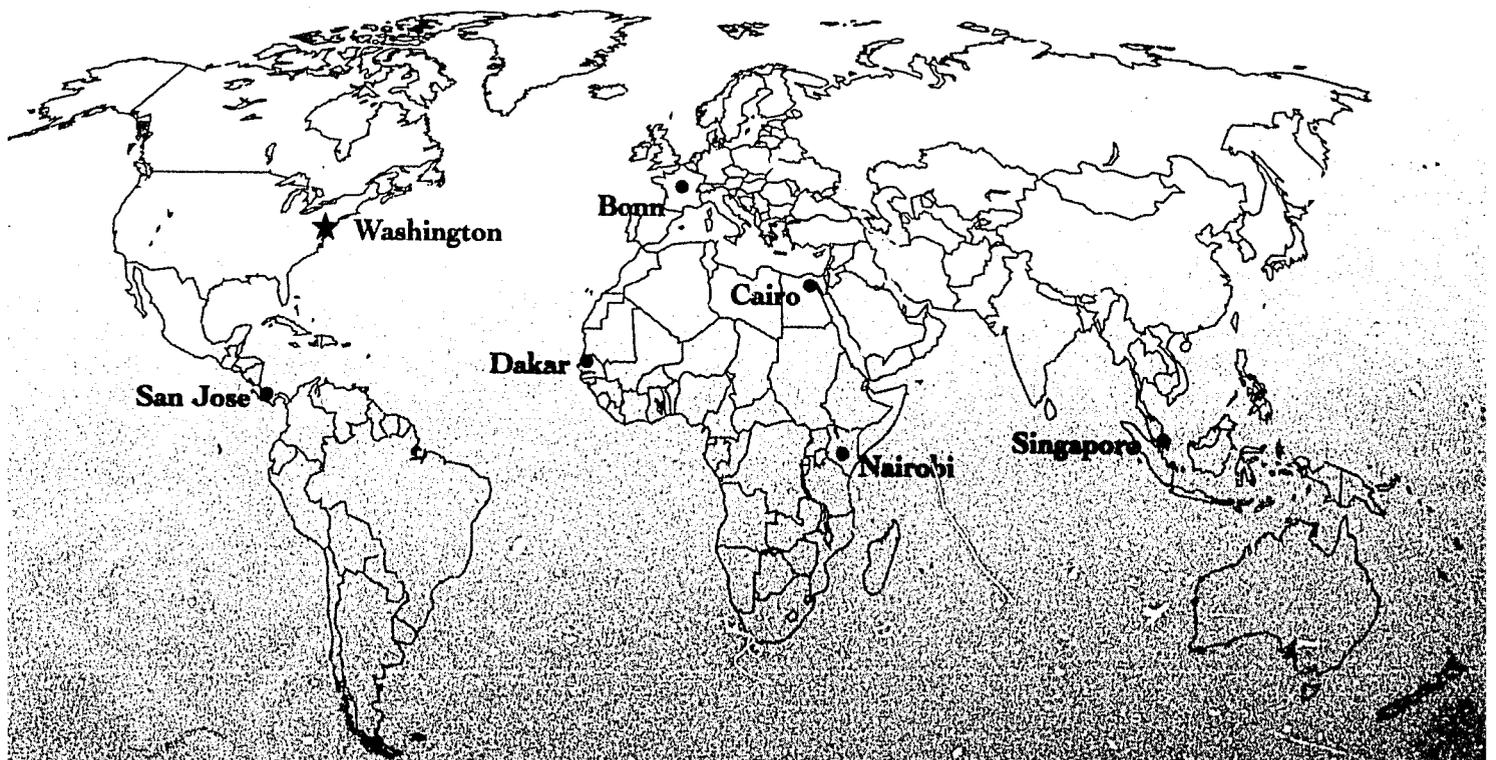


**Regional Inspector General for Audit
San José, Costa Rica**

**Audit of
USAID/Panama's Systems for
Measuring Program and Project Results**

**Audit Report No. 1-525-95-001
November 29, 1994**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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November 29, 1994

MEMORANDUM

TO: USAID/Panama Director, David Mutchler

FROM: RIG/A/San José, *Coinage N. Gothard* Coinage N. Gothard

SUBJECT: Audit of USAID/Panama's Systems for Measuring Program and Project Results

The Office of the Regional Inspector General for Audit/San Jose has completed its audit of USAID/Panama's systems for measuring program and project results. This final audit report is being transmitted to you for your action.

In preparing this report we reviewed your comments on the draft report and included them as Appendix II. A summation of your comments has been included after the problem areas addressed in the report.

Based upon your written comments, we consider all recommendations resolved upon issuance of this report. Please respond to the report within 30 days indicating any actions taken to implement the recommendations.

I appreciate the cooperation and courtesies that you and your staff extended the auditors during this assignment.

EXECUTIVE SUMMARY

The Agency for International Development (USAID) is responsible under the Foreign Assistance Act (FAA) to promote economic development and political stability in recipient countries. To enable USAID and others (e.g., Congress) to assess USAID's success in implementing its programs and projects, Section 621A of the Act states that foreign assistance funds could be utilized more effectively by the application of a management system that will include the following: **the definition of objectives for United States foreign assistance; development of quantitative indicators of progress toward these objectives; adoption of methods for comparing actual results of programs and projects with those anticipated when they were undertaken, and provide information to USAID and to Congress that relates funding to the objectives and results in order to assist in the evaluation of program performance.** As of September 30, 1993, USAID/Panama had 16 active projects with obligations and expenditures totaling \$69.9 million and \$29.7 million, respectively (see page 1).

USAID/Panama has made a concerted effort and significant progress in implementing USAID's fairly new Program Performance System for Strategic Management (PRISM) system which is to provide better information on program results. For example, USAID/Panama had established the following three strategic objectives for its overall program: Competent Civilian Government Institutions and Greater Citizen Participation, Preservation of Natural Resources, and Improved Economic Policies Business Climate. It has also identified expected program outcomes toward accomplishing the strategic objectives and some quantifiable indicators for measuring progress in achieving those objectives and outcomes. Based on the USAID Center for Development of Information and Evaluation's latest ratings on the progress made by 72 missions in implementing the PRISM, USAID/Panama was rated higher than 38 missions, at the same level as 23 other missions, and only 9 missions were rated higher (see page 3).

However, USAID/Panama still had some work to do before it fully meets the requirements for a management system that assists USAID management and others (e.g., Congress) to objectively measure and compare progress in accomplishing its strategic program objectives (which are supported by one or more individual projects) and individual project objectives against what

was anticipated when the programs and projects were undertaken. Some of the problems found include the following:

- USAID/Panama could improve its ability to measure program results under the PRISM by refining some of its indicators and improving the reliability of the data reported. As a result of problems found, USAID/Panama and others did not have the information needed to objectively measure full progress made in accomplishing the two strategic objectives and related program outcomes that we reviewed against what precisely was anticipated (i.e., results) when the programs were undertaken and for which USAID/Panama has obligated and spent \$62.0 million and \$26.9 million, respectively (see page 4).
- USAID/Panama needs to establish quantifiable indicators or even objectively verifiable and measurable indicators with specific targets and improve its reporting for measuring progress toward accomplishing individual project objectives. As a result of problems found, USAID/Panama and others did not have the information needed to objectively measure progress in accomplishing the project objectives against what was anticipated when the five projects we reviewed were undertaken and for which USAID/Panama had obligated and spent \$41.6 million and \$8.5 million, respectively (see page 12).

This report includes two recommendations aimed at improving USAID/Panama's and others' ability to objectively measure program and project results against what was anticipated when the programs and projects were undertaken.

In responding to the draft audit report, USAID/Panama concurred with the overall findings and recommendations. It also stated that they recognize the importance of establishing and maintaining a system for measuring program results and holding missions accountable. USAID/Panama's comments are discussed after each finding and are included in their entirety as Appendix II.

Office of the Inspector General

Office of the Inspector General
November 29, 1994

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INTRODUCTION

Background

The U.S. Agency for International Development (USAID) is responsible under the Foreign Assistance Act (FAA) to promote economic development and political stability in recipient countries. To enable USAID and others (e.g., Congress) to assess USAID's success in implementing its programs and projects, Section 621A of the Act states that foreign assistance funds could be utilized more effectively by the application of a management system that will include the following:

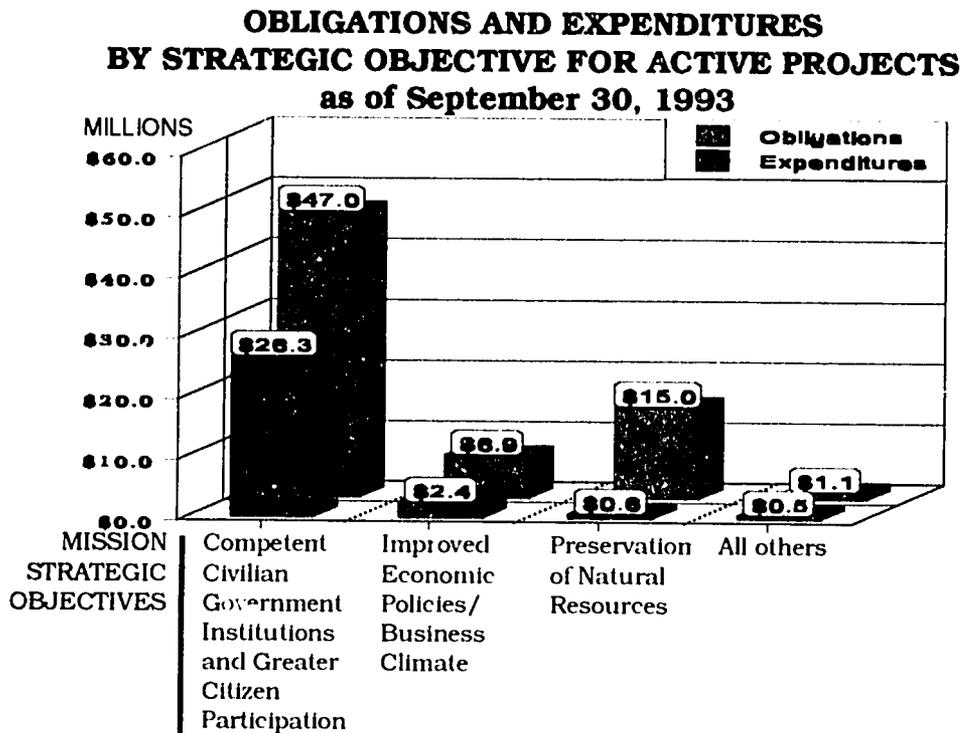
... the definition of objectives and program for United States foreign assistance; the development of quantitative indicators of progress toward these objectives; the orderly consideration of alternative means for accomplishing such objectives; and the adoption of methods for comparing actual results of programs and projects with those anticipated when they were undertaken. The system should provide information to the agency and to Congress that relates agency resources, expenditures, and budget projections to such objectives and results in order to assist in the evaluation of program performance ...

In line with these requirements, USAID has prescribed internal guidance and systems for measuring progress in implementing its programs and projects and for ensuring the effective use of USAID funds. For example, USAID Handbook 3 (Appendix 3K) emphasizes the use of indicators to measure progress in accomplishing project objectives against the planned targets. Also, in 1991, USAID developed and is in the process of implementing a new USAID-wide Program Performance System for Strategic Management (PRISM) system to provide better information on program results for more informed management decision-making.

The USAID Bureau for Policy and Program Coordination (PPC) is responsible for designing USAID's management systems for measuring project and program performance and for program evaluations. USAID/Washington's regional bureaus (including the Bureau for Latin America and the Caribbean) are responsible for implementing and evaluating regional and country programs and for conducting periodic reviews of country performance and progress toward achieving program objectives. The individual USAID missions have ultimate responsibility for developing their

own project and program objectives, measuring progress in achieving those objectives, and ensuring the efficient and effective use of USAID funds.

As of September 30, 1993, USAID/Panama had 16 active projects with total obligations and expenditures totaling \$69.9 million and \$29.7 million, respectively. As illustrated below and shown in Appendix III, most of the obligations and expenditures under these projects are for accomplishing two strategic objectives: strengthening competent civilian government institutions and preserving natural resources.



Audit Objective

The Regional Inspector General for Audit/San Jose audited USAID/Panama's monitoring, reporting, and evaluation systems to answer the following audit objective:

- **Did USAID/Panama have effective management information systems for measuring program and project performance?**

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

REPORT OF AUDIT FINDINGS

Did USAID/Panama have effective management information systems for measuring program and project performance?

USAID/Panama did not yet have fully effective management information systems for measuring program and project performance.

USAID/Panama has made a concerted effort and significant progress in implementing USAID's fairly new Program Performance System for Strategic Management (PRISM) system which is to provide better information on program results. For example, USAID/Panama had established the following three strategic objectives for its program: Competent Civilian Government Institutions and Greater Citizen Participation, Preservation of Natural Resources, and Improved Economic Policies/Business Climate. It had also identified expected program outcomes (and the projects in support of those outcomes) which are to contribute to achieving each strategic objectives and some quantifiable indicators for measuring progress in achieving those objectives and outcomes. Based on USAID's Center for Development of Information and Evaluation latest ratings on the progress made by 72 missions in implementing the PRISM system, USAID/Panama was rated higher than 38 missions, at the same level as 23 missions, and only 9 missions were rated higher.

It should be explained at this time the difference between what we refer to in this report as a program and as a project. Under the PRISM system, USAID operating units (including USAID/Panama) are to identify program outcomes (under strategic objectives) and the individual project(s) which are to contribute to the accomplishment of those outcomes. For example, USAID/Panama has identified six individual projects which are to contribute toward accomplishing the program outcome of "Civic participation in the democratic system". This outcome in turn is to contribute to accomplishing the strategic objective for "Competent Civilian Government Institutions and Greater Citizen Participation".

Notwithstanding USAID/Panama's efforts to implement the PRISM for measuring program results, USAID/Panama could make its reporting on program progress under the PRISM better by refining some of its indicators

and improving the reliability of the data reported. Also, for projects, USAID/Panama needs to establish better indicators with specific targets and improve its reporting for measuring progress in accomplishing the project objectives. These issues are discussed below.

Need to Refine Its Indicators and Improve Reporting for Measuring Program Results

The Foreign Assistance Act requires that USAID/Panama have a management system that includes quantifiable indicators and a reporting process to assist USAID management and others (e.g., Congress) to evaluate progress toward accomplishing its program objectives against what was anticipated when the programs were undertaken. USAID/Panama still had some work to do before it fully meets these requirements. USAID/Panama officials attributed the problems found to the fact that USAID's Program Performance and Information System for Strategic Management (PRISM) for measuring program results is fairly new and they are still in the process of refining the indicators and developing procedures for ensuring the reliability of data reported for measuring program results under this system. As a result of the problems found, USAID/Panama did not have information needed to assist USAID management and others to fully and objectively measure progress in accomplishing the two strategic objectives that we reviewed and for which USAID/Panama had obligated and spent \$62.0 million and \$26.9 million, respectively (as of September 30, 1993).

Recommendation No. 1: We recommend that USAID/Panama:

- 1.1 complete refining the indicators (to make them objective, quantifiable, and measurable indicators with specific targets) to be used to measure progress in achieving its strategic objectives and program outcomes under the PRISM ; and**
- 1.2 establish a system for ensuring that baseline data and actual results reported under the PRISM are reliable and documented.**

Section 621A of the Foreign Assistance Act, as amended in 1968, requires that USAID establish a management system which includes:

- the definition of objectives and programs for United States foreign assistance,
- the development of quantitative indicators of progress toward these objectives,

- the adoption of methods for comparing actual results of programs and projects with those anticipated when they were undertaken, and
- providing information to the USAID and to Congress that relates agency resources to such objectives and results in order to assist in the evaluation of program performance.

Since USAID was established in 1961, it has initiated numerous systems for programming funds and setting objectives. However, according to a report issued by a nationally-recognized expert on budgeting in the federal government hired by USAID to assess USAID's programming and evaluation of performance systems, none of these systems through the 1980s had been successful in enabling USAID to measure program performance against what was expected when the programs were initiated.¹

In an attempt to improve USAID's ability to obtain better information on program results, it developed a Program Performance Information for Strategic Management (PRISM) system in 1991 and has begun to implement this system USAID-wide. The objective of the PRISM systems is:

To develop an agency wide program performance information system for strategic management (PRISM) and strengthen operational-level performance information systems to provide better information on program results for more informed management decision-making.

The PRISM requires operating units (including USAID/Panama) to develop strategic plans that includes: **Strategic Objectives** which are defined as a "measurable, intended result that is developmentally significant within the Mission's manageable interest to achieve in 5 to 8 years". **Program Outcomes** which are defined as "a measurable, intended result that is directly attributable to USAID activities, can be achieved in 3 to 5 years and contributes to the achievement of a strategic objective". And, **Indicators** which are defined as "a variable which is measured to track progress toward achieving results". Guidance issued by USAID in April 1992 stated that all USAID overseas missions were expected to have adequate strategic plans and information systems (i.e., the PRISM system) in place by June 1993 and should be reporting "regularly" at times established by each the regional bureaus starting in fiscal year 1993.

¹ A.I.D. Program and Operations Assessment Report No. 4. "A Performance-Based Budgeting System for the Agency for International Development" by Allen Schick; dated June 1993.

However, these target dates were not achieved by most of the missions. Therefore, to emphasize the urgency to implement the PRISM, the USAID Administrator issued a cable in January 1994 stating that USAID needs to move quickly to consolidate and build on the best practices experienced to date in implementing the PRISM and extend them Agency-wide as core elements in a common set of procedures.

USAID/Panama still had some work to do before it fully meets the requirements for quantifiable indicators or even objectively verifiable and measurable indicators with specific targets and reporting systems for measuring progress in accomplishing its strategic program objectives. As a result of the problems found and discussed below, USAID/Panama and others did not have reliable information needed to objectively measure USAID/Panama's progress in accomplishing its two major (in terms of funds obligated) strategic objectives and related program outcomes that we reviewed under the PRISM system and for which USAID had obligated and expended \$62.0 million and \$26.9 million, respectively (as of September 30, 1993).

USAID/Panama had established 21 indicators in its 1995-1996 Action Plan (dated February 1994) to measure the performance of the two strategic objectives (and related program outcomes) which we examined—the programs for the Preservation of Natural Resources and for Competent Civilian Government and Greater Citizen Participation. As shown in Appendix IV, only 6 of these indicators fully meet the requirements for quantifiable indicators (or even objectively verifiable and measurable indicators) for measuring precise results against what was anticipated when the programs were undertaken and for reliable reporting. The problems found with the remaining 15 indicators included: 5 had problems with the data reported (i.e., not correct, not supported by documentation, or misleading), 5 were not quantitative indicators (or objectively verifiable and measurable) to show a specific measurable impact toward accomplishing the strategic objective or program outcome, 4 were not quantitative (or objectively verifiable and measurable) and also had problems with the data reported, and 1 did not have baseline data nor targets.

A few examples of these problems with the indicators are discussed below:

- The only indicator to measure progress in achieving the strategic objective for the preservation of natural resources is the "net number of hectares country-wide deforested annually". However, USAID/Panama had not yet established baseline data nor targets for this objective. USAID/Panama officials said they do not expect to have baseline data established until October 1994 and would then

establish the targets. The only project in support of this objective was initiated in September 1991—more than three years prior to our audit.

- One program outcome under the strategic objective for the preservation of natural resources is to strengthen the institutional capacity of a Government of Panama organization (INRENARE). The only two indicators for accomplishing this outcome are qualitative and are one time occurrences with no precise criteria to determine whether the indicators are achieved. For example, one indicator is whether (i.e., yes or no) "Operations systems in place and functioning (MIS [management information system], standard manuals, staff training in systems)". However, there is no precise description which would allow for an objective independent determination that the systems can be considered in place and effectively functioning. Thus, any systems—whether or not it is effective—could qualify for a "yes" answer.
- Another program outcome under the strategic objective for the preservation of natural resources is for improved management of national parks/reserves. The only indicator for accomplishing this outcome is the number of "park plans approved and being implemented". Although the Action Plan identified that there were no park plans in 1991 (i.e., the baseline) and a certain number would be approved and implemented each year through 1995, no precise criteria or description had been established to determine what an approved park plan should include and when a park plan can be considered effectively implemented. Thus, any park plan no matter how good or bad could be approved and considered implemented.
- One program outcome under the strategic objective for strengthened competent civilian government institutions and greater citizen participation was for an "Improved public sector financial management and accountability". However, two of the three indicators for this outcome were qualitative and would not identify a quantifiable (or even an objectively verifiable and measurable) impact toward accomplishing the program outcome. For example, one indicator was the number of "Executive agencies implementing new accounting system". Although baseline and targets were established on the number of agencies implementing the new accounting systems, the indicator does not specify the extent of implementation nor the impact of such implementation. USAID/Panama considered an agency implementing the new system as soon as the agency developed a procedural manual—regardless of the extent of implementation.
- Another program outcome under the strategic objective for strengthened competent civilian government institutions and greater

citizen participation was for civic participation in the democratic system. One of the two indicators for this outcome was for "Increased participation in public interest organizations dedicated to increasing public participation in democratic processes". The unit for measuring this indicator is the number of legally registered non-government organizations of "this type". Although the Action Plan identifies a baseline of five such organizations in 1992 and targets of 20 percent increase in the number of organizations in both 1993 and 1994, there is no criteria on what constitutes a public interest organization dedicated to increasing public participation in democratic processes nor what degree of increased participation is anticipated. In fact, USAID/Panama officials said they had no specific source for obtaining the required information to determine whether an organization is of "this type". Thus, determining the number of these organization is highly subjective.

In its February 1993 review of USAID/Panama's 1994 to 1995 Action Plan, the Bureau for Latin America and the Caribbean (Bureau) noted several cases where indicators were weak in identifying "impact". Although some of these were revised with the concurrence of the Bureau for the 1995 to 1996 Action Plan, the revised indicators were not always adequate for showing "impact". Examples of these cases include the following:

- One indicator in the earlier plan was: "At least 5 specific plans developed". While the Bureau suggested revising the indicator for the 1995 to 1996 Action Plan to read "At least five watershed specific plans developed" and the indicator was revised as suggested, the **Bureau commented that the critique on watershed plans is that they are developed and never implemented.** Therefore, the Bureau stated that USAID/Panama should be thinking about how it would measure impact of implemented watershed management plans in selected watersheds (e.g., area covered or economic impact on selected farmers).
- For another indicator in the earlier plan which was "Park plans approved", the Bureau agreed to a revision which was "Park plans approved and implemented". However, the Bureau further commented that USAID/Panama may wish to focus on a few key parks where activities would begin first and track what the impacts are in terms of such things as forested area protected and economic impacts on the local population.

Another indicator in the 1994 to 1995 Action Plan was for a "yes or no" answer for a specific organization having: "Financial and management accounting systems established". The Bureau recommended that

USAID/Panama replace this indicator with an indicator that would more directly measure the results of the organization's capacity such as the number of enforcement actions taken. **The Bureau stated that USAID/Panama could always report in the narrative on progress made in implementing a financial and accounting system but using this as an indicator begs the question "so what".** Instead of revising the 1995 to 1996 Action Plan to answer the question so what, USAID/Panama merely revised it to read: "Financial and management accounting systems (FMAS) established and operational reporting quarterly". USAID/Panama officials said that the Bureau's comments were merely suggestions and the Bureau did not require them to formally address each suggestion.

...USAID/Panama also needed to ensure baseline data and actual results reported under the PRISM system were reliable and fully documented...

In addition to needing to refine some of its indicators, USAID/Panama also needed to ensure baseline data and actual results reported under the PRISM system were reliable and fully documented as required by Standards For Internal Controls In The Federal Government issued by the United States General Accounting Office. Among other things, those standards require documentation of internal control systems and states:

Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.

Notwithstanding the requirement for documentation, USAID/Panama had not developed any written guidance emphasizing the importance of reliable data reported under the PRISM and the type of documentation to support the data. We noted previously that we found problems (data reported was not correct, not supported by documentation, or misleading) with the reporting for 9 of the 21 indicators established for the two strategic objectives we reviewed. Examples of some of the problems found include the following:

- We found several actual results that were based solely on telephone conversations with Government of Panama officials. For example, USAID/Panama reported that 20 percent of the recommendations of the Panama Controller General had been corrected in 1993. However, this was based on a technical assistance contractor's telephone conversation with someone in the Controller General's office. USAID/Panama's staff did not have any documentation to support the

results reported. Also, neither the contractor's nor USAID/Panama's staffs knew how many recommendations had been corrected or even made.

- Another indicator was the number of judicial career positions filled competitively. The actual positions reported as filled in 1993 were 250 but the USAID/Panama official who reported this number said that was the number "planned" to be filled competitively and she used that number as actually filled. She did not have any documentation to support the number of positions that were actually filled.
- Another indicator was the people's confidence level of the electoral process. The baseline was 32 percent in 1992 which was based on a poll that asked for one of five answers: no confidence, little confidence, confidence, sufficient confidence and much confidence. This percent was based on the number of people who responded confidence, sufficient confidence, and much confidence. USAID/Panama reported that the actual for 1993 was 56 percent "having confidence" based on a poll that asked for one of two answers: being satisfied or not being satisfied. Although 56 percent of the people reportedly answered "satisfied"—indicating an increase of 24 percent in "satisfaction" over the baseline established in the prior year—36 percent responded that they were "not satisfied", indicating that in actuality there may not have been a reduction in dissatisfaction from the 32 percent that responded "no confidence" in the baseline year of 1992. This points out the need to use the same questions if comparing results.
- Another indicator was the number of Government of Panama offices implementing an accounting system. USAID/Panama reported that 3 percent of Government of Panama agencies (or 5 agencies) had implemented the system by 1993 which exceeded the 1 percent target. However, this is misleading because the five agencies had in fact just begun to implement the procedural manual developed by a USAID/Panama contractor and USAID/Panama did not know what specific procedures or systems had in fact been effectively implemented.

USAID/Panama officials attributed the problems with the indicators and reporting systems to the fact that USAID's PRISM system is fairly new and they are still in the process of refining the indicators and developing procedures for ensuring the reliability of data reported for measuring program results under this system. USAID/Panama officials also said they did not believe that Section 621A of the Foreign Assistance Act requires "quantifiable indicators" for measuring program performance.

While our office believes that Section 621A does require the use of quantifiable indicators for measuring progress under each project and program, the USAID Office of General Counsel issued an opinion in August 1994 that Section 621A does not require that such indicators be used in each and every program or project. The General Counsel also stated: "The agency has established systems over the years which include both types of indicators [qualitative and quantitative] and accordingly appears to be in compliance with the law."

Regardless of whether an indicator is quantitative or qualitative, the key (in our view) to an indicator being meaningful and measurable is that baseline data and targets be established against which progress and results can be objectively measured. Without these, how would it be possible to provide information to USAID management and others (e.g., Congress) to assist them in evaluating progress and comparing actual program results against what was anticipated when the program was undertaken? We believe this report supports that USAID/Panama needs to refine some of its indicators and related targets to make them more precise on what results are actually anticipated to enable USAID and others to objectively evaluate progress in accomplishing those results.

In conclusion, USAID/Panama has made significant progress in implementing the PRISM system. However, USAID/Panama could improve its ability to measure program results against what was precisely anticipated when the programs were undertaken by refining (making quantitative and a precise description of what result is anticipated) some of its indicators and by developing a better reporting system to ensure the reliability of baseline data and actual results reported under the PRISM.

Management Comments and Our Evaluation

USAID/Panama concurred with the overall findings and recommended actions. In response to Recommendation Nos. 1.1 and 1.2, USAID/Panama stated that it recognizes the importance of establishing and maintaining a system for measuring program results and holding missions accountable. It also stated that it is committed to the development of a comprehensive and effective management information system fully functional by the end of Fiscal Year 1995. And, a mission-wide Task Force has been constituted to refine the existing system of impact indicators and to develop new indicators as well—all of which will be objectively verifiable.

Based on USAID/Panama's response, Recommendation Nos. 1.1 and 1.2 are considered resolved and can be closed upon our receipt of documentation that the recommended actions have been satisfactorily implemented.

Need to Establish Better Indicators and Reporting Systems for Measuring Project Results

The Foreign Assistance Act requires that USAID/Panama have a management system that includes quantifiable indicators and a reporting process to assist USAID management and others (e.g., Congress) to evaluate progress toward accomplishing its project objectives against what was anticipated when the projects were undertaken. USAID/Panama had not yet fully implemented these requirements because USAID/Panama officials did not believe that the Act specifically requires quantifiable indicators and noted that USAID guidance allows for qualitative indicators instead of quantitative indicators. The officials also said that in some cases quantifiable indicators or even precisely defined indicators could not be established. Without good performance indicators and reporting systems, USAID/Panama and others (e.g., USAID/Washington management) did not have information needed to objectively measure and report on the progress and compare results against what was anticipated when the five projects we reviewed were undertaken and for which USAID has obligated and expended \$41.6 million and \$8.5 million, respectively.

Recommendation No. 2: We recommend that USAID/Panama review its active projects and ensure that baseline data, objectively verifiable indicators (including quantifiable and measurable indicators) with specific interim and end-of-project targets, and reliable reporting systems are established for measuring and comparing progress in achieving project objectives against what was anticipated when the project was authorized.

Section 621A of the Foreign Assistance Act, as amended in 1968, requires that USAID establish a management system which includes the definition of objectives and programs for United States foreign assistance, the development of quantitative indicators of progress toward those objectives, and the adoption of methods for comparing actual results of programs and project against those anticipated when the programs and projects were initiated. The system should also provide information to the agency and to Congress that relates agency resources to such objectives and results in order to assist in the evaluation of program performance.

In line with these requirements at the project level, USAID Handbook 3 (Appendix 3K) emphasizes the need for establishing baseline data and indicators (targets and time frames) to be used to measure progress from when the project objectives were established (i.e., baseline conditions) to the planned targets in accomplishing those objectives (i.e., goals, purposes, and outcomes). Appendix 3K states that these elements should be incorporated into all project designs from their earliest stages so that the design will

permit and facilitate: (1) measurement of progress toward planned targets, (2) determination of why the project is or is not achieving its planned targets, and (3) determination of whether the project purpose continues to be relevant to the country development needs.² Appendix 3K further states the following:

Every project plan must contain (or reference another document which contains) definite baseline data; i.e., a statement of pertinent conditions at the time the project begins or as soon thereafter as practical.

Statements of targets may be quantitative or qualitative but are to have three characteristics: they are to be stated in explicit and precise terms; they are to be stated in finite terms; they are to be stated in terms that are objectively verifiable [present evidence which has the same meaning for both a skeptic and an advocate] irrespective of whether these terms are quantitative or qualitative. Quantitative targets are preferable where they can be formulated.

To measure progress from the baseline conditions to the planned targets requires the use of progress indicators. It is important that these indicators be formulated at the project design stage so that change can be systematically observed and the data required to support the indicators can be routinely collected.

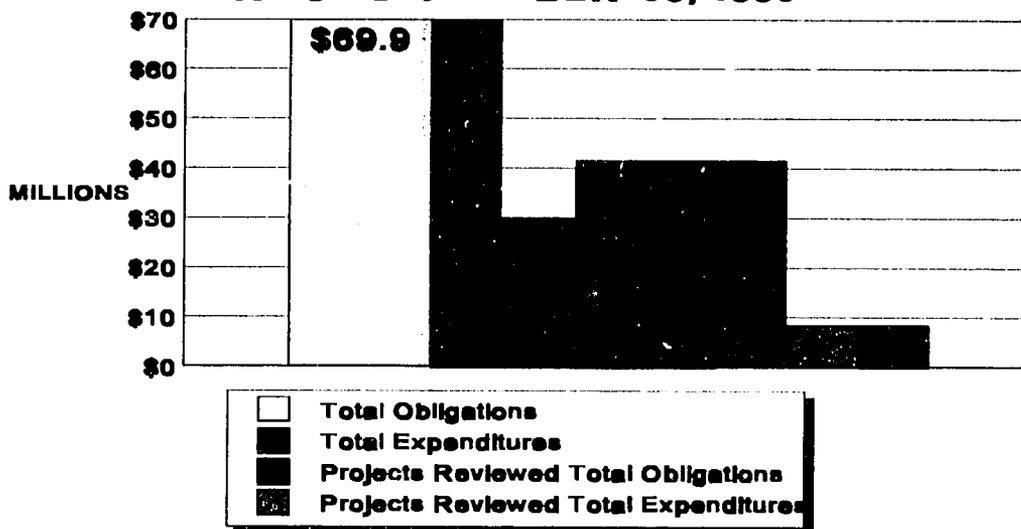
The Bureau for Latin America and the Caribbean issued guidance in October 1993 for missions to assess their existing indicators when in the preparation of the semi-annual report for the period ended September 1993. The guidance directed each mission to review the end-of-project indicators in the Project Paper Logframes and reported in the semi-annual report. The purpose of these reviews were to assess whether or not the existing indicators in the Logframe are set forth in the most efficient manner for assessing project progress and its contribution to the missions strategic objectives.

We reviewed a total of five individual projects and found that USAID/Panama had not yet fully implemented the above requirements for baseline data and quantifiable indicators (or even objectively verifiable indicators) and related reporting systems to enable USAID management and others (e.g., Congress and project evaluators) to objectively measure progress and compare results in accomplishing the project objectives

² USAID Handbook 3 (Appendix 3K) states that: (1) targets should automatically be included in the Project Paper Logframe and (2) baseline data should normally not be spelled out in the Project Paper Logframe but should be spelled out elsewhere in the Project Paper.

(including goals, purposes, and outputs) against what was precisely anticipated when each of the projects was undertaken. As illustrated below, these five projects had obligations and expenditures of \$41.6 million and \$8.5 million, respectively (as of September 30, 1993).

**USAID/PANAMA 16 ACTIVE PROJECTS
AS OF SEPTEMBER 30, 1993**



Examples of problems found regarding baseline data and indicators are discussed below:

- The stated project goal of the Natural Resources Management Project is to: "To promote sustained economic and social development." The four "Objectively Verifiable Indicators" identified in the Project Paper are: "Rate of deforestation is decreased."; "Increase in sustained productive land use."; "Biodiversity and critical habitats protected."; and "Increase in areas reforested." However, USAID/Panama has not established any baseline data nor targets for accomplishing these indicators except for the target of 6,000 hectares of land should be reforested by the end of the project. Although the project was approved in June 1991, no hectares had been reforested at the time of our audit—more than three years later—because of problems in establishing a trust fund from which the reforestation effort was to be funded. As of September 30, 1993, USAID/Panama had obligated and expended under this project \$15.0 million and \$589,969, respectively.

- The Project Paper for the Natural Resources Management Project also identifies 12 project "Outputs" with an "Objectively Verifiable Indicator" for each one. However, none of the indicators are quantifiable (or even objectively verifiable and measurable) to objectively measure progress in accomplishing the results that were actually anticipated when the project was undertaken. For example, one output is for: "The clearing and degradation of forest land in the Canal Watershed will be halted and the productivity of existing land holders increased." However, the only indicator for measuring progress in achieving this output is: "Economic studies and farmer interviews." This indicator is apparently how officials will obtain data—not quantifiable targets to measure progress in achieving the output.
- The Project Paper for the Financial Management Reform Project states that the project purpose is to: "Improve and integrate GOP [Government of Panama] financial management and audit systems and promote accountability of government officials in managing public resources." However, the only indicators established to measure whether this purpose is accomplished were: (1) integrated financial management in such areas as budget and public debt, (2) information systems strategic plan, and (3) comprehensive auditing coverage of all significant public sector entities. There were no interim indicators for measuring progress or precise description on what specific accomplishments are needed to achieve these indicators. As of September 30, 1993, USAID/Panama had obligated and expended under this project \$5.8 million and \$1.5 million, respectively.
- The Project Paper for the Improved Administration of Justice Project states that the project goal is: "...a Panamanian justice system that is expeditious, fair and independent of political and other extra-judicial influences." Although all four "objectively verifiable indicators" identified in the Project Paper to determine what is expected in achieving this goal can be considered quantifiable in terms of description, none of them are in fact quantifiable because no baseline and/or targets have been established. For example, one indicator is: "Reduction in the average length of detention before sentencing". However, no baseline data were established on the average length of detention when the project was started and no targets were established for what the average time would be when the project is completed. As of September 30, 1993, USAID/Panama had obligated and expended under this project \$9.6 million and \$2.2 million, respectively.

- The Project Paper for the Improved Administration of Justice Project also states the project purpose is to: "... improve the operation and coordination of the justice system (i.e., Judiciary, Public Ministry and Public Defenders) in the conduct of the investigative and trial stages of the criminal justice process." However, none of the six indicators established to measure whether this purpose will be accomplished is quantifiable or even objectively verifiable and measurable. For example, one indicator is: "The Courts and offices of the prosecutors operate efficiently and without undue delay." But, there is no baseline data and targets on what is considered efficient and what delays there were when the project started and what delays are anticipated when the project is completed.

The lack of quantifiable or even objectively verifiable and measurable indicators also has had an obvious adverse effect on USAID/Panama's ability to report on actual project accomplishments compared to what was anticipated and, therefore, impedes the usefulness of progress reports to keep USAID/Panama and others (e.g., USAID/Washington management) informed of progress being made in achieving the objectives under each of the five projects reviewed.³ Some examples of these problems from our review of USAID/Panama's semi-annual reports for the six-month period ended September 1993 are discussed below:

- The semi-annual report on the Improved Administration of Justice Project (which was initiated in February 1991 and has an anticipated completion date of March 8, 1996) does not discuss specific progress in accomplishing any of the four indicators identified in the Project Paper for accomplishing the project goal. For example, the report does not discuss the progress in reducing the number of persons detained and waiting trial nor in reducing the average length of detention before sentencing. Also, although the report discusses the progress to date for each of the six indicators identified in the Project Paper for accomplishing the project purpose, a reader of the report cannot determine whether the progress anticipated was being achieved because the indicators are not quantifiable with specific targets and there are no interim indicators established. For example, one indicator is: "Judicial Career established and employees have career status". However, the semi-annual report only identifies two quantifiable achievements: one was that 234 positions have been filled through the competitive selection process as of June 1993 and the other was 15 percent of the career candidates were not given

³ The audit at USAID/Panama was part of a world-wide audit on USAID's systems for measuring project results. That audit identified that there is insufficient USAID guidance for reporting on project results.

career status. However, no targets had been established on how many positions should have been filled competitively by that date nor on what percentage of career candidates were expected not to be given career status. As of September 30, 1993, USAID/Panama has obligated and spent under this project \$9.6 million and \$2.2 million, respectively.

- The semi-annual report on the Financial Management Reform Project (which was initiated in June 1991 and has an anticipated completion date of June 5, 1996) does not specifically discuss the only indicator established for the project goal. That indicator was: "GOP [Government of Panama] using improved financial management systems". Although the semi-annual report did identify some progress in accomplishing the project purpose and outputs, a person could not determine if the progress was on line with what was anticipated because quantifiable or even objectively verifiable and measurable indicators were not established for measuring progress and quantifiable results are not discussed in the report. For example, one output was to have a "Comprehensive Audit System which ensures fair, objective, reliable and independent audit of government management and financial reporting" and one of the indicators for measuring progress was to have "Audit reports used by the GOP donor agencies [including USAID] and financial institutions". However, targets have not been established for when the first reports were to be used and the semi-annual report does not discuss any quantifiable or measurable progress in accomplishing this output against what exactly was anticipated when the project was authorized. In fact the only progress identified in the report for accomplishing this indicator was that two internal audit standards were issued, two more internal audit standards were under review, and the design of the Manual of Financial Audits was 70 percent complete. As of September 30, 1993, USAID/Panama has obligated and spent under this project \$5.8 million and \$1.5 million, respectively.
- The semi-annual report for the Natural Resources Management Project (which was initiated in June 1991 and has an anticipated completion date of June 7, 1998) discusses progress on only three of the eight indicators identified in the Project Paper for accomplishing the project goal and purpose. The five not discussed include: rate of deforestation being decreased, productive land use being increased, biodiversity and critical habitats being protected, five key watershed under conservation management, and 14 parks and reserves have minimum protection. Also, several outputs included in the Project Paper are not addressed including: (1) having at least 600,000 seedlings produced annually by farmers and (2) having trees planted

and sustainable farming and grazing practices adopted at 50 sites on critical watersheds and in the buffer areas surrounding national parks and forest reserves. Other outputs were identified in the report but a reader of the report could not determine if adequate progress was being made in accomplishing the outputs because there were no quantifiable or objectively verifiable interim targets established as to what was anticipated. For example, both the Project Paper and the semi-annual report identify that baseline data will be collected and computerized on seven parks by the end of the project. The report shows this data has not been established for any of the parks; but, USAID/Panama management and others could not determine whether progress anticipated when this output was established was being achieved because interim targets were not established to compare what should have been achieved at any given time. As of September 30, 1993, USAID/Panama had obligated and spent under this project \$15.0 million and \$589,969, respectively.

USAID/Panama officials attributed the above problems to the fact that they did not believe that Section 621A of the Foreign Assistance Act requires quantifiable indicators and noted that USAID guidance allows for qualitative indicators. The officials also said that for some projects quantifiable or even precise descriptions of what was anticipated could not be identified.

While our office believes that Section 621A does require the use of quantifiable indicators for measuring progress under each project, the USAID Office of General Counsel issued an opinion in August 1994 that Section 621A does not require that such indicators be used in each and every program or project. The General Counsel also stated: "The agency has established systems over the years which include both types of indicators [qualitative and quantitative] and accordingly appears to be in compliance with the law."

Regardless of whether an indicator is quantitative or qualitative, the key, (in our view), to an indicator being meaningful and measurable is that baseline data and targets be established against which progress and results can be objectively measured. Without these, how would it be possible to provide information to USAID management and others (e.g., Congress) to assist them in evaluating progress and comparing actual project results against what was anticipated when the project was undertaken? We believe this report supports that USAID/Panama needs better indicators and related baseline data and targets to enable USAID management and others to objectively measure progress toward accomplishing project objectives.

In conclusion, without baseline data and quantifiable indicators along with reliable reporting systems, USAID/Panama management and others

(USAID/Washington) will not be able to show whether or not project objectives are being achieved against what was anticipated when the projects were initiated and what impact these projects have on USAID's development efforts in Panama. Therefore, USAID/Panama should perform (and document) an assessment of the indicators established for active projects and ensure that baseline data and quantifiable indicators (including end-of-project and interim targets) are established to measure progress in accomplishing the project objectives.

Management Comments and Our Evaluation

USAID/Panama concurred with the overall findings and recommendation. In response to Recommendation No. 2, USAID/Panama stated that a mission-wide Task Force has been constituted and will meet weekly throughout Fiscal Year 1995 to review all active projects in order to ensure that baseline data, objectively verifiable indicators, specific interim and end-of-project targets and reliable reporting systems are established for measuring progress against authorized project objectives.

Based on USAID/Panama's response, Recommendation No. 2 is considered resolved and can be closed upon receipt of documentation that the recommended actions have been satisfactorily implemented.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Panama's controls over its systems for measuring for program and project results in accordance with generally accepted government auditing standards. The audit was conducted at the Panama City offices of USAID/Panama from December 13, 1993 through June 15, 1994.

The audit included the following scope limitations:

- We did not attempt to verify the overall reliability of the computer-generated data in USAID/Panama's Mission Accounting and Control System which was used to identify active USAID programs and projects and their related funding (i.e., obligations and expenditures).
- We did not attempt to determine the adequacy of the relationship between strategic objectives and program outcomes under USAID/Panama's implementation of the Program Performance and Information System for Strategic Management (PRISM) system. Also, although the auditors did not have the expertise to determine whether some indicators established for measuring project and program results were adequate in showing progress in achieving the project and program objectives, the problems found and reported in this report were evident and did not require special expertise to determine that they were not quantifiable nor were they precise enough to allow an objective determination to compare progress (i.e., results) and accomplishment against what was anticipated when the projects and programs were undertaken.

Methodology

To accomplish our audit objective we reviewed the requirements for establishing systems for measuring program results and using such

information in making funding decisions as stipulated in Section 621A of the Foreign Assistance Act and the Government Performance and Results Act. We also reviewed USAID directives regarding implementation of the PRISM system and related documents setting forth USAID management's commitment to establishing a system for measuring program results.

We reviewed the strategic objectives that USAID/Panama had established for its overall program and reviewed the program outcomes that it had stated would support those objectives. Specifically we reviewed USAID/Panama's 1994-1995 and 1995-1996 Action Plans in which it described its strategic objectives, supporting program outcomes and the performance indicators and baseline data for measuring the achievement of the program outcomes. Of the three strategic objectives established by USAID/Panama under the PRISM, we selected two (i.e., Democracy and Environment) which represented 88 percent and 90 percent of USAID/Panama's total obligations and expenditures, respectively, as of September 30, 1993. We reviewed USAID/Panama's supporting documentation for the baseline data for the performance indicators and reported progress for the individual indicators for these two strategic objectives. To determine the adequacy of the performance indicators for the USAID/Panama's projects we reviewed the project papers and logframes for a sample of five of USAID/Panama sixteen active projects as of September 30, 1993 (the sampled projects included 59.4 percent and 28.6 percent of the obligations and expenditures, respectively, for all active projects as of September 30, 1993) Additionally we interviewed USAID/Panama officials and reviewed relevant documents to determine: (1) the adequacy of the indicators established and the manner in which USAID/Panama obtained and reported on baseline and actual results data under the PRISM, and (2) whether the performance indicators for the individual projects in our sample were "quantitative" measurements of progress.

AGENCY FOR INTERNATIONAL DEVELOPMENT
PANAMA CITY, PANAMA

UNITED STATES GOVERNMENT
MEMORANDUM

DATE: November 2, 1994
TO: Coinage Gothard, RIG/A/San Jose
FROM: David E. Mutchler, *DEM* Mission Director, USAID/Panama
SUBJECT: Audit of USAID/Panama's Systems for Measuring Program and Project Results

The Mission reviewed subject draft report and concurs with the overall findings. We are gratified by the auditors' recognition that "USAID/Panama has made a concerted effort and significant progress in implementing USAID's fairly new Program Performance System for Strategic Management (PRISM) system which is to provide better information on program results."

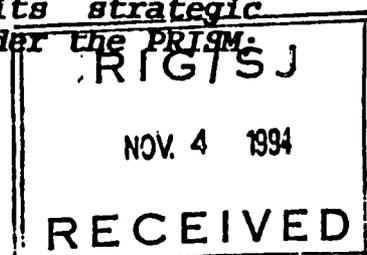
The purpose of this response is to provide Mission perspective and describe the actions we plan to take to implement the two recommendations. USAID/Panama recognizes the importance of establishing and maintaining a system for measuring program results and holding missions accountable. Please note that most of the projects reviewed during this audit were designed and implemented in the politically charged, high profile, atmosphere existing in Panama after Operation Just Cause. In contrast, during the period this audit was completed in FY 94 the Mission had already begun to shrink, with active projects dropping from 16 to 9 and USDH staff cut from 13 to 6.

Audit Objective

Did USAID/Panama have effective management information systems for measuring program and project performance?

Recommendation No. 1: We recommend that USAID/Panama:

- 1.1 complete refining the indicators (to make them objective, quantifiable, and measurable indicators with specific targets) to be used to measure progress in achieving its strategic objectives and program outcomes under the PRISM and**



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- 1.2 *establish a system for ensuring that baseline data and actual results reported under the PRISM are reliable and documented.*

Recommendation No. 2:

We recommend that USAID/Panama review its active projects and ensure that baseline data, objectively verifiable indicators (including quantifiable and measurable indicators) with specific interim and end-of-project targets, and reliable reporting systems are established for measuring and comparing progress in achieving project objectives against what was anticipated when the project was authorized.

USAID/Panama is committed to the development of a comprehensive and effective management information system fully functional by the end of FY 95. We have constituted a mission-wide Task Force to refine the existing system of impact indicators and to develop new indicators as well--all of which will be objectively verifiable.

The Task Force will meet weekly throughout FY 95 to review all active Mission projects in order to ensure that baseline data, objectively verifiable indicators, specific interim and end-of-project targets and reliable reporting systems are established for measuring progress against authorized project objectives.

We plan to have a fully refined set of indicators in place by March 31, 1995. By September 30, 1995, all base-line data is to be in place.

Semi-annual reviews will continually refine the system and update it with new information.

We will install a large-screen matrix of all Mission objectives, indicators and reporting data to be prominently placed as a constant reminder to all staff and visitors of the specific standards by which we measure our progress.

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APPENDIX III

USAID/Panama's Active Projects as of September 30, 1993

	Total Obligations	Total Expenditures
Strategic Objective #1		
<i>Competent Civilian Government Institutions and Greater Citizen Participation</i>		
525-0101 Special Development Activities	\$467,836	\$342,322
525-0258 Pvt Sector Scholarship Fund	\$3,385,647	\$3,385,647
525-0281 PANA JURU Local Scholarships	\$1,447,000	\$1,309,829
525-0285 PANA JURU-Zamorano	\$750,000	\$749,029
525-0302 Immediate Recovery Project - SDA	\$699,999	\$654,829
* 525-0306 Financial Management Reform	\$5,800,000	\$1,450,683
* 525-0312 Improved Admin. of Justice	\$9,575,000	\$2,144,238
525-0314 Tax Admin. Improvement	\$1,600,000	\$1,060,833
* 525-0317 Improved Election Admin	\$3,834,600	\$1,865,871
525-1000 C. America Peace Scholarships	\$12,050,000	\$10,837,629
* 525-1001 C.&L. America Peace Scholarship II	\$7,360,000	\$2,460,963
subtotal	\$46,970,082	\$26,261,873
Strategic Objective #2		
<i>Improved Economic Policies/Business Climate</i>		
525-0287 Pvt Sector Low Cost Shelter	\$300,000	\$181,881
525-0309 Trade & Investment Development	\$2,000,000	\$201,362
525-0313 Economic Policy Development	\$4,600,000	\$2,001,001
subtotal	\$6,900,000	\$2,384,244
Strategic Objective #3		
<i>Preservation of Natural Resources</i>		
* 525-0308 Natural Resources Management	\$15,000,000	\$589,969
subtotal	\$15,000,000	\$589,969
Other Projects or Components Not Supporting Strategic Objectives		
525-0302 Immediate Recovery Project-Contingency	\$825,259	\$273,006
525-0320 Drug Awareness and Prevention	\$250,000	\$221,715
subtotal	\$1,075,259	\$494,721
TOTAL	\$69,945,341	\$29,730,807

* Project whose indicators we reviewed during our audit

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ASSESSMENT OF INDICATORS AND REPORTING FOR USAID/PANAMA'S STRATEGIC OBJECTIVES 1 & 3

Strategic Objective No. 1 <i>Competent civilian government institutions and greater citizen participation.</i>	Summary (1)	Quantifiable Indicators	Targets		Baseline data	Reliable data	
			Final	Interim		Target	Baseline
Indicator 1: Increased dollar resources for justice sector	OK	Y	Y	Y	Y	Y	Y
Indicator 2: Percentage of cases taking more than 12 months to render court decisions	R	Y	Y	Y	Y	NR	N
Indicator 3: Percentage of dollar public resources post audited	OK	Y	Y	Y	Y(2)	NR	(2)
Program Outcome 1.1: <i>Institutionalized fair and expeditious criminal justice process</i>							
Indicator 1: Judicial career positions competitively filled	R	Y	Y	Y	Y	N	N
Indicator 2: Court and Public Ministry incorporated into a caseload tracking-system	QR	N(3)	Y	Y	Y(2)	N	(2)
Program Outcome 1.2: <i>Improve public sector financial management and accounting</i>							
Indicator 1: Percentage of audit findings corrected, as recommended by the Controller General Audit Reports	R	Y	Y	Y	Y(2)	N	(2)
Indicator 2: Percentage of executive agencies implementing new accounting systems	QR	N(3)	Y	Y	Y(2)	N	(2)
Indicator 3: Percentage of public agencies with uniform budgets in operation	QR	N(3)	Y	Y	Y(2)	N	(2)
Program Outcome 1.3: <i>Transparent and efficient Electoral Tribunal in operation</i>							
Indicator 1: Capacity to report percentages of accurate full national election results	R	Y	Y	N	Y	N	(2)
Indicator 2: Percentage increased in public confidence in the Electoral Tribunal	R	Y	Y	Y	Y	N	Y
Program Outcome 1.4: <i>Civic participation in the democratic system.</i>							
Indicator 1: Percentage of participation by increased numbers of eligible voters	OK	Y	Y	N/A	Y	N/A	Y
Indicator 2: Number of legally registered NGO's dedicated to participate in democratic processes	QR	N(3)	Y	Y	Y	N	N
Strategic Objective No. 3 <i>Preservation of Natural Resources.</i>							
Indicator 1: Net number of hectares country-wide deforested annually	T, B	Y	N	N	N	NR	NR
Program Outcome 3.1: <i>Strengthened institutional capacity of IRENARE.</i>							
Indicator 1: Operation systems in place and functioning	Q	N(4)	(4)	(4)	(4)	(3)	(2)
Indicator 2: Financial and Management systems (FMAS) established and operational reporting quarterly	Q	N(4)	(4)	(4)	(4)	(3)	(2)
Program Outcome 3.2: <i>Long term environmental fund operational.</i>							
Indicator 1: NGO endowment established and capitalized	Q	N(4)	(4)	(4)	(4)	(3)	(2)
Indicator 2: NGO funding private and public (INRENARE) environmental organizations	OK	Y	Y	Y	Y(2)	(3)	(2)
Program Outcome 3.3: <i>Improve management of National Parks and Reserves</i>							
Indicator 1: Number of Park plans approved and being implemented	Q	N(3)	Y	Y	Y(2)	NR	(2)
Program Outcome 3.4: <i>Improve management of forest lands and watersheds.</i>							
Indicator 1: At least 5 specific watershed plans developed	Q	N(3)	Y	Y	Y(2)	NR	(2)
Indicator 2: All existing watersheds and forested areas in Canal watershed legally declared protected	OK	Y	Y	Y	Y	Y	Y
Indicator 3: Private land reforested.	OK	Y	Y	Y	Y(2)	Y	Y

Notes Y: Yes; N: No; NR: Nothing Reported; N/A: Not Applicable

(1) OK: Adequate indicator and reporting; R: Reporting problems; Q: Not quantifiable or even objectively verifiable and measurable; T: No targets; B: No baseline data.

(2) Started at zero because directly related to USAID program.

(3) Indicators are quantitative in terms of including a number (e.g. number of office implementing a system or park plans approved).

However, there is no precise description on what is actually needed to fully accomplish this indicator and allow for an objective measure against what was anticipated when it was established.

(4) Qualitative indicator requiring a "yes/no" answer and no precise description on what is actually needed to accomplish the answer.

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M/FM	1
M/MPI	1
M/FM/FS	2
M/FM/PPC	1
AIG/A	1
D/AIG/A	4
IG/RM	12
AIG/I&S	1
IG/LC	1
IG/A/FA	1
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