department that averaged $21 million per month during fiscal year 1989; and

- The system was slow in processing payments resulting in the Agency having to pay penalties and interest.

A 1992 audit of the Master Disbursing Account used by the Agency to disburse funds under the Participant Training Program has found significant internal control weaknesses in the management of that account. The need to document how the MDA system operates and how each component of the system relates to the others is recommended.

FMFIA Status

A.I.D. recognized problems with its primary accounting system and A.I.D./Washington's payments operation in the 1991 FMFIA report, but not problems associated with the review process of unliquidated obligations or integrating its financial systems.

SELECTED AID MANAGED PROGRAMS

Recent Inspector General audits have identified serious weaknesses in several A.I.D. managed programs. The following is a brief description of the programs.

The Food Aid Program

The food aid program was identified in the 1991 FMFIA report as a material weakness and several actions were proposed to take place in 1992 to address the need for written guidance. The need for Mission guidance was due in part to new legislation. The Agency's plan was to issue new delegations of authority and clarify the roles and responsibilities between Missions, regional bureaus and FHA. While the Agency's Quarterly report of May 6, 1992 notes progress against known vulnerabilities since the delegations of authority and the Food Aid Management plan have been issued, the extent of the residual material weakness condition will need further assessment.

West Bank Gaza

A.I.D. has provided some $116.5 million in development assistance to Palestinians in the West Bank and Gaza Strip since 1975. At the request of the Near East Bureau, a performance audit was undertaken to evaluate the management practices and oversight effort. The specific objective was to review the extent to which the Near East Bureau followed A.I.D. policies and procedures in implementing a monitoring system by focusing on recipient reports, evaluations and site visits. Eight of the ten current assistance agreements were audited between October 1, 1988 - July 31, 1991. The audit concluded that the monitoring system was not implemented to the standard required by agency regulations and guidance. The audit identified:

- reports were incomplete and project managers failed to follow-up on reported problems;
- since evaluations were not always undertaken in a timely manner, the usefulness of completed evaluations were questioned;
- site visits were not undertaken as often as required or desirable.

Housing Investment Guaranty

The Housing Investment Guaranty (HIG) program provides loan guarantees to USG private sector companies for home construction or improvements through qualified governments. These foreign governments pay a fee for the guarantee. The program is designed to be self-supporting. The HIG portfolio of loans totalled $2.5

billion as of September 30, 1991.

The Inspector General, working with a non-Federal firm, audited the FY 1991 financial statements against OMB requirements. The audit concluded:

- no opinion could be expressed on the financial statements;
- 7 material weaknesses were included within the eight internal control reportable conditions;
- three instances of material non-compliance with laws and regulations were found;
- a net loss of $31 million was incurred; and
- only three of 14 recommendations from a 1990 financial audit were closed.

The HIG program is currently not in compliance with the requirements of the Chief Financial Officer's (CFO's) Act of 1990 and required OMB Bulletins. The audit establishes that (not only have previous recommendations gone unaddressed but) inadequate internal controls and insufficient records all contribute toward major management deficiencies in the operation of this program.

<u>Private Sector Investment Program</u>

The Private Sector Investment Program (PSIP) promotes private sector activity in developing countries by increasing small business access to credit. The IG conducted a financial audit of the PSIP as required under the Chief Financial Officer's Act of 1990. The audit conclusions are significant:

- the auditors did not express an opinion on the financial statements;
- five material internal control weaknesses were reported among the internal controls;
- two instances of material non-compliance with laws and regulations were disclosed;
- the PSIP financial statements did not comply with OMB guidance.

<u>Participant Training Program</u>

The objective of the Participant Training Program is to develop managerial and technical skills of foreign officials through education in the United States or third countries. This $300 million per year program is administered by the Research and Development Bureau in cooperation with USAID Missions which identify host country participants. The participants are expected to return after training and apply their knowledge to help further their country's development objectives through an associated A.I.D. project.

Audit reports from 1987 to 1991 disclose problems in the participant training program. A 1991 audit of the program's operation in Pakistan identified a range of problems: inadequate policies and procedures, inadequate monitoring, data base information, and funds accountability. Nine specific reportable conditions were identified as a result of the internal control review and were stated in the report. A 1990 Inspector General audit of the participant training program of the USAID Mission in Nepal found inadequate monitoring and follow-up as well. In addition, seven material weaknesses were identified.

American Schools and Hospitals Abroad

In November 1991 the A.I.D. Administrator requested the Inspector General to conduct an audit of the Food and Humanitarian Assistance Bureau's Office of American Schools and Hospitals Abroad (ASHA) grants to foundations in the Peoples' Republic of China made between 1987 and 1992. Approximately $8.0 million in grants (against which $7.755 million was disbursed) were reviewed.

The audit found that ASHA:

- did not formalize procedures for the grant award process as required by Federal law and policy;
- did not follow A.I.D. policies and procedure in grant awards to the two foundations in the Peoples' Republic of China;
- did not adequately review cost elements; and
- did not properly close out grants.

A 1985 audit by the Inspector General identified similar problems in ASHA's monitoring effort. However, the Agency failed to correct the identified problems. The failure to correct the management shortcomings leads to a conclusion that significant resources were at risk.

FMFIA Status

A.I.D. recognized problems with accounting for Food Aid Program Resources in its 1991 FMFIA report, but did not recognize problems in the other five programs.

INFORMATION RESOURCES MANAGEMENT

A.I.D. has implemented approximately 100 automated information systems to support managers in carrying out their responsibilities. These systems are designed to perform a wide range of diverse functions including :

- Accounting for financial data;
- Managing the Agency payroll;
- Tracking project obligations and expenditures;
- Maintaining statistical data on the A.I.D.-funded participant training program, and
- Recording information on pounds shipped, ocean and inland freight cost, and value of commodities shipped to designated countries by individual private and voluntary organizations.

Management of Sensitive Information

Fourteen of the Agency's automated systems have been identified as containing sensitive information -- information related to national security, personal information related to individuals, or privileged information related to business or nonprofit organizations. Included in this number are the three most critical sensitive systems that also require protection for confidentiality and integrity of data: Financial Accounting and Control System (FACS), New American Payroll System (NAPS), and Revised Automated Manpower System (RAMPS).

A management review pursuant to the computer Security Act of 1987 revealed that the Agency had not implemented adequate controls to ensure the security and integrity of sensitive information contained in the Agency's automated system.

The OIG also reported in 1991, that A.I.D. had not fully completed a disaster and continuity plan to deal with potential emergencies and disasters at its computer center in Beltsville, Maryland, which runs A.I.D.'s payroll, personnel, financial accounting, loan accounting, and other systems.

FMFIA Status

A.I.D. recognized problems with the management of sensitive information in its 1991 FMFIA report.

FILE: FIS

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

THE INSPECTOR GENERAL

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thru DAA & AA/FA.
DUE: 9/16/92

NFORMATION MEMORANDUM FOR Mark L. Edelman, Chairman
Management Control Review Committee

ROM: IG, Herbert L. Beckington HB

UBJECT: A.I.D. Reporting Under FMFIA

he Federal Managers' Financial Integrity Act (FMFIA) was enacted in 1982 to enhance federal agencies' procedures for maintaining accounting systems and internal controls over the Federal Government's resources. The FMFIA and its implementing guidance OMB Circular A-123 require federal agencies to evaluate their accounting systems and internal controls to determine whether such systems are in compliance with standards prescribed by the Comptroller General, including standards to ensure the prompt resolution of all audit findings. Each agency should have internal controls that reasonably assure:

- Obligations and costs are in compliance with applicable law;

- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation;

- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets; and

- Programs are efficiently and effectively carried out in accordance with applicable law and management policy.

By the end of each calendar year, the head of each agency is required to report to the President and the Congress on whether or not its agency's accounting systems and internal controls fully comply with the standards prescribed by the Controller General and, in the event such systems are not in compliance, report any material weaknesses identified in such systems and the plans and schedule for correcting those weaknesses.

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The Offices of Inspector General (OIGs) are responsible for providing technical assistance to agency heads in carrying out their FMFIA programs. During the ten years that FMFIA has been in effect, we have assisted the Agency in meeting its FMFIA responsibilities in various ways. For example, in fiscal years 1989 and 1991 we issued audit reports on A.I.D.'s performance in complying with FMFIA requirements. Last year, we provided the Management Control Review Committee with a special study that justified the inclusion of additional material weaknesses in the Agency's annual FMFIA report to the President and the Congress. The MCRC agreed and added two of the four suggested material weaknesses to its 1991 report.

In line with our responsibility, I have asked my audit office to schedule a performance audit for next year of A.I.D.'s FMFIA internal control process to determine, among other things, if problems identified in our previous two FMFIA audits have been corrected. In the meantime, I asked my audit office to compile a list of what they thought were the more important management issues confronting A.I.D. today for your use and consideration during this year's FMFIA internal control assessment cycle.

As part of this effort, I asked my audit office to review and carefully consider the numerous issues raised in the following highly publicized special reports:

- The President's Commission on the Management of A.I.D. Programs, dated April 16, 1992;

- OMB/Agency Swat Team, Improving Management at the Agency for International Development, dated July 16, 1992;

- GAO, A.I.D. Management, Strategic Management Can Help A.I.D. Face Current and Future Challenges, dated March 6, 1992; and

- GAO, Foreign Assistance, A Profile of the Agency for International Development, dated April 3, 1992.

As you recall, OMB's Deputy Director for Management suggested in his July 21, 1992 letter to you that you carefully consider the recommendations in these various reports during the 1992 FMFIA report review process.

The results of our review are attached for your use and consideration by the MCRC. The review identifies seven general management categories impaired because of existing internal control and related problems. These categories include:

- Overall Agency Management;

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- Program/Project Management;
- Personnel Management;
- Procurement/Contract Management;
- Financial Management;
- Selected A.I.D. Managed Programs; and
- Information Resources Management.

We recognize that A.I.D. is aware and, in many cases, has begun taking actions to address the problems and issues discussed in the attached study. Irrespective of actions planned or taken, because of the importance of these management areas to the overall successful achievement of the Agency's mission, we believe the MCRC should give special consideration to them as part of its evaluation of material weaknesses for the 1992 FMFIA internal control assessment cycle.

One additional comment before closing. I recently reviewed information on the Agency's newly approved Management Reforms Council (MRC) and was left wondering, because of its broadly defined role, if and how it may impact on the activities of the MCRC. If you have not already done so, I suggest that you establish a line of communication with the MRC for the purpose of better understanding its role and functions and to identify areas of mutual interest and ways that the Council may be able to assist the MCRC with fulfilling its FMFIA responsibilities.

Let me know if you or your staff would like to discuss these matters further.

Attachment: a/s

IG/A/PSA:Coothard:VanDyk:jeg:08/26/92:x54031