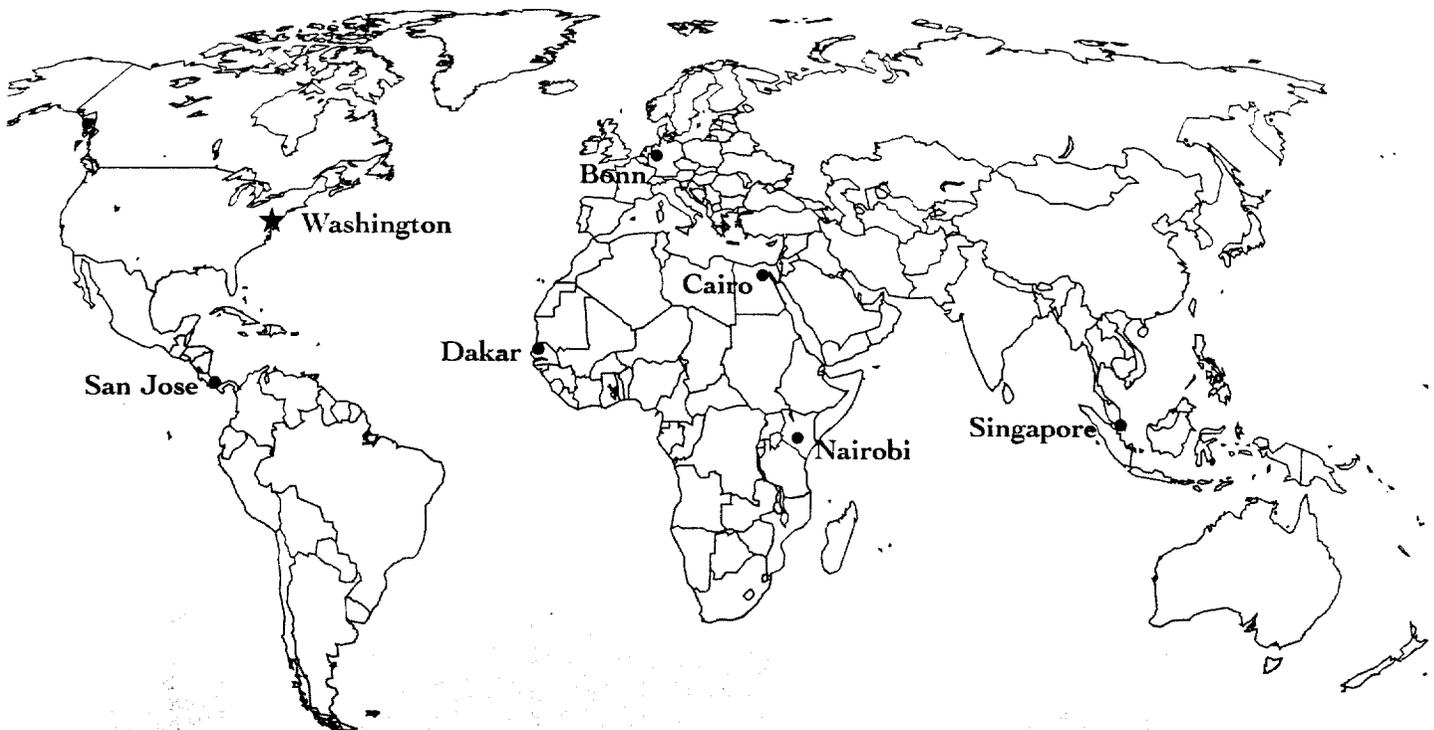

Audit of the NIS Housing Sector Reform Project in Ukraine and Kazakstan PROJECT No. 110-0008

Audit Report No. 8-115-96-005
March 22, 1996





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INTERNATIONAL
DEVELOPMENT

March 22, 1996

MEMORANDUM

TO: ENI/EEUD, James Bever

FROM: RIG/A/F, Andrew J. Olsen, Acting

SUBJECT: Audit of the NIS Housing Sector Reform Project in Ukraine and Kazakstan, Project No. 110-0008, Audit Report No. 8-110-96-006

This is the final report on the subject audit. In preparing the report we considered your written comments on our draft report on this activity and have included these in Appendix II.

The report contains two recommendations. Based on your comments and actions we consider both recommendations resolved. To close Recommendation No. 1, we need evidence that ENI/EEUD has clarified for its contractors how the contractors annual work plans should correlate with ENI/EEUD's objectives, indicators, and targets. To close Recommendation No. 2, we need evidence that ENI/EEUD and the contractors have agreed to ensure that contractors' progress reports are: a) linked to their respective work plan's indicators and targets, b) are to be more succinct, and c) are submitted on a monthly basis. Within 30 days, please provide us information of any action planned or taken to close these recommendations.

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

Attachments: a/s

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EXECUTIVE SUMMARY

The Housing Sector Reform Project was authorized in March 1992 and its purpose was to support the development of a private housing market in the New Independent States (NIS). Historically, the housing sector throughout the NIS has been characterized by shortages, inefficiencies in housing production, poor maintenance and deterioration of existing housing, severe price and allocation distortions, and massive and largely regressive subsidies.

The Housing Sector Reform Project has activities in 5 of the 12 NIS countries, specifically Russia, Ukraine, Kazakstan, Armenia and the Kyrgyz Republic. This audit focused on activities being implemented in Ukraine and Kazakstan. As of June 30, 1995, USAID had reported obligations of about \$57.0 million and expenditures of about \$32.2 million limited to Housing Sector Reform activities.

In its Fiscal Year 1996 Congressional Presentation, USAID discusses its "re-engineered" approach to assessing the success of its programs, and that is to manage for results. In addressing this approach, the Bureau for Europe and New Independent States (ENI) organized its program under three broad Strategic Assistance Areas: 1) economic restructuring, 2) democracy, and 3) social sector restructuring. Under this process, each area has multiple program objectives, which in turn have multiple impact indicators and targets. These indicators and targets should be defined in quantifiable terms. These were initially established in March 1995 for the NIS countries and are still being further refined.

In light of this new approach, we assessed whether the Bureau, for this project, ensured that the contractors' activities were in agreement with the Strategic Assistance Areas and program objectives. Our audit found that generally this occurred. However, we found that a contractor's annual work plan for fiscal year 1996, a key document for ensuring that activities proceed in the proper direction, was not clearly associated with the Bureau's program objectives. Also, these plans had not been completed or approved and were 4 months late at the time of our audit. (See page 4.)

To assist in resolving the problems observed, we recommended that the Bureau's Office of Environment, Energy and Urban Development clarify for

its contractors, how their annual work plans should match up with the Bureau's program objectives, indicators, and targets. The Bureau essentially concurred with our finding and recommendation. (See page 9.)

Also in regard to USAID's and the Bureau's new approach in managing for results, we assessed whether the Bureau's new Monitoring and Reporting System (MRS) provided the project manager accurate and timely information on progress towards achieving impact indicators and targets. Our audit found that the new MRS was not yet fully implemented in Ukraine or Kazakstan, and was not being fully used to provide project managers with information on progress of the project. In lieu of using the MRS, the project managers were relying upon field visits by their staff and Mission personnel, contractor work plans, and contractor reports for information on progress. (See page 10.)

In the Missions' endeavors to implement the MRS, we noted potential problems which may diminish the system's effectiveness or make it more difficult for the Bureau and Missions to ensure results. These problems were: a) linking progress reports to program indicators and targets, b) making progress reports more succinct, and c) receiving progress reports at an acceptable frequency. For example, we observed the contractors' progress reports were not clearly linked to the Bureau's program indicators and targets. Also, while contractors' progress reports were to be brief (three to eight pages), those reviewed tended to be long and contain information on minor events. We also found that reporting was being excessive—weekly, monthly and quarterly reports were being provided to the Bureau. (See page 10.)

To assist in resolving the problems observed, we recommended that the Bureau's Office of Environment, Energy and Urban Development, in consultation with the contractors, link contractors' progress to work plan indicators and targets; make the progress reports more succinct; and have written progress reports prepared and submitted on a monthly basis. The Bureau concurred with the finding and recommendation. (See page 13.)

Office of the Inspector General

Office of the Inspector General
March 22, 1996

INTRODUCTION

Background

The Housing Sector Reform Project was authorized in March 1992 and its purpose was to support the development of a market-oriented housing sector in the New Independent States (NIS). Historically, the housing sector throughout the NIS has been characterized by shortages, inefficiencies in housing production, poor maintenance and deterioration of existing housing, severe price and allocation distortions and massive and largely regressive subsidies. The housing sector reform project has activities in 5 of the 12 NIS countries, specifically Russia, Ukraine, Kazakstan, Armenia and the Kyrgyz Republic.

As of June 30, 1995, USAID had reported obligations of \$221.2 million and expenditures of \$131.8 million for the project. Included in this project, as a separate activity, is the previously audited Russian Officer Resettlement Program,¹ which accounts for about 74 percent of the funds obligated for the project—\$164 million in obligations. Thus, for the housing sector reform activities, USAID has reported obligations of about \$57.0 million and expenditures of about \$32.2 million, as shown in the following table:

STATUS OF FUNDS FOR HOUSING SECTOR REFORM

(As of June 30, 1995)

COUNTRY	OBLIGATIONS (in millions)	EXPENDITURES (in millions)
Russia	\$ 34.6	\$ 19.9
Ukraine	10.6	5.2
Kazakstan	5.0	3.0
Armenia	5.7	3.7
Kyrgyz Rep.	0.7	0.2
NIS Regional	0.4	0.2
TOTAL	\$ 57.0	\$ 32.2

¹ See RIG/A/Frankfurt audit report no. 8-118-96-001, "Audit of Russian Officer Resettlement Program under USAID Project 110-0008," issued December 4, 1995.

USAID, in its Fiscal Year 1996 Congressional Presentation, discusses its "re-engineered" approach to assessing the success of its programs, and that is to manage for results. The Bureau for Europe and New Independent States (ENI) has organized its NIS Assistance Strategy under three broad areas with each area having multiple program objectives: 1) economic restructuring, 2) democracy, and 3) social sector restructuring. The housing sector reform project falls primarily under economic restructuring. The goal for this area is: "Foster the emergence of a competitive, market-oriented economy in which the majority of economic resources are privately owned and managed."

Under the Economic Restructuring Objective the Housing Sector Reform Project in Ukraine and Kazakstan is directed at the following program objectives:

- Transfer state-owned assets to the private sector;
- Establish a policy, legal and regulatory framework conducive to broad-based competition and private sector growth;
- Stimulate development of private sector enterprises; and
- Develop a competitive, efficient, private financial sector.

Each of the above program objectives has multiple impact indicators and targets. Generally, the targets should be defined in quantifiable terms. Further, each NIS country is to develop an assistance strategy around these strategic assistance areas and program objectives. The country strategies identify the impact indicators and targets for the project's activities implemented for that country. This was done initially in March 1995 for the NIS countries and is still being further refined.

To implement the project, USAID entered into contracts, whereby USAID could issue Task Orders for specific assistance activities. For the most part, the contractors were to provide technical assistance to the respective governments at appropriate levels. USAID also assigned contractors to specific countries or regions. For example, PADCO (Planning and Development Collaborative International, Inc.) was assigned Ukraine; and ICMA (International City/County Management Association) was assigned the Central Asian Republics (Kazakstan and the Kyrgyz Republic). Both PADCO and ICMA have resident advisers in their respective countries and they also rely on short-term advisers.

This audit focused on activities being implemented in Ukraine and Kazakstan. We did not include Russia in this audit because the U.S. General Accounting Office (GAO) included the Housing Sector Reform Project in its audit report, "Assessment of Selected USAID Projects in Russia," GAO/NSIAD 95-156, August 1995. GAO reported that the Russian segment of the project was meeting or exceeding its objectives.

Project management is assigned to the Office of Environment, Energy, and Urban Development in the ENI Bureau (ENI/EEUD). The USAID missions do not have management responsibilities, but do have reporting and monitoring responsibilities. Generally, the implementing contractors manage their activities from their headquarters in the United States.

Audit Objectives

The Office of the Regional Inspector General for Audit/Frankfurt included in its fiscal year 1995 audit plan an audit of the Housing Sector Reform Project (No. 110-0008). Subsequent to our issuing the audit plan, the ENI Bureau established Strategic Assistance Areas and created a new Monitoring and Reporting System (MRS) which is based upon establishing program objectives, impact indicators and targets.

The audit was designed to answer the following audit objectives:

- 1. Did the Bureau for Europe and New Independent States ensure that the activities performed by contractors were in agreement with its Strategic Assistance Areas and program objectives?**
- 2. Does the Monitoring and Reporting System provide project managers accurate and timely information on progress towards achieving impact indicators and targets?**

Appendix I discusses the scope and methodology used to conduct this audit.

REPORT OF AUDIT FINDINGS

Audit Findings

Did the Bureau for Europe and New Independent States ensure that the activities performed by contractors were in agreement with its Strategic Assistance Areas and program objectives?

Generally, the ENI Bureau, through its Office of Environment, Energy, and Urban Development (ENI/EEUD), ensured that activities performed by the contractors were in agreement with the Bureau's Strategic Assistance Areas and program objectives. However, the contractors' annual work plans, a key document for ensuring that activities proceed in the proper direction, had not been completed or approved for Fiscal Year (FY) 1996, and thus ENI/EEUD and Missions cannot be certain that all of the contractors' work is in agreement with its strategies and targets.

According to ENI/EEUD and USAID Mission personnel, the contractors are achieving the desired results in many areas. Some examples confirmed by the audit were:

- Auctioning land in Odessa, Ukraine. The first auction held in January 1994 was among the first privatization activities in the NIS.
- Assisting the development of a National Housing Code for Kazakstan.
- Assisting the establishment of an independent association for the real estate industry in Kazakstan.
- Disseminating several model documents in Ukraine, such as: private management contract, private management bidding procedure and materials, municipal condo "how to manual," and residential purchase and sale agreement.
- Holding several seminars in Ukraine on subjects such as: condominium concept for residents and municipal officials, creating private management companies, and revolving loan operation for city employees and private developers.

According to the contracts for this project, the workplan specifies how the short and long term assistance will be used to further the overall objectives of the project, USAID's assistance strategy and those elements of the contractor's conceptual framework accepted by USAID. The FY 1996 workplans were to be submitted within 30 days of the end of contract year or by October 30, 1996. For the two countries reviewed, only one of two implementing contractors had submitted a final work plan for FY 1996. Our review of this plan showed that it is not clearly linked to the Bureau's Strategic Assistance Areas for the Ukraine. Also, we found that neither contractor, although required by their contracts, had submitted its annual work plan on time, and as of the January 1996, ENI/EEUD had not approved the one work plan submitted.

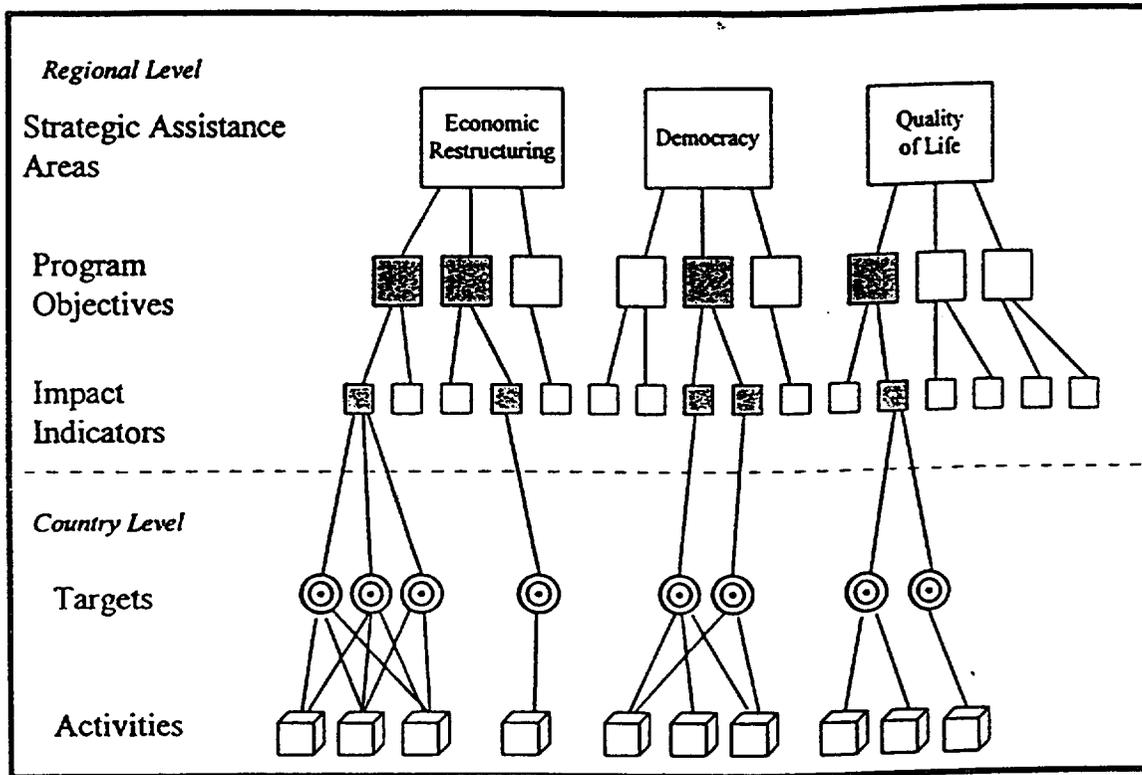
Although the contractors are implementing approved activities, ENI/EEUD could better ensure that these activities address the issues it wants addressed. The assurances that ENI/EEUD needs can best be supported when the contractors required work plans are clearly linked to ENI/EEUD's program objectives, indicators and targets. The following discusses the areas needing improvement in a) linking the work plans to the strategic framework, and b) improving the timeliness of work plan development.

Clearly Link Work Plans to ENI/EEUD's Strategic Framework

ENI/EEUD, as part of the ENI Bureau's effort, has developed strategic objectives (Strategic Assistance Areas) under the Bureau's Strategic Framework. The basic design of the Bureau's Strategic Framework is straightforward. The hierarchy goes from the broadly stated to the specific (from Strategic Assistance Areas to program objectives to indicators to targets and activities). Each Strategic Assistance Area has multiple program objectives, which in turn may have multiple indicators, and so on down to the activities level.

To implement its re-engineering process, the Bureau established a Monitoring and Reporting System (MRS) to gather information on progress towards its strategic assistance areas, its program objectives, impact indicators and targets. According to ENI Bureau's guidance on the MRS, the contractors' work plans, which were required by this project's contracts, are to be used as a reference for Mission monitoring, that is ensuring activities are progressing toward desired results. The guidance explains that the work plans are a primary reference for the project specialist in their monitoring of the contractors. The chart on the following page depicts the hierarchy of this process.

Hierarchy of the ENI Bureau's Strategic Framework



Contractors, such as PADCO and ICMA, are included at the activity level and their work plans are to be linked to the program objectives, indicators and targets.

In our discussion with the contractors about the development of their work plans for FY 1996, we were told that they were trying to develop work plans which accommodated the ENI Bureau's MRS format. However, the contractors admitted that they did not fully understand how their work plans were to relate to ENI/EEUD's objectives, targets, and indicators. Because of this confusion, PADCO's work plan did not clearly link itself with ENI/EEUD's plan as stated in the MRS. Because ICMA's FY 1996 work plan had not been prepared we were unable to compare it to ENI/EEUD's plan for Kazakstan.

In the following table, we compare ENI/EEUD's first strategic assistance program objective and associated indicators for the Ukraine to the first objective and associated indicators in a contractor's work plan. The

comparison highlights the lack of contractor understanding and our difficulty in linking the ENI Bureau's objectives and those of the contractor.

ENI/EEUD and USAID/Kiev	Contractor	Audit Opinion
<p><u>Strategic Assistance</u> <u>Objective No. 1.1:</u> Transfer state-owned assets to the private sector.</p>	<p><u>Program:</u> Private Management/Condominiums</p> <p><u>Objective No.1:</u> Assist in the development of market-based private housing and maintenance of housing.</p>	<p>There is a relationship between the two objectives, but the clear linkage of the contractor's objective, "develop market-based private housing," to ENI/EEUD's objective, "transfer state-owned property" needs an explanation. The relationship between the objectives should be clear enough as to not need an interpretation.</p>
<p><u>Indicator 1.1.05:</u> Land is being titled efficiently and land sellers and buyers of all sizes are able to complete their transactions in an open and timely fashion.</p> <p><u>Indicator 1.1.06:</u> Increased percent of housing privately owned in specific localities.</p>	<p><u>Indicators</u></p> <ol style="list-style-type: none"> 1. Number of units under private management 2. Number of Raions participating in program 3. Number of contractors participating in the program 	<p>Of the two USAID indicators, only indicator 1.1.06 is somewhat related to PADCO's indicators. But a definition of that relationship is again needed.</p> <p>PADCO's indicator no. 2 actually relates to another ENI Bureau objective and indicator and should not have been listed here.</p>

As illustrated above, the objectives and indicators for ENI/EEUD and the contractor do not match on a one-to-one basis. There are relationships, but they are not readily identifiable. For example, ENI/EEUD'S indicator 1.1.05 addresses an open market for sellers and buyers, but the contractor's indicators discusses involvement by organizations without specifying how these organizations relate to ENI/EEUD's indicator. Because there is no clear uniformity between PADCO's presentation and ENI/EEUD's, the similarities are unnecessarily difficult to identify.

In addition to not relating in a one-to-one fashion, these objectives and indicators need improvement in being stated in measurable terms. Note that none of the examples for the Bureau or the contractor are stated in measurable terms. There are no specific numbers or percentage increases which would indicate what the contractor agreed to do and what ENI/EEUD wanted done. In objective 1.1 for example, by omitting the

desired number of transfers of state-owned property, two transfers would satisfy this objective. While that, in fact, may be enough, the measurability of this objective remains open to debate. ENI/EEUD also needs to improve its presentation in this area.

Besides not being able to clearly link ENI/EEUD's and the contractor's objectives and indicators, we observed a larger problem in matching their respective targets. The following table lists the targets for ENI/EEUD's indicators 1.1.05 and .06, and the targets for the contractor's first three indicators.

<p align="center">ENI/EEUD and USAID/KIEV</p>	<p align="center">CONTRACTOR</p>
<p align="center">Targets for Indicator 1.1.05 <u>(efficient titling of land)</u></p> <ul style="list-style-type: none"> • Competitive mechanisms for transfer of land ownership (such as land auctions or RFP/tenders) introduced by 12/94 and operating independently in 70 cities by 12/97 (UKR5). • National system of local registration offices, which permits registration of state acts from state to private owners and between private owners, operating in 50% of the country by 12/97 (UKR6). • Simplified titling and land registration demonstrated by pilot project by 10/95 (UKR8). <p align="center">For Indicator 1.1.06 <u>(initiate condo concept)</u></p> <ul style="list-style-type: none"> • Initial condominium buildings in two cities established by 5/95, condominium approach to private ownership in 25 cities by 12/97. 	<p align="center">Targets for 1st Indicator <u>(units privately managed)</u></p> <ul style="list-style-type: none"> • 100,000 <p align="center">-</p> <p align="center">For 2nd Indicator <u>(participating Raions)</u></p> <ul style="list-style-type: none"> • 40 Micro management districts <p align="center">For 3rd Indicator <u>(no. of private contractors)</u></p> <ul style="list-style-type: none"> • 20 private contractors engaged in private service delivery

As illustrated, the relationship between ENI/EEUD's targets and the contractor's are not clear. None of the contractor's targets clearly correlate with ENI/EEUD's first three targets, which are to develop competitive mechanisms to transfer titles, develop a national system of land registration offices, and to demonstrate simplified titling. However, ENI/EEUD's target for increasing the condominium approach to ownership is somewhat related to the contractor's three targets which are associated with condominium

development and management. But again, this relationship needs to be better identified.

ENI/EEUD's objectives, indicators, and targets do not readily correlate with PADCO's FY 1996 work plan, because ENI/EEUD did not provide sufficient guidance concerning what was expected of PADCO in preparing its FY 1996 work plan. Without a contractor's work plan that dovetails with ENI/EEUD's expectations for that indicator, the greater the likelihood that the ENI/EEUD will be unable to assert that its strategic assistance objectives are being achieved.

Furthermore, it seems logical that for the project managers to ensure activities are progressing towards the ENI Bureau's Strategic Assistance Areas, the contractors' work plans should contain objectives, indicators, and targets that are clearly linked to those set by ENI/EEUD. Also, it seems necessary for ENI/EEUD to coordinate with its contractors to ensure they understand what is required of them so they can provide their work plans in a timely fashion.

Recommendation No.1: We recommend that the Office of Environment, Energy and Urban Development clarify for its contractors how their annual work plans should correlate with the office's objectives, indicators, and targets.

MANAGEMENT COMMENTS AND OUR EVALUATION

ENI/EEUD essentially concurred with our finding and recommendation. They noted, however, that due to time and budgetary constraints they did not have the opportunity to become fully integrated into the process of establishing the objectives, indicators and targets, and relating them to the actual activities. They pointed out that in February 1996, the ENI Bureau issued new guidance on strategic objectives and their relationship to program activities. Thus, they feel confident that future annual work plans will more clearly match up with program objectives, indicators and targets.

ENI/EEUD's concern about their role in establishing the objectives, indicators, and targets is acknowledged in the Background section of the report. There we note that the process of establishing objectives, indicators, and targets for NIS countries was initially begun in March 1995 and is still being refined. For their complete comments, see Appendix II.

Does the Monitoring and Reporting System provide project managers accurate and timely information on progress towards achieving impact indicators and targets?

The Monitoring and Reporting System (MRS) had not been fully implemented in USAID/Kiev and USAID/Almaty at the time of our audit, and the MRS was not being used to provide ENI Bureau managers with information on progress of the project. In lieu of using the MRS, ENI/EEUD was relying upon field visits by its and Missions' personnel, contractors' work plans, and contractors' reporting—weekly, monthly and quarterly. However, we found that contractor reporting did not provide the project manager's with accurate and timely information on progress towards achieving impact indicators and targets.

In the Bureaus' attempts to implement the MRS, we noted potential problems which may diminish the system's effectiveness or make it more difficult for the Bureau to ensure the system is operating as intended. These problems are: a) linking progress reports to indicators and targets, b) making progress reports more succinct, and c) receiving progress reports at an acceptable frequency.

Link Progress Reports to Indicators and Targets

As in our discussion of contractors' work plans, the contractors' progress reports are not clearly linked to ENI/EEUD's indicators and targets. For example, the ICMA quarterly report for the period ended November 30, 1995, stated in its narrative section that its activities were focused on four areas and described, in general terms, the expected results. The report then refers to subsequent pages which describe the current and proposed activities for 31 task orders being implemented in four countries. However, these subsequent pages do not clearly link the activities with agreed upon indicators or targets. (See Appendix III for a sample of the quarterly report narrative.)

The PADCO quarterly report for the period ending December 31, 1995, has a somewhat different format, but also does not clearly link activities to the ENI/EEUD's indicators and targets. The report first describes that services are being provided in three technical areas. This section was followed by a description of expected results, but these are not linked to indicators and targets. The report then describes the activities being carried out in each country. Again, there is no link between the work being done and indicators and targets. (See Appendix IV for a sample of the quarterly report narrative.)

As for the weekly and monthly reports, they described the activities performed in the reporting period, but did not describe how those activities were associated with the indicators and targets. They do not state progress toward targets or quantify results.

While we did not find a specific reason for the contractors not linking progress reports to the indicators and targets, we believe that ENI/EEUD had not instructed the contractors to submit reports clearly linked to indicators and targets. However, one project manager in USAID/Kiev has attempted to get the local PADCO staff to report weekly progress in terms of action towards targets. The contractors' personnel in Ukraine and Kazakhstan told us that they are willing to prepare reports in whatever format USAID needs, but USAID needs to clarify those needs.

We believe that if the Bureau's primary information source—contractors' progress reports—does not link their progress to indicators and targets, there is a risk that the Bureau may be funding activities which are not progressing as intended.

Make the Progress Reports More Succinct

A USAID-wide unilateral contract modification of October 13, 1994, mandated that contractors' progress reports be brief (three to eight pages). The contractors' progress reports submitted to the ENI Bureau tend to be long and contain information on minor events. The most recent quarterly reports that we have from ICMA and PADCO run 18 and 24 pages, respectively.² With regard to reporting minor events, ICMA reported such items as, "helped organize and conduct the follow-up training..." and "began development of newsletter..." PADCO also reports unnecessary information, such as, "Conferred on a weekly, and as needed basis with..."

In our analysis of the weekly reports, we concluded that there was too much reporting and these discuss issues or include information of questionable value to ENI/EEUD or the USAID Missions. As an example of too much reporting, PADCO submitted five separate weekly reports for the first week of November 1995. These reports ran for a total of 21 pages and were almost as long as a quarterly report. An example unnecessary reporting comes from one of weekly reports. Its first paragraph was devoted solely to telling USAID that PADCO was continuing to revise a summary of laws. Most of the paragraph described who is doing what and who has

² ICMA's report is for the period ending November 30, 1995, and PADCO's is for the period ending December 31, 1995.

been given copies of the revisions. In addition to being unnecessarily long, the narrative did not identify what indicator or target the activity was related to.

Determine the Appropriate Frequency of Progress Reports

The frequency of contractor reporting is excessive and unnecessarily increases the amount of time and money the contractors and USAID spend on the program. The contractors were preparing and submitting weekly, monthly, and quarterly progress reports to USAID. According to ENI/EEUD and USAID Mission staff, they did not use the quarterly reports because the reports (a) were not timely as an oversight tool, and (b) merely rehashed previously reported data.

USAID Mission and contractors' personnel told us that they preferred reporting status on a weekly or monthly basis rather than quarterly. Nonetheless, the contractors, and some Mission personnel believed that the contract mandated the quarterly reports. According to the USAID-wide unilateral contract modification issued on October 13, 1994 by USAID's Office of Procurement, all contractors were required to submit progress reports to USAID at least quarterly (emphasis added). We interpret this to mean that weekly and/or monthly reports to be within the criteria, but there seemed to be some confusion between the contractors and Mission personnel. Even though the contractors may have a requirement that their field staff report weekly to the home office, we believe a weekly report to USAID is excessive.

Most reports take time to prepare, review, revise, and transmit. The more frequently the report is done the more time that is involved—time which may be better spent on the program than about the program. In the event a critical issue arose between reporting dates, nothing in the contract requires the contractors to wait for the regularly scheduled progress report. Rather, they should promptly report the issue to USAID. Another argument supporting less frequent written reports to USAID is that the contractors regularly communicate via other means with USAID. The argument supporting a monthly over a quarterly report is the greater timeliness of a monthly report for use as a tool in monitoring progress.

In conclusion, we find that reading and comprehending reports takes time, and we do not believe that the USAID staff should spend time reading voluminous reports. In fact, we were told by USAID Mission staff that they do not read the quarterly reports because they are too long and rehash the contractors' other reports. While we could not pinpoint a cause for the

trend towards voluminous reports, we believe there may be a perception among the contractors that the long narratives help justify their work. We were told by contractors' field personnel that they would prefer to write less and focus more on pursuing the programs. The USAID Mission staff said that they would prefer more succinct monthly reports.

Recommendation No. 2: We recommend that the Office of Environment, Energy and Urban Development, in consultation with the contractors:

- 2.1 link contractors' progress reports to work plan indicators and targets;
- 2.2 make the progress reports more succinct; and
- 2.3 have written progress reports prepared and submitted on a monthly basis.

MANAGEMENT COMMENTS AND OUR EVALUATION

ENI/EEUD concurred with our finding and recommendation. They pointed out that linking reports to indicators and targets will depend upon their full involvement in establishing these. They intend to request the contractors to be more succinct in progress reports and limit these to a monthly basis. For their complete comments, see Appendix II.

**SCOPE AND
METHODOLOGY**

We audited the NIS Housing Reform Project (No. 110-0008) in accordance with generally accepted government auditing standards. The audit focused on project activities in Ukraine and Kazakstan which were being implemented, respectively, by Planning and Development Collaborative International, Inc. (PADCO) and International City/County Management Association (ICMA) under contracts from the Bureau for Europe and New Independent States (ENI). We conducted the audit from September 18, 1995 through February 5, 1996.

We did not review the NIS Housing Sector Reform Project being conducted in Russia or Armenia. Prior to this audit, we issued, "Audit of Russian Officer Resettlement Program under USAID Project 110-0008," (audit report no. 8-118-96-001), which found that component of the NIS Housing Sector Reform Project was proceeding generally as planned. In addition, the U.S. General Accounting Office (GAO) issued its report assessing selected USAID projects in Russia, (GAO/NSIAD 95-156, August 1995) which included coverage of the Russian portion of the Housing Sector Reform Project. GAO reported that the program was meeting or exceeding its objectives. As for not including Armenia, the project there was directed at earthquake issues, as well as housing sector reform.

The table on the following page identifies obligations and expenditures as of June 30, 1995. Obligations for task orders are as of September 30, 1995.

Country	Obligations (in millions)	Expenditures (in millions)
NIS Housing Sector Reform Total	\$ 57.0	\$ 32.2
Ukraine	\$ 10.6	\$ 5.2
Task Orders Sampled	\$ 2.6	Not Available
Kazakstan	\$ 5.0	\$ 3.0
Task Orders Sampled	\$ 2.7	Not Available

The Russian Officers Resettlement Program is excluded from the NIS Housing Sector Reform totals identified in the above table.

The project and the contracts to PADCO and ICMA are to end on November 30, 1996. For data related to obligations and expenditures we relied upon unaudited data from the ENI Bureau and the contractors.

We interviewed ENI Bureau, USAID Mission, and contractors' personnel, and we reviewed USAID and contractors' progress and evaluation reports. We also met with recipients of assistance in Kiev and Odessa, Ukraine; and Almaty, Kazakstan.

Audit work at the ENI Bureau, USAID/Kiev, and USAID/Almaty included reviews of project documentation and assessments of the controls for overseeing and monitoring contractors activities. We reviewed progress the two Missions were making in implementing the Bureau's Monitoring and Reporting System (MRS), and compared the MRS to the contractors' work plans. We also reviewed the progress of 5 of 70 task orders under PADCO's contract, and 4 of 110 task orders under ICMA's contract. The task orders were selected on a judgmental basis.

Translation services were provided to us by employees of the USAID Missions and the contractors' who accompanied us on site visits.

MANAGEMENT COMMENTS



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MAR 18 1996

MAR 13 1996

MEMORANDUM

TO: RIG/A/F, John P. Competello
FROM: DAA/ENI, Donald L. Pressley *Don*
SUBJECT: ENI/EEUD Comments on Draft Audit Report of the NIS
Housing Reform Project on Ukraine and Kazakstan (Audit
No. 8-110-96-00X)

Please find attached ENI's comments on subject report. Please
keep us advised as to the status of the audit recommendation.

Attachment:
a/s

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MANAGEMENT COMMENTS

ENI/EEUD Comments on Draft Audit Report
NIS Housing Reform Project in Ukraine and Kazakstan
(Audit Report No. 8-110-96-00x)
March 8, 1996

Recommendation No. 1

ENI/EEUD essentially agrees that USAID must clarify how contractor annual work plans should match up with the Agency's objectives, indicators and targets. Likewise, contractors should be held to the requirement that they deliver annual work plans by the dates stipulated in the contracts.

It should be noted, however, that contrary to the Draft Report assumptions, ENI/EEUD did not have full control over the objectives, indicators and targets established for this project. Last spring, the ENI Bureau sought to establish program objectives, indicators and targets as part of a "re-engineering" process which is still being implemented. The Missions and the Office of Program Coordination and Strategy (ENI/PCS) had the lead in this exercise. Because of time constraints and the newness of the process, EEUD did not have the opportunity to become fully integrated into the process of establishing these objectives, indicators and targets and relating them to the actual activities of the contractors on the ground.

Similarly, the delay in getting annual work plans on a timely basis from the contractors was caused in part from a lack of clarity and precision in the objectives, indicators and targets. Furthermore, budgetary uncertainties and changes in Mission and contractor field staff made it more difficult to come to closure on many longer range work plan issues. Under these circumstances, the project was largely managed on the basis of shorter term task orders under the contracts which did stipulate objectives, indicators and targets being sought.

In February 1996, the ENI Bureau issued refined and expanded guidance on strategic objectives and their relationship to program activities. At the same time, implementation of the "results framework" and MRS systems has begun, this time hopefully with the active participation of technical offices. As a result, ENI/EEUD feels confident that annual work plans will now much more clearly match up with program objectives, targets and indicators, and that such work plans will be obtained on a more timely basis.

Recommendation No. 2

ENI/EEUD concurs with the recommendation that contractor progress reports be linked to work plan indicators and targets, that reports be more succinct and be prepared on monthly basis. EEUD will work with the contractors to achieve these results.

The linking of reports to indicators and target, of course,

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will depend upon the establishment of such indicators and targets with the full participation of EEUD. Hopefully this will happen as the new systems, including the results framework and MRS systems, become fully operational.

EEUD will formally ask the contractors to be more to the point in their reporting. EEUD's experience is that much of the reporting reflects the felt need of the field advisors to advise their own home office of all the activities in which they are engaged. Some of that information may be helpful to contractor management, but is not necessarily needed by USAID. EEUD will ask the contractor to limit their reports to USAID to necessary matters, leaving to their own internal reporting other information which they might want for their own purposes.

Finally, EEUD supports limiting progress reports to a monthly basis. This may restrict the information flow, but important information can and should, of course, be communicated at any time as appropriate.

B

SAMPLE OF ICMA'S QUARTERLY REPORT

QUARTERLY PERFORMANCE REPORT
Contractor: ICMA
Contract # CCS-0008-C-00-2056-00
Reporting Period: September 1, 1995 - November 30, 1995

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Section I - Contractor's Report (Page 5)

ASSESSMENT CHART OF CURRENT ACTIVITIES, PERFORMANCE & SCOPE OF WORK							
TO	Org.	Country	Title/Consultant	Current Activities	Proposed Activities	Performance	SOW Changes
05	ICMA	Kazakhstan	Long-term Advisors to City of Almaty, Republic of Kazakhstan Jon Wegge John Stern	In addition to on-going management of the field operation and support of all TDYs. <u>LTA Wegge:</u> 1) completed transfer of responsibilities and general work programming and staff re-organization; 2) organized study tour to Ukraine on housing allowances; <u>LTA Stern:</u> 1) helped organize and conduct the follow-up training for participants in the CHF study tour on cooperative formation; (See TO 77) 2) helped coordinate visit by US Ambassador to observe Semipalatinsk cooperative formation project and coordinated technical assistance with that city; 3) accompanied study tour to observe Ukraine's housing allowance program; 4) began development of newsletter to provide information on formation of cooperatives to be sent to government officials and local cooperative leaders.	In addition to on-going management, completion of the work program, continued support for condo formation and housing allowances at national and local level, more specific activities for December-February to emerge from work program.	Good progress on most work program components this quarter. Uncertainties regarding government action to clarify property registration responsibilities and to adopt draft laws and housing allowance regulations could affect timing of work anticipated over the winter.	None.
60	ICMA	Kazakhstan	Housing Finance Advisors to the Republic of Kazakhstan Elaine Weiss Marilyn Brody William Mawhinney July, 1994-October, 1995	1) helped organize and conduct fourth and fifth courses in five course series on real estate finance: Mortgage Technology and Risk Management (see TO 70); 2) on-going consultation with Ministroi, Zhilstroj and private banks in assessing need for, viability of and development of long-term financial instruments;	In consultation with USAID, will be making decision on whether housing finance training and TA will continue after series completed.		

SAMPLE OF PADCO'S QUARTERLY REPORT

Ukraine Kiev Land Advisor - Task Order 52

- A Continue to Assist Ukraininan Cities in Planning and Carrying out Land Auctions.
- B Develop a Work Program for Regulatory Reform in Poltava.
- C Provide Land Unit Attorney Input on Legislative Initiatives Concerning Land and Real Property.
- D Complete Advertising for the Odessa RFP Tender.

Lviv, Ukraine Long Term Advisor - Task Order 53

- A Support Condominium Program Roll Out and Private Management and Maintenance Roll Out.
 - Provide eight Oblast State Administration and eight City Administrations in Oblast centers in Western Ukraine with information packages describing these programs, the national legislation supporting them and the steps required to implement them.
 - Visit appropriate Oblast State Administrations and City Administration officials to explain and sell the programs.
 - Reach agreement with SCHME and USAID on jointly-sponsored Condominium/Private Management and Maintenance training seminar in L'viv in January 1996; agree on training seminar agenda.
 - Send SCHME and USAID/PADCO invitation letters to Oblast State Administrations and City Administrations in Western Ukraine.
- B Lead the Enterprise Housing Program
 - Develop a methodology for an Enterprise Housing Program in Ukraine.
 - Plan the strategy for the roll out of the Enterprise Housing Program.
 - Develop a data base for enterprise-owned housing in Ukraine.
- C Lead the Vodokanal Program
 - Complete and distribute report on legal and institutional environment of L'viv Vodokanal.
 - Develop proposals for legal and institutional problems and solutions.
 - Coordinate work with work of CH2M Hill and World Bank consultants, COWIconsul and Booz, Allen and Hamilton International (Warsaw).
 - Begin development of strategy for Vodokanal Program Roll out.
- D Act as a Legal Resource on Local and National Policy Issue.
 - Advise the PADCO/Ukraine staff and appropriate officials of the Government of Ukraine on legal issues in connection with the development of laws of Ukraine affecting housing, land and communal use.
 - Participate in the implementation of reforms of national policies and laws affecting housing, land, and communal services through State Committee and Cabinet of Ministers working groups.