

USAID

OFFICE OF INSPECTOR GENERAL

FIVE YEAR PLAN

For Fiscal Years 1999 - 2003



**U.S. Agency for
International Development**

FOREWORD

This document presents the FY 1999-2003 strategic plan for the USAID Office of Inspector General.

This is the third plan which consolidates the long-term audit, investigations, and security activities into a single document. The plan articulates goals and objectives which serve as a framework for our work over the next five years.

While this plan serves as our general long-range strategy, it is supplemented by an Annual Plan. Change in our environment, such as new laws and changing priorities, will require us to conduct a periodic assessment of our plans.

The office welcomes insight from those who read this plan. We appreciate comments from readers which will serve to enhance our future planning and allow us to better meet the interests of those who use our strategic plan.

**U.S. Agency for
International Development**

Office of Inspector General

Five-Year Plan

for Fiscal Years 1999 through 2003



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GLOSSARY

AFR	Bureau for Africa
AIG/A	Assistant Inspector General for Audit
AIG/I	Assistant Inspector General for Investigations
AIG/SEC	Assistant Inspector General for Security
AWACS	AID Worldwide Accounting and Control System
CFO	Chief Financial Officer
ENI	Bureau for Europe and the New Independent States
EXO	Executive Order
FAM	Foreign Affairs Manual
FAV	Fully Armored Vehicle
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FSN	Foreign Service National
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
ISOO	Information Security Oversight Office
LAC	Bureau for Latin America and the Caribbean
NGO	Non-Governmental Organization
NMS	New Management System
OIG	Office of Inspector General
OIG/A	Office of Inspector General - Audit
OIG/I	Office of Inspector General - Investigations
OIG/SEC	Office of Inspector General - Security
OMB	Office of Management and Budget
OSCAR	Office of Security Combined Automated Records
OSPB	Overseas Security Policy Board
PCIE	President's Council on Integrity and Efficiency
PSC	Personal Services Contractor
PVO	Private Voluntary Organization
QAR	Quality Assurance Review
USAID	U.S. Agency for International Development
USDH	U.S. Direct Hire [Employee]

INTRODUCTION

Long-Range Planning

Long-range planning affords an organization the opportunity to clearly define how it will operate for an extended period of time. This approach is an effective and efficient way to operate, and prepares an organization to be more responsive to a changing environment.

Long-range planning requires an organization to clearly state its mission as well as its goals and objectives for carrying out operations. Long-range plans should also outline environmental factors—assumptions—which will impact implementation of the plan. The plan presented on the following pages is our vision of the work the USAID Office of Inspector General (OIG) will be doing for the next five years.

Authority and Responsibility

The USAID Office of Inspector General was established on December 16, 1980 by Public Law 96-533 which amended the Foreign Assistance Act of 1961. On December 29, 1981, the President signed the International Security and Development Cooperation Act of 1981, bringing the USAID Inspector General under the purview of the Inspector General Act of 1978.

The USAID Inspector General heads an organization responsible for audit, investigation, and security relating to USAID's programs and operations. The OIG is authorized by statute to also provide services to the Overseas Private Investment Corporation and the International Development Cooperation Agency.

The Inspector General Act of 1978 (IG Act), as amended, authorizes the Inspector General to conduct and supervise audits and investigations. As a result of this work the OIG recommends policies to promote economy, efficiency and effectiveness, and detect and prevent fraud and abuse in programs and operations of USAID. The Inspector General is responsible for keeping the Administrator and the Congress fully informed about problems and deficiencies in USAID programs and operations, as well as the necessity for, and progress of, corrective actions.

The Office of Inspector General has four major elements: Audit, Investigations, Security, and Legal Counsel and Management. The OIG maintains six overseas offices.

Mission Areas

Audit: The Assistant Inspector General for Audit (AIG/A) is responsible for supervising the performance of audit activities relating to USAID's worldwide foreign assistance programs and USAID operations. Audit activities include performance audits of USAID programs and management systems, financial statement audits as required under the Government Management Reform Act (GMRA), and financial audits of grantees and contractors.

Investigations: The Assistant Inspector General for Investigations (AIG/I) is responsible for supervising the performance of investigative activities relating to USAID foreign assistance programs and USAID operations. These include investigations of criminal, civil, and serious administrative violations involving USAID's worldwide operations. The Assistant Inspector General for Investigations also operates the USAID Inspector General Hot Line.

Security: The Assistant Inspector General for Security (AIG/SEC) is responsible for supervising the performance of security activities relating to USAID programs and activities. These programs, which in part support USAID facilities and operations in approximately 86 countries, are derived from legislation, executive orders, national security directives, and other national-level policies. Program responsibilities include physical security of USAID employees and facilities, personal security investigations, and information security training, inspections, and assistance activities.

Legal Counsel and Management: The Legal Counsel and the Assistant Inspector General for Management provide advice and guidance to the Inspector General and the Assistant Inspectors General on legal, administrative, financial, and personnel matters. The Assistant Inspector General for Management is directly responsible for implementing and administering personnel, budgetary, contracting, logistical, information resource management, and administrative activities for the OIG's Washington, D.C. offices and the overseas regional offices.

Reinvention

USAID was designated as a "reinvention laboratory" under the National Performance Review. This has led to many changes in the nature and scope of its global programs and operations. The OIG has responded with its own adaptations to the rapid change at USAID. The OIG has reorganized both at headquarters and overseas. In addition there continues to be new Congressional requirements fostering agency accountability and emphasis on results. The OIG has a role in assisting USAID meet the new requirements and on reporting on USAID progress. The OIG will continue to assess its Washington and overseas

operations in view of the internal and external changes at USAID. This plan presents the OIG's long-range plan to meet the challenges of our future.

Consultations with Partners and Customers

Understanding the views of our partners and customers and ensuring that those views are addressed in conducting our work is vital to the overall success of OIG operations. Traditionally, we have worked with both USAID and Congress in soliciting input to work plans. Managers in our Audit, Investigation and Security units hold discussions with USAID managers and Congressional staff members when developing the OIG Annual Performance Plan. These discussions have helped us focus our limited resources on issues of greatest Agency, Congressional and taxpayer concern.

ENVIRONMENTAL FACTORS

The success of five-year planning depends a great deal on assumptions about the environment within which an organization operates. Those assumptions will be tested and revised or discarded as necessary and new assumptions will be introduced. The following pages discuss from a Fiscal Year 1998 perspective the essential assumptions that we are making about USAID and the OIG. The following pages discuss the key factors affecting achievement of general goals and objectives:

Relationship With The State Department:

The State Department will lead the other agencies of the USG with overseas missions, including USAID, in the development of a Strategic Plan for International Affairs. Beginning with the year 2000, USAID will align the Agency strategic plan within this framework. Overseas planning and coordination among foreign affairs agencies has increased with the preparation of a "Mission Performance Plan" which reflects the national interests set forth in the U.S. Strategic Plan of International Affairs.

Flowing from the Agency Strategic Plan is the Results Review and Resource Request. This requirement links the budget request to the achievement of the strategic objectives identified in the Strategic Plan. USAID's FY 2000 Results Review and Resource Request (R-4) guidance acknowledges the requirement that resources and activities overseas must be coordinated among overseas entities to meet national interests. Internal planning in USAID is consistent within the foreign affairs framework.

Funding Resources for USAID:

The appropriation level for Operating Expenses is expected to be reduced below the President's request level for FY 1999. The Agency believes that the appropriation for USAID Operating Expenses will continue to be under pressure. The outcome of the pending appropriation for FY 1999 and future budgets are likely to decline. Further reductions in workforce levels at headquarters or overseas could drive USAID to reduce activities.

USAID Will Be Smaller:

Overseas Presence:

Over the past few years, USAID has decreased the number of USAID Missions/Offices overseas. This trend is expected to continue. USAID's net change in the number of field missions and offices has decreased, going from 97 in 1993, to 78 in 1998. While USAID closed out of 28 countries between 1993, and 1998, and plans to leave an additional five by the end of FY98, they have also opened new sites leaving a net change of 19 fewer operations overseas.

By the year 2000, USAID management plans for activities to be carried out in approximately 75 countries with about 30 full-scope development missions and ten small, non-traditional offices (transition missions). The decrease in USAID operations means that programs will be terminated, graduated, or transformed into limited programs managed by non-governmental organizations (NGOs) and private sector resources. USAID activities, especially in the Africa (AFR) and Latin America and Caribbean (LAC) Bureaus, may experience decreases in funding and personnel. Activities in the Europe and New Independent States (ENI) region are already scheduled for completion shortly after the turn of the century.

USAID maintains programs in countries in which there is no USDH presence to manage the activities. Between 1996 and 1997, the number of countries with USAID programs but no USDH staff (called non-presence countries) decreased from 62 to 49 while the dollar value of obligations to these countries rose from \$180.4 million to \$182.2 million. The trend for programming USAID activities in non-presence countries is not clear. The difficulty in managing such overseas activities has been recognized, however.

Workforce Levels:

An Agency Workforce Planning Task Force was established in 1997 to develop parameters for workforce planning over a five-year period. Recommendations were directed at the more immediate Agency needs and staff requirements for the next three years. The Report recommendations are under consideration by USAID senior management. One proposal suggests reducing the employee costs over the next three years under the assumption that Operating Expense funds will be limited or further reduced. Such staff reductions should not impact the USAID field presence, according to the report, which would remain at approximately 700 US direct hire staff. The report recommends a sharp decline in the USDH staff to a level of 2,000 employees, equally balanced between Civil Service and Foreign Service. USAID would pursue actions to decrease occupied positions by September 30, 2000, from the level of 2,235, which existed on September 30,

1997. For the balance of the years in this Strategic Plan, USAID might stabilize the workforce level at 2,000 USDH.

USAID Systems Will Change:

USAID's new management systems (NMS) are being designed to improve budgeting, procurement, contracting, and other processes while decentralizing policy and implementation decisions to field units. These systems will be implemented to enhance management oversight and, at the same time, allow for decentralizing program policy and implementation process. This centralized systems management concept will permit a greater share of auditing and oversight at the seat of government supplemented by diminishing numbers of field observation and testing.

USAID Activities Will Be Vulnerable: When USAID expands, contracts, changes direction, or develops and undertakes new and innovative activities, different vulnerabilities must be recognized.

Reduced Staffing Levels:

The Agency is already reducing the level of oversight provided by USDH career employees and increasingly is relying more on outside contractors, private voluntary organizations (PVOs) and non-governmental organizations (NGOs), U.S. personal service contractors (PSCs), and foreign service nationals (FSNs) to make decisions and provide supervision over USAID activities. This trend will likely continue. Experience has shown that reduced USDH presence will increase vulnerabilities and the likelihood that fraud and abuse may go undetected or unreported.

Program Direction:

USAID anticipates moving to fewer bilateral missions, managing more activities from regional or centralized offices, and increasing its reliance on PVOs and NGOs. USAID activities have been especially vulnerable during periods of rapid change in direction, i.e., when opening or closing overseas missions.

(a) When USAID initiates activities in new areas, program design is often innovative and different (e.g., programs in ENI have little resemblance to those in LAC). USDH and USPSC employees are new to the area and FSN employees may be new to USAID procedures and U.S. business practices. During these initial set-up phases, the OIG needs to work closely with USAID to ensure that risks are recognized and program designs address potential steps to reduce vulnerabilities.

(b) When USAID eliminates programs, there can be increased reliance on non-USDH employees during the "phase out" period. Programs may be more vulnerable to fraud and abuse at such times. Moreover, because indicators of financial irregularities often surface some time later, often months after transactions are in the pipeline or after activities are completed, the closing of missions does not immediately decrease the need for audit oversight or investigative vigilance. Often the reverse is true and a closing activity presents increased need for OIG attention and response.

Working Environment:

USAID works in many countries which lack a strong accountability environment. In the absence of local economic and political transparency, USAID must maintain continual vigilance to ensure assistance funds are used for intended purposes.

OIG Field Locations and Staff Distribution May Change in Response to Functional Needs:

Staff Size and Location:

The Outcome Goals enumerated in this Plan are based on a worldwide USDH authorized ceiling of 229, with approximately 25 percent of the staff assigned overseas. The OIG has contingency plans to reduce staff below the authorized ceiling levels. However, these plans will not require a reduction in overseas staffing. Rising costs for various categories of expenses could put pressure on funds available for salaries over the next five years.

The OIG maintains regional offices. The regional responsibilities for each office varies with some responsible for coverage of USAID programs in more than over 20 countries. We continue to evaluate the placement of our regional offices, the level of staff and the associated costs. We will make appropriate adjustments to maintain overseas offices.

The cost of deploying staff to overseas locations is estimated at \$185,000 per employee annually. This cost is necessary to meet our audit and investigation responsibilities for the foreign assistance program. The OIG field presence is essential to our mission. The audit and investigation field presence is supplemented by performing some audit and investigations work with travelers from Washington.

Training:

We recognize that changes currently underway in both USAID and OIG management systems, as well as unanticipated systems advances likely to occur in the future, will require a continuing commitment to developing job skills and training opportunities for all employees.

Budgetary Levels:

We anticipate a straight-line budget at the FY99 requested level of \$33 million. This budget will not be adjusted for inflation. As personnel, rent, utilities, critical security program materials and operational travel costs increase at a rate of between two and three percent per year, it is apparent that adjustments in staff size and location will have to be made. We anticipate that no-year funds currently being utilized will be exhausted in FY 2001.

Automation:

We anticipate changes in operating procedures and processes, resulting in greater efficiencies, improved processes, and a greater ability to track and report the results of operations.

Position Allocations for Fiscal Year 1999

POSITIONS	
IG	6
Audit	126
Investigations	30
Security	35
Legal Counsel and Management	32
Total	229

MISSION, GOALS, PERFORMANCE MEASURES, AND OBJECTIVES

The OIG Mission and Principles

The mission of the Office of Inspector General is to promote and preserve the effectiveness, integrity, efficiency, and security of the U.S. Agency for International Development.

In accomplishing this mission, the OIG Team will show commitment to:

Partnership by striving to understand development; work with USAID to promote development; understand the entire OIG program and its impact on development; help management find solutions to problems; and remember that our success is measured by the success of our colleagues and partners.

Integrity by striving to display character, decency, and honor in everything we do; work openly and fairly with our colleagues and partners; acknowledge what works and what doesn't; show respect for one another; maintain quiet independence to ensure objectivity and impartiality; and accept responsibility for our own actions.

Excellence by striving to produce work that has distinction, merit, quality, and impact; work efficiently with highly trained people who enjoy equal opportunities to excel; deliver products which are accurate, timely, complete, concise, and meaningful; and present work in a way which is most useful to responsible officials.

Goals and Performance Measures

The goals of the OIG are defined by our Strategic Framework and are related directly to the statements on Mission and Principles. Each goal, articulated below, has accompanying performance measures that describe what we expect to accomplish. This concept of goals and related performance measures is what drives the specific work to be accomplished during the next five years. That work is detailed later in this document in the section on implementing annual plans.

Performance measures for goals are a means to assess the OIG's long-term impact on USAID operations. It is obviously a very difficult task to measure OIG impact, especially because we have no line authority over USAID management. However, it is essential that we be in a position to demonstrate whether we are successfully

carrying out our legislative mandate and our mission in partnership with USAID management.

With a mission to promote and preserve USAID's effectiveness, integrity, efficiency and security, our challenge is to show, over a long period of time, whether USAID is improving or declining in these areas. Additionally, we should measure, wherever possible, the impact of OIG actions.

Historically, the OIG community has focused on performance measures such as the number or amount of increased efficiencies, amount of funds recovered, number of cases successfully prosecuted, or number of security investigations completed. The following goals and performance measures include traditional measures and USAID's progress in reaching positive goals in the OIG Mission Statement and the IG Act.

GOAL

The OIG and USAID management will work as partners to promote and preserve USAID's **effectiveness**.

Measures: The OIG and USAID management contribute to USAID's effectiveness as demonstrated by the extent that USAID:

- has measurable performance targets;
- has adequate systems that report performance;
- achieves or is on schedule to achieve performance targets;
- changes strategies when performance targets are not met; and
- makes positive, systemic changes in the way it does business as a result of investigative efforts.

Objectives and Work in Support of the Effectiveness Goal

Audit will maintain flexibility addressing significant issues affecting USAID effectiveness. However, it will increasingly orient its operations under this goal to focus upon two primary areas of concern, namely:

- USAID's implementation of the Government Performance and Results Act ("Results Act" or GPRA); and
- USAID's implementation of the Clinger-Cohen Act, most specifically in its development and implementation of a comprehensive and redesigned management information system, commonly referred to as the "New Management System" (NMS).

OIG/A's objectives will be to:

- work with USAID to implement Results Act requirements; and

- work with USAID to implement acceptable management information systems.

OIG/A began examining USAID's implementation of the Results Act during fiscal year 1997. We will continue this effort by:

- (1) scheduling performance audits of USAID's seven strategic goals over a multi-year period. These audits will determine whether USAID's goal-oriented operations comply with Results Act requirements, namely, does USAID (a) have adequate performance targets, (b) have adequate results reporting systems, (c) achieve targeted results, and (d) change strategy when planned results are not achieved;
- (2) reviewing USAID's annual Performance Plans, which USAID must submit to OMB during fiscal years 1998 through 2002, for compliance with Results Act requirements.

OIG/A began examining USAID's compliance with specific requirements of the Clinger-Cohen Act in fiscal year 1998 and will continue auditing this area throughout the five-year period. We began reviewing the NMS during fiscal year 1996, intensified our focus in fiscal year 1997 and 1998, and will continue auditing the NMS through its full development and implementation.

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GOAL

The OIG and USAID management will work as partners to promote and preserve USAID's **integrity**.

Measures: The OIG and USAID management contribute to USAID's integrity as demonstrated by the extent that USAID:

- has accurate and reliable financial systems, files, records and available underlying supporting evidence;
- identifies and resolves material internal control weaknesses in financial management practices;
- identifies and resolves instances of noncompliance with applicable laws and regulations;
- identifies funds owed to USAID and ensures payment of debts owed by USAID;
- makes measurable progress toward reliable financial reporting by both USAID and its external recipients;
- successfully promotes transparency and accountability in recipient country environments;
- has employees, foreign service nationals, and contractors with sufficient knowledge to identify possible integrity problems in USAID programs or operations;
- has employees, foreign service nationals, and contractors who identify integrity problems on a timely basis and take steps to address them;
- takes appropriate action based on investigative findings,
- has personnel whose integrity has been favorably assessed in accordance with national policy;

- has personnel cleared for access to classified national security information whose integrity has been favorably reassessed in accordance with national standards; and
- has zero instances of espionage or deliberate compromises of national security information.

Objectives and Work in Support of the Integrity Goal

Audit will perform audits in compliance with the Government Management Reform Act (GMRA) and Chief Financial Officers Act supplemented by audits of contractors and grantees (U.S. and foreign based), under the requirements of the Single Audit Act and USAID policy extending the Act's principles to non-U.S. contractors and grantees. OIG/A will audit USAID activity to implement the provisions of the Federal Financial Management Improvement Act (FFMIA) and Federal Managers' Financial Integrity Act (FMFIA). OIG/A will also work with recipient country Supreme Audit Institutions to promote transparency and accountability in recipient countries. OIG/A's objectives will be to:

- work with USAID in implementing the requirements of the Government Management Reform Act of 1994 and the Chief Financial Officers Act of 1990, and in producing overall financial statements that accurately present USAID operations;
- ensure complete audit coverage of USAID's grants, contracts and cooperative agreements;
- work with USAID in implementing compliance reporting requirements of the FFMIA;
- work with USAID in addressing all areas of material internal control weakness identified in its annual FMFIA reports; and
- work with USAID to improve the capabilities and performance of recipient country Supreme Audit Institutions to provide improved accountability over donor funds.

Investigations will conduct investigations of criminal, civil, and serious administrative violations; provide evidence to the Department of Justice, USAID decision makers, and others; and furnish USAID personnel fraud detection and prevention training.

Security will ensure that:

- all individuals charged with personnel security responsibility are fully trained, knowledgeable and competent within their discipline;
- all USAID related personnel falling under the direct support security cognizance of OIG/SEC have:
 - been subjected to the appropriate level of investigation prior to entry on duty with USAID;
 - had their investigation thoroughly reviewed by a qualified OIG/SEC officer and a determination made concerning their suitability for employment and eligibility for access to Classified National Defense Information;
 - been thoroughly trained in the properly handling, transmitting, storing and destruction of Classified Defense Information at the time they enter on duty with USAID; and
 - been subjected to a periodic reinvestigation on the fifth anniversary of the granting of their initial security clearance and every five years thereafter.

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GOAL

The OIG and USAID management will work as partners to promote and preserve USAID's **efficiency**.

Measures: The OIG and USAID management contribute to USAID's efficiency as demonstrated by the extent that USAID:

- links costs to results;
- has systems that accurately report costs and results;
- has demonstrated success in decreasing costs relative to results; and
- changes strategies when results diminish relative to costs.

Objectives and Work in Support of the Efficiency Goal

Audit will perform audits and reviews that relate to USAID's efficiency. Most specifically, this work will focus upon USAID's implementation of the Chief Financial Officers (CFO) Act and upon USAID's reengineering initiatives.

OIG/A's objectives will be to:

- work with USAID to meet CFO Act requirements for accurate reporting (particularly of cost information), integration of accounting and budgeting information, and performance measurement development and implementation; and
- work with USAID to meet its reengineering objectives by auditing or reviewing various aspects of those initiatives such as budgeting, procurement and/or personnel reform throughout the five year period.

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GOAL

The OIG and USAID management will work as partners to promote and preserve USAID's **security**.

Measures: The OIG and USAID management contribute to USAID's security as demonstrated by the extent that USAID:

- has an acceptably secure computerized data and information environment;
- has personnel who protect, handle, transmit and store Classified National Security Information in accordance with national policy;
- has facilities which meet physical security standards for operations overseas and in the United States; and
- has zero successful attacks against personnel or property under the security cognizance of USAID.

Objectives and Work in Support of the Security Goal

Audit will examine or review specific aspects of USAID security over the next five-year period, such as computer and property security, with the objective of ensuring that USAID maintains an acceptably secure environment.

Security will work with USAID in the areas of information security, office security, residential security (overseas), and armored vehicles. Programs will include security education, assisting in the relocation of USAID Washington offices, and ensuring protection for USAID personnel and property overseas.

- Every individual associated with USAID who has access to Classified National Security Information will receive a personal orientation concerning protection, handling, transmitting and storing this material and at least one follow-up briefing.

- Every Mission in USAID will have been inspected for compliance with Overseas Security Policy Board Physical Security policies and adherence to USAID Security Policy. Those found to be not in compliance or not in possession of a proper waiver will be immediately brought into compliance or a waiver obtained. Systemic reasons for noncompliance will be identified to management and corrected. Personnel found to have ignored security policy will be identified to management for appropriate action. A yearly schedule will be developed to insure that this goal is achieved.

- OIG/SEC has embraced the concept that the entire USAID family must be secure including all persons working abroad at the behest of USAID. Any entity working overseas in support of USAID programs, will be encouraged to provide for security of its personnel and to have security plans for the protection of its people. During the life of this plan, OIG/SEC will work with its partner to develop a security spirit on the part of Private Voluntary Organization (PVOs) and Non-Governmental Organizations (NGOs) and other USAID associates falling outside the traditional direct resource support of OIG/SEC. A byproduct of this security awareness will be to have security plans become a part of the contract or grant process and, more importantly, the planning of the NGO/PVO community. OIG/SEC will provide advice and assistance where necessary and will make compliance with this future requirement a matter of note on field inspection trips.

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IMPLEMENTING THE ANNUAL PLANS—Work from 1999 through 2003

Each year, the OIG develops and publishes a plan of the work it expects to accomplish during the fiscal year. These annual plans detail the specific work for the major mission areas—audit, investigations, and security. That work is designed to be consistent with the mission, goals, and objectives outlined in this strategic plan. In the following sections, we present our vision for program coverage that the Assistant Inspectors General believe will be essential to fulfilling the OIG mission.

Audit

The audit goal is to help USAID implement its strategies for sustainable development and provide USAID managers with information and recommendations that improve program and operational performance. In preparing a five-year audit strategic plan, our purpose is to provide a framework within which all USAID programs and functions can be considered for audit. The complexity of programs and functions in USAID demand that our staffing resources are targeted at those high risk programs and functions most vulnerable and in need of assistance.

We have found that a preponderance of our audit work is directly tied to legislative requirements applicable to USAID. We are, therefore, focusing our audit activity during this period on USAID's efforts to implement requirements of:

- the Federal Managers' Financial Integrity Act of 1982;
- the Chief Financial Officers Act of 1990;
- the Government Performance and Results Act of 1993;
- the Government Management Reform Act of 1994;
- the Single Audit Act as amended in 1996 (and USAID's extension of the Act's principles to the overseas environment);
- the Clinger-Cohen Act of 1996 (formerly the Information Technology Management Reform Act of 1996); and
- the Federal Financial Management Improvement Act of 1996.

In addition, we will examine USAID's actions to reengineer its operations and will work with recipient country government auditors to improve accountability and transparency in the overseas environment.

In the sections that follow, we will describe the primary areas where we expect to focus our audit efforts and outline general audit approaches.

The Federal Managers' Financial Integrity Act of 1982 (FMFIA)

FMFIA requires affected Federal agencies to establish adequate internal accounting and administrative controls to prevent, to the greatest possible extent, fraud, waste and abuse in Federal programs. Agencies must annually report to the President and Congress whether their systems of internal accounting and administrative controls provide reasonable assurance that internal control objectives are achieved.

Over the next five years, OIG/A involvement with USAID's FMFIA process will continue as follows:

- Each year, as in the recent past, OIG/A will review and provide USAID with comments on USAID's draft FMFIA submission and its implementation of FMFIA.
- OIG/A will utilize USAID's annual FMFIA report as one factor in the OIG's annual planning exercise identifying areas of USAID vulnerability and potential risk. This serves as the basis for allocating and focusing audit resources each year.

OIG/A's objective is to assist USAID in addressing each of the material deficiencies identified in its FMFIA reports.

Chief Financial Officers (CFO) Act of 1990

The CFO Act requires affected Federal agencies to, among other things, develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, which provides for:

- complete, reliable, consistent, and timely information that is prepared on a uniform basis and that is responsive to the financial information needs of agency management;

- the development and reporting of cost information;
- the integration of accounting and budgeting information; and
- the systematic measurement of performance.

OIG/A will periodically report upon USAID's conformance to these requirements of the CFO Act with the objective of assisting USAID to implement these provisions.

Government Performance and Results Act of 1993 ("Results Act" or GPRA)

The Results Act requires affected Federal agencies to improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality and customer satisfaction. It requires that agencies develop and implement plans for identifying program objectives and measuring program results. OIG/A will help USAID comply with the Results Act by:

- auditing USAID's activities in its strategic goal areas and measuring its goal achievement progress; and
- reviewing USAID's progress in meeting Results Act planning and reporting requirements.

Strategic Goals

USAID has identified seven strategic goals:

- encouraging broad-based economic growth and agricultural development;
- strengthening democracy and good governance;
- building human capacity through education and training;
- stabilizing world population and protecting human health;
- protecting the world's environment for long-term sustainability;
- saving lives, reducing suffering associated with natural or man-made disasters, and reestablishing conditions necessary for political and/or economic development; and
- remaining a premier bilateral development agency.

USAID must properly plan its activities under each goal and measure its results by asking whether those activities achieved defined, measurable objectives. Over the coming five year period, we will periodically audit USAID program activity to determine whether USAID:

- developed performance indicators consistent with its goals;
- developed a system for collecting and reporting accurate performance information; and
- used performance information to enhance program effectiveness.

Requirements and Deadlines

The Results Act requires that each affected Federal agency develop annual performance plans, annual performance reports (the first due no later than March of 2000), and periodic five-year strategic plan updates. OIG/A will review USAID plans and reports in the fiscal years in which they are developed to determine whether the documents meet Results Act requirements.

Our objective is to assist USAID in meeting all requirements of the Results Act.

Government Management Reform Act of 1994 (GMRA)

GMRA requires that each affected Federal agency produce annual audited financial statements of its operations. Under the Act, an agency must complete audited financial statements each year covering all of its accounts and associated activities. These financial statements are to report not only the agency's financial position and operational results, but must also provide further information allowing Congress and the public to assess management performance and stewardship of agency resources. An agency must submit these statements to OMB no later than March 1 of the following year.

Under GMRA, USAID management is required to compile Agency-wide financial statements and supplemental information. Management's ability to develop and maintain adequate internal controls, accounting systems and procedures to generate reliable financial statements will be critical to the success of USAID's annual reporting. To this end, USAID is developing a new core accounting system known as the AID Worldwide Accounting and Control System (AWACS). Once this system is fully implemented with a documented system of internal controls in accordance with the U.S. General Accounting Office's Standards for Internal Control, we will audit to give management the assurance that the controls for the system are in place and working.

Accordingly, each year during this five-year period, we will audit USAID's consolidated financial statements; attest, if possible, to their accuracy and to the accuracy of related program performance information; report on USAID's internal control structure; and report on compliance in accordance with Government Auditing Standards and OMB Bulletin No. 98-08. Our objective is to assist USAID to produce financial statements that accurately represent USAID operations.

Single Audit Act (as amended in 1996)

The Single Audit Act requires Federal agencies to promote sound financial management, including effective internal controls, with respect to Federal awards administered by non-Federal entities. In the spirit of this Act, the OIG works continuously with USAID management to maintain the highest possible levels of financial integrity over USAID's numerous grantees and contractors, while simultaneously minimizing the audit burden placed upon those organizations. OIG/A, in conjunction with USAID management, maintains this required accountability through an interlocking network of financial audit programs. These programs utilize the services of both Federal and non-Federal auditors. Non-Federal auditors include both commercial firms contracted for by OIG/A or by recipients and indigenous host government audit organizations (commonly termed "Supreme Audit Institutions").

Audit Coverage of U.S. Grantees

USAID's U.S. grantees are generally audited under OMB Circular A-133 requirements (although OIG/A retains the authority and capacity to audit specific grants and grantees using its own resources, should we deem this necessary). OIG/A manages USAID's A-133 program, reviewing and distributing audit reports and reviewing a sample of auditor working papers to ensure that these recipient-contracted auditors maintain appropriate auditing standards. OIG/A tracks audit recommendations until management reaches a decision in response to the recommendation. Over the next five years, OIG/A will attempt to determine optimum detailed review and oversight levels necessary to maintain adequate accountability over this program, given resource constraint realities. Our objective is to maintain appropriate coverage at the lowest possible resource allocation levels.

Audit Coverage of U.S. Contractors

USAID's U.S. contractors must undergo agreement-specific audits under the terms of their individual contracts. While OIG/A performs a limited number of such audits, most are performed by Federal auditors at the Defense Contract Audit Agency (DCAA), under the terms of an inter-organizational Memorandum of Understanding. OIG/A manages this program, distributes resulting reports to appropriate parties, and tracks audit recommendations through management decision. Over the next five years, OIG/A's objective is to continually review its management of this program to maintain, and increase if possible, operational efficiency.

Audit Coverage of Non-U.S. Grantees and Contractors

While the OIG directly audits a limited number of USAID grants and contracts to non-U.S entities, the vast majority are audited under a recipient-contracted audit program based upon OMB Circular A-133 principles. In-country public accounting firms or Supreme Audit Institutions (SAIs) generally perform these audits. AIG/A helps USAID maintain accountability under this program by:

- determining the capacity of auditing entities to perform the audits;
- providing assistance and training for participating auditors, grantees and USAID personnel within the limits of available OIG resources;
- reviewing final audit reports and a sample of auditor working papers for compliance with appropriate auditing standards; and
- tracking audit recommendations until management decides upon a plan of corrective action.

Where labor-intensive (and relatively expensive) audits would not be cost effective, USAID often obtains the services of independent public accounting firms (U.S. and non-U.S.) to maintain accountability over non-U.S. contractors. Under this program, USAID management can use such firms to review specific contracts or contract provisions. While financial services contracts cannot be used to obtain audits in accordance with U.S. Government auditing standards, they can be used to obtain virtually all other forms of financial services. The OIG monitors and oversees audit coverage of such contracts to ensure that the program is operating effectively and efficiently, that audit provisions are being observed, and that the services are used only for authorized purposes. Over the next five years, the OIG will continue working with USAID management to maintain accountability over such contracts.

The Clinger-Cohen Act of 1996 (formerly the Information Technology Management Act of 1996)

The Clinger-Cohen Act requires affected Federal agencies both to designate a Chief Information Officer and to put in place systems for effectively applying performance and results-based management principles to the development, acquisition and maintenance of information technology systems.

USAID has undertaken a significant redesign and redevelopment of its entire spectrum of information technology systems. This "New Management System" (NMS), consisting of multiple, distinct-but-integrated subsystem modules, is intended, upon completion, to manage accounting, program, and operational information throughout USAID. As costs have risen, USAID has experienced development and implementation problems with NMS.

Over the next five years, OIG/A will periodically report upon USAID's compliance with the specific terms of the Clinger-Cohen Act. It will also report at least once each year upon the status of USAID's information system redesign exercise, until such time as the new system is fully functional. We expect that this will result in at least one audit report focusing upon USAID's information systems in each of the next five years. Our objective is to assist USAID in developing and implementing acceptable management information systems.

Federal Financial Management Improvement Act of 1996 (FFMIA)

FFMIA requires affected Federal agencies to implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level.

Conforming to FFMIA requirements, OIG/A will, as applicable, in each of the next five years:

- report whether USAID has complied with the Act in its annual audit required under 31 U.S.C. 3521(e);
- provide specific information in the audit report if USAID's financial systems do not meet FFMIA requirements; and
- include in the OIG's Semiannual Report to the Congress any instances and reasons when USAID has not met intermediate target dates established in any remediation plan which USAID develops and implements under the Act.

OIG/A's objective is to help USAID implement the provisions of FFMIA.

Auditing USAID's Reengineering Activities

USAID's reinvention or reengineering began in 1994 with the designation of its ten experimental laboratories. It is now being performed throughout USAID. Reengineering is defined by the USAID as:

The radical redesign of business processes, jobs, structures, and controls to achieve dramatic performance improvements in cost, quality, customer service, and efficiency. The term reengineering is used interchangeably with the term reinvention.

Specifically, USAID envisioned, and is beginning to implement, reforms in several system areas including:

- 1) strategic planning;
- 2) budgeting and allocation of financial resources;
- 3) obligations and authorizations;
- 4) achieving results;
- 5) procurement;
- 6) judging results;
- 7) personnel; and
- 8) evaluation.

USAID's reengineering affects various operating functions within the Agency. It is the new manner in which USAID is conducting operations in the above eight areas. USAID believes that by reengineering it will be able to service its clients more efficiently and effectively. Our objective is to determine whether USAID's reengineered systems are operating in an efficient and effective manner.

Working with Recipient Country Supreme Audit Institutions

Government operations in many USAID recipient countries lack transparency and effective mechanisms to ensure accountability over donor funds. Most countries receiving USAID funds have, however, established national internal audit agencies referred to as Supreme Audit Institutions, or SAIs. Often called Auditors General,

these organizations are a recipient country's first line of defense in combatting government fraud, waste and mismanagement. Unfortunately, these organizations often lack the funding, independence and expertise to play this crucial role. Over the next five years, we will develop and implement a plan to help SAIs improve their ability to fulfill their oversight function. Our objective is to work with USAID management to provide complete accountability over USAID contracts, grants and cooperative agreements and to add at least one SAI per year to the number of organizations authorized to audit USAID funds.

General Audit Approach

The following sections outline the most important aspects of implementing our audit strategy.

Individual Audit Objectives: All audits begin with objectives. Audit objectives can be thought of as questions about a program or operation that the auditors are trying to answer. Objectives define the purpose of the review and provide the focus for developing significant issues.

The first and most fundamental aspect of every audit is to ensure that correct questions are asked. How a problem is stated has implications for the kinds of data to be collected, the sources of data, the analyses that will be necessary, and the conclusions that will be drawn. Attention to the formulation of the audit questions helps focus the product on the needs of the intended recipient. In other words, questions must address user needs. We have increasingly conferred with USAID managers when developing our audit questions. Audit offices will continue to consult closely with USAID managers and employees when formulating audit plans and objectives.

The audit objectives that will be part of this five-year strategy may be either normative (pertaining to a specific standard such as a law or regulation), descriptive, or cause-and-effect. They will focus on the purpose or goals set by USAID management and the management practices that will improve program effectiveness. Criteria should be reasonable, attainable, and relevant to the matters being audited. This means that the criteria used in setting the objectives will generally not be existing internal control procedures or policies. We generally use broad criteria such as technically developed standards or norms, effective practices of other organizations or entities, and prior years' performance. In some cases, the criterion will be the goal or purpose of the program being audited. Just as USAID is reducing the complexity of its directives and handbooks, our criteria should reflect the same thinking. This will also help us attain our goal of fostering an innovative and creative environment at USAID.

Audit objectives should focus on end results rather than the processes of getting to those results. The question posed by the objective should not focus as strongly on the criteria but more on the results expected from the program or operation.

Agency-wide Audits: The OIG will conduct Agency-wide audits of significant issues that have broad impact on USAID headquarters and/or mission programs and operations. These audits may be directed by either Regional or Washington audit offices and will generally cover several country programs, as well as bureau and other headquarters offices. Significant issues that are relevant to the overall management of USAID programs will be developed each year during the annual planning process. The purpose of these audits will be to provide relevant and significant level information to USAID managers on the overall results of USAID programs and operations. We will, to the greatest possible extent, use scientific sampling techniques to maximize the impact of our recommendations. The audit reports resulting from these worldwide reviews will usually be directed to USAID Assistant Administrators or higher level officials.

Grants to International Organizations and Interagency Transfers: Approximately \$272 million flowed through USAID to International Organizations during the period October 1, 1996 through March 31, 1997. These funds flowed primarily to the United Nations and its agencies. The Foreign Assistance Act requires the Comptroller General of the United States (i.e., the U.S. General Accounting Office) to audit such funds if the United States is the sole contributor to the organization or activity being funded. If the United States is not the sole contributor, which is generally the case, there is no audit access provision and neither the GAO nor the USAID OIG is empowered to audit such funds. In such cases, the receiving organization submits reports to donors attesting to the proper use of the donated funds. Given these circumstances, and absent a change in existing legislation, USAID OIG plans no audit coverage of such funds over the next five years.

Millions of dollars of funding flow through USAID each year to other U.S. Government agencies. These transfers are authorized under Section 632 of the Foreign Assistance Act which addresses allocation and reimbursement of funds among U.S. Government agencies. Where these monies are obligated by USAID prior to transfer, USAID retains audit rights and responsibilities. Where the allocation to another Agency occurs prior to obligation, the receiving Agency incurs audit responsibility. OIG will consider audits targeted toward those funds under USAID responsibility on an ongoing basis throughout the five-year period.

Investigations

OIG/I's principle goal is to work with USAID to protect and maintain the integrity of USAID and its programs. We do this by investigating allegations of Federal criminal violations and serious administrative violations involving USAID programs and personnel. Results of our inquiries involving criminal and civil violations are provided to the Department of Justice (DOJ). Administrative matters are referred to USAID decision-makers. In carrying out our investigations, we ensure they are conducted and reported in an independent, timely, objective, and impartial manner.

We demonstrate our commitment to partnership, integrity, and excellence by timely, balanced, and objective investigations. We recognize our duty to protect the rights of employees and others during the course of our investigations, we understand our responsibility to maintain the confidential nature of investigations, and we release information strictly according to laws which protect privacy.

OIG/I will continue to develop an effective working relationship with USAID by ensuring that: (a) USAID employees, grantees and contractors are familiar with indicators of fraud and abuse and promptly report instances of potential fraud and abuse to the OIG as required by law, (b) we do timely investigations that accurately document and report useful information, and (c) our work product is used by criminal and civil prosecutors, as well as by USAID management or others, as the basis on which to take effective action.

We measure our progress toward achieving this goal by using survey techniques (customer/client questionnaires and focus-group discussions) and statistical analysis (e.g., number and type of inquiries initiated based on employee and contractor referrals, exonerations, actions taken by USAID or DOJ as the result of investigative findings, etc.).

General Objectives and Strategies to Contribute to Improving Integrity Within USAID

OIG/I will continue to address areas relating to:

- Developing relationships which encourage the exchange of information. Employees and contractors are more able and willing to share information regarding fraud, waste, and abuse in USAID programs after they understand their reporting obligations, what they should report, the ease with which they may report, and are assured that protection and

confidentiality may be provided in certain situations. We will continue our efforts to educate USAID employees regarding what to report, and make the ease of reporting (800 - Hot Line, OIG Mailbox, Email Hot Line) better understood.

- Providing Federal prosecutors, USAID officials, and others who have to take action on the basis of our investigations with the best, most timely and accurate information available. We (1) promptly evaluate incoming information and allegations, (2) help customers resolve issues which we will not investigate, and (3) discuss with customers early in the investigative process any special needs or requirements they may have to facilitate appropriate action, define issues, and focus investigative effort. This has helped us to develop and provide reports or other investigative products which meet the express needs of our customers.
- Developing useful investigative findings and products. OIG/I experience shows that weak internal and management controls often facilitate fraudulent activity. Investigators often identify weak controls and areas where programs are vulnerable to fraud. Proactive initiatives are specifically focused on these areas. Our investigative activities often result in USAID implementing changes and developing protective measures. Our objective is to develop information useful for detecting or preventing fraud and to make it more readily available to USAID. Developing a reputation that garners support and respect stems from providing the very best investigative services in time for our customers and stakeholders to take proper action. We must understand our customers' needs. Our customers are in the best position to help us design a better, more useful product (e.g., investigative services and reports) and deliver it when, where, and in the form they need it. To accomplish this, OIG/I plans to (a) seek customers' and stakeholders' input to our planning process, (b) keep them informed of important investigative developments, (c) provide timely work products that contain the kinds of information they need to take actions or make decisions, and (d) work with them to bring investigative matters to closure expeditiously.

Security

Personnel Security: Pursuant to specific requirements and direction contained in Executive Order (EO) 12968, Access to Classified Information, OIG/SEC will execute a personnel security program implementing the Adjudicative Guidelines, Temporary Eligibility Standards, and Investigative Standards approved by the President on March 24, 1997. Also in compliance with the EO, a security training program will assure the USAID work force is provided guidance on the issues affecting their eligibility for access to classified information. The program includes information on the sources of assistance for employees who have questions or concerns about financial matters, mental health, or substance abuse. In addition, the training will advise employees on individual responsibilities for reporting any information that raises doubts as to another employee's continued eligibility for access to classified information. As required in 12 FAM, OIG/SEC will screen the personnel security files of all personnel being assigned to critical and high threat posts prior to assignment as well as ensure the personnel and dependents (optional) are provided a post-specific counterintelligence threat briefing prior to arrival at post. OIG/SEC will improve the interoperability and compatibility of the OSCAR (personnel security clearance automated records) system with the new USAID Personnel Management System for more rapid exchange of personnel data, creation of a single data entry point, reduction of paper flow within USAID, and provision of real-time accessibility of security clearance data to USAID.

National Industrial Security Program: In keeping with the requirements of EO 12829, National Industrial Security Program, OIG/SEC will ensure USAID contracts contain the appropriate security clauses necessitating that contract employees working in USAID space or having access to classified information have been suitably investigated and favorably assessed.

Information Security: In accomplishment of specific requirements and direction contained in EO 12958, Classified National Security Information, and ISOO Directive Number 1, OIG/SEC will implement an information security education program to ensure that the USAID work force is trained on individual responsibilities for properly classifying, identifying, and protecting national security information. In accordance with additional EO 12958 requirements, OIG/SEC will implement an inspection program to monitor USAID adherence to established safeguarding standards. In partnership with USAID, OIG/SEC will (a) ensure that the authority to originally classify national security information is limited to those positions which require such authority, (b) assist in the preparation and development of classification guides to facilitate the proper and uniform derivative classification of information and (c) establish procedures to assure that the guides are reviewed and updated.

Domestic Physical Security: In compliance with the President's June 28, 1995, direction to Executive Departments and agencies to upgrade security at Federal facilities in cooperation with the General Services Administration, OIG/SEC will maintain and manage the physical security program of the new USAID Headquarters building (Ronald Reagan Building [RRB]) including the program's components, specifically, the guard force, access control systems, building pass system, and alarm systems.

Overseas Physical Security: In compliance with the provisions of PL 99-399, the Omnibus Diplomatic Security and Anti-terrorism Act, and the standards and policies established by the Overseas Security Policy Board (OSPB), OIG/SEC will continue to be a Rapid Response Force, to design and install physical security systems for overseas facilities and residences, and will provide security communications, armored vehicles and tailored physical security assistance to USAID locations throughout the world including:

Office Physical Security Systems: OIG/SEC will continue to design and install physical security systems for newly acquired or renovated buildings.

Residential Security: OIG/SEC will provide financial and technical support for USAID residences in response to decreases in funding for the Bureau of Diplomatic Security Residential Security Program.

Security Communications: Negotiations will become more complex in our attempt to obtain multiple, host government authorization to use radio frequencies linked to regional centers. A new generation of radios will be procured within three years.

Armored Vehicles: With a new 1996 OIG/SEC initiative, OIG/SEC will realize a cost savings by refurbishing old Fully Armored Vehicles (FAVs) instead of purchasing new vehicles. This will extend the life of the FAVs by three to five years and result in a cost savings of approximately \$100,000 per vehicle.

The Goals of OIG/SEC will be achieved by:

- Maximizing scarce human, capital, information and other resources. Where funding or FTE authorizations limit the ability to accomplish the Goal that USAID is Secure, consideration will be given to contracting for the appropriate technical expertise. An organizational review of OIG/SEC staffing will be conducted every three years and a written report prepared for the Inspector General.

- Insuring that Security is considered a pivotal concern in any planning for USAID capital projects. This will enlist the support of the Administrator of USAID and every senior official of the Agency. OIG/SEC will attend senior planning meetings throughout headquarters USAID and will be included in any activities which involve the establishment, disestablishment, moving or changing the physical posture of USAID anywhere in the world. Attendance at the Senior Level meetings will be at least quarterly. Attendance and participation at meetings on a lower level will be as appropriate.

- Insuring that every location in USAID is inspected by OIG/SEC at least every five years. The Annual Plan will provide for an appropriate number of inspections per year to insure that the goal is met.

EVALUATING THE OIG STRATEGY

The OIG conducts periodic internal Quality Assurance Reviews (QARs) of the operations of its Washington audit offices and its overseas field offices. Additionally, the OIG participates with other Federal agencies in triennial external peer reviews of its audit operations. Both the QARs and the external peer reviews focus on professional standards.

An external peer review of Audit operations was held in 1997. The review was conducted by the Office of Inspector General at the National Aeronautics and Space Administration. The next external peer review will be held in the year 2000. The external review process is conducted in accordance with standards set by the General Accounting Office.

The Investigations unit conducted a Quality Assurance review during 1997. The review examined OIG Investigations operations using guidelines established by the President's Council on Integrity and Efficiency (PCIE).

At the present time, the OIG plans an external evaluation. An evaluation would help determine how well the OIG met its performance goals and review certain business processes including strategic planning. Consideration is being given to conducting an evaluation during FY 1999 with the results used in a subsequent update to the Strategic Plan. The scope of the evaluation will include the process for setting and revising goals and objectives.