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Submitted to the Committee on the Budget, U.S. House of Representatives

A Closer Look: Inspectors General Address Waste, Fraud, Abuse in Federal Mandatory Programs

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Mr. Chairman, other committee members, and committee staff, thank you for the opportunity to provide my written testimony for the record.

This testimony is provided in response to your June 23, 2003, letter of invitation to me to testify before the committee or provide written testimony for the record. My testimony addresses the following:

- my current estimate of the magnitude of waste, fraud, and abuse within USAID's mandatory programs.
- the general nature of these problems and how long they have persisted.
- illustrative examples of these problems.
- what actions are being taken to eliminate or reduce these problems.
- what additional actions, of either an administrative or legislative nature, are required.

USAID has two mandatory spending programs. They are (1) the Foreign Service retirement and disability fund and (2) the credit subsidy under USAID's development credit authority.

The Department of State manages the Foreign Service retirement system. As a consequence, the Department of State's Office of Inspector General is responsible for audits of the Foreign Service retirement and disability fund. However, USAID's contributions to the fund are included in USAID's financial statements, which we audit as required under the Government Management and Reform Act of 1994 (GMRA). No issues have been noted regarding USAID's contributions to the fund during our audit of USAID's financial statements.

The credit subsidy under USAID's development credit authority is also included in USAID's financial statements, which are subject to an annual audit under the requirements of the GMRA. No issues have been reported regarding the subsidy during our audit of USAID's financial statements.

While there are no issues to report regarding USAID's mandatory programs, as verbally requested, I would like to provide some information on some of USAID's management challenges and the results of one of our more recent significant audits. A full discussion of USAID's management challenges can be found in our most recent semiannual report to the Congress. Our semiannual reports and our audit reports can be found on our website at http://www.usaid.gov/oig/.

MANAGEMENT CHALLENGES

USAID still faces a number of major management challenges—which parallel the president's management agenda. These major management challenges are:

- financial management
- information resource management
- managing for results
- procurement management
- human capital management

Financial Management

Although USAID has made considerable progress toward resolving the challenges with its financial management system in the past year, USAID still faces challenges in reconciling financial data, calculating and reporting accounts payable, recording and classifying advances and related expenses, and recognizing and reporting accounts receivable.

Information Resource Management

OIG audits have identified significant weaknesses in USAID's management of information technology. The OIG reported that USAID processes for procuring and managing information resource technology have not followed the guidelines established by the Clinger-Cohen Act. Also, OIG audits have confirmed that, although USAID has taken steps to improve computer security, more work is needed to ensure sensitive data are not exposed to unacceptable risks of loss or destruction. In response to OIG audits, USAID has made substantial computer security improvements. The OIG will continue to monitor USAID's progress in improving computer security.

Managing for Results

Federal laws, such as the Government Performance and Results Act of 1993, require Federal agencies to develop performance measurement and reporting systems that establish strategic and annual plans, set annual targets, track progress, and measure results. A significant element of USAID's performance management system is the Annual Reports prepared by each of USAID's operating units.

For fiscal year 2002, the OIG reported that the performance information included in the management discussion and analysis section of USAID's consolidated financial statements actually represented accomplishments from fiscal year 2001 instead of fiscal year 2002. The OIG has reported this system's deficiency many times in prior audit reports. Further, OIG audits conducted at selected audit units over the past few years have consistently identified deficiencies in the performance measurement systems of USAID operating units, deficiencies which call into question the reliability of performance data included in the units' Annual Reports.

Procurement Management
USAID's Office of Procurement has been the focus of various initiatives for defining ways to improve the effectiveness of USAID's acquisition and assistance processes. These activities are in direct response to the long-standing challenges that the Office of Procurement has faced in the areas of procurement staffing, activity planning, and acquisition and assistance award administration.

Human Capital Management
The ability of USAID to carry out its mission in the 21st century will depend, in part, on how well it manages all segments of its diverse and widespread workforce. USAID has made efforts to improve its human capital management. However, OMB has expressed concerns about current and future critical skill gaps, slow progress in redirecting staff from supervisory positions to the hands-on activities, and staffing decisions made without programmatic justifications.

In the OIG's audit of human capital data, the OIG noted that the human capital data collected and maintained by USAID was neither complete nor totally accurate. The OIG made several recommendations to help improve the quality and completeness of the human capital data collected by USAID.

Audit of Cargo Preference Reimbursements under Section 901d of the Merchant Marine Act of 1936
The OIG's strategy is to help USAID address its major management challenges explained above. Some OIG audits directed towards USAID's major management challenges lead to recommendations with a significant financial impact. One such audit was the OIG's audit of cargo preference reimbursements under section 901d of the Merchant Marine Act of 1936.

During the cargo preference audit, the OIG found that in accordance with established laws, policies, and procedures governing administration of cargo preference reimbursements from the Department of Transportation to the Department of Agriculture (USDA), USDA could be entitled to as much as $289 million in additional reimbursements. Of that amount, up to $175 million could be made available to the two food aid programs administered by USAID. Furthermore, the OIG found that at least $7.2 million in USAID cargo preference reimbursements had been misallocated to a USDA program.

The OIG recommended that USAID seek $175 million in unclaimed reimbursements for excess ocean freight costs dating back to 1994 and further request correction of a $7.2 million misallocation of a 1995 cargo preference reimbursement from USDA to USAID. USAID management agreed with the recommendations and is working with OMB and other Federal agencies to recover the funds.

Thank you for this opportunity to submit written testimony concerning USAID's mandatory spending programs and management challenges. I will be happy to respond to any questions you may have.