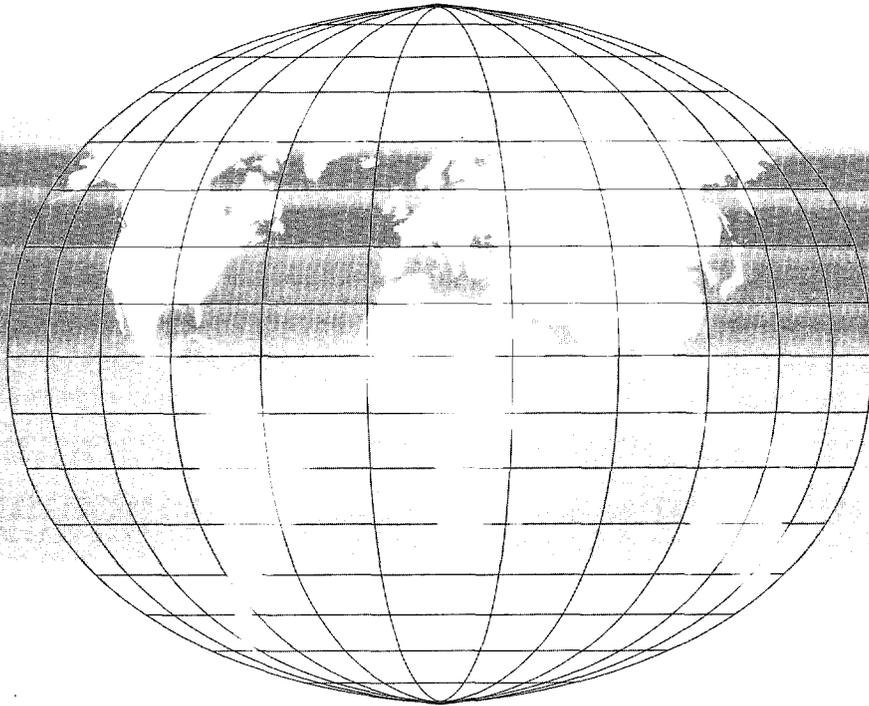


PD-ABP-628

Report of Audit

Audit of the Status of USAID's New Management System (NMS)

Audit Report No. A-000-97-010-P
September 30, 1997



IG/A/ITSA

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



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

Office of
Inspector General

September 30, 1997

MEMORANDUM FOR ACTING AA/M, Richard C. Nygard

FROM: AIG/A, Everette B. Orr

Timothy B. Orr

SUBJECT: Audit of the Status of USAID's New Management System (NMS)
(Audit Report No. A-000-97-010-P)

This report shows that USAID agreed to implement three of the five recommendations contained in our March 1997 report on the Worldwide Deployment of the New Management System (NMS).¹ USAID has clearly committed to implement disciplined information resources management (IRM) processes and correct NMS deficiencies. USAID has also begun taking some actions to implement the recommendations, but progress has been slow. In large part, limited progress can be attributed to USAID's decision not to implement two recommendations: (1) suspend NMS development efforts and (2) suspend operations of the AID Worldwide Accounting and Control System (AWACS)—the core accounting module of NMS.

This decision has diverted limited resources and management's attention from dealing with the underlying problems by forcing USAID to focus on near-term activities to get AWACS to operate effectively and to expand the types of transactions AWACS is able to process. USAID continues to operate AWACS without having tested it for compliance with Federal financial management systems requirements, a condition that USAID agreed to meet when GSA allowed USAID to develop AWACS.

This report does not contain any additional recommendations.

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

¹ Audit of the Worldwide Deployment of the New Management System (Report No. A-000-97-004-P, March 31, 1997).

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Background

NMS was designed to replace aging and ineffective computer systems USAID has used to perform accounting, budgeting, procurement, and operational functions. The need to replace outdated systems was identified from a series of Office of Inspector General (OIG) and General Accounting Office (GAO) reports. In addition, USAID's internal assessments found that information systems did not provide reliable information to account for resources or manage operations. NMS was designed to (1) streamline business processes, (2) eliminate paper forms, (3) correct material noncompliance with federal accounting and financial management requirements, and (4) provide managers with the information needed to make appropriate decisions and reliably report the status of USAID's activities.

Although NMS originally consisted of eight subsystems, only four have been developed and deployed. These are the AID Worldwide Accounting and Control System (AWACS), Acquisition and Assistance, Budget, and Operations subsystems. Plans still call for implementation of the Property Management and Human Resources subsystems, but no longer include the Communications or Guidance subsystems.

NMS first began processing a limited number of accounting transactions in July 1996. These transactions were limited to Washington offices and primarily to operating expense funds used for travel, small purchases, and some procurements. On September 27, 1996, we reported that USAID's plan to deploy NMS worldwide on October 1, 1996 involved significant risk to its operations.² We reported that the system had not been adequately tested, was not operating effectively, and did not meet federal financial management system requirements mandated by OMB. On October 1, 1996, however, USAID deployed the NMS worldwide as the primary system for conducting its business, recording accounting transactions, and preparing financial and management information.

In March 1997, we reported that worldwide deployment of NMS had disrupted USAID's operations, increased the risk of fraud, waste, and abuse; and reduced morale. These problems existed because NMS was deployed before severe technical and implementation problems were corrected. USAID's high risk approach deviated from guidance calling for agencies to thoroughly test system performance and adequately plan for implementation before deployment. To a large extent, the failure to follow accepted system development practices was due to underlying organizational and management deficiencies that allowed substandard practices to continue.

² Interim Report on the Status of USAID's New Management System (Report No. A-000-96-001-S, September 27, 1996).

We recommended that USAID:

- (1) Appoint a senior official to be the Chief Information Officer (CIO), reporting directly to the Administrator and limit the CIO's responsibilities primarily to managing information resource activities, including instituting disciplined Information Resources Management's (IRM) processes and ensuring they are applied to NMS.
- (2) Appoint a program manager to oversee NMS and direct the program manager to develop plans to (1) identify NMS technical and implementation problems, (2) strengthen IRM management practices, and (3) identify implementation alternatives.
- (3) Assign a senior manager to develop and manage a performance-based acquisition plan that requires the contractor to deliver a fully functioning system—or a subset of the system—that meets financial management and USAID requirements.
- (4) Suspend NMS contractor development activities until the implementation and acquisition plans are approved.
- (5) Suspend AWACS operations until technical deficiencies are corrected, implementation issues are resolved, and testing shows the system—or a cost-effective subset of the system—operates effectively and complies with federal financial management system requirements.

Audit Objective

The Administrator and the Congress expressed concern about the status of NMS. Our audit will assist the Inspector General to keep the Administrator and the Congress informed about the status of the NMS.

The objective of this audit was to answer the question:

Were USAID's actions responsive to our March 1997 report recommendations on the New Management System?

A full description of our scope and methodology is contained in Appendix I.

Audit Findings

USAID's actions are partially responsive to our March 1997 report on the worldwide deployment of the New Management System (NMS). On July 14, 1997, USAID agreed to implement three of the five recommendations contained in our March 1997 report on the worldwide deployment of NMS. Although USAID has committed to implement disciplined information resources management (IRM) processes and correct NMS deficiencies, progress has been slow. These three recommendations addressed the need to (1) appoint a chief information officer (CIO) to be responsible for implementing disciplined IRM processes; (2) assign an NMS program manager and prepare plans to identify technical deficiencies, apply disciplined processes to NMS, and identify implementation alternatives; and (3) develop and manage a performance-based acquisition plan.

USAID has taken steps to begin implementing disciplined processes by hiring a new director to lead the IRM office, developing a charter for a capital investment review board, and authorizing a contract to help USAID implement provisions of the Clinger-Cohen Act of 1996³. USAID also appointed an NMS program manager and decided to initiate a number of activities to identify technical problems and apply disciplined IRM practices to NMS. USAID's description of these actions is contained in Appendix III to this report. However, USAID has focused less attention on correcting NMS deficiencies and applying disciplined processes to NMS. USAID has also not yet fully established an organizational structure or prepared plans describing how it will identify technical problems, implement disciplined practices, analyze implementation alternatives, and transition to performance-based contracts. Plans that identify the tasks, schedules, and resources needed to ensure that the activities fully address issues are an essential element of a disciplined IRM process.

In large part, slow progress is due to the fact that USAID decided not to implement the remaining two recommendations—to suspend contractor development activities and to suspend AWACS operations. We believe USAID's decision to continue contractor development activities and AWACS operations has diverted limited resources and management's attention away from identifying and correcting the underlying design problems that are at the root of AWACS deficiencies. USAID continues to rely on AWACS as its primary accounting and financial management system in Washington. In addition, USAID has continued contractor development activities in an effort to (1) get AWACS to operate effectively and (2) expand the types of transactions processed. Thus, USAID has spent millions of additional dollars using the same flawed contracting

³ The fiscal year 1997 Omnibus Consolidated Appropriations Act, Public Law 104-208, renamed both Division D (the Federal Acquisition Reform Act) and E (the Information Technology Management Reform Act) of the 1996 DOD Authorization Act, Public Law 104-106, as the "Clinger-Cohen Act of 1996".

approach that it used to develop the system. Although USAID recently stated that it will suspend AWACS development efforts on October 31, 1997, it is not clear how this action will affect the allocation of resources between near-term enhancement activities and longer-term corrective action.

Below, we discuss each of the five recommendations from our March 1997 report, USAID's response to and actions related to each recommendation, and our analysis of the response and actions.

Recommendation No. 1: Chief Information Officer/Disciplined IRM Processes

We recommended that USAID appoint a senior official with information resources management expertise to be the Chief Information Officer (CIO), reporting directly to the Administrator and limit the CIO's responsibilities primarily to managing information resource activities, including instituting disciplined IRM processes and ensuring they are applied to NMS.

USAID stated that it intended to designate either the Assistant Administrator for Management, once selected and confirmed, or a senior Deputy Assistant Administrator in the Management Bureau as the CIO to guide and oversee information technology efforts, including NMS. The CIO's qualifications would be subject to review and certification by the Office of Management and Budget (OMB), and the person selected would report directly to the Administrator in his or her capacity as CIO. Until such time as the AA/M is confirmed, USAID designated the acting AA/M to be the acting CIO.

In July 1997, USAID hired a new Director for IRM. According to USAID officials, the Director's primary responsibility will be to manage information resources including instituting disciplined IRM processes and ensuring that they are applied to NMS. In an effort to institute disciplined IRM processes, USAID has recently:

- Developed a draft charter for a Capital Investment Review Board. The board will be charged with reviewing investment alternatives and selecting investments that maximize the value and manage risks of information technology investments. The goal, in accordance with requirements of the Clinger-Cohen Act of 1996, is to ensure the best return on investments and help USAID achieve its mission. Recommendations about the composition of the review board and the draft charter are being finalized and are expected to be approved in September 1997.
- Authorized a contract action to implement the provisions of the Clinger-Cohen Act. USAID expects that this 12-month contract will develop operational skills of the Capital Investment Review Board and provide essential analytical tools to enhance IRM discipline at USAID. Training

components in the contract are designed to help institutionalize disciplined IRM practices.

- Developed a draft charter for the NMS Executive Steering Committee. This committee is to provide management oversight of NMS program activities including establishing performance measures related to costs, schedules, technical and operational performance, and return on investment. The committee will report to the Capital Investment Review Board and the Administrator regarding progress of NMS against these measures.

We agreed with USAID's decision and believe that the new Director of IRM will be a valuable addition to USAID's pool of technically qualified staff and that USAID will benefit from his participation in ongoing efforts to correct NMS deficiencies. We also believe the structures that are being developed provide an appropriate decisionmaking framework to institute disciplined processes and manage NMS as an investment. We also urged that USAID appoint a senior executive who does not have significant other duties to be the CIO.

Recommendation No. 2: Program Manager/Implementation Plan

Our second recommendation was that USAID assign a senior manager to manage the NMS program, reporting directly to the CIO, AA/M, or USAID Administrator. The recommendation called for the program manager to work with the CIO to prepare an implementation plan identifying the steps, timeframes, and resources needed to:

- (1) analyze the technical and implementation problems that currently limit NMS from achieving its full potential;
- (2) implement disciplined IRM processes; and
- (3) identify alternative implementation strategies, including pilot testing, prototyping, and incremental deployment of NMS capabilities.

Program Manager

USAID stated that it would assign a full-time program manager who would supervise NMS development until the system is operational and who would report directly to the Acting CIO. That program manager was officially assigned in September 1997. The NMS Program Manager has already begun work to define an appropriate organizational structure. Although responsibilities and authority have not yet been clearly defined, the NMS Program Manager stated that he has received approval to hire a technically qualified NMS technical manager to direct NMS development and support activities. USAID has also appointed an NMS Program Control Coordinator who will report to the

program manager and be responsible for instituting disciplined IRM processes in the NMS program.

We agreed with USAID's decision to appoint a program manager and we are encouraged that USAID has appointed the program manager and the program manager has begun making important organizational decisions.

Plan to Identify Technical and Implementation Problems

USAID agreed to identify technical and implementation problems that limit NMS from achieving its potential. USAID stated that it had (1) contracted with the Federal Systems Integration and Management Center (FEDSIM)—a part of the General Services Administration—to analyze the technical and implementation problems and (2) planned to have a team examine the NMS application code, assess its quality, and identify risks and opportunities. USAID stated that both efforts were expected to begin in August 1997. Although the team assessment started in August as planned, the initial FEDSIM contract approach was not successful. According to USAID officials, FEDSIM requested bids from contractors to conduct the assessment, but no contractors submitted bids. In part, this occurred because a USAID requirement would have excluded the winning contractor from performing any future work on the NMS program. USAID officials told us they are now exploring alternative contracting approaches with FEDSIM to accomplish the analysis.

USAID officials have identified several other ongoing or planned activities which are also intended to identify technical problems. These include efforts to identify common data elements and improve the data base structure, analyze internal control deficiencies, security vulnerabilities, and Year 2000 problems, as well as ongoing efforts to provide basic AWACS capabilities by correcting software defects. USAID officials told us, however, that they have not yet prepared a plan that identifies how the various activities relate to one another and shows that technical problems will be fully addressed. They explained that their attention has been focused on (1) developing mechanisms to apply disciplined practices within USAID and (2) attempting to improve AWACS' operational capabilities.

Visibility into program activities based on documented plans that include tasks, schedules, and resources is a hallmark of disciplined IRM processes. USAID's multiple concurrent efforts to identify technical problems could result in overlap, duplication, and incomplete results unless they are coordinated based on a clear plan of action. The lack of adequate planning also indicates that USAID has not yet applied discipline to efforts to identify NMS technical and implementation problems.

Plan to Implement Disciplined IRM processes

USAID agreed to apply disciplined IRM processes to NMS development activities. USAID has established a goal to achieve level two of the Software Engineering Institute's Capability Maturity Model (CMM) for software development. USAID stated that the IRM office is focusing on implementing the requirements development and program management aspects of the CMM. In order to meet immediate needs, configuration management and quality assurance of software products are also being analyzed with the intention of making improvements in those areas within the next six months.

We agreed that the CMM provides an appropriate framework for improving USAID software development capabilities and that CMM level two is an appropriate goal for USAID. We noted that USAID also needs to strengthen its contractor management and oversight practices. In addition, although several activities are underway, USAID officials told us they have not prepared a plan that identifies the tasks, resources, and schedules needed to apply disciplined processes to NMS. Further, disciplined processes are not currently being applied to efforts to correct NMS software defects. In an attempt to get AWACS to operate at minimally acceptable levels and to expand the types of transactions processed, USAID has continued NMS development activities at a cost of millions of dollars. These efforts, however, have not been based on disciplined software development practices. Instead, they are following the same flawed process USAID applied throughout the original NMS development process.

Plan to Develop an Implementation Strategy

USAID responded that it had suspended operation of two NMS modules—AWACS, and Acquisition and Assistance—at missions and that it would not redeploy these modules until all major issues surrounding the system had been resolved.

Although USAID did not describe specific issues that it would address in developing an implementation strategy, we presume they will include the issues addressed in the recommendation—pilot testing, prototyping, and incremental deployment of NMS capabilities. However, USAID officials told us they have not yet completed a plan describing how USAID will identify implementation strategies. Although it may be premature to have completed an implementation strategy, a plan that includes the tasks, timeframes, and resources necessary to ensure successful implementation is essential.

USAID's actions also do not address the need to develop an implementation strategy for Washington operations, perhaps because USAID decided to continue AWACS operations in Washington. AWACS, however, is currently unable to perform some important core accounting functions such as preparing financial statements and processing several types of transactions. USAID documents show that it has continued to develop new AWACS

capabilities and expects to begin processing accounts receivables and loans in AWACS early in fiscal year 1998. Preparing adequate implementation plans is part of disciplined system development processes, and USAID's efforts to expand AWACS capabilities without developing an implementation plan indicates a continuing lack of disciplined processes. An implementation plan should be a prerequisite to any expansion of AWACS capabilities in Washington.

Recommendation No. 3: Performance-Based Acquisition Plan

Our third recommendation was to assign a senior manager to develop and manage a performance-based acquisition plan that requires the contractor to deliver a fully functioning system—or a subset of the system—that meets financial management and USAID requirements.

USAID agreed to transition to a fully performance-based contracting system for NMS as quickly as possible and stated that its long-term goal was that all contracts issued by the CIO would be performance-based. USAID also stated that both the number of NMS contractors and contractor personnel had been reduced. Until December 1997, USAID plans to make one contractor responsible for coordinating the other contractors' activities related to NMS production maintenance, some development, interfaces, and integration of system components.

We agreed with USAID's management decision because USAID committed to fully implement performance-based contracting for future NMS contracts. Although the response did not address the need to designate a senior official to manage the contracts, USAID officials told us they planned to make the new NMS Program Manager responsible for NMS contracting activities.

However, USAID officials recently told us they have not yet defined an acquisition plan that identifies the tasks, resources, and schedules needed to achieve a fully performance-based contracting approach. Such a plan is needed to ensure that the acquisition strategy, contract type, schedules, tasks, and performance requirements create an effective tool to achieve USAID's NMS goals. USAID's efforts to reorganize current NMS contracts have not fundamentally changed the nature of the contracts, and, therefore, are unlikely to correct the problems. Thus, USAID continues to spend millions of dollars on NMS development activities under the same non-performance based contracting mechanism it used to develop NMS.

Recommendation No. 4: Suspend Contractor Development Activities

Our fourth recommendation was that USAID suspend NMS contractor development activities until the implementation and acquisition plans were approved. USAID responded that contractor development would be limited to the portions of NMS that are still operational and to establish core functionality in AWACS.

We did not agree with USAID's decision because it was not responsive to our recommendation. USAID has continued contractor development activities at a cost of millions of dollars without first identifying NMS technical problems, implementing disciplined IRM practices, or analyzing alternative implementation strategies. In addition, USAID has continued contractor development using essentially the same flawed contract vehicles that it used to develop the system. Further, USAID documents show that USAID is attempting to expand AWACS capabilities to process new types of transactions such as accounts receivables and loans. Although USAID documents show that it expects to implement these capabilities early in Fiscal Year 1998, USAID has not tested the new capabilities to ensure they meet federal financial management system requirements or contain adequate internal controls and security protections.

We believe these near-term efforts to establish core functionality in the current AWACS version and expand the types of transactions processed have diverted limited resources and management's attention from efforts to identify and correct the underlying design problems that are at the root of NMS performance problems. Until the technical problems that have limited NMS from operating effectively are fully understood and disciplined processes are applied to contractor activities, USAID cannot have assurance that the funds it is spending to correct software defects are being used effectively. To illustrate, when design changes are made, much of the current investment to fix these software defects may be lost. Further, standard systems development practice and responsible financial management principles would call for thorough testing and an effective implementation plan before expanding AWACS capabilities.

USAID is also currently operating AWACS in violation of the terms of a waiver it received from the General Services Administration (GSA). Expanding AWACS capabilities without following the requirements of the waiver would, in our opinion, be inappropriate. The GSA waiver allowed USAID to develop a core accounting system instead of following OMB requirements to use a GSA approved off-the-shelf system. The waiver stipulated that USAID would:

- ensure that the system meets the requirements called for in its solicitation for an off-the-shelf financial management system;
- ensure continued central maintenance of software with adequate documentation, standard development methods, and configuration control to allow for long term support; and
- follow the benchmarking requirements in Section 8 of OMB Circular A-127. The benchmark requirement calls for core accounting systems to be tested by GSA before deployment to ensure that the systems meet federal system requirements.

USAID did not comply with these stipulations. Even though AWACS has been operational for one year, USAID has not had the system tested by GSA to determine if it met federal financial management requirements. USAID's current efforts to expand AWACS capabilities to process accounts receivables and loans also do not comply with the stipulations in the waiver. USAID has no plans to benchmark the new capabilities before making them operational.

USAID officials recently told us they plan to suspend new development activities on October 31, 1997. We believe this is an encouraging step in the right direction. However, it is not clear how this will affect the allocation of resources between correcting defects and developing an effective system. AWACS will still suffer from significant flaws and resources will still need to be devoted to maintaining the system. Because maintenance can include making enhancements to operational systems, significant resources may still be devoted to attempting to get AWACS to operate effectively.

Recommendation No. 5: Suspend AWACS Operations

We recommended that USAID suspend AWACS operations until technical deficiencies were corrected, implementation issues were resolved, and testing showed the system—or a cost-effective subset of the system—operated effectively and complied with federal financial management system requirements.

USAID decided to suspend AWACS, and Acquisition and Assistance operations at field missions, but to continue operating AWACS in Washington. USAID stated that it weighed this recommendation very carefully and that the NMS management team had the financial management bureau (M/FM) assess, in detail, the workload, audit, and financial reconciliation implications of accepting this recommendation. USAID recognized that continuing to operate AWACS exposed it to financial vulnerabilities. However, because USAID had operated AWACS for nine months of the fiscal year, USAID determined that it would be exposed to additional financial management vulnerabilities if it attempted to revert to the FACS legacy system. USAID also acknowledged that continuing AWACS operations would result in difficulties closing fiscal year 1997.

Although we recognize that premature NMS deployment placed USAID in a difficult position, we did not agree with USAID's decision because USAID continued to operate AWACS in Washington. AWACS is unable to operate as an effective system or comply with financial management system requirements. For example, AWACS does not reliably make all payments or generate accurate financial or management information—including basic Treasury reports. Also, the analysis USAID used to support the decision to continue using NMS did not compare the risks of reverting to legacy systems to the risks associated with continuing to rely on NMS—a system with unknown vulnerabilities. The

analysis also did not compare the costs to revert to the old system to the costs currently being incurred to operate NMS and fix numerous software defects.

Finally, we pointed out that even if USAID's analysis were accepted for fiscal year 1997, USAID faced a new decision point on October 1, 1997. The start of fiscal year 1998 presents an opportunity to begin the year using legacy systems. USAID, however, has decided to continue using AWACS for Washington financial transactions during fiscal year 1998.

We believe that prudent financial management practices dictate that USAID reduce its vulnerability to AWACS deficiencies. Continued use of AWACS in Washington leaves USAID vulnerable to losses from fraud or abuse. In fact, our recent report on internal controls found that NMS does not contain a system of internal controls that meets GAO's Standards for Internal Controls in the Federal Government. We identified a number of serious internal control problems and pointed out that the NMS contains many more unknown vulnerabilities.⁴ Our recent report on USAID computer security practices pointed out that USAID has not implemented a computer security program that complies with OMB Circular A-130.⁵ That report found that USAID had not adequately considered security in NMS development and cited several NMS security vulnerabilities that increase the risks of fraud and the compromise of sensitive or Privacy Act-protected information.

Conclusions

Although USAID has committed to implement disciplined IRM processes and to correct NMS deficiencies, progress has been slow because much of USAID's attention is focused on efforts to improve AWACS capabilities. USAID is in a difficult position because AWACS was deployed prematurely. It has been the primary financial management system for Washington operations since October 1996. USAID is, therefore, reluctant to revert to legacy systems both because of the additional effort required to do so and also because the legacy systems do not meet federal financial management system requirements.

However, continuing to operate AWACS, implement software patches to correct fundamental deficiencies, and expand the types of transactions processed, continues the flawed approach USAID followed to develop the system and diverts limited resources and management's attention from identifying and correcting the underlying technical

⁴ Audit of the Internal Controls for the Operational New Management System (Report No. A-000-97-009-P, September 30, 1997).

⁵ Review of USAID's Compliance with Federal Computer Security Requirements (Report No. A-000-97-008-P, September 30, 1997).

problems. We are especially troubled by USAID's effort to add new capabilities to the system without complying with the stipulations contained in the waiver it signed with GSA.

Although USAID has committed to stop new development on October 31, 1997, it is not clear how that action will affect the allocation of resources between correcting defects and developing an effective system. AWACS will still suffer from fundamental flaws and resources will still need to be devoted to maintaining the system. As we pointed out in our March 1997 report, AWACS technical problems need to be fully understood for corrective efforts to be effective. Until the technical problems are fully understood and a performance-based contracting mechanism is in place, USAID cannot have reasonable assurance that funds spent to correct AWACS deficiencies are being used effectively.

Because we have already recommended that USAID suspend contractor development efforts and suspend AWACS operations, this report contains no recommendations.

Management Comments and Our Evaluation

USAID provided written comments on a draft of this report and we have included their comments as Appendix II to this report. We are pleased that USAID emphasized its commitment to disciplined processes to correct NMS deficiencies. USAID also provided its basis for action in two areas—strengthening management of the NMS program and proceeding with AWACS as the primary accounting system.

USAID stated that it decided in September 1997 it would be counterproductive to make major organizational and personnel changes to the NMS program during the initial phase of program recovery. This decision reinforces our concern that near-term efforts are delaying actions to deal with underlying problems with the NMS.

In addition, USAID also stated that it decided to continue using AWACS in Washington because USAID believes the risks associated with reverting to the old accounting system are far greater than continuing to rely on AWACS. We agree that USAID is in a difficult situation in assessing whether or not to revert to the old system. However, in our March 1997 report, we pointed out the need to conduct a detailed assessment that would enable USAID to make that informed decision and such an assessment should have been done at that time.

Finally, USAID stated that its actions are part of a project recovery plan and that it completed an informal assessment of management alternatives. Although we have requested this information prior to issuing this report, USAID has not provided its project recovery plan or its informal assessment of alternatives to us.

SCOPE AND METHODOLOGY

Scope

Our review covered USAID decisions in response to recommendations contained in our March 1997 report, "Audit of the Worldwide Deployment of the New Management System", and subsequent management actions to implement the recommendations. The audit was conducted between August 14, 1997 and September 19, 1997 in accordance with generally accepted government auditing standards. USAID's management decisions on our recommendations were communicated in a July 14, 1997 memorandum.

We relied heavily on assertions by responsible USAID managers to describe subsequent activities to implement the decisions. This resulted in part from the fact that action has not been taken to implement some activities. USAID management's decision to limit our access to some documentation until final decisions were made or action were implemented also contributed to our reliance on management assertions. Although we believe we have access rights to this information under the Inspector Generals' Act of 1978, we did not fully resolve this issue with management due to the overriding need to issue this report in a timely manner. We plan to continue to discuss this issue with USAID officials and believe that it will be appropriately resolved in the near future. We also do not believe this limitation adversely affected our ability to answer the audit objective. However, it is possible that this report gives USAID more credit for actions taken than it would have had we reviewed the source documents.

Methodology

We reviewed and analyzed USAID management responses to the five audit recommendations made in our March 1997 report; "Audit of the Deployment of USAID's New Management System", (report number A-000-97-004-P, March 31, 1997). We also identified actions USAID had initiated to implement the recommendation and reviewed available documentation describing the nature and implementation status of those actions. We held numerous discussions with responsible USAID officials from the Management Bureau, including the Director and staff from the Office of Information

Resources Management, the NMS program manager and team leaders from various NMS development units, and NMS contractor officials. We reviewed USAID decision papers and internal analyses describing the status of NMS development efforts, and we reviewed some draft material describing planned contract activities to identify technical problems. Our access to information was somewhat limited because final action to implement some activities had not been completed and USAID management decided to limit our access to some documentation until final decisions were made or actions were actually implemented.

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U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

SEP 29 1997

MEMORANDUM

TO: AIG/A, Everette B. Orr

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

SUBJECT: USAID Response to Draft Audit of the Status of USAID's
New Management System (Audit Report Number A-000-97-
010-P)

USAID has documented in the following recent communications to the OIG its efforts at addressing the management risks, vulnerabilities and deficiencies in the New Management System (NMS):

- September 26, 1997 letter to Everette B. Orr, AIG/A, regarding USAID's response to the OIG Audit of Internal Controls for the Operational New Management System (Audit Report No. A-000-97-009-P).
- September 26, 1997 letter to Everette B. Orr, AIG/A, regarding USAID's response to the OIG Review of USAID's Compliance with Federal Computer Security Requirements (Audit Report No. A-000-97-008-P).
- September 23, 1997 letter to Jeffrey Rush, Jr., IG, regarding USAID's request for OIG collaboration and assistance in planned independent reviews and assessments of USAID information systems.
- September 16, 1997 letter to Everett L. Mosley, DIG, regarding Agency senior management's decision to conduct a series of independent reviews to both identify and correct these deficiencies in NMS and assess the lowest management risk and cost to the Agency in selecting a financial management system.

- September 10, 1997 letter to Howard Pfeffer, IG/A/IT&SA, detailing USAID's actions at implementing disciplined IRM processes in support of Agency IT investments and management oversight of NMS.

We note in the subject report several references recognizing recent efforts by USAID senior management to implement disciplined IRM processes. Both the OIG and USAID management will agree that much needs to be done even though significant progress has been made. NMS is in a project recovery phase. Over the past four months USAID has been implementing and fine-tuning a project recovery plan. Our strategy has been to contain costs and reduce management risks to the Agency. We recognize that the NMS project has not been adequately controlled due to the maturity level of our software engineering process. Taking the initial steps in creating a disciplined IRM process have been the hallmarks of this initial project recovery phase. The NMS Executive Team has taken this on as a leadership opportunity to redefine the project in fundamental ways and take decisive action that achieves the overall lowest management risk and cost to the Agency.

We have reduced the number of requirements to the minimum acceptable set to meet fiscal year end and core financial management requirements. Later NMS Executive Team reviews of high and medium management risks associated with delivery schedules resulted in further trimming of the functional requirements. We have addressed project leadership requirements by assigning an NMS Program Manager, approving the hiring of an expert NMS Technical Manager to oversee technical aspects of the project and the detailing of a senior IRM professional to the project to serve as the NMS Program Coordinator to address coordination, tactical planning, scheduling and tracking requirements. We completed an informal management assessment of the project with the assistance of the NMS Program Manager and the new IRM Director while awaiting independent assessments and reviews to be conducted by FEDSIM. This assessment has confirmed the limits of what we know, the weakness in our IRM processes, what the management risks are of not completing certain functional requirements on schedule, and the most prudent and appropriate actions we can take within these constraints. We decided to suspend all development work on October 31, 1997 after completing the minimally acceptable set of functional requirements so that Agency resources can be more effectively directed at independent assessments, mitigation efforts, stabilization of NMS operations and more fundamental project recovery actions. We directed that more in-depth independent assessments and evaluations be done to determine the lower overall management risk and cost IT investment options to correct NMS vulnerabilities and deficiencies. In short, we have committed the Agency to applying disciplined IRM processes to an NMS project recovery plan.

We would like to draw your attention to two broad comments made

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in the subject report that USAID believes warrant a clarification by USAID and a restatement of guiding principles that inform our decisions. First, the OIG noted that progress has been made in strengthening the management of the NMS project. The OIG indicated that responsibilities and authorities within the NMS project still have not been clearly defined. The NMS Program Manager made an assessment in September 1997, soon after his assignment to the project, that major organizational and personnel changes on the project could prove counter-productive during this initial phase of project recovery to deliver high management risk requirements. In the past two weeks, the NMS Program Manager, the NMS Program Coordination & Control Unit staff, NMS Management Team and M/IRM staff have been defining organizational relationships and responsibilities. We will provide products of these efforts once they have been reviewed and approved by the NMS Executive Team.

Second, the OIG indicates non-concurrence with the Agency decision to proceed with AWACS as the primary system among other systems for its Washington financial management requirements. The OIG believes based on its own audits that this represents a substantial management risk to the Agency. We do not disagree that there is substantial management risk associated with this decision. However, we believe that neither the OIG's audit findings nor USAID's own assessments are sufficiently rigorous and detailed to inform a disciplined decision of the sort required by the Clinger-Cohen Act for IT investment decisions. Neither the OIG nor USAID has been able to properly assess and evaluate the risks associated with reverting back to FACS as the Agency's primary financial management system. Within the limits of what we know, we believe the management risks associated with reverting to FACS to be far greater than continuing to rely on AWACS. As the OIG clearly recognizes, FACS has a long history of material internal control weaknesses. We believe the most prudent and appropriate course is to suspend NMS development, continue to use AWACS along with other financial management systems and proceed with the independent assessments and evaluations to establish the overall lowest management risk and cost option to meeting the Agency's financial management requirements. We would welcome the OIG's collaboration and support for this effort.

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U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

SEP 10 1997

INFORMATION MEMORANDUM

TO: Howard Pfeffer, IG/A/IT&SA
FROM: Anthony Vodraska, NMS Program Manager, AA/M
SUBJECT: OIG Request For Information

A handwritten signature in dark ink, appearing to read "Anthony Vodraska", written over the printed name in the "FROM:" field.

In response to your August 28, 1997 e-mail attaching an OIG information request regarding NMS, I would like to convey some recent decisions and actions of the NMS Executive Team, M/IRM, and the NMS Management Team that will address some of your requests.

The organization and charter of the Capital Investment Review Board for IT has been substantially developed by M/IRM and the NMS Executive Team as an essential implementation action to comply with the provisions of the Clinger-Cohen Act. A recommendation on Board composition and the draft charter is being finalized by the NMS Executive Team and will be forwarded to the Administrator during the month of September 1997. A copy of the draft charter for the Capital Investment Review Board for IT is provided as Attachment A. It is anticipated that the Board will be convened during the month of October 1997. In consultation with the NMS Executive Team, the Acting AA/M has authorized a contract action in FY 97 to implement the provisions of the Clinger-Cohen Act at USAID. This 12-month contract will develop the operational skills of the Board and provide essential analytical work to enhance the IRM discipline at USAID. Training components in the contract will insure progress toward institutionalization of those disciplined IRM practices. A copy of the scope of work is provided as Attachment B.

It is worth noting that the NMS Executive Team has extended the meaning of NMS or New Management Systems to include all enterprise-wide IT investments, not just AWACS, A&A, OPS and Budget in its current formulations. The NMS Executive Team is providing direct management oversight and decision-making on key policy issues, resource allocations and implementation planning

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activities pertaining to enterprise-wide systems development activities. On-going work under HR/Payroll Modernization Program and Property Systems, for example, are being included in the NMS Executive Team's mandate. These responsibilities will be transferred to the formally appointed NMS Executive Steering Committee under the Capital Investment Review Board in October 1997. Hence, references to NMS in the future will reflect those Board approved IT activities under a development or implementation phase in their activity life cycle. A draft charter for the NMS Executive Steering Committee is provided as Attachment C.

The NMS Executive Team has addressed the most critical NMS project management and coordination concerns through a series of personnel decisions. I have been formally designated as NMS Program Manager in an Agency Notice dated 9/2/97. My initial focus has been on IT organizational issues, working with M/IRM to develop strategies for strengthening IRM processes on NMS, define NMS IRM staff support requirements and provide management information tools to support NMS Executive Team decision-making.

At my request, in close collaboration with the Director of M/IRM, the NMS Executive Team approved the recruitment of an M/IRM NMS Technical Program Manager. This individual will be recruited with substantial expertise in technical direction of large distributed database processing systems development efforts to insure the application of disciplined IRM processes to NMS technical architecture, design and implementation activities. The NMS Technical Manager will also provide essential oversight and direction to M/IRM's various NMS support groups (e.g. data administration, database group, software configuration control board, quality assurance and testing group, and security group).

I have also requested from M/IRM and the NMS Executive Team has approved the creation of an NMS Management Control and Coordination Unit staffed by a senior M/IRM staff person. Other operational support staff from M/IRM and functional offices will work within the unit. The IRM NMS Program Control Coordinator would be responsible for assuring the application of a project planning and tracking methodologies to all NMS activities. The Unit will insure that regular and accurate tracking reports are issued, project management metrics are adopted, measurements collected, and resource requirements, allocations and expenditures are monitored. The Unit will also handle a broad range of process improvement and operations management in support of NMS program activities (e.g. software engineering process improvement group, policy & business rules group, consolidated facilities management group, and production support coordination group). The NMS Program Manager, IRM NMS Technical Manager and NMS Management and Control Unit would provide the essential staff

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support and reporting to the NMS Executive Steering Committee, the CIO and Capital Investment Review Board on NMS program activities and proposed IT investments. These individuals along with the activity team leaders provided by various offices will constitute the NMS Management Team with the NMS Program Manager as team leader. Further restructuring of the NMS Task Force components and refinement of roles will be introduced if it is found essential to meeting project schedules for achieving minimally acceptable functionality.

The NMS Executive Team has approved restructuring M/IRM around strategic support roles for NMS activities. Front-line M/IRM NMS support managers will be designated and held accountable for essential IRM services and staff involvement on NMS activities. IRM technical administrators will be assigned to each NMS activity to oversee contract task order and delivery process. They will take technical direction from the IRM NMS Technical Manager and work with IRM NMS Program Control Coordinator to insure essential IRM support services are provided to each activity.

Future funding for NMS related activities will be consolidated in M/IRM under the oversight of the NMS Executive Steering Committee beginning in FY 98. All COTRs for NMS related contracting will be M/IRM staff. The NMS Program Manager, in close consultation with M/IRM, will manage NMS specific program resources and be accountable for achieving the results against those resource allocations. This will insure a more integrated and disciplined IRM approach is applied to future IT investments.

M/IRM has developed a software order administration process for administering task orders under contracts. This rigorous process is being tested under current IT contracts with a limited number of task orders to better evaluate the process and train contractors and USAID staff. This process will evolve over time to a much more rigorous performance based task ordering process.

The NMS Executive Team has approved an FY 97 IV&V contract action through FEDSIM with an expert technical organization to review the Agency's IRM processes. This work will be in preparation for adopting a range of more disciplined procedures, such as the Capability Maturity Model (CMM), project management tools, technical architecture, data administration, data modeling, integration tools, testing and quality assurance methodologies. Other IV&V efforts to review the adequacy of NMS internal controls, AWACS compliance with federal financial management internal controls and generally accepted accounting principles, and NMS security are currently in process. The NMS Executive Team will review each proposed IV&V effort to determine the best fit or combination of efforts to support management decision-making regarding implementation priorities and resource allocations.

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Copies of these task orders will be provided to OIG once they are finalized.

The NMS Management Team, under my direction, is currently preparing revised schedules and resource requirements for review by the NMS Executive Team. This exercise will establish the AWACS, A&A, OPS and Budget FY 98 resource estimates to achieve minimally acceptable functionality and the management risks and work-around options if these are not fully implemented. These will be evaluated against various funding scenarios and other planned IT investments in FY 98.

Attachments:

- A. Draft Charter For Capital Investment Review Board for IT.
- B. Scope of Work For An Information Technology Investment Review Board.
- C. Draft Charter For The NMS Executive Steering Committee

Clearances:

M/IRM/OD:JStreufert JStreufert Date 9/10/97

A-AA/M:RNYgard RNYgard Date 9/10

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