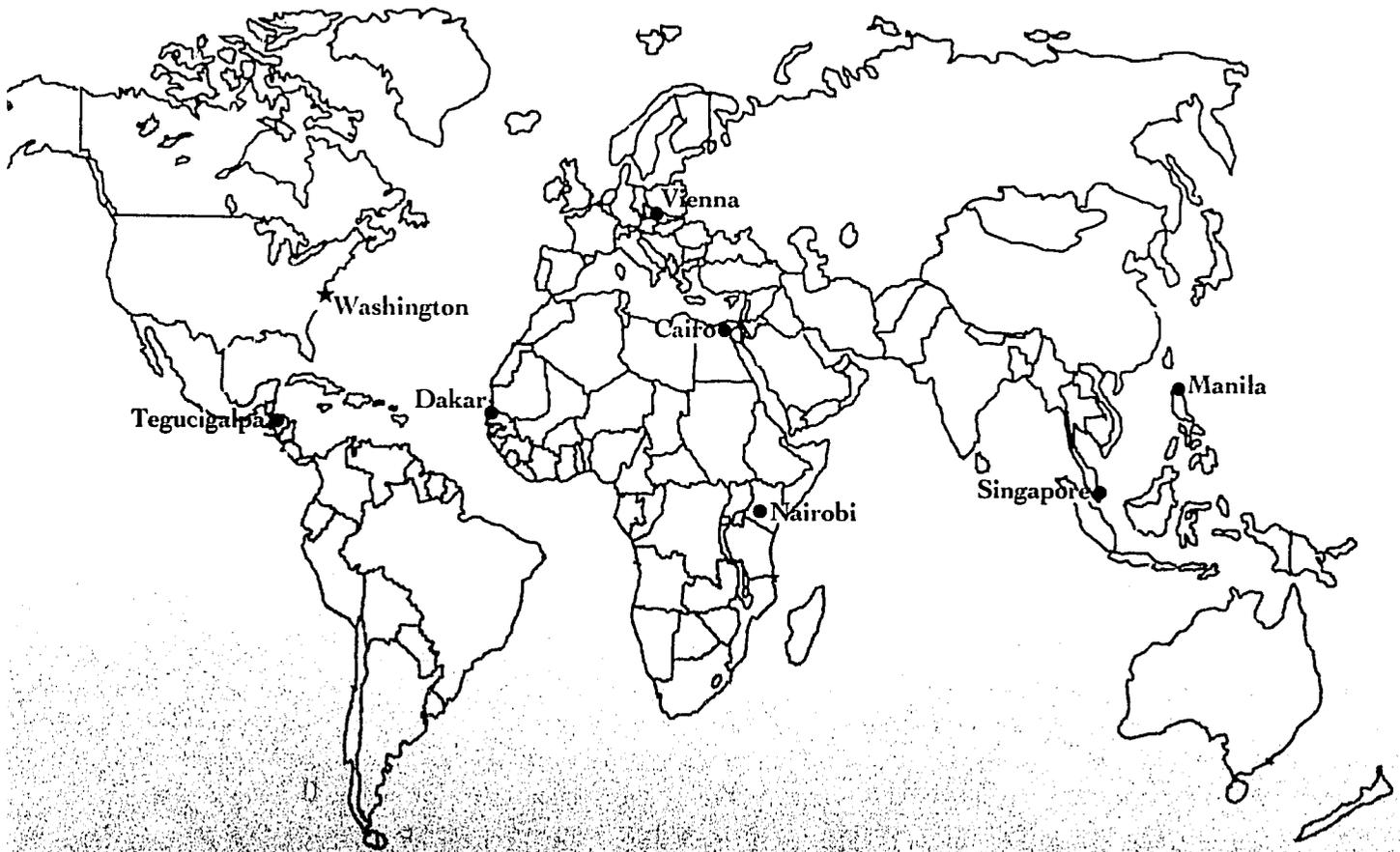

**A.I.D.'s Oversight Role for Interagency Agreements
Under the Central and East Europe
and
New Independent States Programs
Needs Clarification**

**Report No. 8-000-93-02
February 26, 1993**



AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

THE INSPECTOR GENERAL

February 26, 1993

INFORMATION MEMORANDUM FOR THE ACTING ADMINISTRATOR

FROM: IG, Herbert L. Beckington 

SUBJECT: Audit of A.I.D.'s Oversight Role for Interagency Agreements Under
the Central and East Europe and New Independent States Programs

This is our report on the subject audit which demonstrates the need to clarify A.I.D.'s oversight role under interagency agreements.

Since this report does not include recommendations, we did not request formal management comments. We did provide a draft of this report to the Bureau for Europe and the NIS Task Force and discussed the report with officials from both organizations. Where appropriate, we have revised the report to reflect comments made by these officials.

I appreciate the cooperation and courtesies extended to my staff during the audit.

EXECUTIVE SUMMARY

Since the end of the cold war, the United States has been providing economic assistance to Central and East Europe and the former Soviet Union. This assistance has been administered by not only A.I.D., but numerous other U.S. government agencies through interagency agreements with A.I.D. The Office of the Inspector General performed this audit to determine (1) the level of financial resources A.I.D. transferred to other agencies and (2) A.I.D.'s oversight role with regard to assistance programs carried out by participating U.S. government agencies.

The audit showed that, as of September 30, 1992, A.I.D. transferred approximately \$451 million to 18 other U.S. government agencies to carry out assistance activities. However, A.I.D.'s oversight role for these transferred funds is unclear. This is caused by (1) different legislative language and (2) a lack of clarity with respect to the role the Department of State Coordinator expects A.I.D. to play, particularly regarding the assistance program for the former Soviet Union. Both internal and external reports have pointed out that the lack of clarity concerning A.I.D.'s role has created vulnerabilities with respect to A.I.D.'s internal control structure and potentially major coordination problems in the delivery of economic assistance by the numerous U.S. government agencies.

The economic assistance programs are at a critical juncture. While specific problems emanating from A.I.D.'s unclear role have not surfaced to date, such problems, in our view, are inevitable. To better ensure the effective implementation and coordination of the numerous U.S. government agencies' programs, A.I.D., in consultations with the Congress and the Department of State, needs to clarify its oversight role.

BACKGROUND

U.S. economic assistance to Central and East Europe (CEE) was authorized by the Support for East European Democracy Act of 1989. The New Independent States (NIS) program for the former Soviet Union was authorized by the Freedom Support Act of 1992. The Deputy Secretary of State was designated as Coordinator for both

programs. Within A.I.D., the Bureau for Europe, Regional Mission for Europe is responsible for the CEE program, and the New Independent States Task Force administers the NIS program. (See pages 1 and 2.)

These programs are unique in that many U.S. government agencies, not just A.I.D., are involved in assistance activities. Some agencies, such as the U.S. Information Agency and the Department of Commerce, fund some of their assistance activities with their own appropriations and use CEE and NIS funds to supplement their budgetary resources. Other agencies rely entirely on CEE and NIS funds transferred by A.I.D. through interagency agreements. (See pages 3 and 4.)

As of September 30, 1992, A.I.D. transferred, under 112 interagency agreements, approximately \$451 million of CEE and NIS program funds to 18 U.S. government agencies. The amounts transferred are significant--representing approximately 38 percent of A.I.D.'s CEE funds and almost one-half (49 percent) of A.I.D.'s NIS funds. (See pages 3 to 5.)

AUDIT FINDINGS

A.I.D.'s Role Is Unclear

Due to (1) different legislative and Congressional Committee report language for the two programs concerning A.I.D.'s role and (2) a lack of clarity with respect to the role the Coordinator's Office expects A.I.D. to play (particularly for the NIS program), A.I.D.'s oversight role for interagency-funded activities is unclear. As a result, the agency has taken different oversight roles under the two programs, most notably at the field level. (See page 6 and Appendix II of the report for a comparison of A.I.D.'s oversight role under the two programs.) A.I.D.'s unclear role has created vulnerabilities within A.I.D.'s internal control structure--especially that of the NIS Task Force--and potential coordination problems in the delivery of economic assistance by the numerous U.S. government agencies.

Legislative Differences

Legislation authorizing and funding the two assistance programs, and the related Congressional Committee reports, provide differing language as to the oversight role Congress expected A.I.D. to play for funds it transferred to other agencies:

- Although authorizing legislation for the CEE and the NIS programs

clearly established that the Department of State would be directly responsible for coordinating all U.S. assistance activities, this legislation was silent on A.I.D.'s oversight role. However, the authorizing legislation for the NIS program, the Freedom Support Act of 1992, stated under the section titled "Program Coordination, Implementation, and Oversight" that any agency managing and implementing an assistance program shall be accountable for any funds made available to it for such program. The implication of this language is that those agencies receiving funds transferred from A.I.D., under the NIS program, are responsible/accountable for the funds--not A.I.D. (See pages 11 and 12.)

- Further, the Fiscal Year 1993 Foreign Operations Appropriation Act, which provided funds for both programs, contains specific language dealing with A.I.D.'s oversight role, but only for the CEE program. This Act stated that the principal A.I.D. officer in each CEE country, operating under the direction of the Coordinator and the Ambassador, shall be responsible for coordinating the field activities of all U.S. government agencies in Eastern Europe and the Baltic States. Although the Appropriation Act contained no specific references concerning A.I.D.'s oversight role for the NIS program, the Senate Appropriations Committee Report (Report No. 102-419, dated September 23, 1992) for this Act seems to support the language contained in the NIS program's authorizing legislation. This report recognized that A.I.D. would likely not be the sole U.S. government agency implementing activities with NIS funds and stated it was the Senate Appropriations Committee's intention that accountability for how those funds are used should rest with the departments and agencies actually responsible for managing and implementing activities with NIS funds. (See pages 9, 12, and 13.)

Although the above legislative language seems to indicate that the Congress may have envisioned A.I.D. having a stronger oversight role under the CEE (compared to the NIS) program, staff members from the House Foreign Affairs Committee and the Senate Subcommittee on Foreign Operations, Senate Committee on Appropriations stated that they envisioned a similar A.I.D. role for both programs. Further, the House Committee on Foreign Affairs' Report (No. 102-569, dated June 16, 1992) for the NIS authorizing legislation stated that the House Committee expected A.I.D. employees stationed in the NIS countries to have principal program and project implementation, decisionmaking, and oversight responsibilities. However, both the

Senate (Report No. 102-292, dated June 2, 1992) and Conference (Report No. 102-964, dated October 1, 1992) reports for the NIS authorizing legislation were silent on A.I.D.'s role. (See pages 12 and 18.)

State Coordinator's Guidance Is Unclear

Although the Coordinator issued similar guidance on A.I.D.'s respective roles under the CEE and NIS programs, the guidance is not clear as to the precise role A.I.D. is to take regarding funds it transfers to other agencies. Further, Coordinator Office officials' expectations as to A.I.D.'s oversight role are different for the two programs.

Guidance memorandums issued by the Coordinator for both programs indicate A.I.D. has "residual oversight responsibility" for projects financed with funds transferred to other agencies and that the other agencies have "initial accountability" for such projects. However, the guidance memorandums are unclear as to exactly what "residual oversight responsibility" means or what this responsibility entails on the part of A.I.D. Further, the memorandums do not define what is meant by "initial accountability" nor identify when A.I.D. assumes accountability for the projects, if in fact A.I.D. does, as the memorandums seem to assume. (See pages 7, 8, and 13.)

Coordinator Office officials also seem to have different expectations as to A.I.D.'s oversight role under the two programs. Under the CEE program, a Coordinator Office official expects A.I.D. to know what is going on with respect to assistance activities carried out by other U.S. government agencies and to alert him to any significant problems. Under the NIS program, Coordinator Office officials stated they had not defined a specific oversight role for A.I.D. However, they said they currently do not expect NIS Task Force field offices to have the same proactive role played by the Bureau for Europe offices in CEE countries. (See pages 8, 13, and 15.)

Different Oversight Roles Being Followed

As a result of the different legislative language and unclear Coordinator guidance, A.I.D. has different field oversight roles under the two programs.

Under the CEE program, A.I.D.'s Bureau for Europe takes a "proactive" monitoring role, whereby Bureau officials actively seek information on the other agencies' activities. Officials maintain that if they identify problems with other agencies' programs, they try and resolve these problems before elevating them to the Coordinator level for resolution. The Bureau has also defined a specific monitoring role for its field representatives based, in large part, on the legislative requirements

contained in the Fiscal Year 1993 Foreign Operations Appropriation Act. The Bureau's guidance, for example, states that A.I.D. field representatives are responsible for in-country oversight and monitoring of all activities financed by A.I.D., including interagency agreements. The guidance defines monitoring as inspections of specific project activities, events, or sites to check whether goods and services financed by A.I.D. are in fact being delivered and are having the intended effects. (See pages 9 to 11.)

Under the NIS program, the Task Force has defined its oversight role as that of "broad monitoring to ensure complementarity and avoid duplication, but not to oversee or ensure proper implementation, contracting, and financial management" by other U.S. government agencies. According to NIS Task Force officials, A.I.D. field offices currently are not proactively monitoring other agencies activities. Field personnel have been asked to become involved with other agencies' activities from the standpoint of knowing who is visiting and what is happening. No formal NIS Task Force guidance has been issued, however, on A.I.D.'s exact field role and responsibility for activities carried out by other U.S. government agencies. (See pages 13 to 15.)

Problems Posed by Unclear Oversight Role

The lack of clarity with respect to A.I.D.'s oversight role for funds transferred to other agencies under the CEE and NIS programs has created potential vulnerabilities for A.I.D., particularly for the NIS program. For example:

- In its 1992 Federal Managers' Financial Integrity Act report to the President, A.I.D. identified as one of two new high risk areas the "New Independent States (Task Force) Authority and Role." The report cited this area as high risk because the overlapping authority and broad participation by outside agencies not directly accountable to A.I.D. increase the potential for vulnerability. (See page 16.)
- A January 1993 vulnerability assessment of the NIS Task Force, which was done at the request of the Task Force, also cited as a potential vulnerability the unclear oversight role A.I.D. has with respect to funds transferred to other agencies. The assessment report pointed out that there existed different interpretations of the extent of A.I.D.'s accountability for funds it makes available to other U.S. government agencies. (See page 16.)

- Three General Accounting Office (GAO) reports have pointed out that coordination and monitoring problems exist with both the CEE and NIS programs, caused in part by an unclear A.I.D. role with respect to the activities of other participating U.S. government agencies. For example, GAO's 1991 report on the CEE program pointed out that while A.I.D. believed it was responsible and accountable for CEE funds passing through its accounts to other agencies, the other agencies were critical of A.I.D.'s attempts to exercise management authority over projects A.I.D. was not implementing. (See pages 16 and 17.)
- A.I.D., under both programs, requires the other agencies to submit periodic, usually quarterly, financial and narrative progress reports which are needed to monitor the other agencies' activities. A.I.D.'s experience to date, particularly under the CEE program, indicates these reports cannot be solely relied upon for oversight purposes--the reports are often not submitted as required, submitted late, and, even when submitted, do not contain the information needed to keep A.I.D. informed of the agencies' progress and problems. For example, A.I.D. entered into a \$8.1 million agreement with the Environmental Protection Agency in May 1991 under which the Agency was required to submit quarterly financial and progress reports. However, the Agency, as of December 10, 1992, had never submitted any financial reports and had not submitted quarterly progress reports for the quarters ending June 30 and September 30, 1992. (See pages 10, 11, and 14.)
- The unclear A.I.D. role with respect to funds provided to other U.S. government agencies may also create some potential problems in terms of audit coverage. The Fiscal Year 1993 Foreign Operations Appropriation Act states that the A.I.D. Inspector General has audit responsibilities over the field activities carried out under the CEE and NIS programs, subject to the concurrence of the other U.S. government agencies. In essence, the Appropriation Act is assigning audit responsibilities to the A.I.D. Inspector General for field activities carried out by other agencies even though A.I.D., according to the Freedom Support Act, may not be accountable. (See page 19.)

Other potential vulnerabilities include the fact that A.I.D. may not be fulfilling the oversight expectations of Congress, the Department of State Coordinator, and the general public. In addition, it is inevitable that tensions and disagreements will

develop among A.I.D. and other participating agencies because the interagency relationships with A.I.D. have not been defined. (See pages 17 and 18.)

Conclusion

The lack of clarity as to A.I.D.'s oversight role for funds it transfers to other U.S. government agencies is an issue that is beyond A.I.D.'s direct control. Therefore, we are not making recommendations to the Administrator. We are proposing, however, matters for consideration by the Administrator in terms of seeking changes in legislation and/or Office of Coordinator guidance to resolve this issue.

In this regard, we believe there are a number of options that can be considered. These options include having complete accountability and oversight resting with the other participating agencies' management and their respective Inspectors General. Another option would be to have shared accountability and oversight whereby the recipient agencies are responsible for the technical program aspects, and A.I.D., operating as an agent of the Coordinator, is responsible for overall program management including coordination, monitoring, and evaluation. Audit responsibilities under this option would be coordinated by the A.I.D. Inspector General.

The various options available carry with them a number of advantages and disadvantages that must be weighed carefully when deciding on the role A.I.D. should play. For example, assigning complete accountability and oversight to the other participating agencies would eliminate much of the current confusion as to A.I.D.'s role, but at the same time it may create a situation where it would be difficult for the Coordinator's Office to effectively coordinate the numerous field activities of U.S. government agencies. Assigning A.I.D. more oversight may result in more effective coordination and implementation of the assistance programs, but unless the parameters of A.I.D.'s oversight role are clearly defined and understood by all concerned parties (the Congress, Department of State Coordinator, participating agencies, and A.I.D.), coordination problems are inevitable.

This report includes a detailed discussion of (1) the current oversight role being carried out by A.I.D. for the two programs (see pages 7 to 15) and (2) potential oversight options (see pages 21 to 24). These discussions are intended to assist A.I.D. in clarifying the management structure and responsibilities for the CEE and NIS programs within A.I.D., as well as the interrelationships among A.I.D., the Office of the Coordinator, and other U.S. government agencies.

Matters For Consideration By The Administrator

The Administrator, A.I.D., in consultation with the Department of State and the appropriate Congressional Committees, should:

- more clearly define, after taking into account the various options presented in this report, the oversight role A.I.D. should play with respect to CEE and NIS funds it transfers to other U.S. government agencies; and
- seek appropriate legislative changes and/or Office of Coordinator guidance to ensure that a uniform A.I.D. oversight role will be followed for both programs. (See page 24.)

Office of the Inspector General

Office of the Inspector General

February 26, 1993



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Appendix

SCOPE AND METHODOLOGY

I

**COMPARISON OF A.I.D.'S OVERSIGHT ROLE
UNDER THE CEE AND NIS PROGRAMS**

II

REPORT DISTRIBUTION

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INTRODUCTION

Background

U.S. economic assistance to Central and East Europe (CEE) and the New Independent States (NIS) was authorized, in the case of the CEE program, by the Support for East European Democracy (SEED) Act of 1989 and, for the NIS program, the Freedom Support Act of 1992. The assistance programs are unique in that numerous U.S. government agencies, not just A.I.D., are involved in assistance activities. Both authorizing Acts required the President to designate, within the Department of State, a program coordinator who would be directly responsible for overseeing and coordinating all assistance activities.

The President designated the Deputy Secretary of State as Coordinator for both programs. For the CEE program, the Coordinator is assisted by three Deputy Coordinators: the Deputy Secretary of Treasury, the Chairman of the Council of Economic Advisors, and the Administrator of A.I.D. A Special Adviser to the Deputy Secretary of State for East European Assistance was designated to assist the Coordinator and Deputy Coordinators in formulating and implementing policy.

For the NIS program, the Coordinator is assisted by five Deputy Coordinators: the Deputy Defense Secretary, the Chairman of the Council of Economic Advisors, the Deputy Treasury Secretary, the Deputy Agriculture Secretary, and the A.I.D. Administrator. A Deputy to the Coordinator was designated to assist the Coordinator and Deputy Coordinators in formulating and implementing policy.

For both the CEE and NIS programs, the Department of State Coordinator's Office takes the lead role in coordinating assistance activities of all U.S. government agencies, including A.I.D., and providing policy guidance for ongoing and proposed assistance activities, including funding levels. A.I.D., operating under the policy

guidance and direction of the Coordinator, is responsible for program management of all assistance programs that are implemented with funds apportioned to A.I.D.

Within A.I.D., the Bureau for Europe, Regional Mission for Europe (hereafter referred to as the Regional Mission for Europe) administers the CEE assistance program and the New Independent States Task Force administers the NIS assistance program. The Task Force is intended to function like an A.I.D. Bureau.

Audit Objective

Because of the large amount of CEE and NIS funding transferred by A.I.D. to other executive and legislative agencies, we audited A.I.D.'s controls over interagency agreements to answer the following audit objective:

How much of A.I.D.'s assistance to Central and East Europe and the New Independent States is carried out under interagency agreements and what is A.I.D.'s oversight role under these agreements?

Appendix I contains a complete discussion of the scope and methodology for this audit.

REPORT OF AUDIT FINDINGS

How Much of A.I.D.'s Assistance to Central and East Europe and the New Independent States is Carried Out Under Interagency Agreements and What is A.I.D.'s Oversight Role Under These Agreements?

As shown below, as of September 30, 1992, A.I.D. transferred, under interagency agreements, approximately \$451 million of CEE and NIS program funds to 18 U.S. government agencies. A.I.D.'s oversight role with respect to these funds needs clarification.

SUMMARY OF INTERAGENCY AGREEMENTS BY PROGRAM AND AGENCY AS OF SEPTEMBER 30, 1992

AGENCY	NO. OF AGREEMENTS	TOTAL AMOUNT	CEE AGREEMENTS		NIS AGREEMENTS	
			NO.	AMOUNT	NO.	AMOUNT
TREASURY**	14	\$ 229,740,000	13	\$ 225,740,000	1	\$ 4,000,000
USIA	32	51,225,371	30	45,825,371	2	5,400,000
ENERGY	7	45,086,000	6	23,186,000	1	21,900,000
USDA	9	27,011,000	7	11,975,000	2	15,036,000
EPA	6	21,498,776	6	21,498,776	-	-
LIBR/CONG	3	14,008,000	3	14,008,000	-	-
LABOR	4	13,675,000	4	13,675,000	-	-
TDP	6	13,220,000	4	7,220,000	2	6,000,000
COMMERCE	9	10,852,693	6	7,244,693	3	3,608,000
OPIC	3	7,000,000	1	3,000,000	2	4,000,000
STATE	6	6,993,017	4	6,243,017	2	750,000
NRC	2	4,000,000	1	900,000	1	3,100,000
FTC	2	1,832,371	2	1,832,371	-	-
JUSTICE	2	1,832,371	2	1,832,371	-	-
PEACE CORPS	4	1,544,986	4	1,544,986	-	-
SEC	1	900,000	1	900,000	-	-
HHS/CDC	1	535,711	-	-	1	535,711
INTERIOR	1	160,000	1	160,000	-	-
TOTALS	<u>112</u>	<u>\$ 451,115,296</u>	<u>95</u>	<u>\$ 386,785,585</u>	<u>17</u>	<u>\$ 64,329,711</u>

**Includes a \$199.1 million agreement with the Department of Treasury to establish the Polish Stabilization Fund under the CEE program.

Some agencies, such as the U.S. Information Agency and the Department of Commerce, use their own appropriations to fund some of their assistance activities and use CEE and NIS funds to supplement their budgetary resources. Other agencies rely entirely on CEE and NIS funds transferred by A.I.D. to fund assistance activities.

A.I.D. uses two types of agreements to transfer funds to other agencies under the authorities contained in sections 632 (a) and 632 (b) of the Foreign Assistance Act of 1961, as amended. Under a 632 (a) agreement, the funds transferred by A.I.D. to another agency are not obligated on A.I.D.'s records but rather are obligated on the recipient agency's records. According to an A.I.D. Office of General Counsel February 1991 memorandum providing guidance on the use of these agreements, A.I.D., for the most part, is not expected to monitor or evaluate the progress or impact of a project funded through a 632 (a) agreement.

Under a 632 (b) agreement, A.I.D. treats the funds transferred as an obligation as of the date of signing the agreement. As an administrative matter, according to the A.I.D. General Counsel guidance memorandum, A.I.D. retains far more oversight responsibility in a 632 (b) agreement and, if necessary, may evaluate and monitor the project's progress funded under the agreement.

The chart on the next page shows that 38 percent of CEE and 49 percent of NIS funds were transferred to other U.S. government agencies under 632 (a) and (b) agreements. Further, of the 112 interagency agreements A.I.D. entered into as of September 30, 1992:

- Using 632 (a) agreements, A.I.D. transferred approximately \$257 million in CEE funds to 12 agencies under 26 agreements. The bulk of the funds transferred (approximately 77 percent) was accounted for by one agreement with the Department of Treasury, an agreement transferring approximately \$199 million to establish the Polish Stabilization Fund.
- Using 632 (b) agreements, A.I.D. transferred approximately \$194 million of CEE and NIS funds to 18 agencies under 86 agreements. The CEE program accounted for 69 of these agreements, amounting to approximately \$130 million, and the NIS program had 17 agreements, amounting to approximately \$64 million. Under the CEE program, the U.S. Information Agency received the largest amount of funds transferred (approximately \$40 million under 27 agreements),

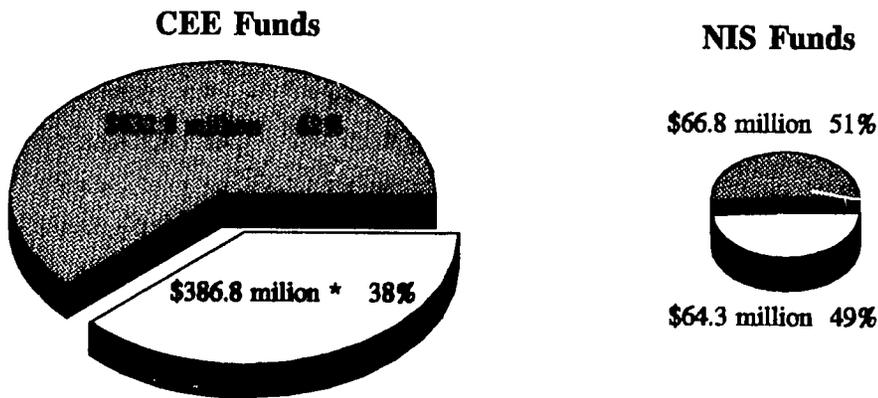
and, under the NIS program, the Department of Energy received the largest amount of funds (\$21.9 million under one agreement).

A.I.D., for the most part, has discontinued using 632 (a) agreements because of accounting problems associated with the funds transferred not being obligated on A.I.D.'s records. The last 632 (a) agreement was entered into in March 1992, transferring \$6 million in CEE funds to the Library of Congress.

Although A.I.D. makes extensive use of interagency agreements to transfer a large portion of CEE and NIS funding to other agencies, A.I.D.'s oversight role with respect to these funds (particularly for the NIS program) is unclear. Differences in A.I.D.'s oversight roles under the CEE and NIS programs, the potential problems caused by the differences, and the need for A.I.D. to clarify its oversight role with respect to funds transferred to other agencies are discussed in the following section.

Percentage of CEE and NIS Funds Transferred by A.I.D. to Other Agencies

(As of September 30, 1992)



* Includes \$256.8 million in 632 (a) type agreements which is not obligated on A.I.D.'s accounting records.

■ Funds Managed Directly by A.I.D.

□ Funds Transferred to Other Agencies

A.I.D.'s Oversight Role for Funds Transferred to Other Agencies Needs to Be Clarified

The following provides a comparison of the legislative language, Coordinator guidance, and A.I.D.'s actual oversight role under the CEE and NIS programs.

	<u>CEE PROGRAM</u>	<u>NIS PROGRAM</u>
Legislation		
Authorizing Legislation	<p><i>SEED Act of 1989</i></p> <ul style="list-style-type: none"> ● Silent on A.I.D.'s oversight role. 	<p><i>Freedom Support Act of 1992</i></p> <ul style="list-style-type: none"> ● Silent on A.I.D.'s oversight role. ● States that agencies receiving funds from A.I.D. are accountable for such funds.
Appropriation Legislation	<p><i>FY 1993 Foreign Operations Approp. Act</i></p> <ul style="list-style-type: none"> ● Makes A.I.D., as agent of the Coordinator, responsible for coordinating field activities of all U.S. agencies. 	<p><i>FY 1993 Foreign Operations Approp. Act</i></p> <ul style="list-style-type: none"> ● Silent on A.I.D.'s oversight role.
Coordinator Guidance	Assigned A.I.D. broad responsibilities.	Assigned A.I.D. broad responsibilities.
A.I.D.'s actual oversight role	Internal guidance assigned field offices responsibility for in-country oversight of all U.S. government assistance activities.	No internal guidance issued. Field offices are not proactively monitoring other U.S. government agencies' assistance activities.

As the comparison on the previous page indicates, (1) the legislation authorizing and funding the CEE and NIS programs contains different language concerning A.I.D.'s oversight role and (2) the Coordinator's guidance is not clear as to the oversight role A.I.D. is expected to play. As a result, A.I.D.'s oversight responsibilities for interagency-funded activities is unclear and the agency is taking different oversight roles under the two programs, especially at the field level. A.I.D.'s unclear role has created vulnerabilities within A.I.D.'s internal control structure--particularly that of the NIS Task Force--and potentially major coordination problems in the delivery of economic assistance by the numerous U.S. government agencies.

Appendix II contains a more detailed comparison of A.I.D.'s oversight role under the two programs. The following sections discuss for each program, the legislative oversight requirements, if any, contained in the authorizing and appropriation acts for the programs; the Coordinator Office's guidance and expectations concerning A.I.D.'s oversight role; and the actual oversight role being carried out for activities funded through interagency agreements.

Oversight Role for The CEE Program

The CEE program has been operating for a longer period than the NIS program and A.I.D.'s oversight role under the CEE program has evolved over time.

Assistance to Central and East Europe was authorized by the SEED Act of 1989. The Act required the President to designate, within the Department of State, a SEED Program Coordinator to be directly responsible for overseeing and coordinating all programs described in the Act. However, the SEED Act was silent on A.I.D.'s role.

A.I.D.'s oversight role with respect to CEE funds transferred to other U.S. government agencies was first discussed in a January 1992 document, prepared jointly by the State Department Coordinator's Office and A.I.D. This document, entitled "Roles of the Coordinator's Office and of A.I.D. in the Implementation of the SEED Program," states that under the policy guidance of the Coordinator, A.I.D. has broad responsibility for the program portfolio. This includes implementation responsibility for the projects managed directly by the Agency, as well as "residual oversight responsibility" for those projects financed with funds appropriated through A.I.D. accounts but managed by other U.S. government agencies which have initial accountability for such projects. Further, according to the document:

A.I.D. is responsible for preparing and/or concurring on project concept papers; project design and budgets; contracts, grants and other project award documents; interagency and bilateral agreements; as well as project evaluations and audits. It also makes certain that appropriate funds control, audits, project tracking, monitoring and reporting are carried out across the entire spectrum of projects financed with funds made available through A.I.D. accounts.

However, it is unclear from the January 1992 document as to exactly what A.I.D.'s role is and what its responsibilities are for funds transferred to other agencies. For example, the document does not define what is meant by "residual oversight responsibility". Further, although the document indicates other U.S. government agencies have "initial accountability" for projects financed with funds appropriated through A.I.D. accounts, this "initial accountability" is also not defined nor does the document identify when A.I.D. assumes accountability for such funds, if in fact A.I.D. does, as the document seems to imply.

Although the January 1992 Coordinator Office's guidance is unclear as to exactly what A.I.D.'s oversight role is, the Coordinator's current representative for the CEE program, the Special Adviser for East European Assistance, expects A.I.D. to play a proactive oversight role. The Special Adviser told us, for example, that he considers A.I.D. the lead implementing agency for the CEE program. This official said that he expects A.I.D. to know what is going on with respect to assistance activities being carried out by other U.S. government agencies and to alert him of any significant problems.

The IG's first report¹ on the CEE program stated that some AID/Representatives located in CEE countries had not established an effective organization so they could assist A.I.D./Washington officials in planning and overseeing CEE projects, including those implemented by other U.S. government agencies. The audit report noted, for example, that AID/Representatives were often not aware of the CEE activities of the other government agencies, as neither embassy officials nor the other agencies were keeping the AID/Representatives informed.

In response to the audit report recommendation that policies and procedures be developed which specify A.I.D.'s roles and responsibilities in coordinating with and

¹Audit of the A.I.D. Organizational Structure for Central and Eastern Europe (Report No. 8-180-92-01, June 30, 1992).

overseeing the work of other U.S. government agencies, A.I.D.'s Regional Mission for Europe issued a mission order describing the AID/Representatives' roles and responsibilities. This Mission Order stated that the AID/Representative should "monitor the in-country project activities of other U.S. Government agencies", but the Order did not provide specific guidance as to how this should be done.

The Congress was also concerned about the weak program management in the field and inadequate oversight of program implementation. As a result, specific language in the Fiscal Year 1993 Foreign Operations Appropriation Act sought to improve program and project planning, coordination, and implementation for the CEE program. This Act states that under the general direction of the President's Coordinator for United States Assistance to Eastern Europe and under the guidance of the Ambassador in each respective country in Eastern Europe and the Baltic States:

the principal officer of the Agency for International Development (AID) in each such country shall ... be responsible for coordinating the implementation in the field of the overall activities of all United States Government agencies in Eastern Europe and the Baltic States carrying out assistance programs and projects using funds appropriated under this heading.

In response to this legislation, A.I.D.'s Regional Mission for Europe issued a Mission Order, dated December 1, 1992, containing guidance for the AID/Representatives on how to comply with this and other requirements contained in the Fiscal Year 1993 Appropriation Act. With respect to activities carried out by other U.S. government agencies, the Mission Order stated that AID/Representatives will continue to be responsible for in-country oversight and monitoring of all activities financed by or through A.I.D. in their countries. The Mission Order defines monitoring as inspections of specific project activities, events, or sites to check whether goods and services financed by A.I.D. are in fact being delivered and are having the intended effects.

Regional Mission for Europe officials told us that through interagency agreements, A.I.D. is essentially buying services from another agency and this arrangement does not differ too much from using a grant or contract to acquire services. According to these officials, the Regional Mission for Europe has two management levels with respect to funds transferred to other agencies. At the Washington level, the project officers get involved with monitoring other agencies activities, but the officers generally rely on the other agencies for designing and managing the project. At the

field level, the AID/Representatives look to the participating U.S. government agency to provide oversight/monitoring but the AID/Representatives must assure themselves that the project is being adequately monitored by the other agency. The AID/Representatives must therefore keep informed about the other agencies' activities through meetings, visits, and actual inspection of the agencies' activities.

Regional Mission for Europe officials saw their oversight role as more than just gathering information from other agencies through financial and progress reports submitted by the agencies. Rather, the Regional Mission for Europe officials said that they take a "proactive" monitoring role, whereby they actively seek information on the other agencies' project activities. They also said that if they identify problems with other agencies' programs they try and resolve these problems before elevating them to the Coordinator level for resolution.

The officials told us that, based on their experience to date, they generally cannot rely on the quarterly financial and progress reports (required to be submitted by other agencies) to fulfill their oversight responsibilities. According to these officials, the reports are often not submitted as required, submitted late, and, even when submitted, do not contain the information needed to keep A.I.D. informed of the agencies' progress and problems.

Our review of the financial reporting by three agencies and the progress reports submitted by one of these agencies confirmed that these reports could not be relied solely upon to monitor other agencies' activities. We found, for example:

- The Environmental Protection Agency had entered into three 632 (b) type agreements with A.I.D. totalling approximately \$15 million. Two of these agreements were signed on September 30, 1992 and quarterly financial and progress reports were not due at the time of our audit. However, the third agreement, for \$8.1 million, was dated May 24, 1991. For this agreement, the Agency had never submitted required quarterly financial reports. The latest quarterly progress report related to this agreement was for the period ending March 31, 1992. At the time of our audit, the Agency had not submitted quarterly progress reports for the quarters ending June 30 or September 30, 1992.
- The Department of Commerce had two 632 (b) type agreements with A.I.D. totalling \$1,095,000. One of these agreements had expired. For the second agreement, signed on March 31, 1992, for \$896,000, Commerce had not submitted any quarterly financial reports.

- The Department of Treasury had seven 632 (b) type agreements with A.I.D. totalling \$11.5 million. Although Treasury was submitting quarterly financial reports, the reports were generally submitted late. For example, Treasury was required to submit quarterly reports for the period ending September 30, 1992 for six of these agreements, but, as of December 9, 1992, the agency had not submitted the required reports.

Regional Mission for Europe officials stated that the legislative language contained in the Fiscal Year 1993 Appropriation Act, concerning the AID/Representatives' responsibilities, reinforced what they were trying to have the AID/Representatives do in the way of coordinating and monitoring other agencies' activities. According to these officials, the legislation will facilitate the AID/Representatives' monitoring role since the AID/Representatives now have a legislative mandate to oversee and coordinate the activities of other agencies. Prior to this legislation, Regional Mission for Europe officials indicated some agencies were reluctant to fully cooperate with AID/Representatives' efforts to keep fully informed about what the agencies were doing in their countries.

Oversight Role for the NIS Program

The NIS Program has not been operating as long as the CEE program and, as such, A.I.D.'s oversight role is still evolving. As a result of the legislative differences for the two programs and a current lack of clarity with respect to the oversight role the Coordinator's Office expects A.I.D. to play, the NIS Task Force is following a different oversight role--particularly at the field level.

The NIS program was authorized by the Freedom Support Act of 1992. Like the SEED Act of 1989, this Act also required the President to designate within the Department of State a Coordinator for the program. The President designated the Deputy Secretary of State as Coordinator for both the CEE and NIS programs.

Similar to the CEE program, legislation authorizing and funding the NIS program contains no specific reference or requirements dealing with A.I.D.'s oversight role. It does, however, contain language which indicates A.I.D. has a limited oversight role with respect to funds transferred to other U.S. government agencies. The Freedom Support Act of 1992, under the section titled "Program Coordination, Implementation, and Oversight", states:

Accountability for Funds - Any agency managing and implementing an assistance program for the independent states of the former Soviet Union shall be accountable for any funds made available to it for such programs.

The legislative history for the Freedom Support Act and the Fiscal Year 1993 Foreign Operations Appropriation Act further confuses A.I.D.'s oversight role by indicating, on the one hand, that A.I.D. was expected to have principal implementation and oversight responsibilities and, on the other hand, that those agencies receiving funds from A.I.D. would be primarily responsible for implementing and managing activities with those funds.

For example, the House Committee on Foreign Affairs' Report (No. 102-569, dated June 16, 1992) for the NIS authorizing legislation stated that (1) the State Coordinator was to designate an agency or agencies to be responsible for the design of an assistance strategy and for the management, implementation, and oversight of assistance programs and (2) the designated agency would be accountable for any funds made available to it for such programs. The Report also stated that it expected A.I.D. to be designated as the agency responsible for designing a U.S. assistance strategy for the independent states and for management, implementation, and oversight of the majority of U.S. assistance. Further, the Report indicated that the **House Committee expected the executive branch to assign principal program and project implementation, decisionmaking, and oversight responsibility to A.I.D. employees stationed in the independent states.** The Senate (Report No. 102-292, dated June 2, 1992) and Conference (Report No. 102-964, dated October 1, 1992) reports for the NIS authorizing legislation, the Freedom Support Act, were silent on A.I.D.'s role.

On the other hand, the Fiscal Year 1993 Foreign Operations Appropriation Act contained no specific references concerning A.I.D.'s oversight role for the NIS program as it did for the CEE program discussed previously. However, the Senate Appropriations Committee Report (Report No. 102-419, dated September 23, 1992) on this Act contained the following paragraph:

In providing funding for the NIS, the Committee recognizes that A.I.D. will likely not be the sole U.S. Government agency implementing activities with these funds. Rather, as is the case with the assistance program for East and central Europe, A.I.D. will probably allocate a portion of these funds to other departments or agencies to implement activities in the former Soviet republics. **It is the Committee's**

intention that accountability for how those funds are used should rest with the departments and agencies actually responsible for managing and implementing activities with those funds. (Emphasis added.)

The Department of State Coordinator's Office established NIS guidance, similar to that of the CEE Program. On July 20, 1992, the Department of State Coordinator issued a memorandum outlining the respective roles of the State Department and of other agencies, particularly A.I.D., in managing economic and other assistance provided to the new independent states. With respect to the role of A.I.D., the memorandum stated that A.I.D., operating under the policy guidance and direction of the Coordinator, is responsible for program management of all assistance programs for the NIS that are implemented with funds appropriated to A.I.D. This includes responsibility for ensuring that, among other things:

the project activities of all agencies, contractors, and grantees using A.I.D. funds are monitored and are carried out in a coherent and coordinated fashion.

The July 1992 memorandum also contained a paragraph, identical to the January 1992 joint State and A.I.D. document (for the CEE program), discussing A.I.D.'s "residual oversight responsibility" for those projects financed with funds appropriated through A.I.D. accounts but managed by other U.S. government agencies. Excerpts from this paragraph are cited at the top of page 8 of this report. However, like the CEE program, critical phrases concerning A.I.D.'s responsibilities, such as "residual oversight responsibility", have not been defined leaving open to interpretation as to exactly what A.I.D. is accountable/responsible for.

In discussing this guidance, Office of Coordinator officials acknowledged that the spectrum of "residual oversight responsibility" could range from passive (collector of financial and progress reports submitted by other agencies) to proactive (coordinating the activities of other agencies). They also stated that they have not established the precise role that they expect A.I.D. to play.

The NIS Task Force has not issued formal guidance defining its oversight role. However, it has informally defined its role with respect to funds transferred to other agencies as "broad monitoring to ensure complementarity and avoid duplication, but not to oversee or ensure proper implementation, contracting, and financial management." Task Force officials told us that they do not have sufficient staff to closely monitor what other agencies do with the funds transferred to them by A.I.D. Officials initially indicated that their basic control mechanisms for interagency

agreements are the quarterly reports submitted by the other agencies, periodic meetings with these agencies, and informal contacts Task Force project officials have with other agencies' officials. The officials believed this monitoring role was consistent with legislative requirements, particularly that section of the Freedom Support Act mentioned above that indicates those agencies receiving the funds are accountable for the funds.

Subsequent discussions with NIS Task Force officials indicated that they believed they are doing things similar to the Europe Bureau as far as monitoring other agencies activities, at least at the Washington level. Task Force officials believed their interagency agreements are more detailed than those of the Europe Bureau and pointed out that they had developed a standard agreement to be used by the Task Force. Officials further said that they do not look over the shoulders of other agencies on a day-to-day basis but rather work more with the agencies prior to signing an agreement to ensure that the agencies fully understand what is required under the agreement.

Contrary to the Regional Mission for Europe's experience, NIS Task Force officials told us they were not having problems in getting agencies to submit financial and progress reports and that they found these reports useful in keeping abreast of the agencies' progress. However, we found that there were some problems being experienced with the timeliness and quality of some agencies' reports.

For example, although one agency, the Department of State, was submitting the required financial and progress reports and the reports were considered useful, the NIS Task Force project officer told us that the agency was generally late in submitting its progress reports--submitting its first quarterly report for the quarter ending June 30, 1992 in October 1992 and submitting its second quarterly report for the quarter ending September 30, 1992 in January 1993.

A second agency, U.S. Information Agency, appeared to be submitting its reports on time but we noted some problems with the reports. For example, a large part of the agency's second quarterly report repeated information (almost verbatim) that was contained in the first quarterly report, making it difficult to determine what progress was being made.

The basic difference between the oversight roles being carried out for the CEE and NIS programs is at the field level. While the Regional Mission for Europe has defined a specific monitoring role for its field representatives (AID/Representatives) based, in part, on legislative requirements, the A.I.D. field role under the NIS

program has not been defined. According to an NIS Task Force official, A.I.D. field offices are currently not involved in proactively monitoring other agencies activities. Officials pointed out that, as directed by the Coordinator, the program is a Washington managed operation and the A.I.D. field missions are just getting set up. Field missions have been asked to become involved with other agencies' activities from the standpoint of knowing who is visiting and what is happening but no formal guidance has been issued on this matter.

In discussing A.I.D.'s oversight role for funds transferred to other agencies, Coordinator officials agreed that it is unclear as to exactly what A.I.D.'s role should be. They indicated, for example, that on the one hand, the recipient agency should be responsible for funds once they are transferred, and A.I.D. should let the recipient agency manage program activities. On the other hand, the officials saw some merit to using A.I.D. as a very strong agent in coordinating U.S. government assistance in a country. However, Coordinator officials said that they currently do not expect NIS Task Force field offices to have the same proactive role played by the Bureau for Europe offices in CEE countries.

We recognize there are constraints to A.I.D. establishing a field presence for the NIS program. At the same time, patterns are forming now in terms of field monitoring of activities, both A.I.D.'s and other agencies'. The NIS program is still in its early stages but, as has been experienced under the CEE program, a critical management tool that will be needed to ensure the effective use of U.S. assistance will be the presence of U.S. personnel in the field monitoring assistance activities. It is therefore critical, in our opinion, that if A.I.D. is to be held accountable or assume a major role in monitoring assistance activities, its role should be quickly and clearly defined so that the agency can take the necessary steps to put in place the personnel and resources to assume this role.

Problems Posed by Unclear Oversight Roles

The lack of clarity with respect to A.I.D.'s oversight role for funds transferred to other agencies under the CEE and NIS programs has created, and will create, potential problems for A.I.D. These problems include internal control vulnerabilities, particularly for the NIS program; coordination and monitoring problems; friction and confusion in A.I.D.'s dealings with other U.S. government agencies; the possibility that A.I.D. may not be meeting the expectations of the Congress, the Department of State Coordinator, or the general public for overseeing funds transferred to other agencies; difficulty in conducting evaluations; and potential audit coverage problems.

- **Vulnerabilities** - A.I.D.'s December 1992 Federal Managers' Financial Integrity Act report to the President identified as one of two new high risk areas the "New Independent States (Task Force) Authority and Role". A.I.D.'s report cited this area as high risk because the overlapping authority and broad participation by outside agencies not directly accountable to A.I.D. increase the potential for vulnerability. According to the report, coordination problems and inter/intra-agency relationships need to be addressed so that the NIS program will operate in an efficient and effective manner.

A January 1993 vulnerability assessment of the NIS Task Force, which was done at the request of the NIS Task Force, also cited as a serious vulnerability the accountability of A.I.D. for NIS funds transferred to other U.S. agencies. According to the Assessment Team, there existed different interpretations of the extent of A.I.D.'s accountability for funds it makes available to other U.S. government agencies. For instance, the Assessment Team stated that A.I.D. must maintain proper financial procedures for obligating and liquidating funds so transferred and noted that the wording of Section 102 (d) of the Freedom Support Act seems to indicate that A.I.D.'s responsibilities end there. However, as we discuss in this report, the Assessment Team also referred to the July 20, 1992 Coordinator Memorandum which suggests broader responsibilities, such as "residual oversight," a term that, according to the Assessment Team, has no generally accepted meaning, and "ensuring" that all activities are carried out consistent with the law, policies, and regulations.

The Assessment Team did not believe the issue of A.I.D.'s accountability could be resolved definitively by legal arguments but instead recommended that appropriate Congressional committees be consulted to clarify the precise meaning of the Freedom Support Act.

- **Coordination and monitoring problems** - The General Accounting Office (GAO) has also pointed out that coordination and monitoring problems exist with both the CEE and NIS programs, caused in part by an unclear A.I.D. role. For example, GAO's February 1991 report² on the status of U.S. assistance efforts in Eastern Europe stated that while more than 15 U.S. Government agencies and other entities were involved in providing assistance, A.I.D.'s role was unclear. A December 1992

²Eastern Europe: Status of U.S. Assistance Efforts (GAO/NSIAD-91-110, February 26, 1991).

GAO report³ on assistance by the United States and other donors to the former Soviet Union stated that although A.I.D. missions had been established in Russia, Ukraine, and Kazakhstan, and a smaller office in Armenia, the A.I.D. mission directors and office representative have only minimal delegations of authority. Finally, a GAO December 1992 Transition Report⁴ on foreign economic assistance issues pointed out that like A.I.D.'s role with the CEE program, A.I.D.'s role in managing the NIS effort is again ill defined.

● **Conflicts in dealing with other agencies** - Coordinator officials have indicated other agencies have complained about A.I.D.'s involvement in their activities which may stem from the lack of clarity concerning A.I.D.'s role. For example, the Environmental Protection Agency (EPA) wrote the Coordinator in December 1992 concerning A.I.D.'s role in the NIS program and indicated that the question of its autonomy vis-a-vis A.I.D. was in question. The agency stated that it is inefficient for EPA to function simply as a contractor to A.I.D. and that the Agency's resources can best be brought into the assistance program if the Agency managers had sufficient control of the work that EPA does. While EPA recognized A.I.D.'s fiduciary and reporting responsibilities, it did not believe these responsibilities extend to day-to-day oversight of its programs.

NIS Task Force officials also questioned how much of an oversight role they could be expected to play in cases where they are directed to transfer funds to another agency. They cited as an example a current program being carried out by a Department level agency in Armenia. According to NIS Task Force officials, the program was developed and agreed to as a result of high level consultations which did not include A.I.D. officials. Although NIS Task Force officials raised some serious concerns about the proposed program, the Task Force was directed to transfer NIS funds to the other agency to carry out the program. In this case, Task Force officials indicated they are uncertain as to their oversight role and also question how much leverage they would have in dealing with the other agency should problems develop with the program.

Regional Mission for Europe officials also pointed out that following a different oversight role under the two programs, as is now the case at the field level, can create potential problems in A.I.D.'s dealing with other agencies. The officials noted

³Former Soviet Union: Assistance by the United States and Other Donors (GAO/NSIAD-93-101, December 30, 1992).

⁴Foreign Economic Assistance Issues (GAO/OCG-93-25TR, December 1992).

that although the two programs use the same agencies, A.I.D. may end up with different operating requirements under the two programs which can create confusion and resentment among the agencies A.I.D. deals with.

- **Different expectations** - Since A.I.D.'s oversight role is not clearly defined, A.I.D. may have difficulty in meeting the expectations of Congress, the State Department Coordinator, and the general public.

For example, the different field monitoring roles currently in existence for the CEE and NIS programs may not be meeting Congressional expectations for A.I.D.'s oversight role. Congressional staff members from the House Foreign Affairs Committee and the Senate Subcommittee on Foreign Operations, Senate Committee on Appropriations stated they envisioned a similar A.I.D. role for both programs. Both officials assumed that A.I.D. would be taking a strong oversight role under the NIS program (as was required by the new Appropriation Act legislation for the CEE program) since A.I.D. was establishing full fledged field missions in some NIS countries.

Further, the House Foreign Affairs Committee's Report (Report No. 102-569, dated June 16, 1992) for the authorizing legislation for the NIS program, the Freedom Support Act, stated that the House Committee expected the executive branch to assign principal program and project implementation, decisionmaking, and oversight responsibility to A.I.D. employees stationed in the new independent states.

Differing and unclear expectations can also create potential conflicts in A.I.D.'s dealings with the Department of State Coordinator. For example, the NIS Task Force recently attempted to issue internal guidance concerning its project design and approval process (which would include interagency agreements). The Task Force believed the guidance was needed to ensure that specific objectives are defined; progress can be tracked against the objectives; a basis for evaluation exists; and an accountability base is established. However, the Coordinator's Office objected to various aspects of the Task Force's proposed internal guidance, particularly additional requirements that the guidance would impose on designing projects. Further, the Coordinator's Office was concerned as to the guidance's potential impact on the overall coordination mechanism established for the NIS program. Task Force officials also stated that although they recognize the need to clarify the monitoring role expected of A.I.D.'s field representatives, particularly for activities being carried out by other U.S. government agencies, they have been slowed in finalizing such guidance by the Coordinator's Office.

- **Evaluation** - Evaluation of U.S. assistance programs may also be a problem. Unlike the Regional Mission for Europe, the NIS Task Force does not have an integrated evaluation plan to conduct a single evaluation of all U.S. assistance in a particular sector. Rather, it plans to conduct evaluations of its own projects and let recipient agencies perform their own separate evaluations. We believe a single evaluation conducted by one organization would be essential in determining the overall effectiveness of all U.S. assistance. However, A.I.D. could not carry out this responsibility until its oversight role is clarified.

- **Audit coverage** - Finally, the unclear A.I.D. role with respect to funds provided to other agencies may also create some potential problems in terms of audit coverage. The Fiscal Year 1993 Foreign Operations Appropriation Act states

That for purposes of economy and efficiency and to preclude duplications among executive Departments and agencies with program responsibilities for providing economic assistance to Eastern Europe and the new independent states of the former Soviet Union, the inspector general responsibility (as set out in the Inspector General Act of 1978, as amended) **over the field activities of such programs shall, subject to the concurrence of such Departments and agencies, be the responsibility of the Office of the Inspector General of the Agency for International Development.** (Emphasis added.)

In essence, under the Fiscal Year 1993 Appropriation Act, the A.I.D. Inspector General was assigned audit responsibilities for field activities carried out by other agencies under which A.I.D., according to the Freedom Support Act, may not be accountable.

Conclusion

A.I.D. is involved in a highly visible and extremely important program of economic assistance to Central and East Europe and the New Independent States. The program is unique from the standpoint that it is a U.S. Government program involving a number of agencies, not just A.I.D., and is intended to take advantage of the expertise available throughout the U.S. government. The Department of State, through the Coordinator, takes the lead role in coordinating assistance activities of all U.S. government agencies, including A.I.D., and providing policy guidance for ongoing and proposed assistance activities.

Although economic assistance funds are apportioned to A.I.D., a large portion of these funds is transferred by A.I.D. to other U.S. government agencies. As of September 30, 1992, A.I.D. transferred over \$450 million of CEE and NIS funds to 18 U.S. government agencies--almost 40 percent of its CEE funds and close to 50 percent of its NIS funds.

Once A.I.D. funds are transferred to other agencies, A.I.D.'s oversight role for these funds is unclear. A.I.D. has no guidance or handbook regulations concerning how and when to use interagency agreements and its oversight role under these agreements. Although the Coordinator has issued guidance on A.I.D.'s role under the CEE and NIS programs, indicating A.I.D. has "residual oversight responsibilities" for funds transferred to other agencies, these responsibilities have not been defined. Legislation dealing with the two programs further confuses the oversight issue by detailing a specific A.I.D. field oversight role under the CEE program but implying no oversight role for funds transferred to other agencies under the NIS program.

Discussions with A.I.D., Coordinator, and Congressional officials disclosed different views as to what A.I.D.'s oversight role is or should be for funds transferred to other agencies. However, virtually all the officials acknowledged a need to clarify A.I.D.'s role.

The lack of specific guidance as to A.I.D.'s oversight role and possible confusion as to what this role should be has contributed to A.I.D. currently having a different field oversight role under the two programs. Under the CEE program, A.I.D. has defined a specific monitoring role for its field representatives for activities carried out by other agencies. Under the NIS program, A.I.D. is in the process of staffing its field missions but currently has not defined a monitoring role for them.

Because of its unclear oversight role, A.I.D. is potentially vulnerable with respect to funds transferred to other agencies. A.I.D. may not be fulfilling the oversight expectations of Congress, the Department of State, and the general public. In addition, it is inevitable that tensions and disagreements will develop among A.I.D. and other participating agencies because these agencies are unsure as to what A.I.D.'s role is.

The lack of clarity as to A.I.D.'s oversight role for funds it transfers to other U.S. government agencies is an issue that is beyond A.I.D.'s direct control. Therefore, we are not making recommendations to the Administrator. We are proposing, however, matters for consideration by the Administrator in terms of potential changes in legislation and/or Office of Coordinator guidance to resolve this issue.

In this regard, we believe there are a number of options that can be considered. The next section provides information on some of the options available for defining A.I.D.'s role, including the advantages and disadvantages, which is intended to assist A.I.D. in clarifying the management structure and responsibilities for the CEE and NIS programs within A.I.D., as well as the interrelationships among A.I.D., the Office of the Coordinator, and other U.S. government agencies.

With regard to the A.I.D. Inspector General audit responsibilities for field activities carried out by other U.S. government agencies, the Inspector General may seek additional legislative clarification of this issue after gaining experience auditing such activities funded by A.I.D. under interagency agreements.

Potential Oversight Options

While the exact oversight role of A.I.D. with respect to funds transferred to other agencies needs to be determined by the Congress, the Department of State, and A.I.D., we believe there are a number of possible options that need to be considered, ranging from complete accountability/responsibility for the funds transferred resting with the recipient agency to A.I.D. playing a proactive oversight/monitoring role for such funds, similar to the role it plays under contracts and grants. These options and some of the advantages/disadvantages of each are briefly discussed below.

Option 1: The recipient agencies are completely responsible for the management and financial accountability of funds received from A.I.D.

Assistance funds would continue to be appropriated/apportioned to A.I.D., but once A.I.D. transfers funds to other agencies, the recipient agencies assume complete responsibility for such funds.

Advantages:

--Recipient agencies will clearly be accountable for funds transferred by A.I.D.

--This option will allow appropriate Congressional committees to maintain some oversight over assistance funds since such funds will continue to be appropriated/apportioned to a single agency (A.I.D.).

Disadvantages:

--It will be difficult for the Coordinator's Office to coordinate field activities of other U.S. government agencies.

--Since A.I.D. will not have an oversight role, other U.S. government agencies could treat funds transferred by A.I.D. as "free money" and not subject such funds to the same accountability and oversight controls as they would their own appropriated funds.

Option 2: Limited A.I.D. oversight role

Under this option, A.I.D. would exercise a limited oversight role for funds transferred to other agencies, primarily by requiring other agencies to submit periodic financial and progress reports. A.I.D. would mainly be in the "information loop" with respect to how these funds are being spent.

Advantages:

--A.I.D.'s oversight role would be clearly defined and limited to a collector of information only. The recipient agencies would be ultimately responsible for the funds transferred.

Disadvantages:

--Due to A.I.D.'s limited oversight role and the difficulties the Coordinator's Office may encounter in attempting to coordinate the field activities of other U.S. government agencies, there is the potential for insufficient coordination of the numerous U.S. government field operations.

--Field implementation problems may go undetected due to recipient agencies' possible reluctance to publicize program weaknesses and problems in their progress reports.

--A.I.D.'s experience to date with other agencies indicate there are problems in obtaining timely financial and progress reports.

--Limiting A.I.D.'s involvement in the activities of the other recipient agencies to collecting reports means that A.I.D.'s experience and expertise will not be brought to bear on a large portion of the U.S. assistance activities.

Option 3: Proactive A.I.D. oversight role

This option assumes a shared responsibility between A.I.D. and the agencies receiving funds. While other agencies would be responsible for the technical aspects, A.I.D., operating as the agent of the Coordinator, would be responsible for overall program management, including coordination, monitoring, and evaluation. Audit responsibilities under this option would be coordinated by the A.I.D. Inspector General.

Advantages:

--Allows Congress and the Department of State Coordinator to take greater advantage of the experience and expertise available in A.I.D. in implementing the economic assistance program.

--Unlike the previous two options, this option increases the coordination of the numerous U.S. government agencies' field operations.

--Provides for greater accountability and oversight of the assistance activities being carried out by other U.S. government agencies.

--Field implementation problems may be surfaced in a more timely manner.

Disadvantages:

--Unless the parameters of A.I.D.'s oversight role are clearly defined and understood by all concerned parties, i.e., the Congress, Department of State Coordinator, participating agencies, and A.I.D., problems are inevitable.

The above options are not intended to be all inclusive. There may be additional options that could be considered, and there may be options within the range of options proposed above. A.I.D.'s Bureau for Europe officials, for example, believed there was an option between numbers 2 and 3 above. This option would involve more than just being in the "information loop" with respect to how other agencies are spending A.I.D.'s funds but would require less of a proactive oversight role than envisioned by option 3. Bureau for Europe officials believed this option would be more closely aligned to their current oversight role and an option that should be strongly considered by Congress and the Department of State Coordinator. Regardless of the option selected, A.I.D. should also perform a staffing study to

determine if the Bureau for Europe and the NIS Task Force have proper levels of resources to carry out their agreed upon oversight roles.

Matters for Consideration by The Administrator

The Administrator, A.I.D., in consultation with the Department of State and the appropriate Congressional Committees, should:

- more clearly define, after taking into account the various options presented in this report, the oversight role A.I.D. should play with respect to CEE and NIS funds it transfers to other U.S. government agencies; and
- seek appropriate legislative changes and/or Office of Coordinator guidance to ensure that a uniform A.I.D. oversight role will be followed for both programs.

Management Comments

Since this report does not contain any recommendations, we did not request A.I.D. management to provide formal comments. However, a draft of this report was provided to the Bureau for Europe and the NIS Task Force, and we met with officials from both organizations to discuss the report. Where appropriate, we revised the report to reflect comments made during these meetings.

Officials stated that the report increased their awareness for the need to clarify A.I.D.'s role. They further stated that the CEE and NIS programs have evolved or are evolving to the point where it is critical to the programs' success that issues, such as A.I.D.'s role, be addressed and resolved. In addition, the officials made the following key comments concerning issues addressed in this report:

- NIS Task Force officials pointed out that, in comparing the NIS and CEE programs, it is important to keep in mind that the NIS program is still fairly new and has not been operating as long as the CEE program. Further, these officials noted that the NIS Task Force has far less staff than the Bureau for Europe with which to monitor interagency agreements.

- Bureau for Europe officials cautioned that the report could be misinterpreted to mean that it is too risky to involve numerous agencies in a program such as this, when the opposite is true. That is, the officials maintained that the expertise of other agencies is needed and that the CEE program demonstrates that a multi-agency effort can work.
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**SCOPE AND
METHODOLOGY**

Scope

We audited A.I.D.'s controls over interagency agreements under the Central and East Europe (CEE) and the New Independent States (NIS) programs in accordance with generally accepted government auditing standards. We conducted the audit from October 1, 1992 through January 29, 1993, and covered the systems and procedures related to the 112 interagency agreements that were entered into under these two programs which, as of September 30, 1992, totaled approximately \$451 million.

The evidence used in answering our audit objective included listings of interagency agreements provided by A.I.D., applicable legislation and legislative history, memoranda issued by the Department of State Coordinator Office, official documents such as interagency agreements, faxes and cables, and internal memoranda, and interviews with A.I.D., State Department Coordinator Office, and Congressional staff officials. We also considered whether A.I.D. had taken actions to implement a previous recommendation dealing with interagency agreements which we reported in our Audit of the A.I.D. Organizational Structure for Central and Eastern Europe, (Report No. 8-180-92-01, June 30, 1992).

We did not conduct any audit work at other U.S. government agencies that had interagency agreements with A.I.D. Further, we did not make any field visits to A.I.D.'s Central and East Europe and New Independent States field office locations in connection with the audit.

Since the audit objective is descriptive there was not sufficient testing to comment on A.I.D.'s internal controls or compliance for interagency agreements as a whole. We, therefore, did not prepare separate Reports on Internal Controls and Compliance. However, as discussed in this report, A.I.D.'s oversight role with respect to funds transferred to other agencies is unclear and creates potential vulnerabilities. A.I.D., in its 1992 Federal Managers' Financial Integrity Act report to the President, identifies as one of two new high risk areas the "New Independent States (Task Force) Authority and Role", because the overlapping authority and broad participation by outside agencies not directly accountable to A.I.D. increases the potential for vulnerability.

Methodology

To accomplish the audit objective, we obtained listings of interagency agreements entered into as of September 30, 1992 from the Bureau for Europe, Regional Mission for Europe and the NIS Task Force. We analyzed these listings and prepared summary schedules showing information on the agreements by type of agreement, agency, and program.

To determine A.I.D.'s oversight role with respect to funds transferred to other agencies, we reviewed A.I.D.'s handbook regulations to identify any applicable guidance or regulations; reviewed authorizing and funding legislation for the CEE and NIS programs to identify any specific legislative requirements concerning A.I.D.'s oversight role; and, obtained any internal guidance issued by the Bureau for Europe or the NIS Task Force pertaining to the monitoring of activities under interagency agreements.

To assess the adequacy of financial and progress reporting by other agencies to A.I.D. under interagency agreements, we interviewed A.I.D. project officers to obtain their assessment of the adequacy and the timeliness of reports submitted by other agencies. Since the interagency agreements required that agencies submit financial reports to A.I.D.'s Office of Financial Management, we also reviewed the files maintained by that Office for all agreements A.I.D. entered into with three agencies--the Departments of Commerce and Treasury and the Environmental Protection Agency--to determine whether required financial reports had been submitted and if the reports were submitted when required. The three agencies were judgmentally

selected because they had a large number of interagency agreements with A.I.D., and two of the agencies had agreements under both the CEE and NIS programs.

We also interviewed A.I.D.'s Bureau for Europe, NIS Task Force, and Office of General Counsel officials; State Department Coordinator Office officials; and Congressional staff members of the House Foreign Affairs Committee and the Senate Subcommittee on Foreign Operations, Senate Appropriations Committee to obtain their views on A.I.D.'s oversight role.

COMPARISON OF A.I.D.'S OVERSIGHT ROLE
UNDER THE CEE AND NIS PROGRAMS

	<u>CEE PROGRAM</u>	<u>NIS PROGRAM</u>
Legislation		
Authorizing Leg.	Silent on A.I.D.'s oversight role.	Silent on A.I.D.'s monitoring role for NIS funds transferred to other agencies. However, legislation contained specific section indicating agencies receiving funds from A.I.D. are accountable for such funds.
Appropriation Leg.	A.I.D. responsible for coordinating the field activities of all U.S. government agencies.	Silent on A.I.D.'s oversight role.
State Coordinator Guidance	Assigned A.I.D. broad responsibility for the program portfolio, including "residual oversight responsibility" for funds transferred to other U.S. government agencies. Coordinator Office official viewed A.I.D. as the lead implementing agency for the program and expected A.I.D. to play a leading and major role with respect to other participating agencies.	Similar guidance issued. Coordinator Office officials acknowledged that A.I.D.'s precise oversight role had not been established and that A.I.D. offices in NIS countries are not currently expected to play the monitoring role required of A.I.D. offices in CEE countries.

**APPENDIX II
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	<u>CEE PROGRAM</u>	<u>NIS PROGRAM</u>
A.I.D.'s Washington level oversight role	<p>No internal guidance issued.</p> <p>Monitoring role defined as "proactive". Bureau officials maintain that if they identify problems with other agencies' programs, they try and resolve problems before elevating the problem to the Coordinator level for resolution.</p>	<p>No internal guidance issued.</p> <p>Oversight role defined as that of "broad monitoring" to ensure complementarily and avoid duplication, but not to oversee or ensure proper implementation, contracting, and financial management by other U.S. government agencies.</p> <p>Task Force officials believe they are carrying out monitoring activities, similar to the Europe Bureau, at the Washington level.</p>
A.I.D.'s field level oversight role	<p>Internal guidance issued.</p> <p>Field offices responsible for in-country oversight and monitoring of all activities.</p>	<p>No internal guidance issued.</p> <p>A.I.D. field personnel in NIS countries are currently not proactively monitoring other U.S. government agencies' activities.</p>

REPORT DISTRIBUTION

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FA/MCS	2
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