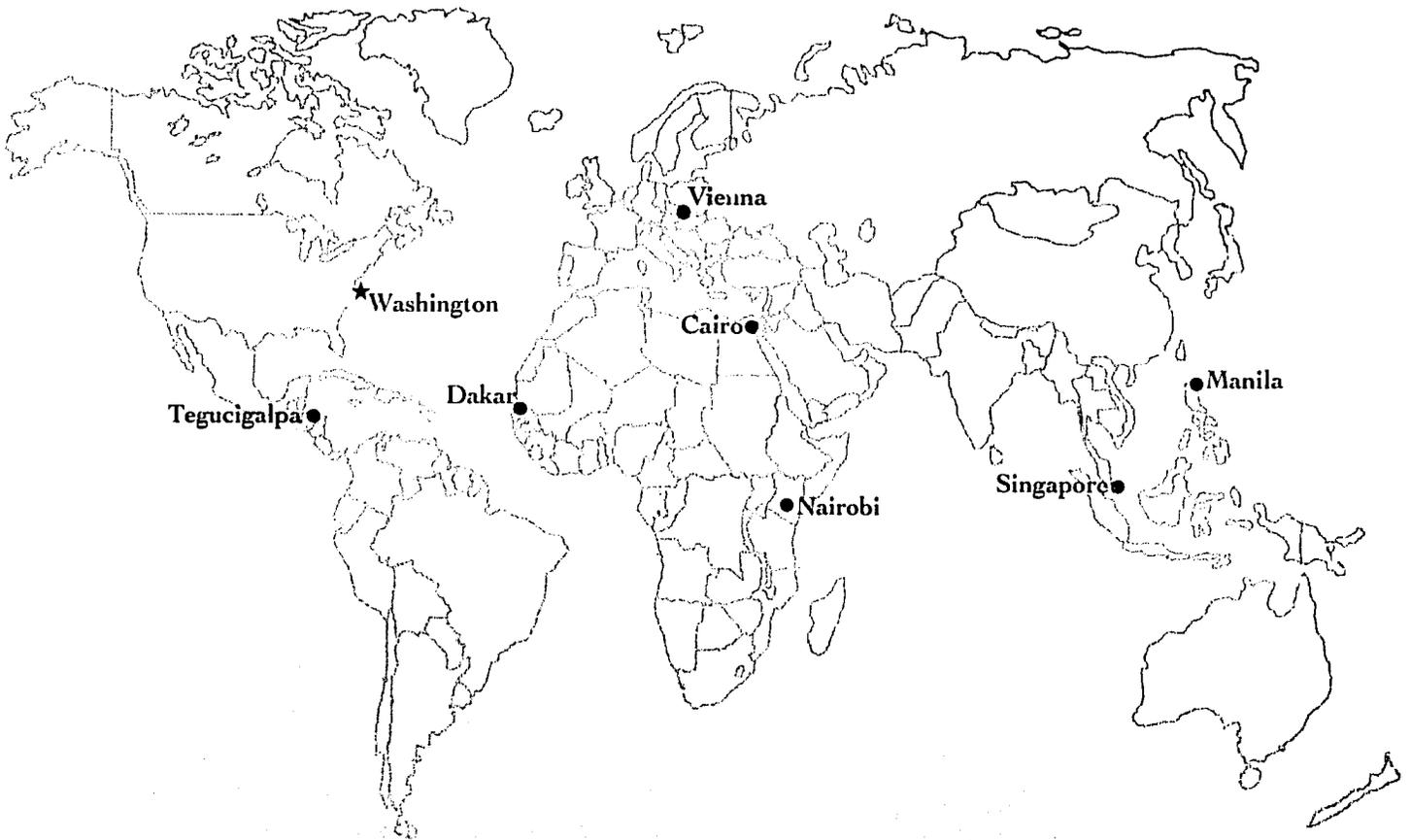


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Audit of the Department of Labor's  
Technical Assistance Activities  
in Poland

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Report No. 8-181-94-01  
November 15, 1993





U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

November 15, 1993

**MEMORANDUM**

**TO:** A-DAA/ENI/EUR, Frank Almaguer  
**FROM:** *John P. Competello* RIG/A/B, John P. Competello  
**SUBJECT:** Audit of the Department of Labor's Technical Assistance Activities in Poland (Audit Report No. 8-181-94-01)

Enclosed is the subject audit report. Our audit found that although the Department of Labor's (DOL) technical assistance activities in Poland achieved some significant results, DOL's assistance activities can be improved, particularly in looking toward the long-term continuation of this assistance. The audit also found that the AID/Representative's oversight role for DOL activities was limited due to the extensive involvement of the Embassy's Labor Attache with DOL's activities in Poland. Opportunities exist to improve the in-country oversight/monitoring of DOL's activities.

We made four recommendations to improve DOL's technical assistance activities in Poland. The Regional Mission for Europe's and DOL's comments on a draft of this report were fully considered in finalizing this report. Based on the Regional Mission for Europe's comments, Recommendation Nos. 1, 2 and 3 are resolved and will be closed upon completion of planned actions.

Although DOL has indicated it plans to close the American Polish Labor Center, our report recommendation concerning this Center (Recommendation No. 4) is considered unresolved. Since closure of the Center will result in savings, IG policy requires that the auditee concur in the amount of the savings, which we estimate at approximately \$250,000, before the recommendation can be resolved.

Please provide your concurrence with the amount of savings we estimate to be involved with the closure of the Center or provide an alternative amount along with justification for the alternative figure. After we reach agreement on the amount of savings resulting from the closure of the Center, we will be able to resolve and close Recommendation No. 4.

We also made a recommendation to improve the oversight/monitoring of DOL's activities in Poland. Based on the Regional Mission for Europe's comments, this

recommendation (Recommendation No. 5) is resolved and will be closed upon completion of planned actions.

The Regional Mission for Europe's and DOL's comments are summarized after each finding, where appropriate, and presented in their entirety as Appendices II and III, respectively.

Please provide us information within 30 days indicating any actions planned or taken to implement the open recommendations. I appreciate the cooperation and courtesies extended to my staff during the audit.

Enclosure: a/s

## EXECUTIVE SUMMARY

A large portion of A.I.D.'s Central and Eastern Europe (CEE) program funding is transferred to other U.S. government agencies. As of June 30, 1993, A.I.D. transferred approximately \$407 million of CEE funds, representing approximately 37 percent of A.I.D.'s CEE funds, to 18 U.S. government agencies. Of this amount, the Regional Mission for Europe transferred approximately \$20 million, under interagency agreements to the U.S. Department of Labor (DOL), to implement labor market transition programs in seven CEE countries and the three Baltic States. To help the Government of Poland deal with its growing unemployment problems, DOL has been providing technical assistance since 1990 in such areas as: (1) upgrading and improving Poland's employment services offices; (2) establishing construction skills craft training centers; and (3) implementing a self-employment and entrepreneurial skills training program.

The Office of the Regional Inspector General for Audit/Bonn audited the Department of Labor's technical assistance activities in Poland to determine: (1) what A.I.D. funds were used for and what results were being achieved; and (2) whether the Office of the AID/Representative for Poland carried out its oversight responsibilities for the Department of Labor's technical assistance activities in accordance with applicable legislative and internal requirements. The audit was conducted from May 17, 1993 to July 23, 1993. (see Appendix I).

As of June 30, 1993, DOL spent approximately \$6 million of A.I.D. funds on technical assistance activities in Poland. The majority of DOL's expenditures funded contractors and grantees implementing its technical assistance programs, such as: (1) \$2.3 million to the AFL-CIO to establish the construction crafts skills training centers in Warsaw and Gdynia; (2) \$270,000 to the American Polish Labor Center to cover the costs associated with operating the Center; and (3) approximately \$600,000 to the Solidarity Economic Foundation and the Ohio State University to operate the self-employment and entrepreneurial skills training program. (see page 4).

Results achieved by DOL's technical assistance include:

- The Praga Construction Crafts Skills Training Center, established with DOL's assistance in a Warsaw suburb, graduated approximately 350 Poles, as of June 30, 1993. According to the Center's Director, virtually all the graduates were able to find employment, some even establishing their own businesses.
- According to Solidarity Economic Foundation and Ohio State University officials, approximately 4,000 Poles have taken the self-employment and entrepreneurial skills training program. Officials also indicated that 570 graduates have started their own businesses. Graduates interviewed all spoke highly of the training.
- New employment services concepts were introduced by DOL at two model employment service offices in Gdansk and Szczecin. Some of these concepts are now being implemented at other employment offices throughout Poland. (see page 5).

Notwithstanding the above achievements, the audit identified the following areas where DOL's technical assistance activities can be improved, particularly in looking toward the long-term continuation of this assistance:

- Although the Praga and Gdynia Construction Skills Training Centers are required to develop self-financing plans to ensure their continued operations after U.S. assistance is discontinued, the Centers had not yet developed a realistic plan for replacing DOL funding. Unless realistic self-financing plans are developed, the continuation of the Centers, once DOL funding ceases, is in doubt (page 6).
- The self-employment and entrepreneurial skills training program supported by DOL lacked some key linkages in such areas as helping graduates obtain start-up business financing and providing follow-up technical assistance to graduates who started their own businesses. As a result, the training may not be achieving maximum benefits because graduates may: (1) fail to start their own business because of a lack of access to or knowledge about potential start-up financing, and/or (2) start and fail at opening a business due to a lack of follow-up technical help needed to solve unforeseen problems (page 8).

- The area of employment services lacked specific objectives and progress indicators making it difficult to measure the results of this assistance (page 12).
- The American Polish Labor Center's role with respect to DOL's technical assistance activities was not well defined. As a result, it was difficult to assess the Center's performance to date and to determine whether additional funding was warranted (page 15).

The audit also found that the AID/Representative's oversight role for DOL activities was limited. This limited oversight role was due to the extensive involvement of the Embassy's Labor Attache with DOL's technical assistance activities in Poland. Although carrying out a limited oversight role, the AID/Representative, nevertheless, was kept informed about DOL's technical assistance activities by the Labor Attache and DOL officials who visited Poland. Some opportunities, however, exist to improve the in-country oversight/monitoring of DOL's activities. (see page 18).

This report contains four recommendations to: develop a strategy for assisting the Praga and Gydnia Construction Crafts Skills Training Centers to be self-sufficient (page 6); link the entrepreneurial skills training program with information on start-up capital and follow-up assistance activities (page 8); develop specific objectives and progress indicators for DOL's employment services technical assistance activities (page 12); and, clarify the role the American Polish Labor Center is expected to play with respect to DOL's technical assistance activities in Poland (page 15). The report also recommends that the Regional Mission for Europe ensures that the AID/Representative for Poland obtains key documents needed to monitor DOL's technical assistance activities in Poland. (see page 18).

The Regional Mission for Europe agreed with the report findings and recommendations and was taking actions to implement the recommendations.

In commenting on a draft of this report, the Department of Labor's Office of Foreign Relations stated it considered the report to be overly negative. The Office considered the program in Poland to be one of the most successful U.S. efforts which has been carried out with minimal funding and with limited A.I.D. oversight. According to the Office, all of the programs mentioned in the report were initiated in a hostile environment with four different Labor Ministers and with bureaucratic infighting and turf battles in the D.C. and Warsaw A.I.D. offices. Yet, according to the Office of Foreign Relations, three of the four programs discussed in the report were quite successful.

Aside from its view of the overly negative tone of the report, the Office of Foreign Relations generally agreed with our audit findings and was taking actions along the lines suggested by our recommendations. In the case of the entrepreneurial skills training program, for example, the Office indicated that it recognized the need for a guarantee fund and had already contacted the Polish American Enterprise Fund regarding the establishment of such a fund. Further, with the respect to follow-up assistance, the Office stated it has initiated contacts with the U.S. Peace Corps in Poland to assist the training program graduates with follow-up advice on an as needed basis.

Where appropriate the Regional Mission for Europe's and the Office of Foreign Relations' comments are summarized after each finding and the comments are presented in their entirety as Appendices II and III, respectively. With the exception of the report recommendation dealing with the American Polish Labor Center, all the report recommendations are considered resolved and will be closed upon completion of the planned actions. In the case of the report recommendation dealing with the Center, the Department of Labor has advised that they plan to close the Center. Since the closure of the Center will result in savings, the recommendation cannot be resolved and closed until an agreement is reached on the amount of savings involved with the closure of the Center.

*Office of the Inspector General*

Office of the Inspector General  
November 15, 1993

# Eastern Europe



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# INTRODUCTION

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## Background

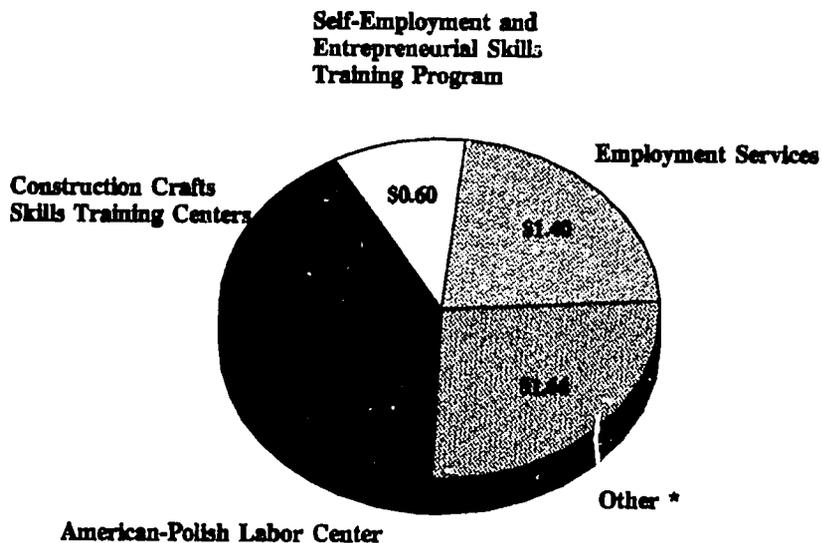
A large portion of A.I.D.'s Central and Eastern Europe (CEE) program funding is transferred to other U.S. government agencies using interagency agreements. As of June 30, 1993, A.I.D. transferred approximately \$407 million of CEE funds, representing approximately 37 percent of A.I.D.'s CEE funds, to 18 U.S. government agencies. Of this amount, the Regional Mission for Europe transferred approximately \$20 million, under interagency agreements, to the U.S. Department of Labor (DOL) to implement labor market transition programs in seven CEE countries and the three Baltic States (Estonia, Latvia and Lithuania). DOL has provided a wide range of technical assistance in these countries to address problems caused by increasing unemployment in the region, assistance activities which include:

- helping the countries restructure their employment services;
- helping to establish entrepreneurial skills and self-employment training programs;
- providing policy, strategic and technical guidance in such areas as occupational health and safety, and labor statistical collection and methodology; and
- sponsoring conferences and study tours to the United States.

In Poland, the transition from a centrally planned to a market economy produced a sharp increase in unemployment throughout the country. As of November 1992, the unemployment rate in Poland was approaching 14 percent—close to 2.5 million Poles out of a workforce of approximately 18 million.

To help the Government of Poland deal with its growing unemployment problems, DOL has been providing technical assistance since 1990 in such areas as: (1) upgrading and improving Poland's employment services offices; (2) establishing construction skills craft training centers; (3) implementing self-employment and entrepreneurial skills training programs; and, (4) establishing a American Polish Labor Center to facilitate the delivery of DOL's technical assistance activities. The chart below shows the amount of assistance provided by DOL by major components.

**Cumulative Program Expenditures By Component  
As of June 30, 1993  
(in millions)**



Source: Department of Labor Quarterly Financial Reports

\* Includes DOL's technical assistance in such areas as social insurance reform, labor-management relations, labor statistics, and occupational safety and health. These technical assistance activities were not audited.

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## **Audit Objectives**

As part of its revised fiscal year 1993 audit plan, the Office of the Regional Inspector General for Audit/Bonn audited the Department of Labor's technical assistance activities in Poland to answer the following questions:

1. What were A.I.D. funds used for and what results were being achieved under the Regional Mission for Europe's interagency agreements with the Department of Labor in Poland?
2. Did the Office of the AID/Representative for Poland carry out its oversight responsibilities for the Department of Labor interagency agreements in accordance with applicable legislative and internal requirements?

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

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## REPORT OF AUDIT FINDINGS

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### **What were A.I.D. funds used for and what results were being achieved under the Regional Mission for Europe's interagency agreements with the Department of Labor in Poland?**

As of June 30, 1993, the U.S. Department of Labor (DOL) spent approximately \$6 million of A.I.D. funds on technical assistance activities in Poland. Major expenditure categories are shown on the chart on page 2. The majority of DOL's expenditures funded contractors and grantees implementing its technical assistance programs, such as: (1) \$2.3 million to the AFL-CIO to establish the construction crafts skills training centers in Praga and Gdynia; (2) \$270,000 to the American Polish Labor Center to cover the costs associated with operating the Center; and (3) approximately \$600,000 to the Solidarity Economic Foundation and the Ohio State University to operate the self-employment and entrepreneurial skills training program.

Additionally, DOL used approximately \$1.4 million of A.I.D. funds to pay for travel and per diem costs associated with sending technical assistance teams (made up of employees, or former employees, from several U.S. state employment services agencies) to Poland. Funds were also used for the travel, per diem, and the salaries of DOL officials assigned to work on the programs.

DOL also implemented programs in the areas of social insurance reform, labor management relations, occupational safety and health, and labor statistics. We did not audit these programs because they had either just begun or had expended only a small portion of funds relative to DOL's other technical assistance programs in Poland. Through June 30, 1993, expenditures for these programs totalled approximately \$1.64 million.

Results achieved by DOL's technical assistance in Poland include:

- The Praga Construction Crafts Skills Training Center, established with DOL's assistance in a Warsaw suburb, graduated approximately 350 Poles, as of June 30, 1993—providing the graduates the latest in construction techniques. According to the Center's Director, virtually all of the graduates were able to find employment, some even establishing their own businesses. Graduates we interviewed were very enthusiastic about the training that they had received. DOL officials also cited as a major benefit of this program the involvement of the AFL-CIO in working with Polish counterpart organizations. DOL officials further pointed out that the AFL-CIO volunteered all the time of their staff and charged no indirect costs to the project.
- Solidarity Economic Foundation and Ohio State University officials told us that approximately 4,000 Poles have taken the self-employment and entrepreneurial skills training course developed by Ohio State University under a DOL grant which is now operated by the Solidarity Economic Foundation. Ohio State University officials also indicated that 570 program graduates have started their own businesses. Graduates of the course that we interviewed all spoke highly of the training. DOL officials also pointed out as evidence of the success of this program the fact that the Solidarity Economic Foundation now operates the program.
- New employment services concepts were introduced by DOL at two model employment service offices in Gdansk and Szczecin and we observed some of these new concepts in operation at both offices. Some of these concepts, such as the job activity card, are now being implemented at other employment offices throughout Poland. DOL officials noted, for example, that Poland's Ministry of Labor has requested replication of some of these concepts to as many regions as DOL's budget allows.

Notwithstanding the above achievements, our audit identified areas where DOL's technical assistance activities can be improved, particularly in looking toward the long-term continuation of this assistance. These improvements include developing: (1) a realistic plan to ensure the future viability of the Praga and Gdynia Construction Crafts Skills Training Centers after U.S. funding of these Centers ends; (2) linkages to help ensure graduates of the self-employment and entrepreneurial skills training program have knowledge of and access to business start-up capital and

follow-up technical assistance; (3) specific objectives and progress indicators for assistance provided in the employment services area; and (4) a clearer role for the American Polish Labor Center with respect to DOL's technical assistance activities in Poland.

**Efforts Needed to Ensure  
Sustainability of Praga and Gdynia  
Construction Crafts Skills Training Centers**

The Praga and Gdynia Construction Crafts Skills Training Centers are required to develop self-financing plans to ensure their continued operations after U.S. assistance is discontinued. While the Gdynia Center has not officially opened, the Praga Center has been operating for two years. Although the Praga Center has been seeking alternative funding sources, it has not yet developed a realistic plan for replacing DOL funding. An adequate plan was not developed because the Center was unable to find alternative funding sources sufficient to replace the DOL funds. Unless realistic self-financing plans are developed, the continuation of the Centers, once DOL funding ceases, is in doubt.

**Recommendation No. 1: We recommend the Regional Mission for Europe and the AID/Representative for Poland ensure that the Department of Labor's workplan for Poland provides for the development of a strategy for assisting the Praga and Gdynia Construction Crafts Skills Training Centers to be self-sufficient, a strategy that will include a time table for phasing out U.S. assistance and targets and milestones for the Centers to prepare and submit self-financing plans that identify alternative funding sources.**

DOL's cooperative agreement with the AFL-CIO in support of the Praga and Gdynia Training Centers requires that a self-financing plan be developed for the Centers. Because of the high operating costs associated with the Centers and the fact that DOL funding will eventually end, it is imperative that the Centers develop realistic plans for alternative sources of financing.

Operating since June 1991, the Praga Center is capable of training approximately 400 students a year. According to documents obtained from the Praga Center's manager, the yearly operating costs to train this many students is approximately \$145,000. Although not officially opened yet, the Gdynia Center will, based on capacity, be able to train at least as many students as the Praga Center—thereby incurring at least an additional \$145,000 in yearly operating expenses. Praga Center officials were concerned about seeking alternative funding sources and had prepared a self-

financing plan. However, the plan did not realistically address where the Center would be able to find alternative funding sources. For example:

- The Center placed a great deal of reliance on obtaining funding from the local labor offices, in the form of tuition assistance, for unemployed workers taking training courses at the Center. However, this source of funding would only represent a small fraction of the total funds needed to operate the Center. Tuition fees, for instance, would only account for about \$25,000—representing only about 17 percent of the total yearly operating costs (\$145,000) projected for the Center.
- Another potential source of major funding considered by the Center was charging tuition fees to individuals who are able to pay for their training. However, the majority of training participants are unemployed and cannot afford to pay tuition or only pay a small tuition fee. For example, during 1992 and for the first six months of 1993, the Praga Center collected only approximately \$10,000 from tuition fees—a fraction of the Center's total operating expenses.

Praga Center officials acknowledged they were having a difficult time finding alternative funding sources. According to the Praga Center's Manager, it will be very difficult to operate the Center without a major contributor to pick up the operating deficit that would be created once DOL funding ceases. Without a dependable source of funds, the Center is precluded from making any realistic financial plans. Praga and Gdynia Center officials that we interviewed did not appear very hopeful that the Centers could continue to operate effectively without a major funding source.

The need to develop a realistic self-financing plan will become even more critical once the Gdynia Training Center is fully operational. This Center, which is due to officially open in September 1993, will be larger than the Praga Center and thus will require more funds to operate. The Gdynia Center Director told us that he had not yet begun to develop a self-financing plan and would be totally reliant on DOL funding for the foreseeable future.

While the construction crafts skills training program is considered to be a success by officials we interviewed, the program is now entering a critical juncture. DOL assistance for this program is scheduled to be phased out in two years for the Praga Center and in about two to four years for the Gdynia Center. If these Centers are to continue after the DOL funding ends, a strategy must be developed now to begin finding alternative funding sources.



*Classroom and hands-on training being provided at the Praga  
Construction Crafts Skills Training Center, located in a  
suburb near Warsaw.  
(July 1993)*

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## **Management Comments and Our Evaluation**

In commenting on a draft of this report, DOL officials agreed that there is a need to find alternative funding sources for the two Centers. DOL officials stated that they are pursuing two possible ways to help ensure the sustainability of the Centers once DOL funding ends: (1) Government of Poland support; and (2) contributions from contractors to fund the apprenticeship training system.

DOL officials maintained that the \$25, 000 figure we used as the potential source of funding possible from Poland's local labor offices was not realistic and believed this figure could be closer to \$240,000—charging local labor offices \$600 tuition per student based on Praga graduating 400 students per year. However, DOL officials acknowledged their estimate could be overly optimistic since not all local labor offices have money to pay for tuition.

The Regional Mission for Europe agreed with Recommendation No. 1 and advised that it would ensure DOL's workplan provides for the development and delivery of a strategy for assisting the Centers to be self-sufficient. Based on the Regional Mission's response, Recommendation No. 1 is considered resolved and can be closed once the required actions are completed.

### **Entrepreneurial Skills Training Program Needs to Develop Linkages to Start-Up Capital and Follow-up Assistance**

Assistance activities should be designed to achieve maximum impact. The self-employment and entrepreneurial skills training program supported by DOL lacked some key linkages in such areas as helping graduates obtain start-up business financing and providing follow-up technical assistance to graduates who started their own businesses. These linkages were absent from the program because the program was designed without providing for them. As a result, the training may not be achieving maximum benefits because graduates may: (1) fail to start their own business because of a lack of access to or knowledge about potential start-up financing; and/or (2) start and fail at opening a business due to a lack of follow-up technical help needed to solve unforeseen problems.

**Recommendation No. 2: We recommend that the Regional Mission for Europe and the AID/Representative for Poland ensure that the Department of Labor's annual workplan for Poland provides for the preparation of a plan for linking the entrepreneurial skills training program with information on**

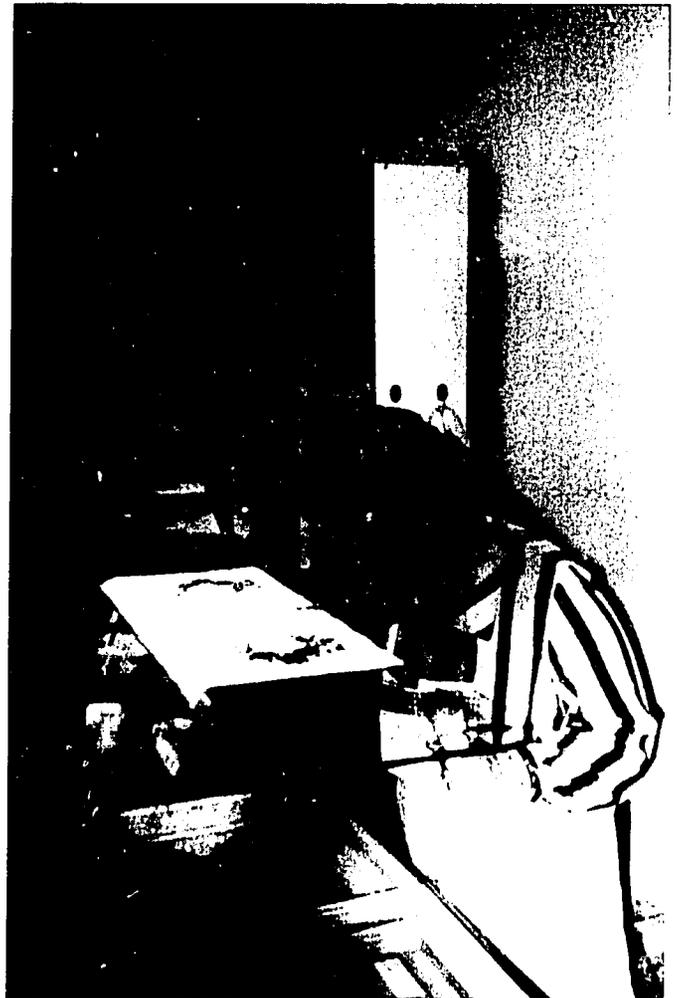
**start-up capital and follow-up assistance activities. This plan should include information on how training graduates will be provided information on potential sources of start-up capital, such as the Polish American Enterprise Fund or how the course will be expanded/ revised to include training on how to apply for start-up loans. Also, the plan should explain how follow-up assistance, such as that provided by organizations such as the Peace Corps, would be provided to graduates.**

Technical assistance should be designed to achieve maximum impact. Providing self-employment and entrepreneurial training serves to educate Poles about private enterprise and also encourages them to start their own businesses. However, starting a business is a risky proposition, particularly for those who have never owned or participated in a business operation before. The entrepreneurial training program should assist graduates in obtaining knowledge about and access to start-up business capital. Further, such programs should provide follow-up assistance to graduates who attempt to start their own businesses.

While graduates of the self-employment training course we interviewed all spoke highly of the quality of the course and of the new perspective the course had given them on operating a business, we found that the training program lacked key linkages. The program provided little assistance in helping graduates obtain start-up capital and did not provide follow-up business advisory services to graduates.

**Knowledge of and access to start-up business capital was limited.** Our interviews with entrepreneurial skill training program graduates and Solidarity Economic Foundation officials responsible for the training program revealed that graduates were encountering problems in obtaining start-up capital. Most graduates seem to rely on family and friends or the local labor office for financing. Beyond these sources of start-up capital, graduates we interviewed either had no knowledge of other potential financing sources or were prohibited from borrowing through banks due to the high interest rates and equity requirements imposed by the banks. Further, training program officials were unaware of some potential start-up capital sources and provided little guidance to graduates to help obtain financing.

For example, virtually all of a group of ten graduates we interviewed in the Starachowice area who started their own business told us they had considerable trouble in obtaining start-up business capital and most ended up borrowing from family or friends or, in some instances, from the local labor office. One graduate, who opened up a grocery store with the financial help of friends and relatives, told us he was refused a loan by a local bank even though he had equity in the grocery store. Another graduate who started a video store was unable to obtain a bank loan



The owner of this bakery located in a suburb of Warsaw was a graduate of the DOL-funded entrepreneurial skills training course operated by the Solidarity Economic Foundation in Warsaw. The owner, retired from a factory on a disability, used her disability retirement to finance her bakery. (July 1993)

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but borrowed funds from his instructor to start the store. After trying for 1 1/2 years, this graduate was also able to obtain a loan from the local labor office.

Although local labor offices are a source of financing, our discussions with labor office officials and others indicated that the availability of loans from such offices varies from location to location. For example, although officials at one location told us they actively made loans to graduates of the program, officials at another location told us they discontinued their loan program because of poor results.

Beyond obtaining start-up financing from friends and relatives or the local labor offices, graduates and program officials had little knowledge of other start-up business capital although such sources did exist. For example, although the A.I.D.-financed Polish American Enterprise Fund had a small loan program, neither program graduates nor officials we interviewed were aware of the existence of the program. Further, representatives of the Warsaw office of the Solidarity Economic Foundation, responsible for the program, told us that although the local labor office was a major source of start-up capital, the office had redirected its loan program and it was doubtful the office would continue to be a source of capital. However, these officials knew of no other sources of start-up capital for their graduates, other than family or friends, and acknowledged the course offered no guidance to graduates in obtaining financing.

**Follow-up advice is not being provided.** Most graduates we interviewed who started their own businesses told us they would have liked to have had someone to call on for advice as they developed their businesses. However, the entrepreneurial training program did not provide for such follow-up. For example, graduates told us they encountered many unforeseen problems and that it would have been useful to have had someone with business expertise to call on for advice but such expertise was not available under the program. One graduate mentioned, for example, that the course instructor told her students to call anytime they encountered problems but the instructor was hard to reach because she also had a full-time job.

Solidarity Economic Foundation officials in Warsaw acknowledged that the program did not provide follow-up advice to course graduates and that such advice was needed. These officials told us that follow-up advice was not provided because they did not have the resources to do so and, if they did incorporate a follow-up program, they would have to charge the students for the service.

A potential source of follow-up advice is the U.S. Peace Corps. The Peace Corps had 60 volunteers in Poland, all with at least five years business experience and most having MBAs. The Peace Corps Director in Poland told us he was aware of the

entrepreneurial training program and had offered to assist course graduates. In addition, one volunteer had been assigned to work with the Solidarity Economic Foundation in Gdansk. While Warsaw Solidarity Economic Foundation officials were aware of the volunteer services offered by the Peace Corps, they had not met with any Peace Corps representatives concerning the possibility of obtaining follow-up advice from their volunteers.

The Director of DOL's Office of Foreign Relations acknowledged that the entrepreneurial training program lacked the above linkages (access to capital and follow-up advice). He attributed the absence of these linkages to the program being designed without providing for them. However, the Director told us he was trying to strengthen the program by having the Solidarity Economic Foundation work with the Peace Corps to obtain follow-up advice. He noted, for example, that he advised the Foundation that continued DOL funding would be conditional on the Foundation working out an agreement with the Peace Corps for follow-up assistance. He further stated that DOL would probably only support this program for two more years if the Solidarity Economic Foundation did not start using the Peace Corps for follow-up activities.

While the DOL-developed entrepreneurial skills training program is highly regarded, the program's impact may be limited by the absence of program linkages to start-up capital and follow-up advice. As a result, many program graduates may be discouraged from starting businesses because of the lack of knowledge about or access to start-up business capital. Further, the failure rate for those who attempt to start a business may be higher because of the graduates do not have access to follow-up business advisory services. While we recognize that the program was implemented without providing for these linkages, we believe opportunities now exist to ensure these linkages are included.

### **Management Comments and Our Evaluation**

In commenting on a draft of this report, DOL officials stated that they recognize the need for a guarantee fund and have already contacted the Polish American Enterprise Fund regarding the establishment of such a fund. Further, with respect to follow-up assistance, DOL officials stated they have initiated contacts with the U.S. Peace Corps in Poland to assist the training program graduates with follow-up advice on an as needed basis.

The Regional Mission for Europe agreed with Recommendation No. 2 and advised that it would ensure that DOL's workplan includes a plan for linking the entrepreneurial skills training program with information on start-up capital and

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follow-up assistance activities. Based on the Regional Mission's comments, Recommendation No. 2 is considered resolved and can be closed once required actions are completed.

**Employment Services Technical Assistance**  
**Lacked Specific Objectives and Progress Indicators**

Certain program design elements must be established to ensure technical assistance activities are properly focused and that information is available with which to measure progress and results. DOL's technical assistance in the area of employment services, however, lacked specific objectives and progress indicators making it difficult to measure the results of this assistance. This situation occurred because the emphasis in the early years was on providing assistance as quickly as possible; not on establishing measurable outputs by which the long-term impact of the assistance could be measured. Further, the Polish Government's indecisiveness towards employment service technical assistance activities has been a contributing factor for not establishing specific objectives and progress indicators. Without clear objectives and progress indicators, the impact of DOL's technical assistance activities is difficult to measure.

**Recommendation No. 3:** We recommend that the Regional Mission for Europe and the AID/Representative for Poland ensure that the Department of Labor's annual workplan for Poland, required to be submitted under the interagency agreement dated June 16, 1993, includes specific objectives and progress indicators for employment services technical assistance activities to be carried out in Poland.

Specific goals and progress indicators are essential program design elements that are necessary to determine results and impact. Discussions with DOL and American Embassy officials and a review of available documentation revealed that specific objectives and progress indicators for DOL's employment services technical assistance activities had not been established with which to measure or assess the progress of such activities. For example:

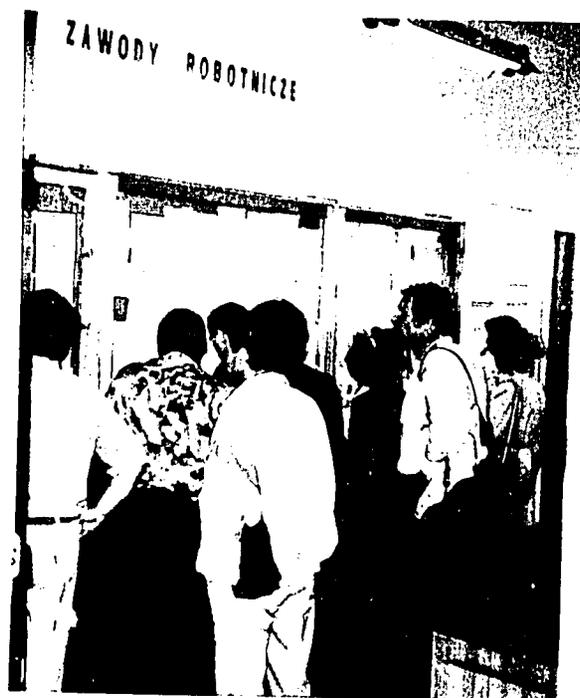
- DOL provided technical assistance to the Gdansk employment offices to help them implement the job center concept which provides an array of community services for the unemployed. While the concept was well received by the employment offices and implemented in seven of the eight offices in the Gdansk area, it was not known if the Government planned to replicate the concept throughout the country or if the benefits would be localized in the Gdansk area.

- DOL worked with the employment offices in the Szczecin area to help automate these offices. Through donations from IBM, DOL provided the offices with three mid-range computers and a number of personal computers. While the personal computers were put to use almost immediately, the offices had yet to find an effective use for the mid-range computers—almost three years after the computers were received. The computers have not been used because of a lack of training and compatible software.
- DOL consultants successfully developed employment office procedures and provided training to employment office workers in the Gdansk and Szczecin area. According to Embassy officials these efforts have gone a long way to help offices in these locations reorganize and better structure their operations. While some procedures, such as the job activity card, were adopted nationwide, it was not known the extent to which other procedures would be adopted nationwide. We also noted that a team of DOL consultants in a trip report dated May 1993 expressed concern that programs developed in the Szczecin and Gdansk areas were not being exported to other regions.

According to AID/Representative officials, specific objectives and progress indicators had not been established because DOL was tasked in the early years of the program to get the money out as quickly as possible. Officials also pointed out that the constantly changing political environment in Poland, which has seen four different administrations in the last five years, has made it difficult to get the Government of Poland to commit to a long-term strategy in the employment services area.

AID/Representative officials also pointed out that the very fact that DOL's technical assistance in the area of employment services lacked specific objectives and progress indicators should not diminish the impact-perception of the activity. They noted that the concept of employment services in Poland (as in any other post-communist country) is a fairly new phenomenon—let alone the idea of unemployment itself! Therefore, these officials believe it would be extremely difficult to have specific objectives and indicators to measure the change in people's attitudes and perception towards unemployment and employment services. They noted that as a result of the influence of DOL and other donor activities, Poland's Ministry of Labor and Social Policy established a new government entity to specifically deal with the issues of unemployment and employment offices.

AID/Representative officials also questioned our conclusion that one of the program's weaknesses is the lack of knowledge about whether the job-center concept and



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*Local employment office workers in Gdansk provide assistance to unemployed workers and unemployed workers scan listings of job vacancies. (May 1993)*

procedures regarding the structure and operations of local offices in Gdansk and Szczecin will be adopted on a nationwide scale. These officials believe that the idea for DOL's activities is to implement a show-case activity, and once it is successful, replicate the positive results elsewhere.

We do not entirely agree with the AID/Representative officials comments concerning the difficulties in establishing specific objectives and progress indicators. What we are asking and what every taxpayer would ask is: "What did the U.S. get for its money?" This questions can not be answered unless specific objectives are clearly set out and progress indicators are established to measure efforts toward achieving these objectives.

While we recognize the circumstances under which DOL implemented its programs in Poland, the program is now entering its fourth year. Without specific objectives and progress indicators, the outcomes provided by this assistance program are difficult to measure. Additionally, it is difficult to assess what further technical assistance is needed. For example, DOL budgeted \$175,000 for the period March 1993 through April 1994, a portion of which is for the "completion" of model employment offices. Without progress indicators, however, it is difficult to determine what is meant by "completion" and what outcomes are envisioned with the completion of the model offices. Better defined objectives will also enable A.I.D. and the DOL to determine whether assistance activities have made a difference in providing employment services to the Polish people.

### **Management Comments and Our Evaluation**

The Regional Mission for Europe agreed with Recommendation No. 3 and stated it already has taken action to ensure that DOL's annual workplan includes specific objectives and progress indicators. The Regional Mission referred to specific guidance provided to DOL in July 1993 detailing the format and substance for the annual country and activity-specific workplans. The Regional Mission further stated that upon approval of DOL's workplan for the employment services activity it would request closure of the recommendation.

Based on the Regional Mission's comments, Recommendation No. 3 is considered resolved and can be closed when required actions are completed.

## **Need to Clarify the Role of the American Polish Labor Center**

For an organization to be effective it must have a clear statement of purpose defining what its role is and a basis for which to assess its performance. The American Polish Labor Center's role with respect to DOL's technical assistance activities was not well defined. This lack of a well defined role occurred because there were inconsistencies among several documents attempting to define the Center's role. As a result, it was difficult to assess the Center's performance to date and to determine whether additional funding was warranted.

**Recommendation No. 4: We recommend that the Regional Mission for Europe and the AID/Representative for Poland ensure the Department of Labor, in its annual workplan for Poland, clarifies the role the American Polish Labor Center is expected to play with respect to the Department of Labor's technical assistance activities in Poland. The clarification of the Center's role should also include benchmark indicators that can be used to assess the Center's performance.**

The American Polish Labor Center was established to facilitate DOL's technical assistance activities in Poland. If the Center is to play an effective role, however, there must be a clear understanding of exactly what its purpose is. Further, a clear definition of the Center's role is necessary to provide a basis with which to assess the Center's performance and to determine if continued funding is warranted.

Although DOL officials maintain that the Center's purpose is only to provide administrative support for DOL's technical assistance activities in Poland, we found documentation describing a much broader role for the Center—a role that included overseeing the implementation of such activities. For example:

- Although DOL's cooperative agreement with the Center stated that the Center would be providing in-country administrative and logistical support, the agreement also stated that the Center would be "preparing reports that document the provision of technical assistance and provide information about its program and results." This latter statement, although vague, implies the Center is to do more than just provide administrative support.
- A statement of Bylaws, dated December 1990, which accompanied the Memorandum of Understanding between DOL and the Government of Poland concerning the Center stated the Center "oversees the timely



*Outside of the American Polish Labor Center  
and a labor-management relations conference being held in  
the Center's conference room. (July 1993)*

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and effective implementation of American technical assistance in the field of labor." The Bylaws further stated that the Center would collaborate with Polish and American organizations and institutions involved in the implementation of the technical assistance program in the field of labor and help to coordinate activities connected with the program which these institutions and organizations are carrying out in Poland. The Bylaws thus provide for a much broader role for the Center than just providing administrative support for DOL's technical assistance activities.

The Embassy's Labor Attache told us that the December 1990 Bylaws had never formally been ratified by a Steering Committee comprised of DOL, the Polish Ministry of Labor and Social Policy, and American Embassy representatives. Rather, according to the Labor Attache, the Bylaws cited above represented the "wishes" of the former Director of the Center who wanted the Center to be given authority to perform an oversight/monitoring role. However, the Labor Attache acknowledged that the Center's exact role and responsibilities have never been clearly defined.

Uncertainty as to the Center's role creates problems in determining if funding for the Center should continue and also in assessing its performance. For example, DOL's Director of Foreign Relations plans to continue funding the Center for at least one more year at which time the Center's activities would be evaluated to determine if continued funding would be warranted. However, in the absence of a clear definition of the Center's role, it will be difficult to assess the Center's performance. Also, if the Center's role is to be strictly limited to administrative support for DOL's activities, then there are questions as to whether this limited role would justify expenditures of \$250,000 a year for the Center's activities.

### Management Comments and Our Evaluation

In commenting on a draft of this report, DOL officials stated that the lack of the Center's clearly defined role could be partially explained by DOL being precluded from exercising any management role over the Center, which is consistent, according to DOL officials, with government-wide regulations. DOL officials also stated that from the inception of the Center they have had difficulty clarifying the Center's purpose to the Center's Director. As a result, DOL officials advised that DOL and the Polish Government have agreed to close the Center.

DOL's plans to close the American Polish Labor Center will result in savings which we estimate at approximately \$250,000, the amount DOL budgeted for this activity. However, IG policy requires that before a recommendation involving monetary

savings can be resolved the auditee must concur with the amount of estimated savings. Accordingly, Recommendation No. 4 is considered unresolved, and can be resolved and closed when the Regional Mission for Europe provides information on the amount of estimated savings resulting from the closure of the Center.

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**Did the Office of the AID/Representative for Poland carry out its oversight responsibilities for the Department of Labor interagency agreements in accordance with applicable legislative and internal requirements?**

The AID/Representative's oversight role for the Department of Labor's (DOL) activities was limited. This limited role was due to the extensive involvement of the Embassy's Labor Attache with DOL's technical assistance activities in Poland. Although carrying out a limited oversight role, the AID/Representative, nevertheless, was kept informed about DOL's technical assistance activities by the Labor Attache and DOL officials who visited Poland. Although we did not identify specific problems resulting from the AID/Representative's limited oversight role, opportunities exist to improve the in-country oversight/monitoring of DOL's activities.

**AID/Representative Exercised  
Limited Oversight Role**

Despite the 1993 legislative requirements and internal guidance directing that AID/Representatives assume responsibility for in-country oversight and monitoring of all activities financed by or through A.I.D., the AID/Representative for Poland had limited oversight for DOL's activities in Poland. This limited oversight role occurred because the Embassy's Labor Attache was assigned primary monitoring responsibility for DOL's activities. The Labor Attache worked closely with AID/Representative officials, however, and the AID/Representative was fully informed of DOL's technical assistance activities in Poland. However, both the AID/Representative and the Labor Attache lacked key documents essential to monitoring DOL's activities.

**Recommendation No. 5: We recommend the Regional Mission for Europe ensure that the AID/Representative for Poland obtains key documents (such as interagency agreements, contractors' and grantees' scopes of work and progress reports, and Department of Labor's quarterly progress reports) needed to monitor the Department of Labor's technical assistance activities in Poland.**

The Fiscal Year 1993 Foreign Operations Appropriation Act states that, under the general direction of the President's Coordinator for United States Assistance for Eastern Europe and under the guidance of the Ambassador in each respective country in Eastern Europe and the Baltic States, the AID/Representative would be responsible for coordinating the field activities of all U.S. government agencies in

Eastern Europe and the Baltic States. In response to this legislation, the Regional Mission for Europe issued Mission Order No. 103, dated December 1, 1992, containing guidance for AID/Representatives on how to comply with this and other requirements contained in the 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.

At the time of our field visits in May and July 1993, the Embassy's Labor Attache was responsible for coordinating and monitoring DOL's activities in Poland. According to the Labor Attache, the former U.S. Ambassador to Poland and the former Deputy Under Secretary of Labor wanted the Labor Attache to be assigned oversight responsibilities for DOL's activities in Poland. The Labor Attache told us that he devoted about 50 percent of his time to DOL's activities in Poland.

The former AID/Representative for Poland told us that he was satisfied with the extent of monitoring carried out by the Labor Attache. The AID/Representative defined his role as being knowledgeable about DOL's activities in Poland but, in view of the Labor Attache's role, not getting heavily involved with monitoring DOL's activities. This official said that he was kept well informed of DOL's activities in Poland (both progress and problems) by the Labor Attache and routinely briefed by visiting DOL project officials and contractors.

The former AID/Representative expressed some concern about monitoring responsibilities for activities carried out by other U.S. government agencies that were being handled by Embassy officials, such as the Labor Attache. The AID/Representative believed that once these officials get reassigned to other posts his office will assume the monitoring responsibilities. However, this official noted that in some cases there will be little or no institutional knowledge after the Embassy official leaves because the Embassy officials may not have kept complete files on their monitoring activities and his staff may not have been kept fully informed about the activities of the other agencies.

The current arrangement whereby the Embassy's Labor Attache is primarily responsible for monitoring DOL's activities appears to be working well. The Labor Attache is devoting a significant portion of his time to monitoring DOL's activities in Poland and is keeping the AID/Representative Office informed of DOL's assistance progress and problems. However, our review of the files maintained by both the Labor Attache and the AID/Representative disclosed that key documents essential for monitoring DOL's activities were missing, such as the current interagency agreement, copies of DOL's contract and grant agreements for activities implemented

in Poland and progress reports submitted by grantees and contractors, and quarterly financial and progress reports submitted by DOL.

The Labor Attache and AID/Representative officials acknowledged they lacked key documents concerning DOL's programs in Poland. These officials stated that they had been totally reliant on DOL to provide relevant documentation, such as progress reports and contractor/grantee scopes of work, and were not certain as to what documents DOL had not provided. To be in a better position to assume oversight responsibilities for DOL's activities in Poland, however, the AID/Representatives needs to obtain copies of these key documents.

The current AID/Representative was planning two actions to strengthen his office's monitoring/oversight role, particularly with regard to activities being implemented in Poland by other U.S. government agencies. First, the office planned to retain a contractor to assist the office in monitoring and coordinating assistance provided to Poland. Second, the office was planning to undertake a study of activities carried out by other U.S. government agencies under interagency agreements to better identify the universe of such activities and to devise a plan for monitoring such activities.

#### Management Comments and Our Evaluation

In commenting on a draft of this report, DOL officials stated that the Embassy's Labor Attache played a substantive role in influencing the success of program development and implementation of technical assistance in Poland.

The Regional Mission for Europe commented that actions are being taken to ensure that all AID/Representatives are provided key documents needed to monitor DOL's technical assistance activities in Eastern Europe. The Regional Mission stated that in September 1993 it requested DOL to: (1) provide A.I.D. with scopes of work for use by AID/Representatives in monitoring DOL activities; (2) instruct their contractors and grantees to establish and maintain regular communications with the appropriate AID/Representatives; and, (3) submit all future workplans and quarterly progress reports directly to AID/Washington offices which will ensure distribution to appropriate AID/Representatives. The Regional Mission for Europe stated it would request closure of Recommendation No. 5 when DOL establishes procedures to ensure compliance with these requirements.

Based on the Regional Mission for Europe comments, Recommendation No. 5 is considered resolved and can be closed when required actions are completed.

## SCOPE AND METHODOLOGY

We audited the U.S. Department of Labor's (DOL) activities in Poland under its interagency agreement with the Regional Mission for Europe in accordance with generally accepted government auditing standards. We conducted the audit from May 17 through July 23, 1993, and covered four project components totaling approximately \$4.6 million in expenditures out of \$6 million expended by DOL in Poland, as of June 30, 1993. We conducted our audit work in the offices of DOL and the Regional Mission for Europe in Washington. Our field work in Poland included visits to the Office of the AID/Representative, the American Polish Labor Center, the Praga and Gdynia Construction Crafts Skills Centers, the headquarters of the Solidarity Economic Foundation in Gdansk and Warsaw and various employment offices.

We reviewed DOL and A.I.D. project documentation to: (1) determine the specific technical assistance objectives for activities conducted in Poland; (2) identify the amount of A.I.D. funds budgeted for and expended by DOL; and, (3) determine if progress indicators had been established. We interviewed A.I.D., American Embassy and DOL officials in the U.S. and Poland to obtain their views on the effectiveness and usefulness of DOL's technical assistance activities. Additionally, we interviewed graduates of the self-employment and entrepreneurial skills training program to discuss the adequacy and usefulness of the program. Further, we interviewed representatives of the Polish American Enterprise Fund and the Peace Corps to determine if these organizations were providing assistance in conjunction with DOL's program. We also interviewed AID/Representative officials to determine how the office carried out its oversight responsibilities for DOL's technical assistance activities.

For our first audit objective, we asserted criteria for three of the four improvement areas discussed in the audit report because specific criteria did not exist. The first such area deals with the absence of linkages between the self-employment and entrepreneurial skills training program to access to start-up capital and follow-up

technical assistance. The cooperative agreement between DOL and the Solidarity Economic Foundation does not require that these linkages be developed. However, we believe that opportunities to develop these linkages now exist and should be included in the program in order to achieve maximum impact.

The second area for improvement deals with our inability to measure the results of DOL's employment services activities because specific objectives and progress indicators had not been established. The interagency agreements in effect at the time of our audit did not require that DOL establish specific objectives for its technical assistance activities or develop progress indicators. We believe these program design elements—specific objectives and progress indicators—are critical to the success of any assistance program and without them it is difficult to measure the results of this assistance. The Regional Mission for Europe's new interagency agreement with DOL, signed on June 16, 1993, before our field work was completed, now requires DOL to provide country-specific workplans containing, among other things, benchmark indicators of progress toward achieving the program goals and objectives.

The third area for improvement concerns the lack of a clear statement of purpose defining the role of the American Polish Labor Center in relation to DOL's overall technical assistance program in Poland. DOL's cooperative agreement with the Center and the By-Laws establishing the Center do not clarify the role that the Center is expected to play. We believe that the Center's role needs to be clearly defined so that its performance can be assessed and a determination for continued funding can be made.

The objectives of this audit did not allow for sufficient testing to comment on the internal controls of either the Regional Mission for Europe or the Office of the AID/Representative. Therefore, we did not prepare a separate report on internal controls. Further, our audit work testing for compliance dealt only with whether the Office of the AID/Representative was carrying out its oversight responsibilities for DOL's interagency agreement in accordance with applicable legislative and internal requirements. We found no evidence that the Office of the AID/Representative was not in compliance with these requirements. However, as discussed on page 18 of this report, we found the AID/Representative's oversight role to be limited.

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U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

October 4, 1993

MEMORANDUM

TO: RIG/A/EUR/W, James Bonnell

FROM: EUR/A-DAA, Paul O'Farrell *POF*

SUBJECT: Response to Draft Audit of Department of Labor's  
Technical Assistance Activities in Poland

We have received subject draft report and have comments on each of the recommendations.

Recommendation re. "Efforts Needed to Ensure Sustainability of Praga and Gdynia Construction Crafts Skills Training Centers." We agree fully with this recommendation, but believe that it would be more appropriate to have the workplan provide for the development of "a strategy for assisting the Praga and Gdynia Training Centers to be self-sufficient" rather than "include" such a strategy. We will ensure that DOL's workplan (due for submission to EUR/DR on October 25, 1993) provides for the development and delivery of such a strategy before approving DOL's workplan for this activity. Upon delivery of a strategy satisfactory to the AIDRep/Poland and EUR/DR (which we anticipate in January 1994), we will request that RIG close this recommendation.

Recommendation re. "Entrepreneurial Skills Training Program Needs to Develop Linkages to Start-Up Capital and Follow-up Assistance." We agree fully with this recommendation, but believe that it would be more appropriate to have the workplan provide for the preparation of "a plan for linking the entrepreneurial skills training program with information of start-up capital and follow-up assistance activities" rather than have the workplan include such a plan. EUR/DR will ensure that DOL's workplan (due for submission to EUR/DR on October 25, 1993) provides for the preparation and delivery of such a plan before approving DOL's workplan for this activity. Upon delivery of a plan satisfactory to the AIDRep/Poland and EUR/DR (which we anticipate in January 1994), we will request that RIG close this recommendation.

Recommendation re. "Employment Services Technical Assistance Lacked Specific Objectives and Progress Indicators."

We agree fully with this recommendation and have already taken action to ensure that DOL's annual workplan "include specific objectives and progress indicators." Specific guidance detailing the format and substance for the annual country and activity-specific workplans were provided by EUR/DR's letter to Ambassador Berch of DOL on July 27, 1993 (copy attached). Among the ten items which must be addressed in each workplan are the objective (item no. 2) and progress indicators (item no. 7). The workplan for this activity is due for submission to EUR/DR on October 25, 1993. Upon approval of DOL's workplan for this activity (which we anticipate in November 1993), we will request that RIG close this recommendation.

Recommendation re. "Need to Clarify the Role of the American Polish Labor Center." We agree with this recommendation and will advise DOL that this matter must be clarified in its workplan (due for submission on Oct. 25, 1993). Upon approval of a workplan which, inter alia, clarifies the role of the American Polish Labor Center (which we anticipate in November 1993), we will request that RIG close this recommendation.

Recommendation re. "AID/Representative Exercised Limited Oversight Role." Actions are being taken to ensure that all AIDReps are provided key documents needed to monitor DOL's technical assistance activities in Eastern Europe. This includes DOL's first Quarterly Progress Report (4/1/93-6/30/93) for the Labor Market Transition Project which was transmitted to all appropriate AIDReps on August 9, 1993 (copy of transmittal message attached). EUR/DR's memorandum dated September 15, 1993 (copy attached) transmitted copies of the A.I.D./DOL Interagency Agreement (IAA) for this project to all appropriate AIDReps. EUR/DR's fax message to DOL dated September 24, 1993 (copy attached) requests DOL to take action to: (1) provide A.I.D. with scopes of work for use by AIDReps in monitoring DOL activities, (2) instruct their contractors and grantees to establish and maintain regular communications with the appropriate AIDReps, and (3) submit all future workplans and quarterly progress reports directly to EUR/DR which will ensure distribution to the appropriate AIDReps. When DOL advises that procedures have been installed to ensure compliance with these requirements (which we anticipate will be in October 1993), we will request that RIG close this recommendation.

We would like to thank RIG for their thorough work on this audit and look forward to receiving a copy of the final report.

## AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. EMBASSY WARSAW, POLAND  
ALEJE UJAZDOWSKIE 29/31

October 20, 1993

TO: RIG/A/Bonn

This representation letter is issued in connection with your Audit of the Department of Labor's Technical Assistance Activities in Poland. Your audit was conducted between July 7, 1993 and July 24, 1993. To the best of my knowledge and belief, I confirm the following representation made to you during your audit:

I have asked the most knowledgeable, responsible members of my staff to make available to you all records in our possession for the purposes of this audit. Based on the representations made by those individuals, of which I am aware, and on my own, personal knowledge, I believe that those records constitute a fair representation as to the status of Labor's technical assistance activities within the Office of the AID Representative for Poland. Please note that faxes, notes, and other informal communications, which are not part of the official files, are not systematically kept by our office.

I request that this representation letter be included as a part of the official management comments on the draft report and that it be published herewith as an annex to the report.

Sincerely

A handwritten signature in black ink, appearing to read "Donald L. Pressley", written over a horizontal line.

Donald L. Pressley  
AID Representative



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

TO: RIG/A/Bonn

This representation letter is issued in connection with your Audit of the Department of Labor's Technical Assistance Activities in Poland. Your audit was conducted between May 17, and July 23, 1993. As of October 29, 1993, and to the best of our knowledge and belief, we confirm the following representation made to you during your audit:

1. We have asked the most knowledgeable, responsible members of our staff to make available to you all records in our possession for the purposes of this audit. Based on the representations made by those individuals, of which we are aware, and our own personal knowledge, we believe that those records constitute a fair representation as to the status of Labor's technical assistance activities within the EUR Bureau and EUR/RME. Please note that faxes, notes, and other informal communications, which are not part of the official files, are not systematically kept by our office.

We request that this representation letter be included as a part of the official management comments on the draft report and that it be published herewith as an annex to the report.

Sincerely,

A handwritten signature in dark ink, appearing to read "F. Almaguer".

NOV 8 1993

Frank Almaguer  
Acting Deputy Assistant Administrator  
Europe and New Independent States

A handwritten signature in dark ink, appearing to read "R. Nachtrieb".

Robert Nachtrieb  
Acting Director  
Regional Mission for Europe

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U.S. Department of Labor

Bureau of International Labor Affairs  
Washington, D.C. 20210

October 4, 1993

MEMORANDUM FOR JIM BONNELL  
FROM: *Jim Perlmutter*  
JIM PERLMUTTER  
Assistant Director, OFR  
SUBJECT: Draft AID Audit on Poland

The following represent some comments regarding the AID draft audit findings for the Department of Labor's technical assistance activities in Poland.

First, let me indicate that there is no mention of vocational training or social insurance reform in the audit report, two programs where DOL has been active in providing technical assistance.

With respect to overall findings, let me offer the following:

- o The \$6 million dollars in technical assistance should be compared to the overall dollar figure contributed by AID for technical assistance in Poland
- o There are 600 graduates thus far of the Praga Construction Crafts Skills Center--not 350.
- o The AFL-CIO volunteered all time of their staff.
- o The AFL-CIO charged no indirect costs to the project.
- o Proof of DOL's success in the area of employment services is the fact that the Ministry has requested replication of the "Job Centers" and management training to as many regions as DOL's budget allows. The lack of specific objectives during the early days of the project did not limit the impact. A case could be made that the lack of constraints led to significant progress. Present workplans require the inclusion of benchmarks and progress indicators.

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Construction Crafts

- o The tuition from local labor offices should amount to more than \$12,600. If, for example, Praga were able to train 400 students and charge \$600 per student, this equals \$240,000. This figure would be overly optimistic since not all local labor offices have money to pay, however the \$12,600 figure is not realistic.
- o On page 8 you mention that the Construction Craft Skills Program "is considered to be a success." Either it is or it isn't. We believe it to be one of the most successful, if not the most successful of our labor technical assistance activities.
- o The recommendation regarding the need to find alternative funding sources is legitimate. There are two possible ways to go on this once DOL funding ends.
  - (1) Government of Poland support. This can be through tuition from the labor offices and through the Ministry of Labor directly in a larger amount from the Labor Fund. We will pursue both through a U.S. based administrator.
  - (2) Contributions from contractors based on the U.S. model of a "dues checkoff" to fund an apprenticeship training system. The problem here is that neither Solidarity nor the contractors are organized. Attempts in this regard will be a top priority of the U.S. based administrator and will include some collective bargaining training plus seminars for workers and contractors on the benefits of funding this training. AFL-CIO Building Trades officials and U.S. contractors will present this training and seminars. Funding for this activity will be requested in the FY94 budget.

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Entrepreneurial Skills Training Programs

## 1. Needs to develop linkages to start-up capital and follow up assistance.

ILAB has recognized the need for a guarantee fund and has already contacted the Polish-American Enterprise fund (PAEF) regarding establishing such a fund. Its creation, however, is a matter of immeasurable complexity well beyond the DOL's role. For over two years this issue has been a subject of a discussion between the GOP and the Polish National Bank. Reform of the entire banking system is a prerequisite to the establishment of such a fund.

Additionally, a number of legislative hurdles have to be resolved first. It would be more feasible to work out an agreement with the Small Windows Program administered by the PAEF through which graduates of the training program could obtain access to such loans. This matter is currently under discussion between ILAB, the Economic Foundation and the PAEF.

With respect to follow up assistance, ILAB has initiated contacts with the U.S. Peace Corps to assist the training program graduates with follow-up assistance on an as needed basis. The present cooperative agreement with the Economic Foundation includes follow-up support. Additionally, it also includes upgrading of the skills of the cadre of instructors trained under the initial cooperative agreement.

## 2. American Polish Labor Center (APLC).

The APLC purpose needs to be understood in a much broader context than described in the audit. The cooperative agreement, the basis for establishing the Center, defines the role of the Center to be the following: providing administrative support, preparing reports that document the provision of technical assistance and provide information about its programs and results, creating and maintaining a library, and coordinating and providing support for five seminars/workshops.

The lack of the Center's clearly defined role could be partially explained by DOL being precluded from exercising any management role over the Center. This is consistent with the government-wide regulations as expressed by the U.S. DOL Solicitor's Office (DOL can not have any control over the day-to-day activities, nomination of the director, or be represented on a Board of Directors). Additionally, from the inception, ILAB has had difficulty clarifying the Center's purpose to the Center's Director -- appointed by the Minister of Labor and Social Policy (MOLSP). Unfortunately, there has always been a

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confusion between ILAB's understanding of the Center's purpose and the Center's Director's understanding of the purpose. As a result, ILAB and the MOLSP has agreed to close the Center in agreement with the Memorandum of Understanding that expires on December 7, 1993.

#### Overall Comment

The draft report is overly negative. This is one of the most successful U.S. efforts which has been carried out with minimal funding and, as the report points out, with limited AID oversight. The Embassy's Labor Attache has played a significant substantive role in influencing the success of program development and implementation of technical assistance activities in Poland. I believe that more emphasis should be given to the positive impact of DOL reliance on the Labor Attache in carrying out its technical assistance activities in Poland.

All of the programs mentioned in the report were initiated in a hostile environment with 4 different Labor Ministers and with bureaucratic infighting and turf battles in the D.C. and Warsaw AID offices. More importantly, all of the programs mentioned in the audit were implemented prior to the 1993 legislation. Yet, in 3 of the 4 cases they were quite successful.

DOL believes it has been correctly emphasizing social safety net issues in Eastern and Central Europe. We have done this even in the face of severe limitations placed on funding by State/AID officials who until recently chose to emphasize "investment enhancement" activities at the expense of social safety net issues. The recent election in Poland should serve to focus renewed attention on the need for emphasizing social safety net issues particularly in view of the fact that unemployed workers, about to be unemployed workers and pensioners voted for the Communists.

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ENI/EUR/DR	1
ENI/EUR/RME/DIR	1
ENI/EUR/RME/FMS	15
ENI/EUR/RME/ECA/NT, Poland Desk	1
ENI/EUR/RFMC/CEE/Budapest	1
AIDREP/Poland	1
AIDREPs/CEE Countries	1
XA/PR	1
LEG	1
GC	1
POL/CDIE/DI, Acquisitions	1
AA/FA	1
FA/FM	1
FA/MCS	2
FA/FM/FPS	2
IG	1
AIG/A	1
IG/A/PPO	3
IG/LC	1
IG/A/FA	1
IG/A/PSA	1
AIG/RM	12
AIG/S&I	1
RIG/As	1