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STRATEGIC WORKFORCE PLANNING AT USAID

HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS AND INTERNATIONAL RELATIONS

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

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STRATEGIC WORKFORCE PLANNING AT USAID

TUESDAY, SEPTEMBER 23, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS AND INTERNATIONAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:08 a.m., in room 2247, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays and Turner.

Staff present: Lawrence Halloran, staff director and counsel; Thomas Costa, professional staff member; Robert A. Briggs, clerk; Chris Skaluba, intern; David Rapallo, minority counsel; and Jean Gosa, minority assistant clerk.

Mr. SHAYS. The Subcommittee on National Security, Emerging Threats and International Relations hearing entitled, "Strategic Workforce Planning at USAID" is called to order.

According to the President's management agenda, in most agencies, human resource planning is weak. Workforce deficiencies will be exacerbated by the upcoming retirement wave of the baby boom generation. Approximately 71 percent of the government's current permanent employees will be eligible for either regular or early retirement by 2010, and then 40 percent of those employees are expected to retire.

Without proper planning, the skilled mix of Federal work force will not reflect tomorrow's changing missions. This strategic human capital time bomb described by the administration has been ticking at the U.S. Agency for International Development [USAID], for some time. For the better part of the last decade, both the General Accounting Office [GAO], and the USAID Inspector General have reported a failure of USAID to plan for the impacts of downsizing, employee demographics and the changing needs of a more dangerous world.

Today GAO updates those earlier findings and answers our questions about the impact of work force planning lapses on the ability of USAID to perform critical missions in places like Afghanistan and Iraq.

At USAID, the mission has changed. The manpower has not. New laws, regulations, policies and host-nation expectations have not prompted corresponding reforms of USAID personnel practices.

For a variety of long evident reasons, the core function of USAID has evolved from that of direct aid provider to one of contract or

management. Skilled and dedicated veterans at USAID have done their best to adapt, but the lack of a clear plan to identify and deploy the skilled sets demanded by a fast-changing world leaves the agency hard pressed to meet current missions and ill-equipped to face a demanding future.

The GAO report released today notes 47 of 77 USAID positions in Kabul remain vacant. The agency is also finding it difficult to place Foreign Service Officers in Iraq where unaccompanied tours and harsh living conditions do not attract many takers from among a predominantly married, over 40 talent pool.

According to GAO, efforts to address strategic human capital management weaknesses at USAID have had limited impact. To meet its important mission in places like Afghanistan, Iraq and other development frontiers, the agency needs a comprehensive work force planning system and similarly expanded method of calculating the true cost of doing business.

[The prepared statement of Hon. Christopher Shays follows:]

TOM DAVIS, VIRGINIA
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ONE HUNDRED EIGHTH CONGRESS

Congress of the United States

House of Representatives

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Statement of Rep. Christopher Shays
September 23, 2003

According to the President's Management Agenda, "In most agencies, human resources planning is weak. Workforce deficiencies will be exacerbated by the upcoming retirement wave of the baby-boom generation. Approximately 71 percent of the government's current permanent employees will be eligible for either regular or early retirement by 2010, and then 40 percent of those employees are expected to retire. Without proper planning, the skill mix of the federal workforce will not reflect tomorrow's changing missions."

The strategic human capital time bomb described by the Administration has been ticking at the U.S. Agency for International Development (USAID) for some time. For the better part of the last decade, both the General Accounting Office (GAO) and the ~~State Department~~ USAID Inspector General have reported a failure at USAID to plan for the impacts of downsizing, employee demographics and the changing needs of a more dangerous world.

Today GAO updates those earlier findings and answers our questions about the impact of workforce planning lapses on the ability of USAID to perform critical missions in places like Afghanistan and Iraq.

At USAID the mission has changed, the manpower has not. New laws, regulations, policies and host nation expectations have not prompted corresponding reforms of USAID personnel practices. For a variety of long-evident reasons, the core function of USAID has evolved from that of direct aid provider to one of contract and contractor management. Skilled and dedicated veterans at USAID have done their best to adapt, but the lack of a clear plan to identify and deploy the skill sets demanded by a fast changing world leaves the agency hard-pressed to meet current missions and ill-equipped to face a demanding future.

The GAO report released today notes 61 of 103 USAID positions in Kabul remain vacant. The agency is also finding it difficult to place foreign service officers in Iraq where unaccompanied tours in harsh living conditions do not attract many takers from among a predominantly married, over-forty talent pool.

According to GAO, efforts to address strategic human capital management weaknesses at USAID have had limited impact. To meet its important mission in places like Afghanistan, Iraq and other development frontiers, the agency needs a comprehensive workforce planning system and similarly expanded method of calculating the true cost of doing business.

We welcome our panel of witnesses from the General Accounting Office and the Agency for International Development this morning, and we look forward to their testimony.

Mr. SHAYS. We welcome our panel of witnesses from the General Accounting Office and the Agency for International Development this morning, and we look forward to their testimony.

At this time, the Chair will welcome our two panelists. We have Mr. John Marshall, Assistant Administrator for Management, U.S. Agency for International Development. We also have Mr. Jess T. Ford, Director, International Affairs and Trade Division, U.S. General Accounting Office.

Is there anyone else, gentlemen, that may respond to some questions that we should swear in when we swear you in? Anyone that you might call on that might respond? If so, I'd like them to stand as well.

Mr. MARSHALL. If needed, our Chief Human Capital Office, Rose Marie Depp, from the Agency as well as our Assistant Administrator for Planning Budget and Policy Coordination, Barbara Turner.

Mr. SHAYS. Great. Why don't you both stand as I swear you in, and then we may call on you. We may not.

Mr. FORD. I'm going to have my two staffers be sworn in as well. Albert Huntington, Assistant Director for this project. Audrey Solis, Project Manager.

Mr. SHAYS. Thank you. That helps us out. Raising your right hands.

[Witnesses sworn.]

Mr. SHAYS. Note for the record our two witnesses and potential witnesses have responded in the affirmative.

Mr. Marshall, thank you. We will have another Member join us, and then I will go through the household requirements of asking unanimous consent that your statement may be part of the record even if you don't actually give all of it in your testimony.

At this time Mr. Marshall, thank you, and you may begin.

You know what? Just do me a favor. Tap that mic and see if it actually—yes. It's pretty delicate. You're going to have to have it pretty close to you, I'm afraid. Bring it a little closer if you would.

Mr. MARSHALL. My voice carries pretty well.

Mr. SHAYS. It does. Here's what I'd like, though. You will not offend me if in the back row you do not hear, if you raise your hand, I'd like to make sure you can hear in this room. So if you can't hear and I don't see any hands, that is your fault.

OK. Mr. Marshall.

STATEMENTS OF JOHN MARSHALL, ASSISTANT ADMINISTRATOR FOR MANAGEMENT, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, ACCOMPANIED BY ROSE MARIE DEPP, DIRECTOR, OFFICE OF MANAGEMENT OF HUMAN RESOURCES, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, AND BARBARA TURNER, DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR POLICY AND PROGRAM COORDINATION; AND JESS T. FORD, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY ALBERT HUNTINGTON, ASSISTANT DIRECTOR, AND AUDREY SOLIS, PROJECT MANAGER

Mr. MARSHALL. Mr. Chairman, thank you for the opportunity to testify to USAID's efforts to reshape its work force to better meet

new and evolving global challenges. With increasing responsibilities overseas, the need for effective work force planning is more critical than ever. When Administrator Andrew Natsios arrived at USAID in 2001, he found all of the Agency's management systems in a state of disrepair. He directed me to develop plans to overhaul and modernize all five of the basic systems of the management bureau; human resources, financial management, procurement, information technology services and administrative services.

Reforms in each of these areas are well underway. Most have been integrated with the President's management agenda, and many are being coordinated with similar efforts in the State Department. Like many Federal agencies, USAID is experiencing serious human capital challenges. As a result of new program demands around the world, deep staffing cuts and decisions to effectively shut down recruiting and training in the 1990's, our work force is stretched thin, rapidly graying and lacking in critical skills.

Our work force planning challenges are complicated by a unique approach to planning and budgeting for the agency's administrative requirements. According to GAO, USAID is the only agency in the government with an operating expense account that funds most but not all of the Agency's administrative needs. This account has been tightly controlled. So the Agency, with the consent of OMB and Congress, has had to use program funds to meet administrative needs directly associated with the actual delivery of foreign assistance.

For example, we make use of over a dozen different hiring authorities to meet our work force needs. Some of which use program funds. This has complicated our work force planning enormously, because each of these work force components has different competencies, cultures and administrative requirements. Therefore, our HR staff must understand not just one but multiple HR systems, and our leaders must blend them into a single uniform foreign assistance delivery system.

Our work force challenges are also compounded by new and growing challenges to respond to the war on terrorism and the continuing threat that hunger, poverty and the HIV AIDS epidemic pose to our national security.

President Bush's national security strategy acknowledges these threats and places the strategic importance of foreign assistance alongside that of the other two essential pillars of U.S. foreign policy, defense and diplomacy.

To address these challenges, USAID is taking aggressive steps to strategically manage our human capital by adopting best practices from the private sector including those endorsed by GAO in the President's management agenda. Workforce planning is an area where we have much room for improvement. Past efforts have been segmented by type of employment category and have not examined the entire work force in the context of agency wide strategic planning.

USAID is now initiating the first ever comprehensive competency-based work force analysis focusing on three major organizations as pilots; our human resources organization, procurement and global health.

The Agency has recently completed an overseas staffing assessment to rationalize the deployment of approximately 700 Foreign Service Officers in overseas missions. This is the first step in an overall right-sizing effort designed to establish necessary skills and staffing levels and appropriate headquarters to field ratios.

The next steps will be to determine whether some of the functions should be managed regionally and to apply in a systematic way the right-sizing framework developed by the General Accounting Office. This framework is designed to link staffing levels to three critical elements of overseas operations. One, physical security and real estate; two, mission priorities and requirements; and third, operational costs.

We are simultaneously ramping up recruitment efforts to create a 21st century Foreign Service corps. The centerpiece of this effort is our so-called development readiness initiative that parallels the Department of State's diplomatic readiness initiative. We are successfully recruiting at the mid levels through our New Entry Professional [NEP] program and have reinstituted recruitment of junior officers as International Development Interns [IDIs].

Since the inception of the net program in 1999, we've recruited over 260 mid-level Foreign Service Officers.

Establishing a surge capacity to meet emerging needs is essential to USAID success. The development readiness initiative was created to address this need. Without this capacity, USAID has few ways of responding rapidly. For example, we're stuck with reassigning staff from existing missions and hiring contractors as two of our best responses.

We are also improvising other ways of addressing urgent needs, including developing rosters of personal service contractors with past experience and security clearances who are available for short-term deployments—excuse me, deployments on short notice. And we're cross-training direct-hire employees and making greater use of limited non-career appointments.

While shortfalls in our operating expense account have presented enormous challenges in managing our human resources, much progress has been achieved this year through our efforts to identify the full cost of doing business and to present them in more transparent ways, and through our efforts to seek a better means of financing these costs in the future.

As part of our human capital initiative, we have partnered with the Office of Personnel Management to more effectively analyze our human capital strategies and address gaps in our critical competencies. We expect to have a comprehensive human capital strategy in place by the end of the first quarter of 2004, and it will be adapted based on our experience—ongoing experience with work force planning analysis as we move into the future.

We are also working diligently to incorporate suggestions from GAO, OPM and other experts and to institutionalize our strategy to rebuild our work force. Thank you for the opportunity to appear today, Mr. Chairman. I'd be happy to answer any questions.

Mr. SHAYS. Thank the gentleman.

[The prepared statement of Mr. Marshall follows:]

Statement of John Marshall

Assistant Administrator for Management and Chief Information Officer

U.S. Agency for International Development

Submitted to the House Committee on Government Reform
Subcommittee on National Security, Emerging Threats, and International Relations

Regarding Efforts of the U.S. Agency for International Development to Reshape Its Workforce to Better Meet New Missions and Methods

September 23, 2003

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss USAID's efforts to reshape it workforce to better meet new and evolving challenges. With increasing responsibilities overseas, the issue of strategic workforce planning is particularly timely as we add new programs to respond to foreign policy priorities like those in Afghanistan and Iraq while continuing our long-term development assistance programs.

Like many Federal agencies, USAID is experiencing serious human capital challenges. As a result of new program demands around the world, deep staffing cuts and decisions to effectively shut down recruiting in the 1990s, our workforce is stretched thin, rapidly "graying" and approaching a retirement exodus, and lacking in critical skills. Our workforce challenges are made more difficult as we face the consequences of the war on terrorism and the continuing threat that hunger, poverty and infectious diseases like HIV/AIDS pose to our national security. As you are aware, President Bush's National Security Strategy acknowledged these threats and raised the strategic importance of development to the point that it is now an essential pillar of U.S. foreign policy alongside defense and diplomacy.

Under Administrator Natsios' leadership, the Agency developed a business transformation plan to implement management reforms that are being done in the context of the President's Management Agenda. Key among these reforms is strategic management of human capital which mirrors the goals in the President's Management Agenda for human capital. Our management reforms are also being carried out in close coordination with the Department of State because for the first time, USAID and the Department of State have developed a consolidated Strategic Planning Framework. The new Strategic Plan covers Fiscal Years (FY) 2004–2009 and will be updated every three years.

In my statement today, I will discuss our human capital reform activities that are intended to address our workforce planning challenges. This testimony will focus on our human capital reforms that support the President's Management Agenda and our collaborative activities with the Department of State.

USAID Human Capital Reforms

In close coordination with the President's Management Agenda (PMA), USAID is aggressively implementing its own ambitious management reform program. The Agency has established a Business Transformation Executive Committee (BTEC), a governing board of senior executives from all bureaus and major offices across the Agency to oversee our management reforms that are fully consistent with the PMA. A key component of our internal reform plan is Strategic Management of Human Capital and our goals directly correspond to those of the PMA human capital goals. To this end, the BTEC established a subcommittee to manage our human capital initiatives.

Strategic Management of Human Capital

Successful diplomacy and development rely principally on the quality of people and their ability to accomplish the goals of U.S. foreign policy. At USAID, we must stay on the cutting edge of development and humanitarian assistance technologies to foster democracy and economic growth. We must combine diplomatic, technical, managerial and leadership skills to meet the ever-changing challenges of conflict, disease, hunger, population growth and environmental degradation. USAID's workforce must continually adapt to meet evolving challenges in an increasingly complex world. We have a unique set of competencies that have been developed over decades.

Unfortunately, as mentioned previously, a high percentage of our U.S. Direct Hire (USDH) workforce is nearing retirement and a decade of little recruitment and meager training brought the Agency to its current crisis – the "lost generation" that would have been in place had we been able to recruit. In September 1999, the first class of Foreign Service Officers (FSOs) were hired and FY 2002 was the first year in a decade that we were able to replace attrition. However, these officers are not yet ready to lead missions on the front lines. The entire agency both in headquarters and the field is struggling to make up for the loss of its institutional memory and the *right* people are not yet aligned with mission goals in the most cost effective and safe ways.

Nevertheless, the increasing demands for "surge" capacity to undertake new programs that respond to foreign policy priorities (e.g., HIV/AIDS, Afghanistan, Iraq) and the growing number of pre-and post-conflict management programs means that even as the Agency makes progress in rebuilding human capital lost in the 1990s, new demands are exacerbating the lack of critical core skills.

To meet the Agency's human capital challenges, USAID is undertaking a comprehensive and integrated workforce planning effort and is near finalization of a Human Capital Strategy covering the years 2004-2009. Our human capital strategy not only addresses the short term steps that must be taken to address the Agency's human capital crisis, but presents a roadmap for systemic change leading to more efficient management of all categories of USAID's human resources. This includes 13 employment categories that are currently administered through a decentralized personnel management system. The strategy not only addresses the pressing need to align the efforts of these disparate workforce components with the Agency's priorities but it is also intended to clearly communicate USAID's vision to our internal and external stakeholders.

To meet the critical need to create the 21st Century Foreign Service corps, we are ramping up recruitment initiatives. We have established a Development Readiness Initiative that parallels the Department of State's successful Diplomatic Readiness Initiative; this will include the recruitment of junior officers as International Development Interns (IDIs), to assure a continuous pipeline of talent into our system. The Development Readiness Initiative (DRI) is the cornerstone to Agency succession planning efforts for the Foreign Service and Civil Service. In the FY 2004 budget, USAID has requested funds to hire up to 50 new Foreign Service officers in order to provide additional training positions for new officers in our overseas missions.

We are successfully recruiting at the mid-level ranks through our New Entry Professional (NEP) program. Since its inception in 1999, we have recruited over 260 mid-level Foreign Service Officers. During the same period, 52 Presidential Management Interns were recruited with more than a dozen scheduled to come on board by December 31, 2003. These new officers are the replacements for mid-level officers that we lack due to the substantial reductions in staffing levels taken during the 1990s.

Creating a Permanent Surge Capacity

Establishing a surge capacity to address high priority foreign policy objectives is essential to USAID's success. As previously mentioned, the DRI was created to help address this need. Currently, however, USAID has been able to respond to demands for direct hire staff to respond to emergencies and new priorities such as Afghanistan and Iraq in two ways: reassigning staff from existing missions and hiring personal service contractors and other types of contractors. We are also reviewing other methods to address the staffing needs for these priorities such as: 1) Developing rosters of Personal Services Contractors (PSCs) with past experience and security clearances available for deployment on short notice; 2) cross-training direct hire employees; and 3) greater use of limited non-career appointments.

Progress and Plans

To address our pressing human capital needs, rebuild our workforce and prepare better for the 21st Century, USAID has to date:

- *Launched the Development Readiness Initiative.* Starting in FY 2004 USAID will hire up to 50 new USDH over attrition under this initiative.

- *Approved a Preliminary Human Capital Strategy.* Five strategic objectives for the medium term have been approved by the BTEC that will meet OPM/PMA standards for strategic alignment, workforce planning and deployment, talent, leadership and knowledge management. The five strategic objectives are: 1) A More Flexible Workforce Established; 2) A Diverse Workforce Created; 3) A High Performing Workforce Achieved; 4) Staff Placed on "Front Lines" of Agency Work; and 5) Increased Office of Human Resources Capacity to Support USAID Missions.

- *Created and Implemented a Short Term 15-Month Plan* to address the most critical short-term human capital needs. These short term priorities include filling 40 of the most critical job vacancies, particularly those in the areas of procurement, HIV/AIDS and democracy; creating a "surge" capacity to meet new situations like Iraq through limited appointments, rosters of staff available for recall and other mechanisms; and developing a monitoring plan to ensure accountability for human resources.

- *Right-Sizing the Overseas Presence* – In an initial first step to get the "right" people, in the "right" numbers in the "right" place, an overseas staffing template was developed and has produced a set of recommendations for deployment of the 700 foreign service officers currently stationed overseas. Subsequent near term "right-sizing" efforts will include a study of business models and regional platforms.

Our human capital strategic plan adheres to the following six PMA human capital standards: strategic alignment; workforce planning and deployment; leadership and knowledge management; results-oriented performance culture; talent; and accountability. Our plans to meet the goals for the six criteria are below.

1. ***Strategic Alignment*** - the human capital strategy is aligned with the mission, goals and organizational objectives and integrated into the strategic plan, performance plans and budgets.

A joint strategic plan has been developed for the Department of State and USAID as both organizations share the mission of achieving U.S. foreign policy goals. The plan provides the basis for the alignment of the human capital strategy with the Agency's mission. The strategy informs USAID's Office of Human Resource's transformation from a focus on paperwork processing to a focus on the effective use of people in achieving the organization's strategic objectives. Working closely with OMB, we have developed specific requirements to demonstrate "strategic alignment" of USAID human capital goals with the overall foreign policy goals stated in the joint strategic plan.

A USAID/State joint management council has been established to enable greater sharing of systems and programs, as appropriate, to meet both organizations' needs. While the core skills needed by the respective organizations are different, cross-cutting training needs such as language, management, and leadership could be shared and enhanced by greater sharing of experiences and lessons learned given the respective strengths and weaknesses of the organizations. Such activities are expected to build greater understanding and respect for the respective roles of each organization in achieving shared goals.

2. ***Workforce Planning and Deployment*** - the agency is citizen-centered, delayered and mission-focused, and leverages e-Government and competitive sourcing.

Admittedly, an area where we have fallen behind is strategic workforce planning. However, USAID has established a working group to develop, for the first time in the

Agency's history, a comprehensive, competency-based workforce analysis and workforce plan. The group has started its work by identifying an information technology tool to assist in this effort. To examine the Agency's workforce categories, three major organizational units have been selected as pilots: human resources, procurement and Global Health. Agency competency needs will be identified in relation to the various workforce components to determine the most effective way of working whether it be in headquarters, the regions or on a bilateral basis.

Competency-based workforce analysis and workforce planning will:

- Identify mission-critical occupations, and identification of the core competencies required in those occupations now and in the future;
- Assess the current level of those competencies possessed by current employees in those occupations;
- Provide a gap analysis based on that assessment at the individual, work unit, organizational unit, and Agency levels;
- Create and implement a work plan to reduce or close competency gaps revealed by that analysis throughout recruitment, retention, training and other strategies, to include execution of those strategies, measuring the effectiveness of the strategies, and constantly adapting the strategies to workforce changes revealed by continuing analysis.

In formulating our workforce planning efforts, we have reviewed numerous internal and external studies of workforce analysis and planning in USAID (e.g., GAO and OIG reports) and have considered the accomplishments by other Agencies in their workforce planning efforts.

Additionally, as I indicated previously, the Agency has completed an overseas assessment with recommendations for rationalizing the deployment of field staff affecting approximately 700 Foreign Service Officer positions allocated to overseas missions. This is the first step in an overall Agency "right-sizing" that will improve our ability to do comprehensive workforce planning over time. The broader right-sizing effort will establish necessary levels of staffing for the Agency, the appropriate headquarters to field ratio, and required staffing for operating units in Washington and in the field. Considerations for more (or less) reliance on regional platforms will affect allocations between regional offices and bilateral missions. Field staffing levels will be assessed in the context of a rightsizing framework developed by the General Accounting Office that USAID supports. The framework is designed to link staffing levels to three critical elements of overseas operations: (1) physical security and real estate; (2) mission priorities and requirements; and (3) operational costs.

E-government and other technologies will be essential to increase the Agency's overall workforce efficiency and effectiveness. USAID has acquired e-learning capabilities and web-based tools for recruitment (AVUE) and information on the location and composition of the worldwide workforce (eWorld). In addition, USAID is streamlining and simplifying employment mechanisms.

As part of the Agency's human capital initiative, USAID is employing a deliberative approach to implementing mandated A-76 requirements and has adopted competitive sourcing criteria which are supportive of the President's management agenda and are compatible with our human capital planning requirements.

3. ***Leadership and Knowledge Management*** - leaders and managers effectively manage people, ensure continuity of leadership and sustain a learning environment that drives continuous improvement in performance.

Our Human Capital (HC) Strategy focuses on defining future needs as well as the immediate set of actions that will enable recruitment of staff who can meet the most pressing demands for deployment.

In parallel to these efforts, we have created an Action Plan for the next two years that will enhance the quality of the relatively "young" training programs by: (1) integrating the use of distance learning; (2) creating progressive course curricula in leadership and management; (3) eliminating duplication in content in a variety of skills, project management and leadership training courses; and (4) introducing certification requirements for project management and supervision.

In addition, we are developing a set of tools and techniques to develop and share knowledge generated by the Agency's activities; and to foster a culture and value system that actively promotes continuous learning through knowledge sharing.

USAID plans to build a "float" capacity that will allow recruitment of additional Foreign Service officers over and above the number of positions recruited to replace attrition and cover staffing gaps between rotation of FSOs, one-third of whom are reassigned each year. This will enable USAID to provide training positions overseas so that we can place junior officers under senior leaders who can mentor, train and pass on institutional knowledge. This will enable reinstatement in FY 04 of our junior Foreign Service Officer program called International Development Interns. Additional measures are needed to fill the "feeder class" into executive positions. The impact of the "lost generation" is the serious depletion of mid-level ranks.

Employees and managers need a formal mentoring program. This remains challenging since the most-able Agency teachers are those already stretched in meeting organizational demands. However, given the Agency's potential loss of institutional memory, the HC Strategy proposes establishment of such a mentoring program while simultaneously revising senior leadership precepts to require successful executives to "grow talent" as part of their daily job.

4. ***Results-Oriented Performance Culture*** - the agency has a diverse, results-oriented, high performing workforce and has a performance management system that effectively differentiates between high and low performance and links individual/team/unit performance to organizational goals and desired results.

USAID has made positive progress in this area. However, there are a number of issues that need to be addressed including strengthening the feeder class of civil servants and

FSOs to ensure that there is adequate representation of minority and female candidates for assignment to executive positions.

USAID's performance management system links organizational objectives with employee performance. In FY 2002, the BTEC approved a number of recommendations to (1) streamline the performance management process and emphasize on-going performance feedback, and (2) reinforce penalties for supervisors who fail to carry out their performance management responsibilities. The new performance evaluation system changes are being negotiated with the unions. More profound challenges exist in changing the performance culture, including a review of awards and incentives programs to more closely align them with overall Agency mission goals.

5. ***Talent*** - the agency has closed most mission-critical skills, knowledge and competency gaps/deficiencies, and has made meaningful progress towards closing all.

A working group of the HC Subcommittee is identifying critical occupations and competencies needed in the current and future workforce. The competency gaps will be identified and strategies devised to narrow or close the gaps (e.g., training, recruitment, retention). New systems for managing information on the staff are critical to the implementation of the strategy and will enable the Agency to do a better job with accountability. The working group has identified an appropriate technology tool to collect, store and manage competency, training and career development data.

6. ***Accountability*** - Agency human capital decisions are guided by a data-driven, results-oriented accountability system.

Illustrative performance indicators have been developed as part of our human capital strategy, and USAID is working closely with OPM to develop both process and outcome measures as part of a full-fledged accountability system that will enable the Agency to determine whether its efforts to improve the management of human capital will contribute to mission results.

Joint State/USAID Activities

For the first time, USAID and the Department of State have developed a joint strategic plan. The new strategic plan covers fiscal years 2004 to 2009 and will be updated every three years. The new plan clearly outlines the shared mission, core values, goals and priorities of State and USAID in both policy and management areas. Our joint management priorities are closely linked to the goals of the President's Management Agenda (PMA).

As mentioned previously, a joint State/USAID Management Council has been established to oversee and implement collaborative management activities, such as human resources, that will result in cost saving reforms and improve services for both agencies.

In the area of human resources, USAID and State plans include developing parallel and complementary human capital strategies such as joint training of our employees; formal cross-assignments; and efforts to right-size and regionalize our overseas presence. The

latter initiative is focused on determining the appropriate number of U.S. staff deployed overseas to assure effective and efficient planning and management of programs. We have reviewed the main criteria proposed by the General Accounting Office for determining overseas staffing levels and, not only do we agree with them, we have been using them in setting our field staffing levels. As you are aware, President Bush has made the rightsizing of overseas official U.S. presence an agency-specific reform in his management agenda and our efforts are directed at supporting this initiative by assuring the most effective overseas presence.

Conclusion

While shortfalls in our operating expense account have presented human resource challenges, much progress was achieved this year based on our work in identifying the full cost of doing business in transparent ways; the launching of our new Development Readiness Initiative to overcome direct hire staffing losses and better plan for future workforce needs, and our efforts in seeking a better means of financing these costs in the future.

At the same time, USAID and OPM have partnered to more effectively analyze our human capital strategies and to close critical skill gaps in order to strategically manage our workforce in accordance with the goals of the PMA initiative for Strategic Management of Human Capital.

We expect to have a final Human Capital (HC) Strategy in place by the first quarter of FY 2004 but it will be adapted based on the Agency's on-going workforce planning analysis. We are working diligently to incorporate our shareholders' suggestions and to institutionalize our strategy to rebuild our workforce to better prepare for USAID's new and evolving challenges in the 21st century.

Thank you for the opportunity to appear before you today. I will be happy to answer any questions.

Mr. SHAYS. We've been joined by Mr. Turner. At this time I'd ask unanimous consent that all members of the subcommittee be permitted to place an opening statement in the record and the record remain open for 3 days for that purpose. Without objection, so ordered.

I ask further unanimous consent that all witnesses be permitted to include their written statements in the record, and without objection, so ordered.

Mr. Ford.

Mr. FORD. Thank you, Mr. Chairman, members of the subcommittee. I'm pleased to be here today to discuss our report on USAID's work force planning——

Mr. SHAYS. If you'd turn the mic at an angle so at least it will get—exactly.

Mr. FORD. OK.

Mr. SHAYS. Even more so. Thank you.

Mr. FORD. Today I'm going to talk about our report that we're issuing today on work force planning that we conducted for this subcommittee, and I'm going to highlight the preliminary findings from another report that we hope to issue in the next couple of days on USAID's operating expense account.

The work force report, as I mentioned, has been released today, and I'm going to briefly summarize some of our main points.

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 to manage programs in about 160 countries. Agency staff often work under difficult environments and under evolving program demands. More will be demanded of USAID staff as they implement large-scale relief and reconstruction programs in Afghanistan and Iraq while continuing to administer their traditional long-term development assistance programs.

As a result, it is essential that USAID develop a strategic approach to its work force 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 administrating its foreign aid programs.

I'm going to summarize briefly points on both. First, I will focus most of my statement on USAID's work force 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 work force planning system.

Regarding USAID's operating expense account, I will also discuss how the Agency's reporting of operating expenses does not always capture the full cost of administering foreign assistance.

USAID's work force has undergone many changes over the years. For example, as noted on our chart that we—over on my right, in the past decade, USAID has had a reduction in their U.S. direct-hire work force of approximately 37 percent from about 3100 to almost 2,000 direct-hire employees. At the same time, USAID has been involved in operating in more countries overseas, and most re-

cently, its program funding levels have increased significantly as much as 78 percent in the last 2 years.

Moreover, the Agency has increasingly relied on personal service contractors and institutional contractors which account for over two-thirds of USAID's work force to implement its humanitarian and development assistance projects and manage the day-to-day activities of its overseas missions.

At the same time, program funding levels have grown significantly over the last 2 years. However, as we reported in 1993 and still find today, USAID has not fully developed the comprehensive strategic work force 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, a lack of a surge capacity to quickly respond to post-emergency and disaster situations.

Over 50 percent of USAID's Foreign Service staff are eligible to retire in the next 5 years. 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. These vulnerabilities are reflected in the Agency's difficulties and staffing missions in Afghanistan and Iraq.

As of early September, in both places USAID has had vacancies in Foreign Service staff and foreign national staff. Recently and particularly in response to the President's management agenda, USAID has taken a number of preliminary steps to determine the work force it needs now and in the future and is now devising strategies to achieve these goals.

However, in comparing USAID's efforts to the proven principles of strategic work force planning, more work needs to be done. Accordingly, we are recommending in our report that USAID develop a comprehensive strategic work force planning system and institutionalize that system to help it manage the changes in its work force.

With regard to the issue of USAID's operating expenses, which is currently a separate line item appropriation intended to clearly identify the Agency's cost of doing business, we will be reporting that the current operating expenses 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 on program funds may be overstated.

Mr. Chairman, this concludes my summary. I'd be happy to answer any questions you may have.

Mr. SHAYS. Thank you very much.

[The prepared statement of Mr. Ford follows:]

United States General Accounting Office

GAO

Testimony Before the Subcommittee on National Security, Emerging Threats, and International Relations, House Committee on Government Reform

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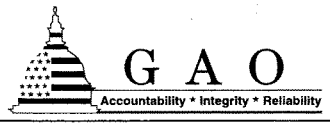
FOREIGN ASSISTANCE

USAID Needs to Improve Its Workforce Planning and Operating Expense Accounting

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



GAO-03-1171T

September 23, 2003

GAO
Accountability·Integrity·Reliability
Highlights

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

FOREIGN ASSISTANCE

USAID Needs to Improve ITS Workforce Planning and Operating Expense Accounting

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

USAID U.S. direct hires	Fiscal year 1992	Fiscal year 2002	Percentage change
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.

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.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our report on USAID's workforce planning[1] 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 essentials 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.

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

[1]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).

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.

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

and requirements.[2] 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.[3] 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.[4]

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.[5] In 1976, Congress began providing a line-item appropriation for operating expenses

[2]GAO/NSIAD-93-106.

[3]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).

[4]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).

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

separate from USAID's humanitarian and economic development assistance programs.[6] The accompanying Senate report noted that USAID's "cost of doing business" would be better managed if these funds were separately appropriated.[7] Congress authorized USAID's separate operating expense account the following year.[8] 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.[9]

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.

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,

[6] P.L. 94-330.

[7] S. Rept. 94-704.

[8] P.L. 95-88, Sec. 129, 22 U.S.C. 2427.

[9] H. Rept. 95-701 and S. Rept. 95-1194.

according to USAID's staffing report, the agency's workforce totaled 7,741, including 1,985 U.S. direct-hires.[10] 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.[11]

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.[12] Program funding also recently increased about 78 percent—from $7.3 billion in fiscal year 2001 to about $13 billion in fiscal year 2003.

[10]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.

[11]In 1990, USAID estimated this extended workforce was approximately 10,000 individuals. For this report, USAID was unable to provide an estimate.

[12]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

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

Sources:

[a]USAID's Monthly Workforce Profile Report, data as of September 30, 1992.

[b]USAID's Quarterly Worldwide Staffing Pattern Report, data as of December 31, 2002.

[c]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).

[d]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 o the financial system, and rampant inflation. Program funding for Ecuador

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.[13] 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.

[13]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.

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.

- 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.

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.[14] 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,[15] 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

[14]GAO-03-946.

[15]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).

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

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.

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

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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Mr. SHAYS. I believe that Congressman Platt's subcommittee is going to be looking at the financial side of this tomorrow. So I intend to focus primarily on the personnel side.

I found it close to shocking to think that we have only filled 47 of 77 USAID positions in Kabul, and I need to have that in some detail, explained to me. And by the way, this isn't lobbing stones here. We're just trying to understand what is going on, and I'm going to say to you part of my concern has been that when we were in Iraq just very recently, we learned that in the northern province, that Mr. Bremer's staff person there was supposed to have 75 and he only had 15. He needed 60 and when the Marines left, he said he needed another 60. And it's kind of in the same issue of concern.

These are extraordinarily important positions. So sorry for the long explanation, but walk me through that.

Mr. MARSHALL. We share your concern, Congressman. We need to get staffed up. We have work to do. We have unmet needs. The problem in Afghanistan, I can give you the breakdown. I shared some of this with your counsel a few minutes ago. On the direct-hire side, we have 7 out of 10 individuals in place.

Mr. SHAYS. Slow down just a little bit; 7 out of 10 where?

Mr. MARSHALL. Of direct-hires, of U.S. direct-hire positions that have been authorized, 7 out of 10 are in place. And this, again, alludes back to the different categories of our work force; 7 out of 10 direct-hire authorized positions are filled. We have personal services contractors, USPSCs; 13 out of 17 of those positions are filled. The gap occurs on the Foreign Service National side. Much of our work force, as you know, is comprised of residents of the countries we do business in. Only 10 out of 50 authorized FSN positions have been filled. The gap there is 40 positions. The reason those haven't been filled is we have a very complex, very tight interagency security process to do the background clearances, investigations on those individuals before they're placed.

We also have physical—very limited physical space, again, due to the security requirements and working with the interagency—the other agencies involved to provide adequate space and secure space. Because of those limitations we just haven't had the room and we haven't had the clearances process rapidly enough to fill those positions, but it is a big concern.

Mr. SHAYS. How long have we been in Kabul? I'm just losing track given our focus on Iran.

Mr. MARSHALL. Two years.

Mr. SHAYS. How long? I'm sorry.

Mr. MARSHALL. We've been in Afghanistan for a couple of years. The positions—all these positions have not been authorized for 2 years.

Mr. SHAYS. Walk me through what that means, and then I want to know the impact of not filling these positions. What do you mean they haven't been authorized?

Mr. MARSHALL. Well, some of the positions were authorized in previous budget years and——

Mr. SHAYS. You mean not authorized by Congress?

Mr. MARSHALL. That's correct.

Mr. SHAYS. Wait. I can't have two—why don't you step—pull your chair up, ma'am. And then if you would state your name and title and leave your card with the reporter.

Ms. TURNER. Barbara Turner. I'm the Deputy Assistant Administrator for the Bureau for Policy and Program Coordination at USAID. For our in-country presence, our positions need to be authorized by the Ambassador. We make a case each year for the number of positions we need, because we're required, especially in Afghanistan, to be within the Embassy compound. The Ambassador makes those sets of decisions for the number of people. So we do that on an annual basis.

When we first went into Kabul about 2 years ago, we had a much smaller number of people authorized. In particular, there was a question about the local-hire Foreign Service Nationals that would be permitted in the Embassy at all, and so those 50 were not authorized at that time. I think there might have been only two or three. I don't have the exact number with me today. I can find that.

Only in the last year have these additional numbers been approved as a part of the fiscal 2003 budget and as a part of the fiscal 2003 discussion with the Embassy for approval.

Mr. SHAYS. Stay there just a second.

Mr. Marshall, 7 out of 10 direct-hires, I assume these are folks that are in the primary administrative functions, are the top administrators of the program.

Mr. MARSHALL. These would be career Foreign Service Officers.

Mr. SHAYS. How many were authorized last year?

Ms. TURNER. Six were authorized last year.

Mr. SHAYS. And how many of those were filled?

Ms. TURNER. They're all filled at the present time. I don't know the dates they were exactly filled. We can find that for the record.

Mr. SHAYS. Walk me through, if you would, either one of you, the challenge you've had with the foreign nationals, and then I want to know the consequence of being three short in direct-hires, four short in—and the other one is—the 13 out of 17, what are those hires?

Mr. MARSHALL. U.S. personal service contractors.

Mr. SHAYS. So these are contractors?

Mr. MARSHALL. That's right.

Mr. SHAYS. The impact of that and then the 10 only out of 50. Walk me through first the 10 out of 50, why we're so short there, and then the consequences of not having full complements in each of these three areas.

Mr. MARSHALL. Sure. In the first case, it's finding the right skills, individuals in those countries, foreign nationals who are residents of Afghanistan who have the sets of skills we need. These are people with economic development, humanitarian assistance, the full scope of our programmatic expertise.

In addition to having limited supply of those skill-sets, there's a security requirement, and they have to pass muster to make sure they are the kind of people we'd want to hire.

We also have limitations on building space, office space, where we can set up work stations in safe areas for these individuals, and that whole security requirement is something that's worked

through an interagency process with ourselves and the State Department and the other agencies, the part of the reconstruction team. And we don't always have control over that, but we do our best to articulate our needs and work through the interagency process to accommodate our needs. Those are constraints, though, that are not always under our direct control.

Mr. SHAYS. So now tell me the consequences.

Mr. MARSHALL. We're understaffed.

Mr. SHAYS. I know that. Tell me the consequences of being understaffed.

Mr. MARSHALL. Well, our program objectives aren't being fulfilled to the degree that they would be if we were fully staffed and fully operational.

Mr. SHAYS. As a Peace Corps volunteer, I'm struck by the fact that—well, let me back up a second. How many of the seven speak the native tongue in Afghanistan?

Mr. MARSHALL. I don't have that information.

Mr. SHAYS. Do you know?

Ms. TURNER. I don't know.

Mr. SHAYS. You don't know on any of them?

Mr. MARSHALL. We could find that out for you.

Mr. SHAYS. Why don't you have someone call up now and report so we can know during this hearing how many speak it. OK?

Mr. Ford, tell me what you think the consequences are. Tell me what you think these numbers, 7 out of 10, 13 out of 17, 10 out of 50. Does this relate to your report directly, and then tell me the consequences.

Mr. FORD. Well, first of all, I want to acknowledge that we did not include either Iraq or Afghanistan in any depth in the report that we just released. We visited 6 countries, but neither of those——

Mr. SHAYS. Would you identify those countries.

Mr. FORD. We went to Egypt, Mali, Senegal, Ecuador, Peru and the Dominican Republic.

So, you know, I don't know the circumstances there. I think my concerns would be from an oversight point of view particularly with the shortage in Foreign Service Nationals who can speak the language. I'd be concerned whether they—we can effectively oversee what's going on there, but I don't have any direct knowledge over the particular programs at this point.

Mr. SHAYS. All right. I'm happy to give you time, Mr. Turner.

Mr. TURNER. In reviewing the terms that we have, one of my concerns has been in the area of the foreign personal service contractors that USAID is employing. If you look at the reports that we've received concerning the work force shaping, the lack of necessary skills at USAID for managing contractors for outsourcing work and then you compound that with the fact that 60 percent of your work force currently are foreign personal service contractors, you really get to the heart of whether or not USAID is going to be able to achieve its goals. And the goal specifically that I'm concerned about is that there is a nexus in your operations between the U.S. relationship within countries, with individuals and with those countries that's separate from just a programmatic goal of democracy or any other issues. I mean, we can put a very impressive

list of the benevolent goals of USAID to achieve in other countries, but if that does not have a direct nexus or connection between promoting relationships with the United States, the goals are hollow. They don't achieve the obvious reason why those programs are funded.

A greater reliance upon foreign personal service contractors, specifically where they're not being appropriately managed, means that the communication of the message of the U.S. support for these programs can be lost. In other words, in some areas, you may be empowering individuals where the receipt of their services are acknowledged only at the foreign personal service contractor level and not at the U.S. level, that the relationship would not be enhanced between the United States and the host country in which you are conducting activities.

I served as a mayor for two terms and my city participated in USAID programs. We were a recipient of exchange personnel. The Dayton Peace Accords occurred in the city of Dayton, those negotiations. So the USAID and their efforts in Bosnia brought some Sarajevo police to meet with our police to learn on crime homicide detecting, things like that, crime solving, crime fighting.

So I certainly support the overall goals that you're trying to achieve, but I see this as a glaring hole that I'd like you to comment on, because I think this diminishes what we obviously need in promoting relationships with the United States.

Mr. MARSHALL. You're really getting at the impact of our message and our branding, to what effect are we making contact with the—with foreign countries on the man-on-the-street level, and that's something we're very concerned about. We have efforts in our—through our communications team to develop a more effective branding strategy and to communicate that these are gifts indeed, that the people of the United States care and to communicate at the grassroots level in these countries. So that's something we're very concerned about and trying to address as best we can.

Mr. TURNER. Because just beyond communication, though, it goes to the heart of—I mean, it's not just having a communication plan. It is something that needs to be managed from inception through implementation, and I see in the materials that we have here that's something that you currently don't have the ability to do.

Ms. TURNER. I wonder if I might just comment a little bit further on that, because there's been a dramatic change at USAID since September 11, 2001. Afghanistan is exactly the perfect microcosm of that. In Afghanistan prior to 2001, we had no U.S. Government presence. We actually had no Embassy. We had no USAID at all there. After September 11th you'll recall we went into Afghanistan, both with troops and with USAID.

We had to build up a Foreign Service National Corps from zero, which is difficult, but around the world—we usually have a strong Foreign Service National Corps and build that up. What we are suffering from after September 11th, however, is an incredibly heightened security situation. Obviously we're benefiting from that as Americans in our Embassies, but in many countries, including in the past in Afghanistan when we were there many years ago, we were not physically located in the U.S. Embassy. We were outside of the Embassy, so we were allowed to have lower levels of se-

curity clearances. We had a lower security presence. Of course we had USAIDs employees targeted because of that and we've now had to move into Embassy compounds wherever possible and especially in places like Afghanistan where security threat is high.

That means that it's much harder to hire Foreign Service Nationals in the number that we need and as rapidly as we need in Afghanistan. So to go from zero to 50 in really less than 2 years where you have to get security clearances, training—and you have to find space within a packed Embassy. It's really made it very difficult for us, and we're really concerned ourselves looking at that situation as to how we still build on those fabulous local employees who do work very closely with us, who are an important part of our understanding both culturally, politically, but also from an oversight perspective, the people who really go out and find the problems directly because they speak the local language—the culture. I just think this is something we're aware of, working on it. Afghanistan is one of our most difficult cases at the present time.

Mr. TURNER. Mr. Marshall, if you could elaborate a little bit more on the need. I mean, obviously, you said we're going to work on it, we're going to work on a communications plan. This has not been—I mean, this goes to the crux of the heart of the purpose of your organization, and the—I guess I would like to hear a little bit more from you as to how you see your organization and its role in promoting relationships with the United States versus just processwise and functionally executing the task set forth in your contracts that you're outsourcing.

Mr. MARSHALL. Well, as you say, it gets to the crux of the program mission. This gets well beyond the human capital management challenges of the Agency in staffing and identifying skill-sets and effectively delivering foreign assistance through people, but of course it's critically important, and it's something that we're aware of and addressing as effectively as we can.

Barbara, would you like to take a shot at that? Barbara Turner represents the program policy side of the Agency. I represent the administrative side of the Agency. The question you're getting at is really more of a program policy issue.

Ms. TURNER. There's a variety of things we have underway. In fact, we—just as we speak right now, there's a conference going on in Eastern Europe with what we call our local public affairs officers from Eastern Europe including Bosnia who we've been training and working with to try to have in our USAID missions better communications, locally in the country, about what USAID is doing.

We have not been a very good PR firm. We're kind of operational people who go do things and we've been trying to develop within countries the capability to actually communicate with the people the——

Mr. TURNER. If we could just stop there for a second. You just said we're operationally focused, and that's—and in reading these materials, the issue of staffing skill-sets, work force shaping, clearly the element that you get is how it impacts issues of operations, but it also impacts the issue of the overall policy of USAID, and that's why I asked the question is because if you answer our questions focusing only on how do we get the function of these programs to work through work force shaping and work force planning

without a large component being how does this relate to and what are our work force shaping goals need to include to make certain we achieve the goal of promoting relationships with the United States, we're going to have done a whole lot of good without having any of the relationship building that I believe USAID is about.

Ms. TURNER. We agree with that, and we are working both to improve our communications locally and to train our own staff in better communications. For the first time this year, we've developed a joint strategic plan with the State Department. So we might look both at how we promote it, as how the State Department as well helps us promote what we are doing in the country with the leaders and the contacts that the State Department has.

We do, indeed, recognize this is an issue. We are working toward that. One of the things that we also are concerned about in terms of the number of Americans overseas, they also—the technical staff we have do a lot of good in promoting knowledge and know-how from the United States to those countries and linking cities, universities, NGO's and other groups in the United States there. To the extent that our budget doesn't accommodate additional staff and the right kind of skills for those staffs, we're very concerned about that, and that needs to be a significant part of our work force planning.

Mr. TURNER. Mr. Chairman—Mr. Ford, do you have any comments on that?

Mr. FORD. Well, I think we have some concerns. If you look at the numbers, the number of U.S. direct-hires overseas has declined significantly in the last 10 years. Those are the people who are supposed to represent U.S. foreign policy interests for AID overseas. They're the ones who provide the leadership. They're the ones who provide the institutional knowledge, provide the mentoring to staff overseas to make sure that they gain experience, and I think our concern is that the Agency, through the process they're going through now, needs to clearly identify whether they've got the right numbers of people there to carry out that function. I can say anecdotally, based on years of working on AID projects from GAO's perspective, there are many instances where missions overseas appear to be understaffed from our direct-hire perspective, that people are swamped with administrative tasks. They don't get out as often as they would like.

I've had several personal cases where GAO team would come out and we'd be going out to see something and they wanted to tag along because they never get a chance to go out very often, and it provided a basis for them to say, well, watch the GAO guys, but at the same time they get to meet some of the local people they're supposed to be interacting with.

So we have a general concern about it, and we hope that their new plan that they're working on now is going to address this.

Mr. SHAYS. Thank you. We're going to have staff ask some questions to make sure that we are covering the areas that we need to cover, but I want to walk through a few things.

GAO has noted that USAID has not integrated strategic goals and objectives into a comprehensive work force, and I need to know why we don't have a strategic work—first, is it true, and second, if it is true, why don't we have a strategic work force plan?

Mr. MARSHALL. Well, we are approaching the requirements of the President's management agenda human capital initiative, which includes work force planning as a central component. But there's more to it than just that; and the nexus needs to be an integration between the Agency's strategic planning process and the work force planning process so that the needs of the work force are being driven by the programmatic needs of the Agency. And as Barbara Turner just described, we are in a new process this year of doing a joint strategic plan with the State Department. That information is driven down into our work force planning needs.

We have taken a few steps toward doing what's meant by work force planning, and that is we're doing some right-sizing initiatives. We've developed a template for rationalizing our overseas work force, the number of assignments by country, the ratio between staff and headquarters. We're now starting to look at how we can do business differently from regional platforms. We're initiating our development readiness initiative.

We have in place E-world which is an electronic work force reporting system that's captured most of the elements of our work force; and so these are all tools or pieces of a comprehensive work force planning system. There are a couple more pieces that are under development we expect to get in place within the next year, but from starting from where we were, sir, when this became a crucial issue in the last couple—when it really became a front and center issue in the last couple of years, you know, this isn't something that you can put in place overnight.

We're making the transition from being an agency coming out of the 1990's where the focus was on—our HR apparatus was focused on downsizing and outplacement of employees to completely repositioning into a growth mode where recruitment and leadership development and work force planning, training, all of these capacities are being almost reinvented from scratch.

We're trying to develop, as we described in the testimony, a surge capacity so that we have the bench strength to meet new rapidly evolving needs, and a float capacity, and these are, again, pieces of the puzzle that we're putting together. But we're still several months away from having a comprehensive work force planning system in place.

Mr. SHAYS. When do you intend to have it? Several months is what?

Mr. MARSHALL. Within—well, we'll have a couple more pieces within the next couple of months, and I would expect by the end of the year we will have a pretty complete system in place.

In the meantime, we are continuing to give priority——

Mr. SHAYS. I don't think it hurts to be more specific. You know, specifically, when is it going to happen?

Mr. MARSHALL. Well, the three pilots that I mentioned on global health work force, procurement and human resources will be completed by the end of this year. The entire agency, though, that's the rest of the puzzle, and it will take several years to get a complete work force planning analysis completed and all the pieces in place.

Mr. SHAYS. Because I don't do that kind of planning, I don't know why it would take several years. Explain to me why it should take several years.

Mr. MARSHALL. Well, there's a lot of analysis that needs to be done. You begin by examining your as-is work force. You inventory all your employees, and, again, we have multiple categories we're looking at and these 13 different classifications of employees, and we now have a system in place that's captured most of those individual employees, and we flesh out the system with information on their skills, the requirements of our Agency, this is where the strategic—it becomes integrated with strategic planning.

So we identify what are the emerging needs, what are the as-is competencies we have, what are the gaps, and then we develop strategies to address the gaps by either recruitment or training or tapping one element of our work force, contractors, outsource, insource, a lot of——

Mr. SHAYS. If you were to hire the consulting firm MacKenzie, would they take 2 years, or what would they take?

Mr. MARSHALL. It all depends on funding, Congressman. We could accelerate this more rapidly if we had funding to pay for it, but you're talking about a multimillion dollar effort with a firm like MacKenzie.

Mr. SHAYS. So are you doing it in-house?

Mr. MARSHALL. A combination of in-house and contractor resources.

Mr. SHAYS. Because you use a lot of contractors, so it just surprises me you wouldn't use a contractor in this case.

Mr. MARSHALL. We are using contractors. We don't have these competencies in-house. We're using what we can do in-house, but there's a skill-set here that's missing, and frankly, this is something we need to do a better job of recruiting for and institutionalizing in our HR.

Mr. SHAYS. Am I getting a feeling that—because you used the word you were focused on operations. Am I to get the feeling basically your folks just don't have the time because they're overworked, so they're not focused on the more long term?

Mr. MARSHALL. We've had so many staff cuts over the last 10 years, that our HR office was pretty much stripped to the bone, past the bone, and we have so many people that are just focused on—just on outgoing operations, that we don't have the capacity to step back and do the analysis and the long-term strategy that this kind of work requires.

Mr. SHAYS. Let me just respond to that. You were cut back, but you made decisions that you would cut back in the areas that you described. You didn't have Congress necessarily saying you had to cut back your personal—your resource areas.

Mr. MARSHALL. I wasn't there when those decisions were made, sir, but I think that's a fair assumption, yes.

Mr. SHAYS. According to you all, the Agency is having trouble attracting staff to those posts where the conditions are the most difficult, like Afghanistan and Iraq.

Mr. MARSHALL. Yes.

Mr. SHAYS. And do you have the capability to require staff to move to more pressing regions and difficult areas?

Mr. MARSHALL. Yes, we do.

Mr. SHAYS. And what does that mean? You just tell them?

Mr. MARSHALL. We can direct reassignments, yes.

Mr. SHAYS. And if they don't want to go, they have to leave?

Mr. MARSHALL. Yes. They——

Mr. SHAYS. Do they have an appeals process, or what do they have? Why don't you step up. Maybe you could exchange seats there.

Ms. DEPP. Rose Marie Depp, Chief Human Capital Officer. Yes. We have, under the Foreign Service Act, the ability to direct assignments. As in any government agency, management can assign work. All Foreign Service Officers sign an agreement for worldwide availability.

The change in recent years is because of the human capital challenge. In the past we were pretty much able to match employees' first choices for assignments with receiving missions, but as we have more and more challenging assignments, we are having to direct employees to non-preferred bidding choices. But we do have the ability to do——

Mr. SHAYS. How often have you used this power in Iraq and Afghanistan?

Ms. DEPP. In Iraq and Afghanistan, we've been very fortunate with volunteers. Because it is a 1-year tour, we are on a continuous recruitment mode where we continually advertise and actually keep a roster of all individuals that have expressed willingness or interest. So to my knowledge, I could stand to be corrected on this, to my knowledge, we have not had to direct any assignments.

Mr. SHAYS. Mr. Turner, do you have any questions you want to ask?

Mr. TURNER. It's almost asking the same thing over again. It just strikes me, Mr. Marshall, that when you say that because of the pressing nature of the work that you have to do, you don't have the ability to put in place the proper procedures for planning. It seems to me that basically what you're saying is, is we're going to continue to provide services that don't meet our overall goals, because we're not going to take the time to do that.

It just seems as if it's not a priority, and I think the thing that's being missed here, which is why it's so important for this hearing, is that your organization is not going to be effective in delivering the services or the goals of the United States if its view is we don't have time to strategically plan to make certain that we achieve or function in the best way. It's like saying, well, 75 percent is OK as long as I complete the test, and the opportunities lost, both to your agencies and to this country, is huge; and when we are dealing in an environment where every day the question comes up how is the United States perceived in foreign countries, the concept that your answer would be we're too busy to plan to be effective is, I think, you know, shocking and disturbing.

Mr. MARSHALL. I appreciate your concerns.

Mr. SHAYS. Would you talk through the mic. I'm sorry, Mr. Marshall.

Mr. MARSHALL. I appreciate your concerns, Congressman, but it's not—I would take issue with the conclusion that we don't take this planning seriously. We take it very seriously. We take all of our requirements around the world seriously. We take Iraq and Afghanistan extremely seriously. We take the HIV AIDS epidemic ex-

tremely seriously. We take disaster recovery efforts very seriously. This is an agency that has a limited capacity of human capital.

Mr. TURNER. Let's pause right there. Your budget in fiscal year 2002 was $10 billion. Correct?

Mr. MARSHALL. Roughly.

Mr. TURNER. All right. So when the answer is yes and I hear that we don't have enough human capital, that we don't have enough ability to plan, and then you list for me operationally a bunch of tasks that need to be done and diminish the importance of planning, I believe that we have a huge miss in the overall foreign policy goals of the United States. If you're telling me HIV AIDS is important and therefore you have to get on that, but you don't have time to plan so the overall goals of the United States are achieved, I question whether or not your agency is taking the adequate role in serving—as we have discussed and you have knowledged, its core function.

Mr. MARSHALL. Let me try and answer that, Congressman. We take the planning extremely seriously. When Mr. Natsios arrived in 2001, he found the systems to be completely eroded and dysfunctional. When I arrived in December 2001, there was no HR Director. There was no HR Deputy Director in place. It took 6 months to recruit an HR Director. It took another 9 months or a number of months to recruit an HR Deputy Director. That's the leadership on our HR——

Mr. SHAYS. Are those political appointees?

Mr. MARSHALL. No, sir. Those are career appointments. And the staff that was running the HR organization was dedicated. They were answering the mail, keeping the gears of the process going, but there was no in that HR office leadership at the top level in place to redirect and prioritize and do the work force planning that's required. That's in place now. We're giving it all the emphasis we can. We're bringing in contractors. We're recruiting for the expertise that we lost.

But Rome wasn't built in a day, sir, and a turnaround of an organization in a state of dysfunction that USAID was and has been doesn't happen overnight either. This is a 4 or 5-year project to turn around an agency at this——

Mr. TURNER. And why would that be? Why would it be? You know, and I hate to keep citing the fact that I was a mayor, but I can tell you that you can go to any city or any other organization that has significant do-it-now goals to achieve and nobody is going to tell you it's 4 or 5 years, because, you know, the world changes in 4 or 5 years. In 4 or 5 years, any planning that you're going to be doing is going to be, all right, let's start this process again.

Why would it possibly, with $10 billion, take 4 or 5 years to accomplish something that goes to the crux of whether or not you're going to be successful? Because, let's see, 4 or 5 years, we're talking 40 to $50 billion more that would be spent while you're beginning the process to plan to be effective.

Mr. SHAYS. If the gentleman would yield.

The one thing I can't do and maybe Congressman Turner would agree, I know that looking to the future and planning has to be one of the most difficult things and I know sometimes in my own staff

we know that we're putting out fires and we're not planning ahead, so, Mr. Marshall, I don't think we're lobbing bombs here.

We're trying to understand something, but what I think you may not realize from what we've heard you say is that you are so overworked, this is what I am basically hearing, that office was in a disastrous state. That's kind of what your testimony is that I'm getting, that many people contributed to that, maybe even Congress. You've been off since December 2001, and I get the feeling like you're trying to keep your head above water so you don't drown, and yet you know conceptually the importance of planning, but you are basically saying it's going to be sometime way off in the future that it's going to be done. That's the feeling I'm getting, and I can understand why that could be the case in one sense, but in the other sense, if it's $40 billion being spent and particularly given Iraq and Kuwait, and I know, Mr. Ford, you haven't looked at these two countries, but I would have thought we would have been oversubscribed, not undersubscribed.

Given the importance of the work that we're doing there, I mean, this is where someone said to me just recently it must be an extraordinary time to be in Congress because the stakes are so high. I think the stakes are extraordinarily high in Kabul and in Iraq, and so I think that's why you're here and, Mr. Ford, as you hear this, what do you think the solution is?

Mr. FORD. I don't work for AID.

Mr. SHAYS. No, no. That's not an answer at all. I just want to interrupt. This is why we hire you, not just to be critical but to say how you walk your way out and let me say something because I know you want to say something. This is not uncommon with other government agencies, but where have the successes been in the past, how do we help Mr. Marshall and others move along more quickly?

Mr. FORD. Well, I think, first of all, the first point is you have to have leadership and you got to make it a priority and you got to put the resources in to get the job done. I don't know if that takes 3 or 4 years or not. You know, we made the same recommendation that we're making in this report 10 years ago to AID.

Now, they went through a difficult time for the last 10 years, but I find it hard to believe that they couldn't set aside some time during that timeframe to have undertaken the kind of——

Mr. SHAYS. Well, they didn't.

Mr. FORD [continuing]. They should have done. I don't think it should take another 10 years to do that.

Mr. SHAYS. Come on, let's be precise here. They're not saying it's taking 10 years.

Now, really, I want you to be a little more precise and we're not talking about the last 10 years because we know it happened and Mr. Marshall wasn't there 10 years ago. He's there, now, though, so it's on his shoulder.

What would you be recommending they do? First off, should it take even a year?

Mr. FORD. You know, I would—I'm not an expert in personnel. I think they could do it in a year, yeah. What they need to do is they need to identify the core competencies for all of their work force. They got a pilot on the way where they're looking at three

functions in AID. I don't know why they couldn't expand that effort to include a wider range of the people that they work for, so I think—you know, I don't think it should take that long, certainly 4 or 5 years, to do the whole analysis that they need to do. I think they got all the right steps in place, I think they've got the right concepts in place, based on the models at OPM and looking at the government as a whole, but they've got to implement the analysis and they've got to move on with it.

Mr. SHAYS. Mr. Marshall, what can we do to help speed up the process?

Mr. MARSHALL. Well, we have discussions under way within the administration, to—regarding the OE requirements that it takes to get this work done. We have in our HR shop presently——

Mr. SHAYS. Are you saying the budgetary requirements?

Mr. MARSHALL. Our operating expenses.

Mr. SHAYS. Right.

Mr. MARSHALL. That's the constraint we're under.

Mr. SHAYS. I'm sorry to interrupt, but so I'm understanding you, is OE funding consulting services, is that——

Mr. MARSHALL. For managing consulting services of this type, yes, that would come out of operating expenses, yes. That's a very constrained resource in our environment, and it funds our outside expertise, our IT, our administrative personnel. We have one work force planner on the staff now. We're just acquiring the tool. We have procurement under way, a work force planning tool, we have allocated some money for consulting expertise. If we had more, we could move faster.

Mr. SHAYS. OK. What I would like to think is that when you go before the Appropriations Committee, you basically say we have an agency that was in meltdown, we had a chair report in the early 1990's that said we have this problem, we still have this problem, and then I blame Congress, frankly and fully, and if I were running the organization, I would be trying to take money out of the account and pressing the envelope because I would feel it is so important.

Mr. MARSHALL. I understand. We have so many mandates and so little funds. We're always robbing Peter to pay Paul to address priorities. You, too, Congressman. It's a matter of priorities. In our Federal agency, everything is urgent, and everything is a priority.

Mr. SHAYS. I think that's a fair comment and I think what we're going to do is get together with you privately. We're going to have a candid conversation with you about how you sort that out, because I do think everything is a priority right now. I do think that's fair.

I think that you are—but I also think this: I think it's one of the most exciting jobs you can have in government, frankly.

Mr. MARSHALL. It is. Yes, indeed.

Mr. SHAYS. And I know as a former Peace Corps volunteer, there are a lot of Peace Corps volunteers who would love to be doing this work, and if we're not able to hire younger folks along the way and we've got a work force—gosh, given that I'm in higher ranks than that, we have very competent staff at USAID, but we need some younger folks as well, and I'd like to see how we resolve that.

Should I go to staff or do you have another comment? So at this time I will go to our professional staff.

Mr. COSTA. Thank you, Mr. Chairman.

First question for both of you, if I could.

What, exactly, are you doing to identify core competencies? What's the importance of that, and how do you ensure that you're hiring people with the skills you need now? Why don't we go with Mr. Ford first and then Mr. Marshall?

Mr. FORD. I think that the key is you got to go through a process and I think Mr. Marshall's already described it well. You have to know what kind of skills you need first, so you have to identify what your requirements are. You have to know what you already have in place, so you have to do an analysis of what you already have. Then you got to see what the gap is and then you got to find a development strategy to develop that gap. Then you have to have a system after you hire the people. So you make adjustments as you go along. So as you find some of those skills are not necessary, you make adjustments. That's basically the process that I believe AID is now trying to get to.

Mr. MARSHALL. That's right, and we're beginning to baseline those existing skill sets and identify the gaps, and the initial organizations we're piloting are: Global Health Bureau, again taking into consideration the sensitivity, the urgency of the HIV/AIDS response, we're looking at procurement; and we're looking at HR. Because, again, getting back to Congressman Turner's concerns, do we have an organization, the capacity within our human resources organization, the capacity to conduct work force planning in a systematic way. And on the implementation side, our procurement organization, are we providing contract administration oversight, and is our contract process working or are our business systems and procurement as responsive to our needs in the field as possible?

Mr. COSTA. And what are you doing now to handle skill gaps in the existing work force? Is there a training program under way? State has a little more capacity now that they're building on what USAID does not have yet.

Mr. MARSHALL. They do. Our training budget has been cut to the bone, was cut to the bone. We requested significant plus-ups in the past couple of years. We'd like to double it in the next couple of years to get to the level we think we need.

We are recruiting through our new entry professional, our mid-career entry, we are looking for the skill sets that we need in the most critical areas, and we're instituting our IDI program to get young talent in at the entry levels, and so we're doing as best we can, work force planning, again in kind of an ad hoc way, focused on the needs that we're most aware of, but the systematic process that we're putting in place, piece by piece, is over the next year or so.

Mr. COSTA. Talk a little bit about surge capacity. I was struck by both your testimony and GAO's testimony. One of the things that struck me is that you say that it has merged more with the State Department.

Has there been any discussion in making assistant management, contract management, into a cone in the State Department, and so staff from State and USAID can travel freely between both organi-

zations. Do you think that would help at all with creating the surge capacity for USAID? Is there a discussion of that and what are both of your thoughts on how that would work, if it would work, and what problems might——

Mr. MARSHALL. Those discussions with the State Department are just beginning, and that's a good example that we need to look at. If you're talking about procurement expertise, it's possible that we could work with each other, although our procurement requirements for development assistance, humanitarian assistance are pretty different from theirs. So I think that could be a long term fix. Cross-training and other, you know, cross-agency and training initiatives would have to be done to make sure that would work, but it's a possibility.

Mr. SHAYS. Let me just interrupt here to have you react. When I've gone out in the field, and I get out in the field a lot, I am struck by the fact that the USAID folks want to tell me that they're not part of the State Department. The company culture must be very different and they don't like the thought that they are viewed as an instrument of our diplomatic corps.

Maybe I didn't say it's an instrument, but they want me to know that they are very definitely separate but the only difference is that they come up with the unified budget—excuse me, not unified budget, but they are basically under the auspices of the State Department.

Can you react to that?

Mr. MARSHALL. Well, there is that, too. Yes, the cultures are different and they had a history of some cultural differences, you might say, and conflicts, but I think that varies too from post to post. I think at a lot of locations they work very collegially together, although they do have distinct competencies and programmatic missions.

Mr. SHAYS. Go on.

Mr. MARSHALL. That's the point. They do have their differences, but I think they do, in most cases, work pretty well together.

Mr. SHAYS. Is USAID under the Gramm-Rudman Act?

Mr. MARSHALL. Yes.

Mr. SHAYS. So when I am told that they are 60 short in the Northern Province, they only have 15 instead of 75, are some of those 60 short viewed as USAID folks?

Mr. MARSHALL. I don't know what those numbers are, sir, and I don't know how he's counting.

Mr. SHAYS. Probably, not likely. That may be separate. I'll find out that.

Are we getting the number that I asked for?

Mr. MARSHALL. Yes, sir, we're asking for that and we'll provide that for the record. One piece of information we have for you though is that Afghanistan is a non-language country, where speaking a native language is not a requirement.

English works there, so we have some of our employees there who do speak English.

Mr. SHAYS. English works everywhere, but with all due respect, it does, but——

Mr. MARSHALL. We understand that several of the local PSCs do have the native language.

Mr. SHAYS. I mean, given USAID is in the field interacting a lot with Afghans and Iraqis in both countries, the ability to speak the language is huge, and as it relates to Afghanistan there are so many Peace Corps volunteers I run into who have wanted to go back to their country it does surprise me we're having a hard time filling these positions.

Anyway, we'll go back to you.

Mr. COSTA. Mr. Ford, if you could talk a little bit about integration with the State Department and what that might mean?

Mr. FORD. Well, first of all, I'm not aware of any formal discussions of whether or not that's actually being considered. I think the State department, the type of activities that they're involved in are—for the most part, are not typical of what USAID is involved in, so the skill sets for creating a cone I think you'd have to take a hard look at, because I'm not sure the Department does a lot of hands-on implementation of programs. They have a few programs that I'm aware of where they're involved, but for the most part they're not involved on the ground, programmatic oversight, as AID employees are.

Mr. COSTA. Thank you. Mr. Marshall, what's the current status of E-World? I know it's supposed to be growing out in two phases, and the information is supposed to be all done at the end of this month; is that correct?

Mr. MARSHALL. It is a Web based system. It is up and running. We have about 7,700 employees captured in there and all elements of our work force, with the exception of institutional contractors.

Mr. COSTA. OK. Just for the record, could you just say a little bit about what E-World is?

Mr. MARSHALL. It's a work force tool that captures the numbers, head counts of individuals, of employees, by work force element, by country and mission worldwide, organizational elements, yes.

Mr. COSTA. And is it up and running now? Are you still experiencing problems?

Mr. MARSHALL. Yes, it is. There have been some startup issues along the way, but it's up and running.

Mr. COSTA. I know you had mentioned moving from other locations to staff Iraq and Afghanistan. What's the implications for doing that in the countries where those folks have come from?

Mr. MARSHALL. That's a very good question. Unfortunately, too often we're robbing Peter to pay Paul. Unfortunately, it's a fact of life for the agency. We do our best, of course, to backfill and regroup, and so forth, but it takes a while.

Mr. COSTA. Thank you, Mr. Chairman.

Mr. SHAYS. Thank you.

Go to minority counsel.

Mr. RAPALLO. Mr. Marshall and maybe also Miss Turner. In terms of planning for your work force, it would help to know the amount and types of funding that AID is delivering.

In the latest supplemental budget request for Iraq, did you at AID headquarters prepare any sort of estimate or analysis or proposal for the funding that would be delivered and also how the work force would be set up to deliver that?

Ms. TURNER. Yes. For Iraq, specifically, the supplemental that just came up last week from the President has $40 million in it for

what we call the operating expenses of USAID. That includes physical infrastructure in the country to house the employees, etc., as well as their salaries, and the number of the employees, I don't have with me the work force plan, but we can provide that for the record. We have put together the work force plan for Iraq, which is done in consultation with State and OMB for the implementing of that supplemental corporation, but it is a pretty good example of the problems that we face. Our funding for operating expenses and the salaries that we pay are not a part of the $10 billion program. We have a separate account that pays for our salaries and occasionally we use—dip into the program fund to provide contractor salaries, but we're not allowed by law to pay any of our American direct hire salaries out of the programs. It's all out of the operating expense budget. That budget has been relatively static for quite a number of years. We did request in fiscal 2004 an increase in the budget in order to allow us to hire at least 50 additional overseas officers, but that did not anticipate the increase in Iraq at that time.

What has happened over the years is, as there is a supplemental for HIV/AIDS, for Hurricane Mitch several years ago, for Afghanistan, for Iraq, a one-time only amount of money is put in to transfer from program to operating expenses to allow us to cover those salaries for that year, but it really is a negative incentive to work force planning because it's one-time only. You don't know how many years you'll have it, so looking ahead, it makes it impossible to estimate the budgets that you're going to have available.

For fiscal 2005, we have submitted to the Secretary of State and the Secretary of State has transmitted to OMB a significant 25 percent increase in our operating expense account, almost entirely dedicated toward additional staff that we need to bring in. It is not yet through OMB and presented to Congress, but it is the only major increase with the exception of HIV/AIDS outside the supplemental that we have requested, and it was the only 25 percent increase that the Secretary of State sent forward to OMB as a part of the entire State Department foreign operations budget. So we have recognized it as an absolutely critical priority that needs to be ratcheted up, ratcheted up significantly, and every time there's a supplemental, last year's supplemental for Afghanistan and Iraq, we had that in the HIV supplemental, we had money in for that for obvious reasons.

Mr. RAPALLO. Let me just ask a little about the process for the supplemental. Prior to the supplemental coming to Congress, did AID itself, headquarters, work up a sort of analysis proposal on the amount of funding AID believed would be necessary in Iraq?

Ms. TURNER. Yes, we did.

Mr. RAPALLO. And did you submit that to OMB?

Ms. TURNER. Yes, we did.

Mr. RAPALLO. And what happened to that?

Ms. TURNER. It was reduced by about 50 percent as to what we sent forward.

Mr. RAPALLO. Why was it reduced or what reasons were given?

Ms. TURNER. The reasons were that they didn't think we would be able to, for a variety of reasons, put that many staff in country and hire as many local staff as we got.

Mr. RAPALLO. So currently the supplemental, is it $1.5 billion that would be delivered through AID?

Ms. TURNER. It's not fully decided. There's $21 billion for reconstruction efforts. We estimate at least $1.5 to $2 billion will come through AID but the full decisions are not made on who will implement each one of those pieces and a complete decision between infrastructure, which more likely would be done by Defense, and the more software side of the training and education that would be done through USAID.

Mr. RAPALLO. So where did that number come from, $1.5, that amount? Is it an AID number?

Ms. TURNER. That is an AID number, roughly what we would estimate as being under the current arrangement.

Mr. SHAYS. Let me just followup and I know you have another question, but so we're understaffed in both Iraq and Afghanistan. But in addition, given what your request was, we're even more underfunded.

Now, I realize that agencies, we'll always ask what we think they need and it's also up to Congress to say what we can afford to do, but your testimony basically as it relates to—which was it, Afghanistan or Iraq?

Ms. TURNER. Actually both, a combination, but it was mostly Iraq.

Mr. SHAYS. Basically you were looking to do twice as much as you are doing or 50 percent more?

Ms. TURNER. We were looking to do approximately, spend approximately twice as much, as to what the supplemental came up with.

Mr. SHAYS. But not just in the supplemental. I think the question also related to the original.

Just so you understand where I'm coming from, I'm wrestling as a Member of Congress with the fact that we haven't asked—and I'm vice chairman of the Budget Committee—we haven't asked for a full accounting of the budget expenses in Afghanistan and Iraq both in the short term and the long term, and I was thinking that if it was the previous administration I would be more persistent, so I'm having to candidly look at myself and say am I doing my job. So having said that, what I'm realizing of course is that you would have to submit what your requests are.

Did you submit both a 1-year request and a long-term request for both countries?

Ms. TURNER. No, we did not. We submitted a 1-year request for the life of the supplemental. Actually, I think the supplemental is proposing 2 years.

Mr. SHAYS. Are we talking about the first supplemental or the second?

Ms. TURNER. The current supplemental. The first supplemental was only a 6-month supplemental, and we were only permitted to submit for that what we thought it would take in the first 6 months.

Mr. SHAYS. The 6-month supplemental.

Can you tell me did you get 50 percent of what you requested?

Ms. TURNER. For the first supplemental we got 100 percent of what we requested.

Mr. SHAYS. What I'd like is if you would submit the original proposal for USAID, if you would provide it for this committee.

Ms. TURNER. OK.

[The information referred to follows:]

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

OCT 20 2003

The Honorable Christopher Shays
Chairman
Subcommittee on National Security, Emerging
Threats and International Relations
Committee on Government Reform
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I am writing to follow up on a matter raised during the September 23, 2003 Subcommittee hearing you convened entitled, "Strategic Workforce Planning at USAID." During that hearing, an official from the U.S. Agency for International Development (USAID) had indicated that USAID would try to provide a copy of a memorandum the Agency had provided earlier to the Office of Management and Budget regarding the FY 2004 Supplemental Request. As we have subsequently discussed with your staff, this document contains information involving the internal deliberations of the Executive Branch and, consistent with Office of Management and Budget policy, we are unable to provide a copy of this document to the Subcommittee.

I apologize for any inconvenience this may cause the Subcommittee. Please let me know if I can be of assistance in the future.

Sincerely,

J. Edward Fox
Assistant Administrator
Bureau for Legislative and
Public Affairs

1300 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20523

Mr. SHAYS. This is for the second supplemental, OK?

Ms. TURNER. Yes, sir.

Mr. SHAYS. And if that's a problem you need to tell us right away; otherwise we'll assume that won't be a problem.

Ms. TURNER. Yes, sir.

Mr. SHAYS. Do you have a question?

Mr. COSTA. Yes, one quick question, I think.

Mr. Ford, you talked a little bit about the operating expense account and how originally it was intended to cover the cost of doing business, but over time and because of budget constraints you say it has essentially started putting things that probably should be in the operating expense account into the program funds.

Could you talk a little bit more about that and, Mr. Marshall, if you could talk a little bit about what you say you plan to do in response to the GAO report? I know the GAO report is not quite finished yet, I don't know if you had an opportunity to see it, and it's my understanding that both OMB and you all agree with the crux of it. If you could talk a little bit more about that.

Mr. Ford.

Mr. FORD. Yeah, basically, you summarized what our report is going to say, which is essentially that in the mid-1970's Congress passed some laws which in effect created the operating expense account, and the intent back then was that AID try to separate out its administrative costs versus its program delivery so there would be a clear distinction between what we'll call, let's say, overhead versus the actual program being delivered.

Over time what's happened is because it is a separate appropriation AID has struggled to try to pay for the administrative costs, which it's required by law to pay, which is direct higher salaries, rents, utilities, things of that nature. They've struggled to have enough money to do that, so they've used program funds to help pay those types of costs, and over time it's become the—I guess I'll call it a confused state in terms of how much money is actually being spent for administrative expenses. So what we're going to be recommending to AID is essentially to try to clarify that and come up with a better, clearer system of identifying those costs.

Mr. COSTA. Thank you, Mr. Ford.

Mr. Marshall.

Mr. MARSHALL. Your question was what are we doing about that.

Mr. SHAYS. The mic.

Mr. MARSHALL. Yes, we read the GAO report and we think it was a contribution to the ongoing dialog that we're having within the agency and State Department and OMB on the subject and we're actively considering alternatives for dealing with this issue.

Now, in the short-term we're working very hard to be fully transparent, report all of our costs through OE as well as administrative costs that are program-funded, be very up front and transparent about that and we're getting the facts on the record and considering options and ways of handling it, but we're not prepared to endorse any particular proposal at this point.

Mr. COSTA. Thank you, Mr. Ford, Mr. Marshall.

Mr. Chairman.

Mr. RAPALLO. Maybe just one clarifying: In your original request, what was the amount that you requested?

Ms. TURNER. The Iraq request?

Mr. RAPALLO. Yes.

Ms. TURNER. I'm sorry, I don't have that with me. I'm sorry, for the second supplemental?

Mr. RAPALLO. Yes.

Ms. TURNER. I'm sorry. I need to check that, double-check that number, and I'll be happy to provide that.

[The information referred to follows:]

General Talking Points

- USAID has allocated 700 of its 1000 direct hire Foreign Service Officer positions overseas. At any point in time there are approximately 40 unfilled positions.
- This gap illustrates the need for staff as well as the ability to recruit a "float." Float provides coverage between assignments and to allow training (e.g., language) between assignments. Otherwise, the "press of business" forces the Agency to send staff to assignments without the requisite training.
- The Deputy Secretary supported an increase in USAID's operating expenses in FY 05 largely for the purpose of establishing a "float" and "surge" capacity.
- The Deputy Secretary supported a USAID *Development Readiness Initiative* (following on the Secretary's Diplomatic Readiness Initiative).

Staffing and Language Capability in Iraq and Afghanistan

Iraq

Employment Category	Authorized	Filled	Comment
USDH	16	14	Two unfilled positions recently established; bidding cycle underway now. Four USDH speak Arabic, including the Director, Deputy Director and two General Development Officers, posted to cover the northern and southern regions.
USPSC	5	0	Recruitment underway; estimated 4-6 weeks before hire.
FSN	36	31*	All speak Arabic or a local language
Institutional Contractor – IRG	35	29	Contractor is assisting in project/program management activities; 6 speak Arabic

* FSN staff-on-board, include drivers and administrative assistants and other support staff; there are plans to hire additional local staff in technical areas. Note, space and security clearances are an issue. An additional issue is that the pay scale set by CPA/DOD is relatively low and as a result USAID is having difficulty attracting those with the requisite skills. Note these issues are not under control of the Under Secretary but rather DOD. Normally, the Department of State would prepare the local compensation plan (LCP), but because State is not present in any significant manner the LCP has not been developed; USAID has volunteered for this task and is currently conducting cost comparisons among employers including examination of the benefit package such as sick and annual leave, holiday pay, health benefits, transportation allowances, etc.

Afghanistan

Employment Category	Authorized	Filled	Comment
USDH	10	8	None speak any local language. English is the most prevalent common language.
USPSC	17	13	Ditto
FSN	50	10*	All speak Dari or Pashto or one of several other local languages.

* Note, space and security clearances are an issue; 3-4 additional FSNs are in the security clearance process and expected to be brought on board as soon as this process is completed. Currently there are approximately 8 people to an office and people are sharing desks. Without additional space, USAID is not recruiting additional FSN staff to fill vacancies.

USDH - FOREIGN SERVICE OFFICER LANGUAGE SKILLS

	Iraq		
Number	**Position**	**Person**	**Language**
1	Director	L. Luck	French Arabic
2	Deputy Director	Earle Gast	Arabic 2 Russian 1
3	S. GDO	Thomas Staal	Arabic 2
4	N. GDO	Carl Rahamaan	Arabic 2+ French 3
5	Cen. GDO	James Goggin	French 3 Swahili 2
6	EXO	Mark Cult	Spanish
7	Controller	James Reddes	Chinyanja
8	Contracts	Neil Price	German 2
9	S. Program	Kurt Fuller	Spanish 4 French
10	S. GDO	Non-career appointment in process	
11	Dep Contracts	TDY Coverage	
12	Private Sector	Vacant	
13	Health Officer	TDY Coverage	
14	Dep Prog	TDY Coverage	
15	GDO	TDY / Milligan	
16	GDO/06	Vacant	

USDH - FOREIGN SERVICE OFFICER LANGUAGE SKILLS

	Afghanistan		
Number	**Position**	**Person**	**Language**
1	Director (Acting)	Jim Bever	French 2 kinds of Arabic
2	Deputy Director	Robert Wilson	French Spanish Portuguese
3	EXO	F. Cossich	Spanish
4	Controller	James Ahn	Korean Japanese French
5	Contract Officer	Anddrew Holland	German Russian
6	S. GDO	Vacant	
7	S. Prog	Vacant	
8	DG/GDO	Ana Klenecki	Spanish French
9	Ag	Terry Hardt	Arabic French
10	P. Econ	Reed Aeschliman	Thai Japanese

Mr. SHAYS. I'm going to try to summarize what I've gotten from this hearing, and then I want your reaction, and then you can make any other comments you want, and then we'll adjourn.

What I basically think I've learned from this hearing and from the report is that USAID has been a troubled agency for a long time. In terms of understanding—in terms of having resources, in terms of allocating resources in a way that's clear, that it has lacked a long term planning, that it has a very—a personnel highly qualified but getting older, that a large number potentially could retire, up to 70, as we think 40 may of the 70, and that Congress and others are saying you need to have a strategic plan on what your needs are, not just now but in the future, and that it is going to take longer than we would like because—not because it has to take longer in terms of capability, but in terms of resources to—in terms of the financial resources to hire internal staff and external consulting, to get it done as quickly as it could be done. And what I have learned from listening to Mr. Turner is if you're going to be spending $10 billion a year and if it's going to take 3 or 4 years to do, we are simply not going to be allocating resources in an optimal way.

And what I was thinking as well is that each year we may be losing our ability to hire some capable young people that we should have hired 3 or 4 years ago, that would now be in the stream and learn from these skilled workers. And it explains what has been a shocking thing for me to learn, is that what I believe is the most important thing in Afghanistan and Iraq—I realize, Mr. Ford, this wasn't your focus, but it's where I've kind of headed, given that I know Mr. Bremer is understaffed significantly. That whether USAID is under Bremer, and they're calling that part understaffed, we may even have a bigger problem because USAID may not be getting the people in the field that they need to. And that, for me, it's calling out that this committee needs to be weighing in as fairly quickly as possible with the administration that we've got to speed up this process and provide the resources. So one thing I intend to do is have a conversation with Mr. Kolbe, who's head of the funding—of approps—see if he agrees that these resources have been requested and are needed and I'll go from there. But our committee may also issue some kind of report as well.

Respond to what I've said, Mr. Marshall, if you will.

Mr. MARSHALL. I think that's a fair take there, Congressman.

Mr. SHAYS. Mr. Ford.

Mr. FORD. I agree with everything you said and the quicker it can be done, the better.

Mr. SHAYS. OK. You think the quicker it can be done, the better?

Mr. MARSHALL. I agree with that, yes, sir.

Mr. SHAYS. Well, let's see how we can all work together and help you all out and work in the same direction.

Is there any other comment, question?

Mr. COSTA. No, sir.

Mr. SHAYS. Any comments you want to end up with, just to put on the record?

Mr. Marshall.

Mr. MARSHALL. No, sir.

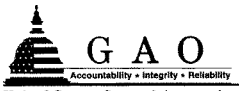
Mr. SHAYS. Well, we'll close here and adjourn.

Thank you very much.

[NOTE.—The GAO report entitled, "Foreign Assistance, Strategic Workforce Planning Can Help USAID Address Current and Future Challenges," may be found in subcommittee files.]

[Whereupon, at 11:33 a.m., the subcommittee was adjourned.]

[Additional information sumitted for the hearing record follows:]



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

September 30, 2003

The Honorable Christopher Shays, Chairman
The Honorable Dennis J. Kucinich, Ranking Minority Member
Subcommittee on National Security, Emerging Threats, and International Relations
Committee on Government Reform
House of Representatives

Subject: *Foreign Assistance: USAID's Operating Expense Account Does Not Fully Reflect the Cost of Delivering Foreign Assistance*

Humanitarian and economic development assistance has long been an important component of U.S. global security strategy. Since 1962, the U.S. Agency for International Development (USAID) has managed more than $273 billion in such assistance. In fiscal year 2003, USAID estimates that it will obligate about $13 billion for assistance programs in almost 160 countries. In recent years, demands on USAID's budget and workforce have increased as the agency strives to meet emerging requirements, such as reconstruction efforts in Afghanistan and Iraq and increased funding for health programs. However, USAID officials have expressed concern that funds provided for its administrative or operating expenses have not kept pace with the agency's requirements.

Since 1976, Congress has included a separate appropriation to consolidate USAID's operating expenses into a single budget item. Congress intended that USAID pay for the administrative costs of delivering foreign assistance (its "cost of doing business") from an operating expense account separate from its humanitarian and development assistance program funds.[1] These operating expenses are costs incurred primarily for the benefit of the United States rather than the foreign assistance recipient. In accordance with congressional guidance,[2] USAID reports all expenses related to U.S. direct-hire staff as operating expenses[3] and, based on its guidance on what constitutes the cost of doing business, other operating expenses—from rent to office utilities and supplies. In fiscal year 2003, USAID estimates

[1]S. Rept. 94-704.

[2]H. Rept. 95-701 and S. Rept. 95-1194.

[3]USAID's Automated Directives System, Functional Series 600, chapter 601 (Funding Source Policy).

that it will obligate $668 million for its operating expenses. At your request, we examined (1) trends in USAID's operating expenses since 1995 and (2) whether charges to USAID's operating expense account reflect the agency's actual cost of doing business.

To accomplish our objectives, we interviewed cognizant officials in USAID's regional bureaus and its bureaus for management and policy and program coordination. In connection with other work, we also conducted fieldwork at seven overseas missions. We reviewed budget and workforce data generated by USAID missions and headquarters offices from fiscal years 1995 to 2003. We present our analysis in obligations because this information was readily available in USAID's annual congressional budget justifications. We converted the obligations data into constant year 2003 dollars to adjust for inflation and better reflect the agency's purchasing power over the period.

Results in Brief

According to data USAID reported, over fiscal years 1995 to 2003, USAID's total obligated operating expenses have ranged from a low of $595.7 million in 1998 to a high of $654.8 million in 1995, and USAID estimates total obligations in 2003 will be about $668 million (in constant 2003 dollars).

- The largest administrative category in USAID's operating expense account is salaries and related support for U.S. direct-hire staff. Obligations for these expenses account for 43 percent ($277.7 million) of USAID's estimated operating expenses for fiscal year 2003. However, funds obligated for direct-hire personnel declined during fiscal years 1995 through 2001—from $302.5 million to $249.2 million—primarily due to declining levels of direct-hire staff during this period. But, in fiscal years 2002 and 2003, U.S. direct-hire personnel costs have increased over 11 percent. USAID expects these costs to continue rising as it continues its recent hiring efforts.

- Three other administrative categories—other staff costs, information technology, and rent—account for about 33 percent ($216.5 million) of USAID's estimated operating expenses for fiscal year 2003. Although these expenses varied from year to year, the net change in total from fiscal year 1995 was a decline of less than 1 percent.

- Between fiscal years 1995 and 2002, operating expense obligations as a percentage of program obligations remained fairly level—averaging about 8.5 percent. However, in fiscal year 2003, the operating expenses

to program funds ratio dropped to 5 percent due to large amounts of supplemental funding.[4]

USAID's operating expense account does not fully reflect the agency's cost of doing business primarily because the agency pays for some administrative activities done by contractors and other nondirect-hire staff with program funds. As we noted in our recent report,[5] USAID's overseas missions have increasingly relied on personal services contractors—foreign national personal services contractors make up about 60 percent of its workforce—to manage USAID's development activities due to declining numbers of U.S. direct-hire staff. Nondirect-hire staff may be paid with either program or operating expense funds. Many of these staff perform administrative duties that directly benefit the United States, and it is often difficult to distinguish between the administrative duties they perform and those done by U.S. direct-hire personnel. In four missions we visited, some foreign national personal services contractors were financial and procurement analysts, secretaries, and drivers. Although these analysts and support staff performed primarily administrative tasks for USAID's benefit, some were assigned to specific technical teams, and their salaries and support costs were paid from program funds because USAID considered their services directly allocable to these activities and did not report them as operating expenses. According to USAID officials, based on data recently collected from its missions, USAID estimates that about $350 million in program funds will be used to pay for nondirect-hire staff performing both administrative and technical support functions in fiscal year 2003. As a result, the operating expense account and other funds authorized for operating expenses do not fully reflect the cost of delivering foreign assistance.

To help provide increased visibility over USAID's operating expenses and a more realistic accounting of the agency's cost of doing business, we recommend that the USAID Administrator identify all administrative costs that primarily benefit the United States—whether paid for with operating expense funds or program funds—and report this information to the

[4]Primarily, funding provided for relief and reconstruction activities in Iraq and the global initiative to fight human immunodeficiency virus/acquired immune deficiency syndrome.

[5]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).

Congress in its annual budget requests for operating expense account appropriations.

In commenting on a draft of this report, USAID fully agreed with our recommendation. USAID also stated that it is well aware of the issues raised and is taking corrective actions to fundamentally restructure financing for the administration of foreign assistance to reflect the full cost of assistance delivery and match resources with changing circumstances.

Background

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.[6] In 1975, the House Appropriations Committee noted that when USAID was first established, a large percentage of direct-hire employees implemented assistance projects as technical specialists, and their salaries and support were paid from program funds because they were considered to be working primarily for the benefit of the recipient country.[7] USAID staff working for the benefit of both the recipient country and the U.S. government were also paid from program funds, while the remaining staff—whose activities were primarily in the interest of the United States—were paid from the administrative expense account. The Committee noted that this distinction became blurred as USAID delegated more program implementation responsibilities to third parties and its direct-hire staff took on more of a monitoring role. The Committee concluded that operating expense activities paid from program funds did not really differ from those paid from the administrative expenses account and suggested the creation of a separate account that would reflect all operating expenses.

In 1976, Congress began providing a line-item appropriation for operating expenses separate from USAID's humanitarian and economic development assistance programs.[8] The accompanying Senate report noted that USAID's cost of doing business would be better managed if these funds were

[6]The administration's budget request for fiscal year 1975 identified 11 separate funding accounts from which administrative expenses would be funded.

[7]H. Rept. 94-53.

[8]P.L. 94-330.

separately appropriated.[9] Congress authorized USAID's separate operating expense account the following year.[10]

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. A 1977 congressional report stated that "operating costs include not only the traditional 'administrative expenses,' but also the substantial cost of support and management of programs and projects (such as technical planning and management of specific projects, contracting, procurement of commodities, engineering services, and handling of trainees from abroad)."[11] 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.[12]

We also note that since 1976 Congress has approved funding sources other than USAID's operating expense account appropriation to pay USAID's operating expenses. For example, in fiscal year 2003, USAID's estimated appropriations for operating expenses are about 86 percent ($572.2 million) of the agency's total estimated obligations, and other sources comprise the remaining 14 percent ($95.8 million). Other congressional sources of operating expense funds have included specific uses of program funds and specific amounts in supplemental appropriations for humanitarian and reconstruction assistance—$21 million for fiscal year 2003.

In addition, local currency trust funds generated by the sale of U.S. commodities, which totaled more than $27 million at 18 overseas missions in fiscal year 2003, can be used for their operating expenses. However, the Office of Management and Budget offsets the use of trust funds from USAID's estimated operating expense account requirements. In addition, USAID regulations allow missions to charge a portion of leased office space, utilities, and maintenance costs to program accounts based on the number of program-funded personnel employed at the mission.

[9]S. Rept. 94-704.

[10]P.L. 95-88, Sec. 129, 22 U.S.C. 2427.

[11]H. Rept. 95-240.

[12]H. Rept. 95-701 and S. Rept. 95-1194.

Enclosure I provides more detail on USAID's sources of funding for operating expenses in fiscal year 2003.

Trends in USAID's Operating Expenses

Over fiscal years 1995 to 2002, USAID's total obligated operating expenses in constant 2003 dollars have ranged from a low of $595.7 million in 1998 to a high of $654.8 million in 1995, and USAID estimates total obligations in 2003 will be about $668 million.[13] However, as table 1 shows, the various administrative categories have varied considerably over this period with the net changes resulting in a modest total decline of about 1.2 percent between fiscal years 1995 and 2003.

- The largest administrative category in USAID's operating expense account is salaries and related support for U.S. direct-hire staff—accounting for 43 percent of USAID's estimated operating expenses in fiscal year 2003. However, funds obligated for direct-hire personnel declined during fiscal years 1995 through 2001, primarily due to declining levels of direct-hire staff during this period. But, in fiscal years 2002 and 2003, U.S. direct-hire personnel costs have increased over 11 percent. USAID expects these costs to rise as it continues its recent hiring efforts.

- Three other administrative categories—other staff costs, information technology, and rent—accounted for about 33 percent of USAID's estimated operating expenses for fiscal year 2003. Since fiscal year 1995, rent has increased more than 10 percent while other staff costs and information technology declined 6 percent and 3.4 percent, respectively. Although these expenses varied from year to year, the net change in total from fiscal year 1995 was a decline of less than 1 percent.

- Twelve other administrative categories account for the remaining operating expenses—about 24 percent in fiscal year 2003. Several categories varied widely over this period. Most notably land and structures ranged from a high of about $21 million in fiscal year 2000 to a low of $241,000 in 1996. Beginning in fiscal year 2004, most funding for new buildings will be provided from a newly established Capital Investment Fund.

[13]Including a $21 million supplemental for operating expenses that USAID has not allocated to its administrative categories.

Table 1: Table 1: Operating Expense Obligations by Administrative Category, Fiscal Years 1995-2003 (Constant 2003 dollars in thousands)

	Fiscal years									
Administrative category	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003[a]**	**Percentage change 1995-2003**
U.S. direct-hire personnel costs[b]	$302.5	$292.3	$268.2	$255.1	$255.2	$254.3	$249.2	$264.5	$277.7	-8.2
Other staff costs[c]	90.4	87.3	79.6	77.2	77.3	67.8	74.4	78.5	85.0	-6.0
Information technology[d]	68.2	56.0	47.7	60.0	61.7	64.1	83.8	78.6	65.9	-3.4
Rent[e]	59.4	55.2	54.7	56.8	59.3	57.3	61.6	62.8	65.7	10.5
Goods and services from government accounts[f]	24.7	24.3	38.0	28.5	29.0	31.7	29.4	33.5	38.2	54.6
Other USAID-contracted services[g]	19.5	14.6	19.4	32.5	38.5	20.0	21.5	21.1	22.3	14.2
Operation and maintenance	14.2	14.3	11.4	11.8	10.8	8.6	11.1	14.0	15.7	10.8
Communications and utilities	20.8	19.1	17.3	18.9	14.1	12.9	13.0	12.1	13.8	-33.5
Land and structures	0.7	0.2	9.8	1.9	12.2	21.0	3.5	4.3	13.3	1,715.1
Security	6.8	7.6	6.8	6.8	7.7	8.2	10.4	9.8	11.6	71.7
Equipment	11.8	19.5	30.0	14.4	19.4	18.3	25.3	18.3	10.1	-14.3
Transportation of goods	15.9	13.0	10.5	11.7	10.8	10.5	9.9	9.2	9.9	-37.8
Supplies and materials	11.8	8.9	9.6	10.5	10.7	11.1	10.9	10.3	8.8	-25.6
Training	5.7	5.9	5.9	8.9	5.5	7.2	10.2	7.0	8.4	47.7
Claims and indemnities	0.6	1.0	0.7	1.1	2.3	0.4	4.1	0.6	0.6	-6.4
Grants, subsidies, and contributors	1.7	1.7	2.4	0	0.2	0.4	1.5	1.2	0	-100.0
Total[h]	**$654.8**	**$621.0**	**$612.2**	**$595.7**	**$614.5**	**$593.9**	**$619.9**	**$625.8**	**$647.0**	**-1.2**

Source: GAO analysis of USAID data.

Note: USAID data are taken from its congressional budget justification documents.

[a]We did not include $21 million provided to USAID in supplemental funding for operating expenses in fiscal year 2003 because USAID has not allocated it among the administrative categories.

[b]Includes compensation, benefits, training, and travel expenses, such as home leave, post-assignment travel, and travel expenses incurred for training.

[c]USAID funds many of its overseas non-U.S. direct-hire personnel using operating expenses because their tasks are administrative in nature, such as providing support to the executive office.

[d]Includes costs for computer equipment, systems design and analysis, maintenance, and support.

[e]Includes domestic and overseas rental payments.

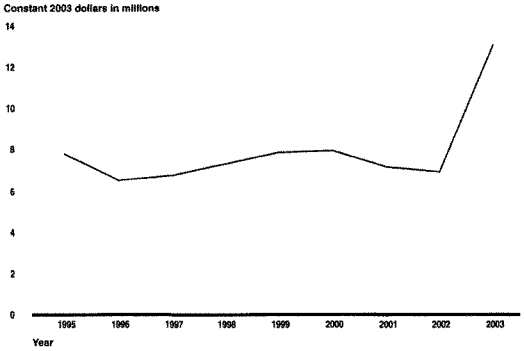
[f]Includes USAID's portion of administrative costs shared by U.S. agencies with an overseas presence and paid primarily to the Department of State.

[g]Includes operation and maintenance of facilities and goods, security costs, equipment, and transportation of household goods.

[h]Totals may not add due to rounding.

As shown in figures 1 and 2, between fiscal years 1995 and 2002, USAID's program obligations decreased at a faster rate than operating expense obligations, with fluctuations during this period. In constant 2003 dollars, USAID's program obligations decreased by more than 10 percent—from almost $7.8 billion in fiscal year 1995 to about $6.9 billion in fiscal year 2002. In fiscal year 2003, USAID's estimated program obligations increased almost 88 percent to $13 billion because of $4.2 billion in supplemental funds for, among other things, relief and reconstruction activities in Iraq and the global initiative to fight human immunodeficiency virus/acquired immune deficiency syndrome. However, USAID's estimated operating expense account obligations for fiscal year 2003 did not increase at a similar rate. Including $21 million in operating expense funds provided by supplemental legislation, estimated operating expenses increased less than 7 percent.

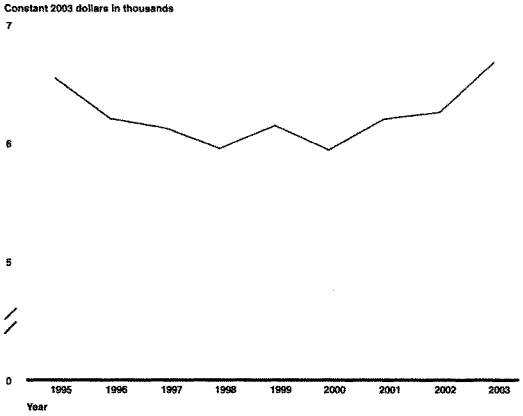
Figure 1: Program Obligations, Fiscal Years 1995 to 2003



Source: GAO analysis of USAID data.

Notes: USAID data are taken from its congressional budget justification documents and the Emergency Wartime Supplemental Appropriations Act of 2003 (P.L. 108-11). Fiscal years 1995 to 2002 are actual obligations adjusted to constant fiscal year 2003 dollars. Fiscal year 2003 data are estimated amounts. Fiscal year 2003 operating expenses include $21 million provided by supplemental legislation. Program data for fiscal years 2000 to 2003 include disaster recovery, emergency response, and supplemental funds. Program funding obligations sources include development assistance; child survival and health; development fund for Africa; international disaster assistance; transition initiatives; economic support funds; support for Eastern European democracy; Freedom Support Act; Public Law 480; Iraq relief and reconstruction fund; and credit program funds.

Figure 2: Operating Expense Obligations, Fiscal Years 1995 to 2003

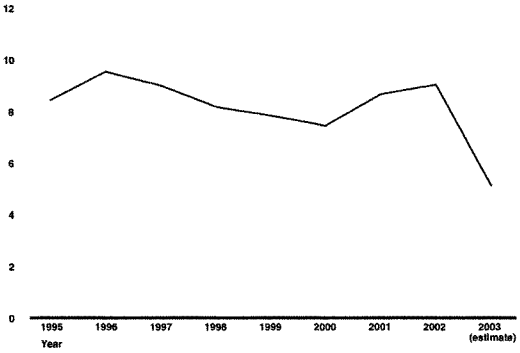


Source: GAO analysis of USAID data.

Note: See figure 1 notes.

As shown in figure 3, from fiscal years 1995 to 2002, USAID's operating expense obligations fluctuated as a percentage of program obligations but averaged about 8.5 percent. In fiscal year 2003, estimated operating expense obligations dropped to about 5 percent of estimated program obligations, including the supplemental funding.

Figure 3: USAID's Operating Expense Obligations as a Percentage of Program Obligations, Fiscal Years 1995 to 2003



Source: GAO analysis of USAID data.

Note: See figure 1 notes.

USAID's Operating Expense Account Does Not Include All Administrative Costs

USAID's operating expense account does not fully reflect the agency's cost of doing business primarily because the agency pays for some administrative activities done by contractors and other nondirect-hire staff with program funds. As we reported in August 2003, as the number of U.S. direct hire foreign service officers has declined over the years, USAID missions have often hired personal services contractors—usually foreign nationals—to manage development activities and provide technical project support.[14] Approximately 60 percent of USAID's staff are foreign national personal service contractors. Many of these nondirect-hire personnel are engaged in activities that directly support USAID programs and are paid with program funds.

[14]GAO-03-946.

Many nondirect-hires perform administrative duties that directly benefit the United States, and it is often difficult to distinguish between the administrative duties they perform and those done by U.S. direct-hire personnel. These staff can be paid with program or operating expense account funds. In four missions we visited—the Dominican Republic, Mali, Peru, and Senegal—some foreign national personal services contractors were financial and procurement analysts, secretaries, and drivers. Although these analysts and support staff performed primarily administrative tasks for USAID's benefit, some were assigned to specific technical teams and their salaries and support costs were paid from program funds because USAID considered their services directly allocable to these activities and did not report them as operating expenses. According to USAID officials, based on data recently collected from its missions, USAID estimates that about $350 million in program funds will be used to pay for personal services contractors performing administrative functions overseas in fiscal year 2003.[15]

Institutional contract staff also provide administrative and technical services in support of USAID programs. In 2002, for example, USAID estimated that 758 institutional contractor staff were involved in the administration of foreign assistance at an estimated cost of $95 million. Of this total staff, 450 positions were funded from operating expense appropriations ($56 million), and 308 positions were funded from program funds ($39 million).[16] USAID is continuing its review of institutional contractors to decide how to characterize their work.

A 2002 USAID team examining USAID's operating expense account found that most of the agency's evaluations and analyses have been paid with program funds, based on the rationale that these activities are intended to enable the agency to better serve its "ultimate beneficiaries." But this may not be what Congress intended.

[15]One senior level USAID program planning officer told us that about 10 to 15 percent of program funds may be a more realistic estimate of USAID's cost of doing business (compared with the 8.5 percent average since 1995).

[16]According to USAID, these figures were developed as part of a staff study of institutional contractors and were as of September 30, 2002.

- The team's report stated that "although strategy development, project design, evaluation and other activities relate to the agency's cost of doing business, in the longer run they are essential building blocks of agency operations and are necessary for program oversight. Ultimately, the impact of improved strategies, design, and projects has an impact on the agency's beneficiaries. In that sense, there clearly is a rationale for providing program funding for these activities.[17]"

- In contrast, a USAID attorney assisting the team noted that a 1980 Senate Appropriations Committee report stated that only such planning and evaluation activities that are project specific should be paid with program funds, but that activities with a primary objective of serving the agency, including analyses for development assistance policy planning, were part of the cost of doing business.

Cognizant USAID officials contend that congressional intent has shifted and that from 1980 to the present, Congress has increasingly encouraged the agency to use program funds to support certain administrative costs. However, these officials also stated that the increased reliance on program funded staff for some administrative activities further demonstrates the need to restructure how operating expenses are accounted for to better reflect USAID's cost of doing business.

Conclusion

Since 1976, Congress has provided a separate appropriation for USAID's operating expenses and, over the years, has approved additional funding sources for operating expenses to separate administrative costs from USAID's humanitarian and development assistance programs. However, as U.S. direct-hire staff levels have declined, overseas missions have hired personal services and institutional contractors and other nondirect-hire staff to manage development activities and perform various administrative duties, but pay for some of these services with program funds. But USAID has not fully identified or reported the extent of these costs. Therefore, separating USAID's cost of doing business from its humanitarian and development programs is not always done. As a result, the operating expense account and other funds USAID has available for operating expenses do not fully reflect the cost of delivering foreign assistance.

[17]U.S. Agency for International Development/Bureau for Policy and Program Coordination, *USAID's Operating Expense Account: Current Practices and Planned Reforms* (Washington, D.C.: Oct. 7, 2002).

Recommendation for Executive Action

To help provide increased visibility over USAID's operating expenses, better reflect what USAID spends on program administration, and provide a more realistic accounting of the agency's cost of doing business, we recommend that the USAID Administrator identify all administrative costs that primarily benefit the United States—whether paid for with operating expense funds or program funds—and report this information to the Congress in its annual budget requests for operating expense account appropriations. Such an accounting should form the basis of USAID's annual budget request for operating expense funds.

Agency Comments

USAID provided written comments on a draft of this report (see enc. II). It fully agreed with the recommendation. USAID acknowledged that the current structure of the operating expense account does not serve workforce planning needs or foreign policy objectives because (1) staffing decisions are often made according to funding source rather than workforce requirements and (2) as a result, the heavy reliance on short-term contractors has limited USAID's capacity to respond to foreign assistance needs.

USAID also stated that it is well aware of the issues raised in the report and is taking corrective action. USAID noted that, within the past 18 months, it has completed assessments of operating expenses and overseas staffing, a survey of program-funded personnel, and an approach for full costing of assistance at a unit level. It has also initiated a long-term assessment of human resources. As a result of these efforts, USAID is reviewing ways to fundamentally restructure financing for the administration of foreign assistance to reflect the full cost of assistance delivery and match resources with changing circumstances.

In addition, USAID officials provided clarification of certain technical matters that we have incorporated into this report, as appropriate.

Scope and Methodology

To examine trends in USAID's spending for operating expenses and program activities since 1995, we analyzed obligations data reported by USAID in its annual budget justification documents. We converted obligations for operating expenses and program activities into constant fiscal year 2003 dollars to adjust for inflation and better reflect the agency's purchasing power during this period. We also met with cognizant budget officials at USAID to better understand the reported operating expense and

program funding data. We did not verify the accuracy of USAID's reported data.

To determine whether USAID's operating expenses reflect its cost of doing business, we reviewed USAID reports and annual budget justifications and met with knowledgeable officials in USAID's Bureau for Policy and Program Coordination, the U.S. Department of State, and the U.S. Office of Management and Budget. In conjunction with other work,[18] we conducted fieldwork at seven overseas missions—the Dominican Republic, Ecuador, Egypt, Mali, Peru, Senegal, and the West Africa Regional Program in Mali.[19] We reviewed mission staffing reports to determine whether staff were funded from the operating expense account or program funds and discussed the duties of personnel with cognizant mission officials.

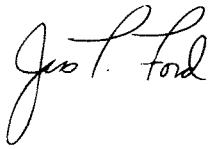
Our review was conducted from May through September 2003 in accordance with generally accepted government auditing standards.

We are sending copies of this report to appropriate congressional committees, the Administrator of USAID, the Secretary of State, and the Director of the Office of Management and Budget. We will also make copies available to others upon request. In addition, this report will be available at no charge on our Web site at http://www.gao.gov.

[18]GAO-03-946.

[19]We also examined documents and interviewed officials at USAID's mission to Indonesia at its temporary location in Arlington, Virginia, following its evacuation in October 2002.

If you or your staff have any questions concerning this report, please contact me at (202) 512-4268 or Al Huntington, Assistant Director, at (202) 512-4140. Other key contributors to this report were Kimberley Ebner, Emily Gupta, and Audrey Solis.



Jess T. Ford, Director
International Affairs and Trade

Enclosure I: Description of Sources of Funding for USAID's Operating Expenses Fiscal Year 2003

Since 1976, Congress has approved funding sources other than the U.S. Agency for International Development's (USAID) operating expense account appropriation to pay for operating expenses. Although USAID reports these other funds as operating expenses, they are not part of its single budget item appropriation. As shown in table 2, for example, in fiscal year 2003, other sources comprised 14.2 percent ($95.8 million) of what USAID is estimating as operating expense obligations.

Table 2: USAID's Estimated Obligations for Operating Expenses in Fiscal Year 2003 by Sources of Funding (Dollars in millions)

Funding source	Amount	Percent
Annual appropriation	$572,200	85.6
Unobligated balance	34,231	5.1
Local currency trust funds	27,557	4.1
Supplemental funding	21,000	3.1
Authorized program funds	7,417	1.1
Reimbursements	5,600	0.8
Total	**$668,005**	**99.8[a]**

Source: USAID fiscal year 2004 congressional budget justification documents and the Emergency Wartime Supplemental Appropriations Act of 2003 (P.L. 108-11), which provided supplemental operating expense funding.

[a]Does not add to 100 percent due to rounding.

Annual appropriation: These are funds for which USAID receives new budget authority every fiscal year and do not include supplemental appropriations for operating expenses obtained during the course of the fiscal year.

Unobligated balance: The unobligated balance is of any unobligated funds that USAID has the authority to transfer to the following fiscal year's operating expense account.

Local currency trust funds:[20] U.S. commodity import programs normally generate this type of funding. In fiscal year 2003, 18 USAID missions have local currency trust funds. The Egypt mission's trust fund is the largest

[20]USAID cites a recurring provision in its appropriations bills as legal authority to use local currency trust funds. For fiscal year 2003, see Public Law 107-115, section 529.

(almost $73 million in January 2003), and the mission uses it to pay for training, housing, and dependents' education.

Supplemental funding: Supplemental legislation for an emergency response or large-scale reconstruction generally specifies an amount that USAID may use as operating expenses in administering such activities.

Authorized program funds: Some specific program funding can be transferred to the operating expense account. The amount varies according to different rules governing the transfer of program funding from each account. For example, USAID can transfer a limited amount of program funds to the operating expense account to finance travel to countries with USAID activities but no USAID field presence. Additionally, USAID has the authority to transfer larger program funding amounts from other accounts to the operating expense account, not to exceed 10 percent of the originating program account.[21] But this action requires presidential approval and is rarely undertaken.

Reimbursements: These funds are primarily generated internally by USAID. Examples include reimbursements to USAID from the its Office of the Inspector General or the Development Credit Program—units that receive separate operating expense appropriations—for services by USAID, such as computer services and rent. Proceeds from the sale of equipment overseas are also included in this category.

[21]Foreign Assistance Act of 1961, as amended, title 22, section 610a.

Enclosure II: Comments from the Agency for International Development

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

SEP 29 2003

Mr. Jess T. Ford
Director
International Affairs and Trade
U.S. General Accounting Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Ford:

I am pleased to provide the formal response of the U.S. Agency for International Development (USAID)to the draft GAO report entitled "FOREIGN ASSISTANCE: USAID's Operating Expense Account Does Not Fully Reflect the Cost of Delivering Foreign Assistance" (September 2003).

The GAO report indicates accurately a critical and timely issue for USAID. It is clear that USAID must have a better approach to both recognizing the full cost of assistance delivery and better linking and matching available resources for administration with the programs. While direct hire staff have declined over time, program requirements and, internal budgetary requirements for mandatory operating cost increases--i.e., emerging technology needs, security, and ICASS costs--have grown, placing great pressure on the Agency.

USAID is well aware of the issues within the Report and is taking action. Within the past 18 months, USAID has completed an assessment of operating expenses, completed a survey and costing of program funded personnel, prepared an assessment of field presence and overseas staffing, from which USAID staff will be redeployed, completed an approach for full costing of assistance at a unit level and initiated a long term assessment of Human Resources. Most importantly, in light of the results of these efforts, USAID has initiated a review of a fundamental restructuring of the financing of the administration of foreign assistance to reflect the full cost of assistance delivery and to match resources with changing circumstances. USAID sees this GAO Report as a confirmation of the validity of the issues which

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have been identified and as encouragement to reach consensus on a new approach for the financing of the administration of foreign assistance.

With regard to the history of the OE account, we believe it is important to emphasize that Congressional intent evolved over time with changing circumstance. From 1980 on Congress has increasingly encouraged the agency to use program funds (in lieu of increased OE) to support salaries of certain types of personnel, payment of administrative expenses like travel for certain programs, and costs of managing unanticipated program increases (e.g. HIV/AIDS and supplementals). The increasing reliance on program funded staff underscores the need to restructure the cost of administration to transparently reflect the total cost of doing business.

It is important to note too that USAID is monitoring the use of program-funded staff. The Agency's HR staffing pattern report has included such non direct staff since 1995 as does our Congressional Budget Justification (CBJ). USAID completed a costing of program funded staff last year. We have efforts in process to expand monitoring and control of non-direct hire staff including a USAID notice which sets out procedures and the Agency's Annual Report now includes efforts on costing. We are increasing our efforts through methodology which brings all cost together against the pertinent program cost, including allocation of support functions.

We want to emphasize that non-direct hire staff is funded both through OE and program accounts, depending on the functions of the position, in accordance with USAID guidance. OE-funded PSC's have been used to fill critical staffing gaps. USAID uses such short-term measures because it does not have adequate numbers of staff (a "float" capacity) to cover training time and gaps between assignments. In contrast, program funded people are, by definition, related directly to programs and strategic objectives rather than support function in accordance with USAID guidance. All costs not specifically and directly related to identified strategic objectives are funded from Operating Expenses. USAID staffing pattern reporting distinguishes between OE and program funded non-direct hire staff.

In summary, the GAO report highlights a key issue for USAID-the structure and sufficiency of resources for the administration of foreign assistance. USAID agrees fully with the proposed recommendation to modify our approach to administrative cost to provide a realistic accounting of the

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Agency's cost of doing business. The report is particularly timely as USAID is engaged in the development of a new approach to administrative cost financing, which responds to this requirement. We do not believe the current structure of the Operating Expense account serves foreign policy objectives or workforce planning needs. Because Operating Expenses have been supplemented by program resources, by both Congress and USAID, workforce decisions are made according to funding source rather than workforce need. As a result, a wide variety of personnel systems has evolved with heavy reliance on short-term contract assignments limiting the institutional capacity of the Agency to respond to foreign assistance needs.

If you have any questions concerning this response please contact James Painter, USAID Bureau for Policy and Program and Coordination at (202) 712-0280.

Thank your for the opportunity to respond to the draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,

John Marshall
Assistant Administrator
Bureau for Management

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