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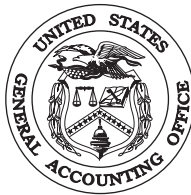
Major Management Challenges and Program Risks

U.S. Agency for International Development

Contents

G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

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The President of the Senate
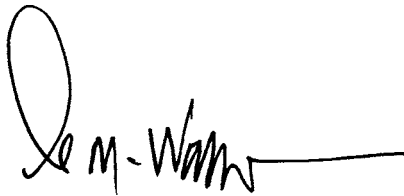The Speaker of the House of Representatives

This report addresses the major performance and accountability challenges facing the U.S. Agency for International Development (USAID) as it seeks to support the people of developing and transitional countries in their efforts to achieve enduring economic and social progress and to participate more fully in resolving the problems of their countries and the world. It includes a summary of actions that USAID has taken and that are under way to address these challenges. It also outlines further actions that GAO believes are needed. This analysis should help the new Congress and administration carry out their responsibilities and improve government for the benefit of the American people.

This report is part of a special series, first issued in January 1999, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. In that series, GAO advised the Congress that it planned to reassess the methodologies and criteria used to determine which federal government operations and functions should be highlighted and which should be designated as "high risk." GAO completed the assessment, considered comments provided on a publicly available exposure draft, and published its guidance document, *Determining Performance and Accountability Challenges and High Risks* (GAO-01-159SP), in November 2000.

The full 2001 Performance and Accountability Series contains separate reports on 21 agencies—covering

each cabinet department, most major independent agencies, and the U.S. Postal Service. The series also includes a governmentwide perspective on performance and management challenges across the federal government. As a companion volume to this series, GAO is issuing an update on those government operations and programs that its work identified as "high risk" because of either their greater vulnerabilities to waste, fraud, abuse, and mismanagement or major challenges associated with their economy, efficiency, or effectiveness.
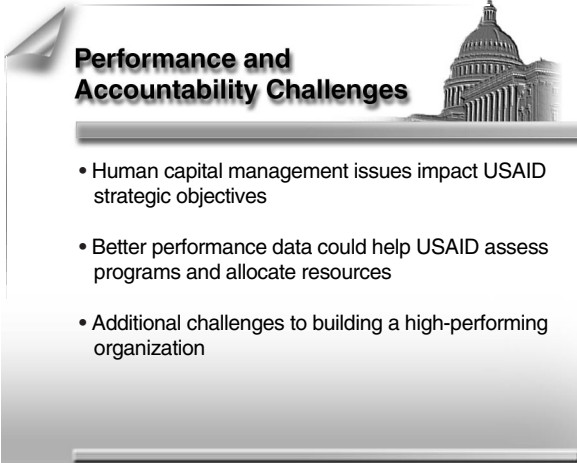
David M. Walker
Comptroller General
of the United States

Overview

The U.S. Agency for International Development (USAID), which is an independent federal government agency that receives overall foreign policy guidance from the Secretary of State, implements U.S. foreign economic and humanitarian assistance programs. In recent years, USAID's programs have been funded at about $6 billion annually. The agency has programs in about 125 countries promoting a wide range of objectives related to economic growth and agricultural development; population, health, and nutrition; the environment; democracy, governance, and the rule of law; education and training; and humanitarian assistance. Its staff operates in often difficult environments and under evolving program demands. These present human capital management and performance measurement challenges that can affect the efficiency and effectiveness of its programs.

Performance and Accountability Challenges

- Human capital management issues impact USAID strategic objectives

- Better performance data could help USAID assess programs and allocate resources

- Additional challenges to building a high-performing organization

USAID's ability to effectively carry out its foreign assistance mission is directly affected by human capital challenges. Since the early 1990s, we have reported on USAID's limited progress in addressing human capital

reforms related to personnel administration, career management, training, and foreign service assignments. Moreover, severe budget cuts resulted in significant workforce reductions—29 percent from 1995 to 2000. More recently, USAID has reported that more than a third of its foreign service staff is eligible to retire and that current attrition rates, if continued, could affect the agency's ability to achieve its overseas mission as early as 2002.

Recognizing this problem, USAID has initiated a number of actions. The agency initially focused on increasing the number of its foreign service employees, establishing a recruitment program to replenish the serious attrition of foreign service staff that it has experienced in the field. USAID also envisions that missions with certain management, accounting, and administrative skills will share those staff resources with neighboring missions. USAID is also studying ways to more effectively deploy staff in response to emergency humanitarian situations and natural disasters—one of the agency's major strategic objectives. It is considering establishing a "ready reserve" of employees and, possibly, contractors with the administrative skills needed to rapidly respond to natural disasters such as the hurricanes that struck Central America and the Caribbean in 1998. It is critical that USAID sustain its focus on these human capital issues if the agency is to effectively implement future U.S. foreign assistance programs. USAID's human capital problems can be seen as part of a broader pattern of human capital shortcomings that have eroded mission capabilities across the federal government. (See our High-Risk Series: An Update (GAO-01-263, January 2001) for a discussion of human capital as a newly designated governmentwide high-risk area.)

USAID is facing continuing difficulties in identifying and collecting data that would enable it to develop reliable performance measures and accurately report the results of its programs. This is especially true for its democracy,

governance, and rule of law programs because political
and social phenomena cannot be explained with
scientific precision. For example, in October 2000, we
reported that the United States provided assistance to
Haiti to improve its justice system generally without
establishing conditions such as specific goals,
performance measures, and time frames; and we
recommended that future assistance be linked to
performance-related conditions.[1] The urgent nature of
its humanitarian assistance programs and the many
players involved in most emergency situations also
complicate USAID's attempts to establish accurate and
reliable performance data.

USAID has taken some steps to correct the problems
with the data it collects to measure its performance, for
example, developing and disseminating lists of
indicators that can be used by field offices when seeking
appropriate tools to measure performance. USAID is
also working with the USAID Inspector General to
assess its progress. While USAID has made a serious
effort to develop improved performance measures, it
has not yet achieved the uniform, high-quality database
needed to permit cost-effective analysis of the results of
its programs.

In addition, USAID continues to face challenges in
implementing an integrated information management
system and improving its financial management systems
that affect its ability to effectively manage its programs
as well as ensure that it has adequate internal controls.
The agency has recognized that it needs to address its
problems and has made some progress, but further
action is needed. For example, USAID needs to
implement a process for prioritizing information

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[1]*Foreign Assistance: Any Further Aid to Haitian Justice System Should
Be Linked to Performance-Related Conditions* (GAO-01-24, Oct. 17,
2000).

technology investments. Without such a process, USAID is at risk of allocating resources for projects that do not represent the highest return on investment for the agency. USAID has also made progress toward correcting its long-standing internal control and financial system deficiencies. Nevertheless, the Inspector General was again unable to express an opinion on the agency's financial statements for fiscal year 1999. Until USAID can fully resolve its financial management problems, it will not be able to routinely provide agency managers with complete, reliable, and timely financial information needed to make sound, cost-effective decisions that promote effective and efficient use of federal funds.

Major Performance and Accountability Challenges

The U.S. Agency for International Development carries out U.S. foreign economic and humanitarian assistance programs that in recent years have averaged about $6 billion yearly. USAID operates in about 125 countries, with resident staff in 75 countries in 4 regions of the world: sub-Saharan Africa, Asia and the Near East, Latin America and the Caribbean, and Europe and Eurasia. The agency supports strategic objectives related to economic growth and agricultural development; population, health, and nutrition; the environment; democracy, governance, and the rule of law; education and training; and humanitarian assistance.

Human Capital Management Issues Impact USAID Strategic Objectives

Human capital management has been raised as an issue in many major studies of the agency, including our 1993 report.[1] The report concluded that USAID's lack of a comprehensive workforce planning and management capability was affecting its ability to deliver assistance efficiently at the mission level. USAID has acknowledged the problem but faces shifting challenges as its program evolves and the size of its workforce shrinks. The agency has taken improvement measures, particularly in its foreign service workforce, but has not yet established and integrated a comprehensive workforce planning and management system into its overall strategic objective framework. Human capital issues have also impacted USAID's ability to respond to emergency humanitarian situations. In monitoring USAID's response to the Hurricane Mitch disaster, we found that USAID had difficulty in fielding required staff to plan and implement its assistance program.

The challenges the agency faces in attempting to establish an effective approach to human capital

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[1] *Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed* (GAO/NSIAD-93-106, June 11, 1993).

management are reflected in the many changes that
USAID has faced since it was established in 1961. Its
program emphasis has shifted from funding large
infrastructure projects to funding basic human needs
projects addressing such areas as hunger, illiteracy, and
population pressures. As its program began to shift in
the 1970s, USAID lost the contracting and management
capabilities of its infrastructure project managers and
recruited staff with technical skills in basic human
needs activities. At about the same time, its U.S.
direct-hire workforce began to decrease significantly.
Consequently, USAID had to refocus its U.S. foreign
service staff responsibilities from directly implementing
social sector projects to planning, financing, and
monitoring the projects implemented by host countries,
contractors, and grantees. Further, as the number of U.S.
direct-hire staff decreased, mission directors became
increasingly reliant on other types of employees, such as
foreign national direct-hire staff and personal service
contractors, to manage mission projects being
implemented by third parties.

Thus, by the 1990s USAID had come full circle and had
returned to being a contract-management and financing
agency faced with the need to adapt its workforce
accordingly. Figure 1 shows that the number of U.S.
direct hire employees has decreased by about 50 percent
over the last 20 years. In addition, USAID officials have
noted that, similar to other government agencies, the
number of USAID employees eligible to retire is
increasing.

Figure 1: USAID U.S. Direct Hire Staffing Since Fiscal Year 1980

500   Number of direct hire staff
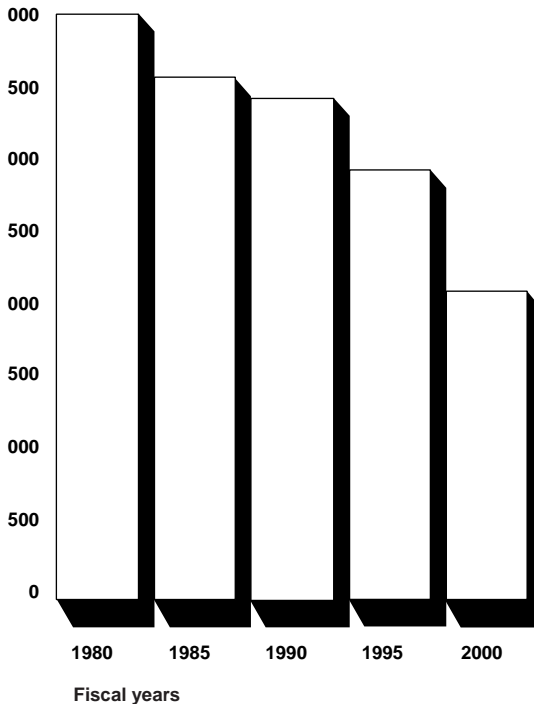
Source: U.S. Agency for International Development.

The USAID personnel system has long been criticized as
complex, costly, and unsuited to accomplishing the
agency's mission. For example, the 1993 National
Performance Review report[2] recommended that USAID
overhaul its personnel system. In December 1994,

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[2]*From Red Tape to Results: Creating a Government That Works Better
and Costs Less* (Washington, D.C.: National Performance Review,
Sept. 7, 1993).

USAID began developing a human resources business area analysis to identify reforms and outline strategies for implementing improvements. By August 1995, USAID had identified several areas for reform, including personnel administration, career management, training, and foreign service assignment. However, in our September 1996 review of the status of USAID's reforms,[3] we found that the agency had made little progress. USAID officials said that their reform efforts were delayed in fiscal year 1996 because its personnel office devoted much of its resources to implementing the reduction-in-force and two furloughs. They also indicated that they planned to accelerate the pace of personnel reform in 1997.

USAID's current human capital reform efforts are based on recommendations the agency's Workforce Planning Task Force made in a November 1997 report.[4] The task force stated that USAID needs to improve its human capital management if it is to meet its objectives of maintaining its bilateral assistance leadership role and its comparative advantage of supporting a large overseas presence. Its recommendations fall into four broad categories: (1) establish a workforce planning process based on human capital priorities; (2) realign the workforce between Washington, D.C., and the field to reflect priorities; (3) make the workforce more flexible to allow greater movement between the civil and foreign services; and (4) maintain the highest quality staff through continuing professional development.

USAID focused initially on realigning its workforce between Washington and the field. The task force had found that if the current foreign service attrition rate

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[3]*Foreign Assistance: Status of USAID's Reforms* (GAO/NSIAD-96-241BR, Sept. 24, 1996).

[4]*Workforce Planning Task Force: Report to the Steering Group* (Washington, D.C.: USAID, Nov. 26, 1997).

continued, USAID's overseas presence would, by the year 2002, be reduced to the point that it would affect the agency's ability to achieve its mission. As shown in figure 2, the percent of USAID's foreign service staff eligible to retire will increase from about 34 percent this year to almost 57 percent in fiscal year 2005. The agency has since established a foreign service recruitment plan that aims to recruit between 80 and 90 personnel per year. Fiscal year 2001 will mark the third year in which USAID will hire staff under the plan. In addition to increasing its overseas staff, USAID is also exploring greater sharing of staff among missions.

While a mission needs people with a certain set of skills to operate effectively, where those skilled employees are located is less important than having ready access to those skills when needed. For example, staff with certain management, accounting, and administrative skills are to serve more than one mission under USAID's plan. The task force envisioned that such "matrix missions" would share staff resources with neighboring missions, both receiving assistance from and providing assistance to neighboring missions.

Figure 2: Percent of USAID Staff Eligible to Retire as of September 30, 2000, and September 30, 2005

Eligibility date
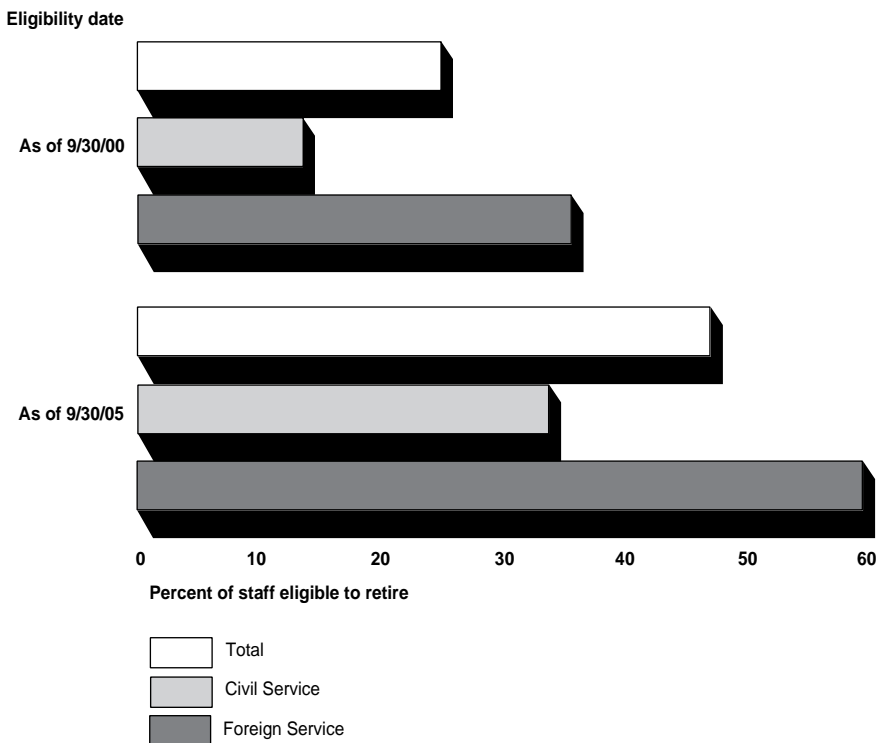
Source: U.S. Agency for International Development.

USAID is also studying ways to improve its response to emergency humanitarian situations such as the sudden, large refugee flows that occurred in the Balkans during the 1990s and natural disasters such as the 1998 hurricanes in Central America and the Caribbean. For example, we found that USAID faced delays in locating and fielding contract and other officers needed to implement the recovery program.

USAID's Office of Foreign Disaster Assistance is often the first on the scene, as it was in the aftermath of Hurricane Mitch in Honduras and Nicaragua in October 1998. USAID assessed its immediate assistance activities in a July 2000 report and is now also attempting to deal with human capital issues that have surfaced in the longer-term reconstruction assistance USAID is providing to these countries. For example, small USAID missions had to increase staff to meet the demands of a large recovery program. In some cases, this involved setting up programs in sectors in which the mission had no existing activities. The missions also had to help other U.S. agencies with little or no overseas experience establish their programs as well as put in place controls and accountability measures for the assistance effort.

USAID has also had difficulty filling some of the technical staff needs. For example, in our monitoring of the recovery assistance effort in Nicaragua, we found that, while project implementation had begun in early 2000, as of November 2000, 4 of 29 positions needed to support the recovery program had not been filled. We also found that both the Nicaragua and Honduras missions had difficulty carrying out their initial procurement activities because a single contract officer had to cover both missions until a second contract officer, assigned to Honduras, arrived in October 1999, more than a year after Hurricane Mitch hit Honduras. These problems affected USAID's effectiveness in responding to one of the largest hurricanes ever to hit Central America. This was evident in the delays USAID experienced in awarding contracts to replace housing and implement public works repair projects. The pictures below show Hurricane Mitch, typical damage caused by the hurricane, and a USAID housing assistance project in Honduras.

Figure 3: Hurricane Mitch Strikes Central America in Late October 1998
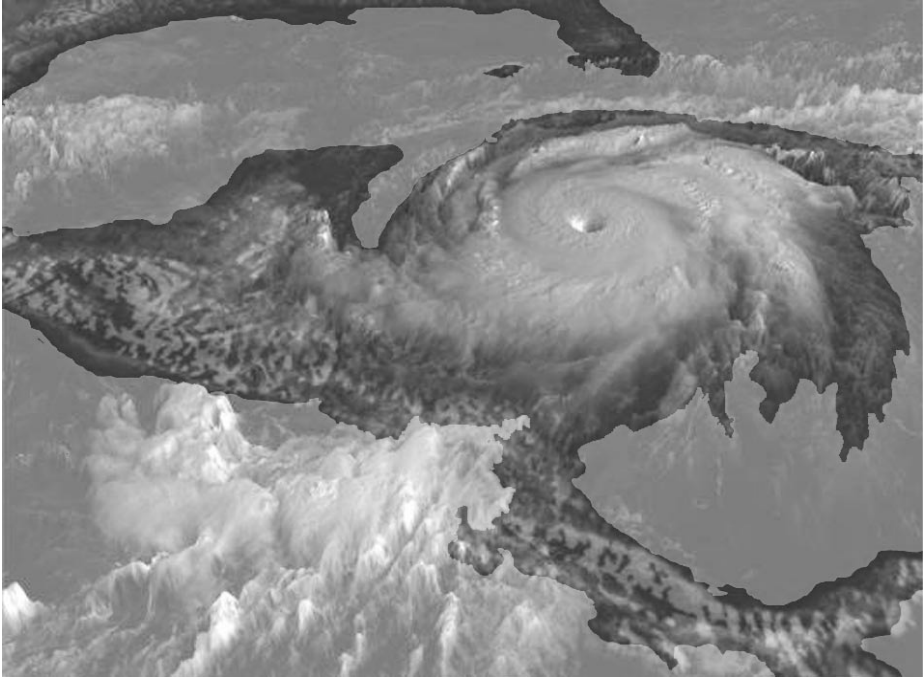
Source: NASA.

Figure 4: Hurricane Mitch Property Damage in Central America

Source: U.N. Hurricane Mitch Center.

Figure 5: USAID-Assisted Construction Project to Build Permanent Housing in Rural Area of Honduras

Source: GAO.

USAID officials acknowledge that the agency has not addressed the need for a "surge capacity" to effectively respond to emergency situations and to design and implement any new programs resulting from the emergency assistance. However, USAID has recognized the need to have an effective means of rapidly assigning staff in post-disaster situations. One recommendation USAID's Workforce Planning Task Force made is for USAID to establish a reserve capability for carrying out inherently governmental functions, such as contracting officer functions, during emergencies. More generally, the agency is considering the following steps for mobilizing individuals currently working for USAID or other U.S. government agencies.

- Identify the range of competencies likely to be required in responding to predictable post-disaster situations.
- Develop standard position descriptions/statements of work for quick reaction team members based on competencies and predictable post-disaster situations.
- Develop standard travel authorizations for quick reaction teams, including direct and nondirect hires and foreign service nationals, and preposition travel funds.
- Develop and maintain an inventory of available staff agencywide with the required competencies.
- Develop and maintain an inventory of external expert resources, such as other U.S. government agencies, and negotiate advance understandings.
- Develop standard operating procedures to rapidly call up and send staff to the field.

These steps would provide a base of experienced staff who could be moved quickly in response to emergencies or unexpected program changes. However, USAID officials noted that, to implement the plan, the agency may need to increase slightly its recruitment targets for those skills that are most often required for emergency responses, with particular emphasis on contract officers.

In responding to emergencies, USAID recognizes the need to have a database of potential human capital resources. USAID has had difficulty in establishing an effective management information system (see later discussion), and the agency does not currently have this system capability. However, the Office of Human Resources has identified a software application that can provide an integrated human resources system to meet these needs and has purchased a subscription for the software under an existing USAID contract with the General Services Administration.

Better Performance Data Could Help USAID Assess Programs and Allocate Resources

USAID faces challenges in developing reliable performance measures and accurately reporting the results of its programs. Our work and that of the USAID Inspector General has identified a number of problems with the annual results data that USAID's operating units have been reporting. Moreover, measuring the performance of USAID activities such as democracy and governance (including rule of law programs) and humanitarian assistance programs is inherently difficult because of the problems in identifying appropriate assessment tools and the complexity of the issues. In some instances, lack of reliable performance measures limits USAID's ability to use results data to allocate resources and to determine if its activities meet its strategic goals. For example, in our October 2000 report on U.S. assistance to improve the Haitian justice system, we recommended that future assistance be linked to obtaining such data.[5] USAID has acknowledged its problems and has undertaken a number of initiatives to address them. For example, the agency has begun a series of long-term evaluations to examine the effectiveness of activities in achieving results across country settings and goal areas.

The Government Performance and Results Act of 1993 (the Results Act) (P.L. 103-62) requires federal agencies to prepare performance plans that (1) establish performance indicators to be used in measuring or assessing the relevant outputs and outcomes of each activity, (2) provide a basis for comparing actual program results with established performance goals, and (3) describe the means to be used to verify and validate measured values. Our observations on USAID's performance report for fiscal year 1999 and its 2000 and

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[5]*Foreign Assistance: Any Further Aid to Haitian Justice System Should Be Linked to Performance-Related Conditions* (GAO-01-24, Oct. 17, 2000).

2001 performance plans cited problems with USAID's performance data. For example, in commenting on USAID's fiscal year 2000 performance plan, we noted that the plan provided limited confidence that the agency had the capacity to obtain credible, results-oriented, program performance information. We reported that USAID needed continued data improvements to achieve a uniform, high-quality database permitting cost-effective analysis of USAID's overall development assistance program.[6] USAID's Inspector General has also questioned the reliability, accuracy, validity, and completeness of the results data the agency's missions have reported annually. A 1999 review of data prepared by 18 missions for 1996 showed problems with the results reported for 83 percent, or 252, of the 302 indicators that the Inspector General reviewed.[7] According to the report, 77 indicators were not sufficiently supported. For example, at one USAID mission, an indicator was "the number of local government units having completed training modules." However, the number of government units the mission reported as having completed the training only reflected local communes and, according to USAID officials, actually underestimated program success because it did not reflect the other types of government units in the country that should have been included in the scope of the project.

According to the Inspector General, USAID's data problems existed because operating units did not always follow, or were not successful in following, prescribed USAID policies and procedures for measuring and

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[6]*Observations on the U.S. Agency for International Development's Fiscal Year 2000 Performance Plan* (GAO/NSIAD-99-188R, July 20, 1999).

[7]*Audit of the Quality of Results Reported in USAID Operating Units' Results Review and Resources Request Reports Prepared in 1997* (Report No 9-000-99-006-P, Mar. 5, 1999).

reporting on program performance. The Inspector General also attributed many of the problems it found at the operating units to insufficient support, direction, and oversight by USAID/Washington bureaus to ensure operating units followed and effectively implemented prescribed USAID policies and procedures. We also noted in our observations on USAID's fiscal year 2000 performance plan that because USAID is dependent on international organizations and thousands of partner institutions for data, it does not have full control over how data are collected, reported, or verified. Further, many information sources have different reporting periods, and the data are often not available for a year or more afterwards.

Without accurate and reliable performance data, USAID has little empirically verifiable assurance that its programs achieve their program objectives and related targets. These problems also impair USAID's ability to use performance information in making budget allocation decisions. For example, in October 2000 we reported that the United States provided assistance to Haiti to improve its justice system generally without specific conditions, such as specific goals, performance measures, and time frames.[8] We recommended that any further U.S. assistance to the Haitian police and judicial sector should be tied to specific, performance-related conditions.

Developing performance indicators and assessing results is inherently difficult for some activities—democracy and governance, and humanitarian assistance programs, for example. In the past, USAID did not spend much effort on assessing the impact of its democracy programs. The purpose of these programs is

[8]*Foreign Assistance: Any Further Aid to Haitian Justice System Should be Linked to Performance-Related Conditions* (GAO-01-24, Oct. 17, 2000).

to strengthen democratic practices and institutions. One
reason for the lack of performance data on democracy
and governance programs was the difficulty in
identifying appropriate assessment criteria and tools.
Also, according to USAID officials, USAID's democracy
programs are sometimes developed as a direct response
to foreign policy interests identified by the U.S.
Department of State, with the mere presence of U.S.
assistance as the desired foreign policy outcome. Past
reporting was based on gathering two types of data: data
on actual events in the countries where USAID provides
assistance and generally anecdotal evidence regarding
the impact of individual program activities. The
necessary, though missing, element required to assess
the results of USAID's democracy and governance
programs was data that provided direct linkages
between USAID's programs and the events within the
countries assisted.

Obtaining agreement on the appropriate performance
indicators to use to assess the performance of
humanitarian assistance objectives is also a challenge
for USAID because of the complexity of the goal and the
number of organizational units, agencies, and
implementing partners involved. For example, USAID's
goal in providing humanitarian assistance is lives saved,
suffering associated with natural or man-made disasters
reduced, and conditions necessary for political and/or
economic development reestablished. One objective
under this goal is to meet urgent needs in times of crisis.
Extensive consultation was required with a number of
technical agencies, including the U.S. Centers for
Disease Control and Prevention, the World Health
Organization, and individuals with emergency health
and nutrition expertise, before USAID adopted the crude
mortality rate (calculation of death rates to detect
sudden changes) and the prevalence of acute
malnutrition in children under 5 years of age as an
experimental set of benchmarks against which to
monitor the performance of its objectives. However,

USAID noted that while the crude mortality rate is an important indicator, there were questions about the best methodology for collecting the information. Further, the crude mortality rate has been collected mostly by European nongovernmental organizations and not by U.S. organizations undertaking USAID-funded activities in humanitarian assistance.

Corrective Actions Underway

USAID has taken a number of steps to correct the problems with its reporting of performance results, and some of these efforts are being assessed by USAID's Inspector General. In June 2000, we reported that USAID had made progress in establishing outcome-oriented goals and developing indicators and targets that help measure overall results.[9] Corrective actions included (1) developing and disseminating lists of indicators that can be used by field offices when seeking appropriate tools to measure performance, (2) sending annual reporting guidance cables to operating units on the types of data needed and the documentation required, (3) expanding the publication of supplementary guidance to missions on how data should be managed to maximize their quality and utility, and (4) holding training seminars on managing for results for field officers. Also, in September 2000, USAID revised its automated directive system performance measurement and reporting policies to incorporate what has been learned from the first several years of implementation of the Results Act. Moreover, at USAID's request, the Inspector General is performing a series of audits of the internal controls at various operating units to assess the credibility of the performance data that the units report.

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[9]*Observations on the U.S. Agency for International Development's Fiscal Year 1999 Performance Report and Fiscal Years 2000 and 2001 Performance Plans* (GAO/NSIAD-00-195R, June 30, 2000).

USAID has also initiated a long-term effort to conduct agencywide evaluations of selected programs, including its democracy and governance programs, to address specific management questions about agency program and operational performance. This effort includes performing case studies to determine the impact of democracy and governance programs on political change and making assessments of subsectors, such as rule of law programs, to determine what types of programs stand the best chance of meeting their objectives.

USAID also reports that it has made considerable progress in assessing its humanitarian activities since its adoption of crude mortality rates and the prevalence of malnutrition in children as indicators, according to an official of USAID's Bureau for Humanitarian Response. Assessments of humanitarian efforts at several test sites are underway using these indicators, and a pilot test showed that the methodology for collecting the data was feasible. However, USAID still faces the challenge of ensuring that other agencies and implementing partners adopt the use of the indicators across the board.

Additional Challenges to Building a High-performing Organization

USAID faces long-standing challenges in implementing an integrated information management system. USAID began developing an automated new management system in 1994. The system was designed to consolidate all of USAID's accounting, budget, personnel, procurement, and program operations into a single, integrated network with worldwide access. In 1996, USAID deployed the system worldwide before it was fully operational or adequately tested. Subsequent difficulties forced USAID to suspend its use of the system at its overseas missions. Since that time, USAID has undertaken a number of initiatives to correct the deficiencies, including the acquisition of commercial, off-the-shelf software for some management requirements.

USAID has made progress in addressing the deficiencies of the management information system, but challenges remain. For example, it has developed an agencywide information technology architecture[10] that meets some of the Office of Management and Budget's (OMB) requirements. However, USAID needs to continue to develop and complete the target architecture at a sufficient level of detail that meets OMB's requirements. Moreover, although USAID has developed a prioritized list of financial management system investments, it did not devise its list in accordance with 1995 OMB guidance.[11] In particular, USAID has not followed OMB guidelines because it has not fully implemented a process for selecting information technology investments. OMB's guidelines require agencies to prioritize their planned investments by reviewing projects for relevance and feasibility; analyzing risks, benefits, and costs; prioritizing projects based on expected return on investment; and then determining the right mix of projects to fund. Without such a process, USAID is at risk of allocating resources for projects that do not represent the highest return on investment for the agency.

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[10]A "system architecture" is a blueprint or high-level description of how the systems will interact to accomplish agency mission requirements in a cost-effective manner. It focuses on describing the relationships among business functions, work processes, information flows, and technology. It also describes standards to be followed to ensure that systems will interoperate, provide security, and be implemented in a disciplined manner.

[11]*Evaluating Information Technology Investments: A Practical Guide* (Washington, D.C.: Office of Management and Budget, Nov. 1995).

USAID has also had long-standing financial management weaknesses, although recently it has made steps toward correcting deficiencies. Nevertheless, the Inspector General was again unable to express an opinion on USAID's financial statements for fiscal year 1999 because USAID's financial management systems could not produce accurate, complete, reliable, timely, and consistent financial statements and performance information. USAID's inadequate accounting system makes it difficult for the agency to account accurately for activity costs and measure its program results.

The Inspector General has continued to report that USAID's financial management system does not meet the federal financial systems requirements. Currently, USAID uses a variety of nonintegrated systems that require data reentry, supplementary accounting records, and lengthy and burdensome reconciliation processes. To resolve this long-standing problem, at the end of fiscal year 1999 USAID entered into a contract to replace the current financial management system. USAID plans to complete the system replacement during fiscal year 2003.

The Inspector General also reported that while USAID had made significant improvements in its processes and procedures, it still has several material weaknesses in internal controls that impair the integrity of its financial information. Specifically, the Inspector General reported the following:

• USAID's financial systems do not meet federal financial system requirements, applicable federal accounting standards, and the standard general ledger at the transaction level.
• Computer security deficiencies expose USAID to the risk that resources and data will not be adequately protected from loss, theft, alterations, or destruction.

- While USAID has made significant improvements in its processes and procedures in place for reporting the Credit Receivables Program, problems remain. For example, USAID loan information maintained by a private bank had not been reconciled to USAID's accounting systems; USAID had not provided the most updated information to the bank on rescheduled loans; and USAID did not research and promptly resolve unapplied loan collections from borrower countries.
- USAID had not implemented adequate internal controls to permit accurate and reliable reporting of Fund Balance with Treasury accounts.
- USAID did not properly calculate and report accrued expenses and accounts payable.
- Advances to grantees were not properly controlled.

Effective financial systems and controls are necessary to ensure that USAID management has timely and reliable information to make effective, informed decisions and that assets are safeguarded. USAID has made progress in correcting some of its systems and internal control deficiencies and is in the process of revising its plan to remedy financial management weaknesses as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). To obtain its goal, however, USAID needs to continue its efforts to resolve its internal control weaknesses and to ensure that its replacement financial system is in compliance with federal financial system requirements.

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Related GAO Products

Foreign Assistance: Any Further Aid to Haitian Justice System Should be Linked to Performance-Related Conditions (GAO-01-24, Oct. 17, 2000).

Observations on the U.S. Agency for International Development's Fiscal Year 1999 Performance Report and Fiscal Years 2000 and 2001 Performance Plans (GAO/NSIAD-00-195R, June 30, 2000).

Observations on the U.S. Agency for International Development's Fiscal Year 2000 Performance Plan (GAO/NSIAD-99-188R, July 20, 1999).

Foreign Assistance: Rule of Law Funding Worldwide for Fiscal Years 1993-98 (GAO/NSIAD-99-158, June 30, 1999).

Major Management Challenges and Program Risks (GAO/OGC-99-16, Jan. 1999).

Foreign Assistance: Status of USAID's Reforms (GAO/NSIAD-96-241BR, Sept. 24, 1996).

Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed (GAO/NSIAD-93-106, June 11, 1993).

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