

**GAO**

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**FOREIGN ASSISTANCE**

**USAID Needs to Improve Its  
Workforce Planning and  
Operating Expense  
Accounting**

Statement of Jess T. Ford, Director  
International Affairs and Trade





# FOREIGN ASSISTANCE

## USAID Needs to Improve ITS Workforce Planning and Operating Expense Accounting

Highlights of [GAO-03-1171T](#), a report to Subcommittee on National Security, Emerging Threats, and International Relations, House Committee on Government Reform

### Why GAO Did This Study

USAID oversees humanitarian and economic assistance—an integral part of the U.S. global security strategy—to more than 160 countries. GAO recommended in 1993 that USAID develop a comprehensive workforce plan; however, human capital management continues to be a high-risk area for the agency.

GAO was asked to testify on how changes in USAID’s workforce over the past 10 years have affected its ability to deliver foreign aid, the agency’s progress in implementing a strategic workforce planning system, and whether its reported operating expenses reflect the full costs of delivering foreign aid.

### What GAO Recommends

To help USAID plan for changes in its workforce and continue operations in an uncertain environment, we recommended that the USAID Administrator institutionalize a strategic workforce planning and management system that takes advantage of strategic workforce planning principles.

USAID agreed with our findings and recommendation and noted it has recently undertaken some efforts to improve management of its workforce.

### What GAO Found

USAID has evolved from an agency in which U.S. direct-hire staff directly implemented development projects to one in which U.S. direct-hire staff oversee the activities of contractors and grantees. Since 1992, the number of USAID U.S. direct-hire staff declined by 37 percent, but the number of countries with USAID programs doubled and, over the last 2 years, program funding increased more than 78 percent. As a result of these and other changes in its workforce and its mostly ad-hoc approach to workforce planning, USAID faces several human capital vulnerabilities. For example, attrition of experienced foreign service officers and inadequate training and mentoring have sometimes led to the deployment of staff who lack essential skills and experience. The agency also lacks a “surge capacity” to respond to evolving foreign policy priorities and emerging crises. With fewer and less experienced staff managing more programs in more countries, USAID’s ability to oversee the delivery of foreign assistance is becoming increasingly difficult. USAID has taken steps toward developing a workforce planning and human capital management system that should enable the agency to meet its challenges and achieve its mission, but it needs to do more, such as conducting a comprehensive skills assessment and including its civil service and contracted employees in its workforce planning efforts.

USAID’s reported that operating expenses do not always reflect the full costs of administering foreign assistance because the agency pays for some support and oversight activities done by contractors with program funds. As a result, the amount of program funds directly benefiting foreign recipients is likely overstated.

**USAID U.S. Direct-Hire Presence, Fiscal Years 1992 and 2002**

	Fiscal year 1992	Fiscal year 2002	Percentage change
<b>USAID U.S. direct hires</b>			
Total number	3,163	1,985	(37)
Number assigned overseas	1,082	631	(42)
Number of countries receiving USAID assistance with U.S. direct-hire presence	66	71	7
Number of countries receiving USAID assistance with no U.S. direct-hire presence	16	88	450

Source: GAO analysis of USAID data.

[www.gao.gov/cgi-bin/getrpt?GAO-03-1171T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-1171T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jess Ford at (202) 512-4268 or fordj@gao.gov.

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our report on USAID's workforce planning<sup>1</sup> and highlight the preliminary findings from our ongoing review of USAID's operating expense account. The workforce report is being released today. Humanitarian and economic development assistance is an integral part of U.S. global security strategy, particularly as the United States seeks to diminish the underlying conditions of poverty and corruption that may be linked to instability and terrorism. In fiscal year 2003, USAID expects to obligate about \$13 billion and manage programs in about 160 countries. Agency staff often work in difficult environments and under evolving program demands. More will be demanded of USAID's staff as they implement large-scale relief and reconstruction programs in Afghanistan and Iraq while continuing traditional long-term development assistance programs.

As a result, it is essential that USAID develop a strategic approach to its workforce planning so that it can identify and attain the essential skills it needs to accomplish its goals. It is also important that USAID identify and report accurate costs on administering its foreign aid programs. My statement today will cover these two broad areas.

I will focus most of my statement on our review of USAID's workforce planning. I will discuss some of USAID's human capital challenges, including its recent efforts to staff missions in Afghanistan and Iraq, and the status of its efforts to develop a strategic workforce planning system. Regarding USAID's operating expense account, I will focus on how the agency's reporting of operating expenses does not always capture the full cost of administering foreign assistance.

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## Summary

USAID's workforce has undergone many changes over the years. For example, the number of U.S. direct-hire staff, including foreign service officers, has dropped 37 percent from 3,163 in 1992 to 1,985 in December 2002; and the agency has increasingly relied on personal services and institutional contractors to implement its humanitarian and development assistance projects and manage the day-to-day activities of overseas

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<sup>1</sup>U.S. General Accounting Office, *Foreign Assistance: Strategic Workforce Planning Can Help USAID Address Current and Future Challenges*, [GAO-03-946](#) (Washington, D.C.: Aug. 22, 2003).

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missions. At the same time, while the number of countries with USAID activities has almost doubled, program funding levels have remained relatively level, with significant increases in 2003.

However, as we reported in 1993 and still find today, USAID has not developed a comprehensive, strategic workforce planning system that would help it manage these changes. As a result, the agency faces a number of human capital challenges, such as difficulties in filling overseas positions, a lack of mentoring and training opportunities for new staff, and the lack of a “surge capacity” to quickly respond to post-emergency and disaster situations. These vulnerabilities are reflected in the agency’s difficulties in staffing the missions in Afghanistan and Iraq. As of early September, the Kabul mission had 61 vacancies, including 5 for direct-hire foreign service officers, and the Baghdad mission had 13 vacancies that will most likely be filled by contract staff.

Recently, and particularly in response to the President’s Management Agenda, USAID has taken a number of preliminary steps to determine the workforce it needs now and in the future and devise strategies for achieving these goals. However, in comparing USAID’s efforts to proven principles for strategic workforce planning, more work needs to be done. Accordingly, we recommend that USAID develop and implement a strategic workforce planning system to help it manage the changes in its workforce and overseas environment.

USAID’s operating expenses are a separate line-item appropriation intended to clearly identify the agency’s “cost of doing business.” In fiscal year 2003, USAID expects to obligate about \$668 million for operating expenses. However, USAID’s reported operating expense obligations do not always reflect all the costs associated with managing its foreign aid program primarily because missions sometimes pay contractors performing administrative or oversight duties with program funds. Distinguishing between funds spent on operating expenses and funds benefiting foreign recipients is not always clear; and, as a result, the amount spent for program funds is likely overstated.

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## Background

In 1993, we reported that USAID had not adequately managed changes in its overseas workforce and recommended that USAID develop a comprehensive workforce planning system to better identify staffing needs

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and requirements.<sup>2</sup> In the mid-1990s, USAID reorganized its activities around strategic objectives and began reporting in a results-oriented format but had made little progress in personnel reforms.<sup>3</sup> In July 2002, we reported that USAID could not quickly relocate or hire the staff needed to implement a large-scale reconstruction and recovery program in Latin America, and we recommended actions to help improve USAID's staffing flexibility for future disaster recovery requirements.<sup>4</sup>

Studies by several organizations, including GAO, have shown that highly successful service organizations use strategic management approaches to prepare their workforces to meet present and future mission requirements. We define strategic workforce planning as focusing on long-term strategies for acquiring, developing, and retaining an organization's workforce and aligning human capital approaches that are clearly linked to achieving programmatic goals. Based on work with the Office of Personnel Management and other entities, we identified strategic workforce planning principles used by leading organizations. According to these principles, a strategic workforce planning and management system should (1) involve senior management, employees, and stakeholders in developing, communicating, and implementing the workforce plan; (2) determine the agency's current critical skills and competencies and those needed to achieve program results; (3) develop strategies to address gaps in critical skills and competencies; and (4) monitor and evaluate progress and the contribution of strategic workforce planning efforts in achieving program goals.

Until the mid-1970s, about two thirds of USAID's operating expenses were funded from appropriations to program accounts, and the rest were funded from a separate administrative expenses account.<sup>5</sup> In 1976, Congress began providing a line-item appropriation for operating expenses

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<sup>2</sup>[GAO/NSIAD-93-106](#).

<sup>3</sup>U.S. General Accounting Office, *Foreign Assistance: Status of USAID's Reforms*, GAO-NSIAD-241-BR (Washington, D.C.: Sept. 24, 1996); *Foreign Assistance: USAID's Reengineering at Overseas Missions*, [GAO/NSIAD-97-194](#) (Washington, D.C.: Sept. 12, 1997).

<sup>4</sup>U.S. General Accounting Office, *Foreign Assistance: Disaster Recovery Program Addressed Intended Purposes, but USAID Needs Greater Flexibility to Improve Its Response Capability*, [GAO-02-787](#) (Washington, D.C.: July 24, 2002).

<sup>5</sup>The administration's budget request for fiscal year 1975 identified 11 separate funding accounts from which administrative expenses would be funded.

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separate from USAID’s humanitarian and economic development assistance programs.<sup>6</sup> The accompanying Senate report noted that USAID’s “cost of doing business” would be better managed if these funds were separately appropriated.<sup>7</sup> Congress authorized USAID’s separate operating expense account the following year.<sup>8</sup> USAID’s criteria for determining the expenses to be paid from operating expense funds are based on guidance it has received from Congress as well as its assessment of who benefits from a particular activity—the agency or the intended program recipient. For example, congressional reports in the late 1970s directed USAID to fund the costs of all full-time staff in permanent positions from the operating expense account.<sup>9</sup>

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## Strategic Workforce Planning Can Help USAID Address Current and Future Challenges

USAID faces a number of challenges in developing and implementing a strategic workforce plan. Its overseas missions operate in a changing foreign policy environment often under very difficult conditions. USAID’s workforce, particularly its U.S. direct-hire foreign service officers, has decreased over the years; but in recent years program dollars and the number of countries with USAID activities have increased. These factors have combined to produce certain human capital vulnerabilities that have implications for the agency’s ability to effectively carry out and oversee foreign assistance. A strategic approach to workforce planning and management can help USAID identify the workforce it needs and develop strategies for attaining this workforce that will last throughout successive administrations.

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## USAID Faces Challenges in Workforce Planning

Since 1990, USAID has continued to evolve from an agency in which U.S. direct-hire foreign service employees directly implemented development projects to one with a declining number of direct-hire staff who oversee the contractors and grantees carrying out most of its day-to-day activities. As numbers of U.S. direct-hire staff declined, mission directors began relying on other types of employees, primarily foreign national personal services contractors, to manage mission operations and oversee development activities implemented by third parties. In December 2002,

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<sup>6</sup>P.L. 94-330.

<sup>7</sup>S. Rept. 94-704.

<sup>8</sup>P.L. 95-88, Sec. 129, 22 U.S.C. 2427.

<sup>9</sup>H. Rept. 95-701 and S. Rept. 95-1194.

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according to USAID's staffing report, the agency's workforce totaled 7,741, including 1,985 U.S. direct-hires.<sup>10</sup> Personal services contractors made up more than two-thirds of USAID's total workforce, including 4,653 foreign national contractors. Of the 1,985 U.S. direct-hires, 974 were foreign service officers, about 65 percent of whom were posted overseas. Other individuals not directly employed by USAID also perform a wide range of services in support of the agency's programs. These individuals include employees of institutional or services contractors, private voluntary organizations, and grantees.<sup>11</sup>

In addition to having reduced the number of U.S. direct hires, USAID now manages programs in more countries with no USAID direct-hire presence, and its overseas structure has become more regional. Table 1 illustrates the changes in USAID's U.S. direct-hire overseas presence between fiscal years 1992 and 2002. In fiscal year 2002, USAID managed activities in 88 countries with no U.S. direct-hire presence. According to USAID, in some cases, activities in these countries are very small and require little management by USAID staff. However, in 45 of these countries USAID manages programs of \$1 million or more, representing a more significant burden on the agency. USAID also increasingly provides administrative and program support to countries from regional service platforms, which have increased from 2 to 26 between fiscal years 1992 and 2002.<sup>12</sup> Program funding also recently increased about 78 percent—from \$7.3 billion in fiscal year 2001 to about \$13 billion in fiscal year 2003.

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<sup>10</sup>All figures exclude the staff of USAID's Office of the Inspector General, which includes 95 foreign service officers (51 posted overseas) and 76 civil service staff in Washington, D.C.

<sup>11</sup>In 1990, USAID estimated this extended workforce was approximately 10,000 individuals. For this report, USAID was unable to provide an estimate.

<sup>12</sup>Services include legal, executive office, financial/controller, procurement, and program and project development support services. Services vary among the 26 platforms due to security, ease of travel, and other local concerns. For example, the regional office in Kenya provides all services to up to 14 countries, while the Honduras mission simply shares a contracts officer with Nicaragua.

**Table 1: USAID U.S. Direct-Hire Presence, Fiscal Years 1992 and 2002**

<b>USAID U.S. direct hires</b>	<b>Fiscal year 1992</b>	<b>Fiscal year 2002</b>	<b>Percentage change</b>
Total number	3,163 <sup>a</sup>	1,985 <sup>b</sup>	(37)
Number assigned overseas	1,082 <sup>a</sup>	631 <sup>b</sup>	(42)
Number of countries receiving USAID assistance with U.S. direct-hire presence	66 <sup>c</sup>	71 <sup>d</sup>	7
Number of countries receiving USAID assistance with no U.S. direct-hire presence	16 <sup>c</sup>	88 <sup>d</sup>	450

Sources:

<sup>a</sup>USAID's Monthly Workforce Profile Report, data as of September 30, 1992.

<sup>b</sup>USAID's Quarterly Worldwide Staffing Pattern Report, data as of December 31, 2002.

<sup>c</sup>U.S. General Accounting Office, Foreign Assistance: A Profile of the Agency for International Development, GAO/NSIAD-92-148 (Washington, D.C.: Apr. 3, 1992).

<sup>d</sup>USAID's Bureau for Policy and Program Coordination data provided in May 2003. USAID staff cautioned that this information was gathered in 2002 and may not be up to date.

As a result of the decreases in U.S. direct-hire foreign service staff levels, increasing program demands, and a mostly ad-hoc approach to workforce planning, USAID now faces several human capital vulnerabilities. For example, the attrition of its more experienced foreign service officers, its difficulties in filling overseas positions, and limited opportunities for training and mentoring have sometimes led to the deployment of direct-hire staff who do not have essential skills and experience and the reliance on contractors to perform many functions. In addition, USAID lacks a “surge capacity” to enable it to respond quickly to emerging crises and changing strategic priorities. As a result, according to USAID officials and a recent overseas staffing assessment, the agency is finding it increasingly difficult to manage the delivery of foreign assistance.

In addition, USAID works in an overseas environment that presents unique challenges to workforce planning. Mission officials noted the difficulties in adhering to a formal workforce plan linked to country strategies in an uncertain foreign policy environment. For example, following the events of September 11, 2001, the Middle East and sub-Saharan African missions we visited—Egypt, Mali, and Senegal—received additional work that was not anticipated when they developed their country development strategies and work plans. Also, the mission in Ecuador had been scheduled to close in fiscal year 2003. However, this decision was reversed due to political and economic events in Ecuador, including a coup in 2000, the collapse of the financial system, and rampant inflation. Program funding for Ecuador

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tripled from fiscal year 1999 to fiscal year 2000, while staffing was reduced from 110 to 30 personnel; and the budget for the mission's operating expenses was reduced from \$2.7 million to \$1.37 million. During our field work, we found that other factors unique to USAID's overseas work environment can affect its ability to conduct workforce planning and attract and retain top staff. These factors vary from country to country and among regions and include difficulties in attracting staff to hardship posts, inadequate salaries and benefits for attracting the top host country professionals, and lengthy clearance processes for locally contracted staff.

USAID's workforce challenges are illustrated by its difficulties in staffing hardship posts like Afghanistan and Iraq. As of September 4, 2003, according to USAID's new personnel data system, the mission in Kabul had 42 full-time staff—7 foreign service officers and 35 personal service contractors, mostly local hires. However, the mission had 61 vacancies, including 5 vacancies for foreign service officers.<sup>13</sup> In Iraq, as of September 15, 2003, the mission had 13 USAID direct-hire staff; 3 additional U.S. government employees; and about 60 personal services and institutional contractors. The mission had 13 vacancies that will most likely be filled by contract staff.

USAID's human resource office is in its annual bidding process for foreign service positions. When that process is complete, the office expects to have a better picture of replacements for current staff in Afghanistan and Iraq as well as additional placements. According to USAID staff, the agency is having trouble attracting foreign service officers to these posts because in-country conditions are difficult and tours are unaccompanied. USAID's average staff age is in the late forties, and this age group is generally attracted to posts that can accommodate families. Both posts are responsible for huge amounts of foreign aid—in fiscal year 2003 alone, USAID's assistance for Afghanistan and Iraq is expected to total \$817 million and \$1.6 billion, respectively. USAID faces serious accountability and quality of life issues as it attempts to manage and oversee large-scale, expensive reconstruction programs in countries with difficult conditions and inadequate numbers of both foreign service and local hire staff.

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<sup>13</sup>The foreign service vacancies included a supervisory program officer, a supervisory general development officer, two general development officers in the rural sector development office, and an economic development officer. The vacancies of contractor staff ranged from professionals with technical program or financial management skills to numerous support positions, such as secretaries, clerks, drivers, and maintenance workers.

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## USAID's Workforce Planning Efforts

In response to the President's Management Agenda, USAID has taken steps toward developing a comprehensive workforce planning and human capital management system that should enable the agency to meet its challenges and achieve its mission, but progress so far is limited. In evaluating USAID's efforts in terms of proven strategic workforce planning principles, USAID has more to do. For example:

- The involvement of USAID leadership, employees, and stakeholders in developing and communicating a strategic workforce plan has been mixed. USAID's human resource office is drafting a human capital strategy, but at the time of our review it had not yet been finalized or approved by such stakeholders as OMB and the Office of Personnel Management. As a result, we cannot comment on whether USAID employees and other stakeholders will have an active role in developing and communicating the agency's workforce strategies.
- USAID has begun identifying the core competencies its future workforce will need, and a working group is conducting a comprehensive workforce analysis and planning pilot at three headquarters units that will include an analysis of current skills. However, it has not yet conducted a comprehensive assessment of the critical skills and competencies of its current workforce. USAID hopes to have a contractor in place by the end of September, 2003, to assist the working group in identifying critical competencies and devising strategies to close skill gaps. USAID is also in the process of determining the appropriate information technology instrument and methodology that will permit the assessment of its current workforce skills and competencies.
- USAID's strategies to address critical skill gaps are not comprehensive and have not been based on a critical analysis of current capabilities matched with future requirements. USAID has begun hiring foreign service officers and Presidential Management Interns to replace staff lost through attrition. However, the agency has not completed its civil service recruitment plan and has not yet included personal services contractors—the largest segment of its workforce—in its agencywide workforce analysis and planning efforts. According to USAID human resource staff, the civil service recruitment plan will be completed after conducting the competency analysis for civil service staff.
- USAID has not created a system to monitor and evaluate its progress toward reaching its human capital goals and ensuring that its efforts continue under the leadership of successive administrators.

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- Because it does not have a comprehensive workforce planning and management system, USAID cannot ensure that it has the essential skills needed to carry out its ongoing and future programs. To help USAID plan for changes in its workforce and continue operations in an uncertain environment, our report recommends that the USAID Administrator develop and institutionalize a strategic workforce planning and management system that takes advantage of strategic workforce planning principles.

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### USAID's Operating Expense Account Does Not Reflect the Full Cost of Delivering Foreign Assistance

USAID's operating expense account does not fully reflect the agency's cost of delivering foreign assistance, primarily because the agency pays for some administrative activities done by contractors with program funds. As we noted in our recent report, USAID's overseas missions have increasingly hired personal services contractors to manage USAID's development activities due to declining numbers of U.S. direct-hire staff.<sup>14</sup> According to USAID guidance, contractor salaries and related support can be paid from program funds when the expenses are benefiting a particular program or project. In some cases, however, the duties performed by contractors, especially personal services contractors, are indistinguishable from those done by U.S. direct-hire staff. One senior level USAID program planning officer told us that 10 to 15 percent of program funds may be a more realistic estimate of USAID's cost of doing business, as opposed to the 8.5 percent average since fiscal year 1995 that we calculated based on our analysis of USAID reported data.

- A recent USAID internal study identified about 160 personal services contractors who were performing inherently governmental duties,<sup>15</sup> but these costs are not always reported as operating expenses.
- Recent data collection efforts by USAID indicate that the agency will likely obligate approximately \$350 million in program funds for operating expenses incurred during fiscal year 2003.

Because USAID's cost of doing business is not always separated from its humanitarian and development programs—the original intent behind

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<sup>14</sup>GAO-03-946.

<sup>15</sup>U.S. Agency for International Development, *Report of the Overseas Working Group*, May 2003. USAID guidance states that salaries and support for nondirect-hire staff performing inherently governmental functions should be funded from the operating expenses account (ADS 601.5.7).

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establishing the separate operating expense account, the amount of program funds that directly benefits a foreign recipient is likely overstated.

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## Scope and Methodology

Overall, to accomplish our objectives, we analyzed personnel data, workforce planning documents, and obligations data reported by USAID in its annual budget justification documents. We did not verify the accuracy of USAID's reported data. We also interviewed cognizant USAID officials representing the agency's regional, technical, and management bureaus in Washington, D.C., and conducted fieldwork at seven overseas missions—the Dominican Republic, Ecuador, Egypt, Mali, Peru, Senegal, and the West Africa Regional Program in Mali.

- To examine USAID's progress in developing and implementing a strategic workforce planning system, we evaluated the agency's efforts in terms of workforce planning principles used by leading organizations: ensuring the involvement of agency leadership, employees, and stakeholders; determining current skills and competencies and those needed; implementing strategies to address critical staffing needs; and evaluating progress in achieving human capital goals.
- To determine whether USAID's operating expenses reflect its cost of doing business, we reviewed USAID reports and obligations data and discussed the matter with cognizant officials at USAID, the Department of State, and the Office of Management and Budget. We also reviewed mission staffing reports to determine whether staff were funded from the operating expense account or program funds and discussed staff duties with cognizant mission officials.

We obtained written comments on a draft of our report on USAID's workforce planning and discussed our preliminary findings from our review of USAID's operating expense account with cognizant USAID officials. Overall, USAID agreed with our findings and concurred with our recommendation to implement a strategic workforce planning system.

Our review was conducted between July 2002 and September 2003 in accordance with generally accepted government auditing standards.

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Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I will be happy to answer any questions you may have.

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## Contacts and Acknowledgments

For future contacts regarding this testimony, please call Jess Ford at (202) 512-4268 or Al Huntington at (202) 512-4140. Individuals making key contributions to this testimony included Kimberly Ebner, Jeanette Espinola, Emily Gupta, Rhonda Horried, and Audrey Solis. Mark Dowling, Reid Lowe, and Jose Pena provided technical assistance.

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