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National Security and
International Affairs Division

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The Honorable Richard K. Arme
Majority Leader
House of Representatives

The Honorable John Kasich
Chairman
Committee on the Budget
House of Representatives

The Honorable Dan Burton
Chairman
Committee on Government Reform
and Oversight
House of Representatives

The Honorable Bob Livingston
Chairman
Committee on Appropriations
House of Representatives

Subject: The Results Act: Observations on USAID's November 1996 Draft
Strategic Plan

On June 12, 1997, you asked us to review the draft strategic plans submitted by the cabinet departments and selected major agencies for consultation with the Congress as required by the Government Performance and Results Act of 1993 (the Results Act [P.L. 103-62]). This letter is our response to that request concerning the U.S. Agency for International Development (USAID).

Objectives, Scope,
and Methodology

Our overall objective was to review and evaluate the latest available version of USAID's draft strategic plan. Specifically, we (1) assessed the draft plan's compliance with the Act's requirements and its overall quality, (2) determined if USAID's key statutory authorities were reflected, (3) identified whether discussions about cross-cutting functions and interagency involvement were included, (4) determined if the draft plan addressed major management problems, and (5) discussed USAID's capacity to provide reliable information about its operations and performance.

Our overall assessment of USAID's draft strategic plan was generally based on our knowledge of USAID's operations and programs, our numerous reviews of the agency, and other existing information available at the time of our assessment. Specifically, the criteria we used to determine whether the draft plan complied with the requirements of the Results Act were the Results Act supplemented by Office of Management and Budget (OMB) guidance on developing the plans (Circular A-11, Part 2). To make judgments about the overall quality of the plan and its components, we used our May 1997 guidance for congressional review of the plans¹ as a tool. To determine whether the plan contained information on interagency coordination and addressed management problems we previously identified, we relied on our general knowledge of USAID's operations and programs, and the results of our previous reports (see enclosure II for a list of our major products in this area). We conducted our assessment between June 13 and July 8, 1997, in accordance with generally accepted government auditing standards. USAID officials provided oral comments on a draft of this correspondence, which are reflected in the Agency Comments section.

We based our assessment on the November 5, 1996, draft strategic plan that USAID provided to the House of Representatives staff team working with the agency. We recognize that developing a strategic plan is a dynamic process, and USAID is continuing to revise its plan based on consultations with congressional staff, its Inspector General, OMB, and other stakeholders. However, a revised draft was not available to us.

It is important to recognize that under the Results Act, the final plan is not due until September 1997. Furthermore, the Act anticipated that it may take several planning cycles to perfect the process and that the final plan would be continually refined as various planning cycles occur. Thus, our comments reflect a snapshot status of the plan at a given point in time.

Furthermore, USAID's draft strategic plan was prepared prior to the administration's decision to consolidate the Department of State, the Arms Control and Disarmament Agency, and the U.S. Information Agency and to have the USAID Administrator report directly to the Secretary of State. This reorganization could influence subsequent drafts of the plan.

¹Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review (GAO/GGD-10.1.16, Version 1, May 1997).

Background

USAID administers U.S. foreign economic and humanitarian assistance programs worldwide in the developing world as well as in Central and Eastern Europe and the newly independent states of the former Soviet Union. USAID's assistance programs generally fall within one of five broad categories: development assistance, economic support activities, international disaster relief, assistance to East and Central European countries and the newly independent states of the former Soviet Union, and food assistance. USAID provides assistance to over 100 countries and has 72 overseas missions and offices managing projects to improve health and family planning, protect the environment, promote broad-based economic growth, support democracy, and relieve human suffering. Most of these projects are implemented by host governments, U.S. and indigenous private voluntary and nongovernmental organizations, international agencies, universities, and U.S. businesses.

The Results Act requires each federal agency to develop a strategic plan by September 30, 1997. Each plan is to include the following six elements: (1) a comprehensive mission statement covering the major functions and operations of the agency, (2) the agency's general goals and objectives, (3) a description of how the goals and objectives are to be achieved, (4) a description of how the performance goals included in the plan will be related to the agency's general goals and objectives, (5) identification of key factors external to the agency and beyond its control that could affect achievement of general goals and objectives, and (6) a description of the program evaluations used to establish/revise strategic goals with a schedule for future program evaluations.

USAID's planning efforts are influenced by the diffused scope of the foreign assistance program. The Foreign Assistance Act of 1961 (P.L. 87-195), which authorizes many of USAID's programs, has been amended several times and has delineated more than 30 separate wide-ranging objectives. These authorities have been augmented by other congressional directives and by programs introduced over the years by various USAID Administrators, which has resulted in a complicated set of objectives with no clear priorities. In March 1992, we reported that USAID lacked a clearly articulated strategic direction shared by key internal and external groups and recommended that USAID establish a strategic management process.²

Since 1993, USAID has undertaken comprehensive management reforms, with strategic planning as a key element. In March 1994, USAID issued its

²AID Management: Strategic Management Can Help AID Face Current and Future Challenges (GAO/NSIAD-92-100, Mar. 6, 1992).

Strategies for Sustainable Development and, in September 1995, a Strategic Framework, which graphically presented USAID's broad goals, its agency objectives to meet those goals, and a wide range of approaches for achieving those objectives. These documents served as the basis for the November 1996 draft strategic plan.

USAID's Administrator has noted that these reforms are consistent with the Results Act and have positioned USAID well to meet the Act's requirements for strategic planning and performance monitoring. We are currently evaluating the impact of these reforms on USAID operations in a separate review.

Results in Brief

USAID's November 1996 draft strategic plan reflects the agency's adoption of a strategic approach to managing the U.S. foreign assistance program. The plan includes the six elements required by the Results Act. However, two components of the plan—the sections on relating performance goals to general goals and objectives and on program evaluations—do not contain sufficient information to fully achieve the purposes of the Results Act and related OMB guidance. More specifically, these sections do not include a discussion of performance goals, relevant evaluation findings USAID used to develop its plan, or USAID's plan for conducting future evaluations.

While the remaining sections of the draft plan are more complete, our analysis showed that they could be improved. The sections on goals and objectives could more fully encompass USAID's major functions by specifically addressing Economic Support Fund programs and assistance to Eastern Europe and the former Soviet Union, which more directly serve U.S. foreign policy objectives and represent about 60 percent of USAID's budget. Also, the plan could be more explicit about what USAID intends to achieve. The sections on strategies for achieving goals and objectives are specific and clear but could benefit from more information on management reforms USAID has undertaken and on the level of resources USAID needs to achieve its goals. The key external factors section describes some of the constraints USAID faces, including the controls and restrictions on its funding; however, it does not convey the full range and significance of factors that can profoundly impact, positively or negatively, achievement of USAID's goals and objectives. In particular, this section does not reflect the fact that USAID often relies on the contributions of other bilateral and multilateral donors to achieve its goals and objectives and

that these donors may be more influential than USAID in promoting development in some countries.

USAID's mission statement is broad enough to encompass USAID's major statutory functions and activities. However, a description of how USAID fosters regional cooperation, donor coordination, and host country development planning would ensure that the plan addresses all the key principles of the Foreign Assistance Act, USAID's basic authorizing legislation.

The plan does not reflect coordination with other U.S. government agencies. Since many agencies are involved in activities directly related to USAID's mission, goals, and objectives, there is potential for cross-cutting issues. The plan does not address areas of possible duplication and USAID's efforts to minimize them or the extent to which USAID relies on other agencies to meet its goals and objectives. However, USAID has provided input on the Department of State's draft strategic plan on international affairs.

USAID's draft plan does not address key management challenges that the agency faces. The plan provides a general description of recent management initiatives but does not discuss how effective these initiatives have been in resolving critical management problems USAID has acknowledged in nearly all areas of its operations. In particular, the plan does not describe difficulties USAID has encountered in developing a performance measurement system, in reforming its personnel systems, and in deploying a new information management system that is intended to correct several material weaknesses in its financial management processes. Further, the plan does not address the challenges related to implementing the Chief Financial Officers Act of 1990 (P.L. 101-576) and developing information technology. Specifically, the plan does not address deficiencies in USAID's New Management System and how they will be corrected.

The reliability of USAID's program and financial data is uncertain. It is too early to assess USAID's capacity to provide reliable information on the achievement of its goals, because its performance measurement system is not yet fully developed. However, potential for reliability problems exists insofar as USAID relies on unsubstantiated program performance data from aid recipients and statistics compiled by host countries. Further, it is unlikely that USAID will be able to provide reliable data on the cost of

achieving program results because of problems in implementing its new financial system and the ineffectiveness of its old system.

USAID’s Draft Strategic Plan Is Uneven in Reflecting Six Key Elements of Results Act Requirements

USAID’s draft plan contains, in varying degrees of detail, the six critical elements required by the Results Act. The plan addresses some elements in a cursory way, while for others it provides much more elaboration. Furthermore, our analysis revealed some strengths and key weaknesses in the way that USAID addresses some of these strategic planning issues.

Eight of the nine sections of USAID’s draft plan comprise the six critical components required by the Results Act (USAID voluntarily included a section on its role in development). Table 1 shows the Results Act’s required components and the corresponding sections in USAID’s plan—the numbers show the order in which the components appear in the Act and the plan.

Table 1: Strategic Plan Components Listed by the Results Act and Corresponding Sections in USAID’s November 1996 Draft Strategic Plan

Strategic plan component listed by Results Act	Corresponding sections in USAID’s November 1996 draft strategic plan
1. Comprehensive mission statement	I. USAID mission statement
2. General goals and objectives for the major functions and operations of the agency	II. USAID goals and objectives III. USAID plan of action for achieving its goals and objectives ^a
3. Description of how the goals and objectives are to be achieved	IV. USAID objectives and program approaches VIII. Learning from experience
4. Description of the relationship between the general goals and objectives and the performance goals	V. How annual performance goals relate to the 10-year strategic plan
5. Identification of key factors external to the agency and beyond its control that could affect achievement of general goals and objectives	VI. Challenges and key external factors
6. Description of how program evaluations were used to establish or revise strategic goals, and a schedule for future program evaluations	IX. USAID’s evaluation agenda
Other sections not required by the Act	VII. USAID’s role

^aThis section presents USAID’s broad plan of action and represents a further description of its goals and objectives rather than of specific approaches, which are contained in subsequent sections.

Sources: The Government Performance and Results Act of 1993 and USAID’s November 1996 draft strategic plan.

Mission Statement

USAID's November 1996 draft plan contains a statement of the agency's mission, which is to promote broad-based sustainable development and provide humanitarian assistance in situations of natural and man-made disasters. Also, this section of the plan relates this mission to four key U.S. foreign policy objectives: promoting U.S. economic prosperity, enhancing U.S. security, protecting the United States against global dangers, and preventing and alleviating crises. Thus, the plan attempts to demonstrate how achieving the mission fulfills a public need.

Long-Term Goals and Objectives

USAID's November 1996 draft plan contains the following five goals:

- achieving broad-based economic growth;
- building sustainable democracies;
- stabilizing world population and protecting human health in a sustainable fashion;
- managing the environment for long-term sustainability; and
- saving lives, reducing suffering, and reenforcing development potential.

Under these goals, the plan lists USAID's 19 long-term objectives. All of these goals and objectives are logically related to the agency's mission. However, this section does not address some of USAID's major functions and activities that more directly serve U.S. foreign policy objectives, specifically its Economic Support Fund programs, which assist primarily Israel and Egypt, and its programs in the East European and Baltic States and newly independent states of the former Soviet Union. Given that these programs represent about 60 percent of USAID's budget, USAID's plan could benefit from more discussion of these activities.

In addition to these goals and objectives, another section of the plan implicitly states another measurable agency goal: to graduate countries from the need for external assistance. According to the plan, USAID expects to graduate up to 10 countries within 5 years and over 30 countries within 10 years. The plan also lists five factors that must be in place for a country to be graduated:

- existence of competitive and performing markets;
- existence of an active civil society and democratic institutions and practices;
- capacity to provide basic education for both girls and boys effectively;
- capacity to provide basic health services to the population, such that mortality and fertility trends continue to decline to manageable levels; and

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- capacity to manage the environment for long-term sustainability.

The plan would benefit from a more explicit link between this section of the plan and USAID's long-term goals and objectives. The plan is unclear as to whether graduation is indeed an agency goal and whether achievement of each of the five key factors for graduation is considered an agency objective.

Strategies to Achieve the General Goals and Objectives

USAID's draft strategic plan describes, in two sections, the agency's approaches to achieving each of its goals and objectives. In one section, the plan lists the more specific "program approaches" or types of activities it is engaged in for each of its 19 objectives. In the other section, the plan describes its management approach for achieving results. This approach is manifested in a new system of program planning, implementation, and performance monitoring that USAID implemented in October 1995. This section briefly describes many of the steps that the agency has taken to align its activities, core processes, and resources to support its mission-related outcomes.

In the course of a related review, we have observed that in addition to those management steps described in the plan, USAID has taken steps to (1) ensure that managers have more of the authority they need to achieve results; (2) ensure that managers have the knowledge, skills, and abilities to implement the Results Act; and (3) eliminate, create, and restructure programs and activities in order to achieve its goals. The plan would benefit from some mention of these steps and how they serve to improve the effectiveness of USAID's programs.

In various places, the plan conveys USAID's concern about the availability of resources for achieving its goals and objectives but is not explicit about what resources would be adequate. In one section, the plan states that the achievement of USAID's goals and objectives will relate directly to the availability of resources. It further indicates that USAID needs a "relatively constant level of resources" to achieve its expectation of graduating up to 10 countries from foreign assistance within the next 5 years and 30 countries within 10 years. In another section, the plan states that "USAID's continued ability to make an impact will depend not only on the magnitude of the program resources it can provide, but its ability to maintain a critical level of field presence." The plan also mentions "severe spending restrictions that greatly reduce USAID's strategic flexibility" but does not describe how these restrictions impact the adequacy of resources

for meeting all of its goals and objectives. The plan would benefit from a discussion of the level of resources USAID requires to achieve its goals and objectives and the impact of funding below that level.

Relating Performance Goals to General Goals and Objectives

USAID acknowledges in its draft plan that the section on relating performance goals to general goals/objectives is incomplete but that it will be completed before September 30, 1997, as USAID finishes work on indicators and the establishment of other key management reforms. In its current form, this section of the plan states that the performance goals, when put in place, will be objective, quantifiable, and measurable and that achievement of annual goals will lead to accomplishment of the goals and objectives of the strategic plan. Annual performance goals are needed to link USAID's strategic goals and objectives to its day-to-day activities.

Our ongoing review of USAID's management reforms indicates that USAID is still in the process of developing a performance measurement system based, in part, on input from its missions, which have made varying degrees of progress in developing meaningful performance measures. In March 1997, USAID's Office of Inspector General noted that USAID still faces difficulties in developing performance measures that are related to USAID activities and that consolidate individual mission results into agencywide results.

Key External Factors

The November 1996 plan mentions a number of external factors that impact achievement of USAID's goals and objectives. Some factors are within the control of the U.S. government, namely

- changing foreign policy imperatives,
- multiplicity of controls on USAID funding,
- severe spending restrictions that greatly reduce USAID's strategic flexibility,
- magnitude of program resources and recent budget reductions, and
- USAID's ability to maintain a critical level of field presence.

Other factors that the plan mentions involve parties outside the U.S. government. These factors are

- commitment of host country governments and citizens,
- diversity of foreign assistance stakeholders with conflicting interests,
- complication of working with sovereign governments, and
- increasing resources needed for countries in crisis or transition.

The plan does not address the extent to which USAID can reduce or ameliorate the impact of these external factors.

Also, the plan could be improved if it included discussion of the external conditions beyond USAID's control that can profoundly affect the achievement of USAID's goals and objectives in any given country. Such factors may include market fluctuations, political unrest, government policy changes, weather conditions, and natural disasters. The plan alludes to "uncertainties" and "risks" inherent in foreign assistance programs but is not explicit about what these are and how significant they are with regard to achieving agency goals and objectives.

Furthermore, the plan does not adequately address the contribution that USAID's development partners—including other bilateral and multilateral donors, nongovernmental organizations, and the host governments themselves—make toward achievement of USAID's goals and objectives. In many countries, the funding provided by these partners exceeds that of the United States. Our ongoing review of USAID reform efforts revealed that USAID considers achievement of its goals and objectives to be the result of a collective effort of the agency as well as its development partners. However, the plan does not reflect this fact or acknowledge that its influence in promoting development is, in some instances, less than that of its partners. Because the efforts of so many other parties factor into the achievement of USAID's goals and objectives, it is difficult for USAID to clearly establish the impact of its own activities on development.

Program Evaluations

The section of the draft plan on program evaluations does not contain sufficient information to fully achieve the purpose of the Results Act and related OMB guidance. This section is intended to show how program evaluations were used to establish strategic goals. According to OMB Circular A-11, this section should outline (1) the general scope and methodology for planned evaluations, (2) key issues to be addressed, and (3) when evaluations are to occur. This section in USAID's draft plan is quite general and brief. It states that USAID's broader goals and objectives have been substantially influenced by evaluation findings and that evaluation studies have influenced USAID's emphasis on certain types of programs. However, this section of the plan does not (1) mention any particular findings of program evaluations, done by it or others, such as its Office of Inspector General or us; (2) describe how such evaluations were used to establish strategic goals; (3) provide much specific information on the

scope and methodology and issues to be addressed in forthcoming evaluations, except for some “key issues” that will be targeted; and (4) identify when various evaluations will be done, other than in “the next several years.”

The plan indicates that evaluations are a key element in managing for results and that most evaluations are conducted in the field. However, our ongoing work on USAID’s reform efforts revealed that this may not be reflected in practice. USAID has provided mission managers with more discretion on whether to conduct evaluations, and, as a consequence, some mission officials we spoke to indicated that they would be deemphasizing evaluations in the management of their programs.

Key Statutory Authorities Generally Reflected in USAID’s Strategic Plan

Our review of the draft plan and the Foreign Assistance Act of 1961, which established the overall U.S. foreign assistance program, as well as other legislation, indicates that USAID’s mission, goals, and objectives, as stated in its draft plan, generally reflect the statutory authority for foreign assistance programs. USAID’s assistance programs generally fall within one of five broad statutory categories: development assistance, international disaster relief, economic support fund activities, assistance to East and Central European countries and the newly independent states of the former Soviet Union, and food assistance under titles II and III of Public Law 480.

USAID’s mission statement is supported by its statutory authority. Also, each of USAID’s five major goals appears to express broad policies supported by statutes authorizing USAID to carry out foreign assistance programs. Furthermore, our review of USAID appropriations for the past several years indicates that funds were specifically designated for activities under all of USAID’s agency goals except its goal of managing the environment for long-term sustainability.

Overall, USAID’s draft plan covers most of the principles governing foreign assistance programs delineated in the Foreign Assistance Act. However, three key principles are mentioned only briefly in the plan; these are (1) encouraging regional cooperation by developing countries, (2) coordinating foreign assistance with other donor countries, and (3) supporting development goals chosen by the recipient country. A more extensive discussion of USAID’s efforts in these areas would ensure that USAID’s plan addresses all the key principles in the Foreign Assistance Act, USAID’s basic authorizing legislation.

Cross-Cutting Activities and Interagency Involvement Not Discussed

USAID's draft strategic plan does not reflect coordination in developing the plan with other U.S. government agencies and organizations that provide foreign assistance, despite cross-cutting issues between USAID and other agencies. Specifically, the plan does not address USAID's efforts to minimize duplication with these other agencies or the extent to which the activities of these organizations contribute to the achievement of USAID's goals and objectives. According to a USAID official familiar with the draft strategic plan, USAID did not formally seek input on this plan from other U.S. government agencies.

Many U.S. government departments and agencies are involved in international programs that are directly related to USAID's mission, goals, and objectives. In addition to the foreign assistance agencies of the U.S. government, such as the Peace Corps, the Inter-American Foundation, and the African Development Foundation, the Department of Defense often plays a key role in providing U.S. humanitarian assistance abroad, the Department of Agriculture participates in a number of international credit/insurance and food security programs, and many of the U.S. Information Agency's activities are aimed at promoting democracy and an active civil society. In December 1995, we found that 23 departments and independent agencies, including USAID, implemented 215 programs in the former Soviet Union.³ The U.S. government also provides foreign assistance through contributions to multilateral organizations, such as the United Nations, the World Bank, and regional development banks.

According to a USAID official we spoke with, USAID, along with other key agencies, provided input to the Department of State's draft strategic plan for international affairs. However, the official noted that coordination was limited in that certain key departments, such as the Treasury, which oversees U.S. involvement in multilateral financial institutions, and Defense, were not represented at a major coordination meeting.

Strategic Plan Does Not Address Some Major Management Challenges

Over the past few years, we and USAID's Office of Inspector General have reported on major program and financial management challenges USAID faces in carrying out its mission, as well as information technology challenges all agencies face. USAID's draft strategic plan does not fully recognize these challenges or discuss their resolution.

³Former Soviet Union: Information on U.S. Bilateral Program Funding (GAO/NSIAD/96-37, Dec. 15, 1995).

Program Management

In the early 1990s, we reported that USAID was plagued by significant and recurring management problems in most areas of its operations.⁴ In particular, USAID was forced to address so many objectives that the agency had no clear priorities or meaningful direction and had not effectively ensured accountability for its decentralized operations. Furthermore, USAID had not done enough to ensure that its employees had the skills they needed to meet their responsibilities and were properly allocated among missions. Also, USAID's information systems were inadequate. Based on these observations, we made numerous recommendations, including that USAID establish a clear strategic direction and a strategic management process, which would, among other things, ensure that the systems for making management decisions on programs, budgets, operations, and personnel levels were integrated and included accountability and monitoring.

USAID's Administrator acknowledged that the agency was a troubled organization, with a management system plagued by duplication, conflicting mandates, and outdated information systems. He pointed to "near-universal agreement that USAID was in need of serious management reforms."

USAID is in the process of addressing these problems by implementing the new system of program planning, implementation, and performance monitoring that is described in the section of the plan entitled "Learning from experience." For example, USAID describes steps it has taken to institute a strategic management process by developing an agency strategic framework, establishing mission and office strategic objectives, and devising results frameworks to link these objectives to their activities.

USAID's draft strategic plan does not discuss the extent to which these steps have reduced the severity of the agency's management problems. Our recent and ongoing work has shown that many of the reforms described in USAID's plan are too new to have had a demonstrable impact on USAID's efficiency and effectiveness. In order for USAID's reform effort to be sustainable, USAID must make concurrent and consistent progress in all areas of reform that the agency has recognized as critical.

Some significant problems continue to loom, and resolution of these problems are key to USAID's implementation of results-based management. For example, monitoring the agency's progress toward achievement of its

⁴See *AID Management: Strategic Management Can Help AID Face Current and Future Challenges* (GAO/NSIAD-92-100, Mar. 6, 1992) and *Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed* (GAO/93-106, June 11, 1993).

goals and objectives is a critical component of managing for results. However, USAID's draft plan does not address the long-standing problems it has encountered in developing a performance measurement system. Our ongoing review of USAID reform efforts indicates that, although missions are making progress in measuring project results, USAID is still encountering considerable problems in developing this system. USAID's Office of Inspector General has noted similar problems in its audit reports. Also, USAID needs a well-trained, motivated, and organized work force in order to implement results-based management; however, personnel reforms appear to be lagging behind other management reforms. For example, USAID had not provided needed training in new job skills and team operations, nor had it met missions' needs in developing position descriptions and classifications to restructure their staffs in accordance with reform principles.

Financial Management

Without accurate and complete financial management information, USAID will continue to be hampered in its ability to identify costs and measure performance. The plan does not address the major financial management challenges faced by the agency or how USAID will resolve these challenges. Solving USAID's financial management problems largely depends on the agency's ability to meet the objectives of the Chief Financial Officers (CFO) Act. The CFO Act, as expanded by the Government Reform Act of 1994, (1) intended to improve federal agency systems of accounting, financial management, and internal controls; and (2) required agencies to prepare and have audited financial statements. USAID has yet to fully achieve the objectives of the CFO Act, which may significantly affect the agency's ability to successfully implement the Results Act.

USAID is developing and implementing a single integrated financial management system as part of the agency's New Management System (NMS) to correct long-standing financial system, internal control, and reporting problems. USAID has cited NMS as a key component in successfully implementing the Results Act. However, as indicated in a recent report by USAID's Office of Inspector General, and confirmed in our ongoing review of USAID reform efforts, design and software flaws and other problems have seriously delayed successful deployment of the system. Given that NMS is a key component in implementing the Results Act, it may be useful to stakeholders for USAID to include in its plan the agency's strategy for resolving the NMS implementation problems.

The Inspector General was unable to express an opinion on the fair presentation of USAID's fiscal year 1996 financial statements. The Inspector General's report concluded that the lack of a single integrated financial management system and other material control weaknesses, reported in USAID's Federal Managers' Financial Integrity Act report, have negatively affected the agency's ability to produce auditable financial statements. The ability to produce auditable financial statements is not in and of itself a guarantee that useful financial information is available for decisionmakers at all levels to measure performance and results. However, the process of preparing financial statements and subjecting them to independent audit is the first step in establishing the discipline needed to generate complete, reliable, and timely financial information. As such, it would be useful for stakeholders if USAID's strategic plan addressed the agency's strategy for improving its financial management processes and controls, which should ultimately result in fairly stated financial statements and useful financial information.

Information Management and Technology

USAID's draft plan would benefit from a more extensive discussion of how the agency plans to invest in and use information technology to accomplish its goals and objectives over the next 5 years. The plan provides a brief description of NMS as part of USAID's new approach to program planning, implementation, and performance monitoring. However, it does not address how USAID intends to meet requirements of the Clinger-Cohen Act of 1996. The act calls for agencies, including USAID, to implement a framework of modern technology management to improve performance and meet strategic goals.

Further, a discussion of two additional critical areas would strengthen USAID's strategic plan. These areas—the year 2000 problem and information security—are so important that we have identified them as high-risk areas for the entire federal government. First, it is important that USAID's strategic plan address the need for computer systems to be changed to accommodate dates beyond the year 1999—the “year 2000” problem—such that operations are not disrupted and mission performance is not adversely impacted. Second, due to the sensitivity and criticality of its information systems, it is also important that the USAID plan address how USAID intends to ensure that systems are secure and adequately protected from unauthorized access.

USAID's Capacity to Provide Reliable Information on Achievement of Strategic Goals Is Uncertain

The reliability of USAID's program and financial data is uncertain. The capacity of USAID to provide reliable program data on the achievement of its goals cannot be assessed because its performance measurement system is not fully developed. However, based on our ongoing review of USAID's reform efforts, potential for reliability problems exist. Further, given the agency's problems in implementing its new financial system and the ineffectiveness of its old system, it is unlikely that USAID will be able to provide reliable financial data to determine the cost of achieving program results and measure the success of its strategic goals. The reliability of both program and financial data is important because each element is required to successfully develop meaningful performance measures.

Reliability of Program Performance Data

USAID is still in the process of devising a performance monitoring system that will enable the agency to track its progress in achieving its goals and objectives. Program performance data are to be compiled primarily by missions, which have made varying degrees of progress in developing indicators and collecting the necessary data. Although USAID's Office of Inspector General audits on Results Act implementation in the field have revealed some data reliability weaknesses at a few missions, they did not reveal an agencywide problem with reliability of program performance data. However, neither we nor USAID's Office of Inspector General has conducted a methodologically rigorous review of the reliability of the program performance data USAID has collected.

Our ongoing work has identified the potential for problems with the reliability of performance information, because this information often does not come from an objective or reliable source. We found that in many cases, performance data were being provided to the missions by program implementers and other recipients of USAID assistance that had a stake in demonstrating positive outcomes. Also, missions must often rely on host government statistics on development, the reliability of which is sometimes questionable. Insofar as these data are not or cannot be substantiated, the potential exists that they will inaccurately reflect progress in achieving USAID's goals and objectives. Furthermore, we found that when reporting on performance, missions we visited rarely used program evaluation findings, as suggested in USAID guidance, to demonstrate the extent to which the missions were achieving their strategic objectives.

Reliability of Financial Data

To properly evaluate the effectiveness of USAID's strategic goals contained in the plan, the agency needs complete, timely, and reliable financial data.

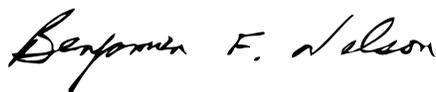
Further, the CFO Act requires that each agency develop and maintain an integrated agency accounting and financial management system that provides for the development of cost information and the systemic measurement of performance. USAID's financial management systems currently do not meet these requirements.

Agency Comments

On July 8, 1997, we provided a draft of this correspondence to key USAID officials responsible for preparing USAID's strategic plan and obtained their oral comments. These officials said that our observations represented an accurate assessment of USAID's November 1996 draft plan and that our comments would be useful to them as they worked on their final plan. They indicated that they would provide more descriptive and clear information in many of the areas that we highlighted. They also noted that they are adding information and major sections in their revised draft plan that they believe will address certain key issues that are not adequately covered in the November 1996 draft. For example, the plan will include significant detail on performance goals and evaluations and new sections describing USAID's interaction with other donors and major management challenges. In addition to these comments, the USAID officials also provided technical comments, which we have incorporated as appropriate.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this letter until 30 days from its issue date. At that time, we will send copies of this letter to the Minority Leader of the House of Representatives; Ranking Minority Members of your Committees; the Chairmen and Ranking Minority Members of other Committees that have jurisdiction over USAID; the USAID Administrator; and to the Director, OMB. We will send copies to others on request.

Please contact me on (202) 512-4128 if you or your staffs have any questions concerning this letter. Major contributors are listed in enclosure I.



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