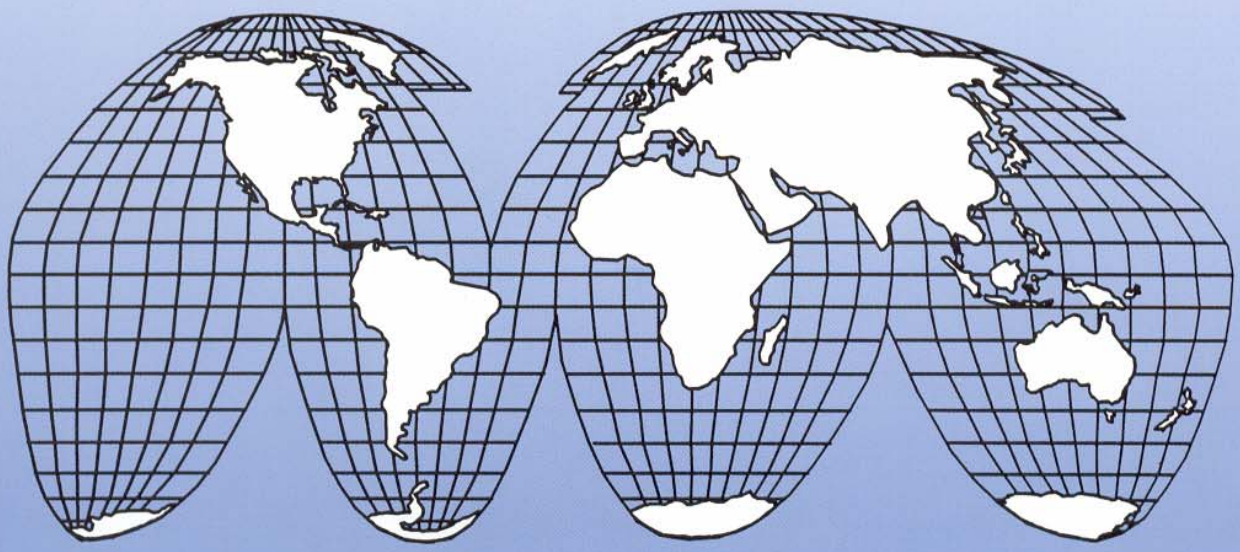
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID/Russia's Democracy Program
Report No. B-118-05-002-P

March 31, 2005



U.S. Agency for International Development
Budapest, Hungary

Office of Inspector General

MEMORANDUM

DATE: March 31, 2005

FOR: USAID/Russia Mission Director, Terry Myers

FROM: Regional Inspector General/Budapest, Nancy J. Lawton /s/

SUBJECT: Audit of USAID/Russia's Democracy Program (Report No. B-118-05-002-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on our draft report and have included your response as Appendix II.

This report contains six recommendations for your action. Based on your comments, we consider management decisions to have been reached on all six recommendations. USAID/Russia should coordinate final actions on these recommendations with USAID's Office of Management Planning and Innovation.

I want to express my sincere appreciation for the cooperation and courtesies extended to my staff during the audit.

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Summary of Results

This audit of USAID/Russia's democracy and local governance program was designed to determine how the Mission spent funds and whether the Mission monitored activities to ensure that intended results were achieved. The audit was part of the Office of Inspector General's fiscal year 2004 Annual Plan and was conducted to promote improvements in USAID processes for planning, monitoring, and reporting on development activities (see page 6).

As of September 30, 2004, USAID/Russia was funding 35 democracy and local governance activities with fiscal year (FY) 2004 obligations of $20.5 million. The Mission spent these funds to assist with Russia's development of more legitimate democratic institutions and more responsive local governments. To accomplish this objective, the Mission designed projects to increase citizen participation in political and social decision-making, enhance adherence to the rule of law, improve the effectiveness and accountability of local government, and increase confidence in government institutions and political processes (see pages 6-8).

As of September 30, 2004, USAID/Russia had not obtained sufficient performance indicator data to assess progress towards the Mission's strategic objectives. The Mission lacked data for 15 of the program's 35 performance indicators, including 5 of the 6 Strategic Objective-level (SO) indicators. In addition, some of the performance data submitted by implementing partners contained errors, were not fully supported by source documentation, or were of only limited use for management purposes (see pages 9-11). Finally, the Mission did not systematically document its implementation of management controls related to the review and revision of performance indicators (see pages 11-12).

USAID/Russia should review its performance indicators to ensure that they provide the most appropriate information for determining program achievements (see pages 9-11). The Mission should also better document its periodic efforts to review and revise performance indicators, and should clarify responsibilities for performance data verification (see pages 12-15). Finally, the Mission should document its compliance with guidance related to plans for establishing SO teams, tracking activity progress against established performance targets, and establishing a training plan for Cognizant Technical Officers (CTOs) (see pages 15-17).

In comments to our draft report, USAID/Russia concurred with our recommendations and proposed appropriate actions to address our concerns (see pages 19-20 and Appendix II).

Background

Russia's successful transition to a democratic society is a key United States national security interest. Spanning a vast area from Europe to the Far East and from the Arctic to Central Asia, Russia is among the world's richest repositories of energy and other natural and human resources. As a significant U.S. strategic partner on issues ranging from disarmament and anti-terrorism to space

cooperation and oil/gas exploration, a stable, secure Russia will benefit U.S. interests.

Currently, the U.S. is the largest bilateral donor to Russia. In FY 2004, USAID assistance to Russia totaled about $77.3 million. These funds were divided among activities related to economic development, democracy, health, and special initiatives. USAID/Russia spent about $20.5 million, or 27 percent of the Mission's total obligations, on democracy and local governance activities in FY 2004.

USAID/Russia developed a democracy and local governance program to support, among other things, human rights organizations, independent print and broadcast media, judicial reform and civic education. According to the Mission, the program also seeks to strengthen local governments' capacity to develop and manage financial, human and physical resources.

Audit Objectives

This audit was part of the Office of Inspector General's fiscal year 2004 Annual Plan and was conducted to promote improvements in the way USAID manages for results, including planning, monitoring, and reporting on development activities.

The audit was conducted to answer the following questions:

How have USAID/Russia funds been spent under the democracy and local governance program?

Did USAID/Russia monitor its democracy and local governance program to ensure that intended results were achieved?

The scope and methodology of this audit are detailed in Appendix I.

Audit Findings

How have USAID/Russia funds been spent under the democracy and local governance program?

Under the democracy and local governance program, USAID/Russia obligated about $20.5 million in FY 2004 to support three strategic objectives:

- SO 2.11: *A More Open, Participatory Society;*
- SO 2.21: *Legal Systems Strengthened;* and
- SO 2.31: *Local Governance Made More Responsive and Accountable.*

As shown in Table 1, the Mission's funding for these SOs has been relatively stable for the past three fiscal years.

Table 1: USAID/Russia Obligations for Strategic Objectives Related to Democracy and Local Governance

	FY 2002	FY 2003	FY 2004
SO 2.11: *A More Open, Participatory Society*	**$12.4**	**$10.9**	**$14.2**
SO 2.21: *Legal Systems Strengthened*	**4.4**	**4.5**	**3.4**
SO 2.31: *Local Governance Made More Responsive and Accountable*	**3.2**	**4.2**	**2.9**
TOTALS ($ millions)[1]	**$20.0**	**$19.6**	**$20.5**

[1] Mission-reported funding levels; unaudited.

As of September 30, 2004, USAID/Russia supported 35 separate democracy and local governance activities. Much of the funding, however, has been devoted to a few activities. During FY 2004, for example, the Mission obligated about a third of its democracy and local governance funds—a total of about $7 million—to three large ongoing activities: independent television (under SO 2.11), development of the legal profession (under SO 2.21), and improved local governance and economic development (under SO 2.31). The major purpose, funding level and reported accomplishments for these three major activities are presented below.

Independent Television (SO 2.11): Under this activity, a Russian-based implementing partner contributes to the development of a sustainable non-state regional broadcast system to support Russia's fragile democracy. The implementing partner helps develop the professional and technical capability of independent television stations to produce informative public affairs programming. The partner also advises stations on how to achieve financial stability and provides legal training to help protect the freedoms and rights of the regional television industry. USAID/Russia obligated $2.4 million for this activity in FY 2004 and estimates that the activity's total cost will be $8.8 million during the current agreement period (June 2004 – May 2008).

According to USAID/Russia, as of September 30, 2004, the activity had created regional training centers and held 71 seminars for 1,643 participants. These seminars provided television station personnel with training on marketing, management and business planning to foster economic success. A USAID-

sponsored management conference, started in 2002, has become a regular annual industry event in which Russian regional TV managers participate with industry experts from the U.S. and Europe to examine effective business strategies. The activity also helped television stations develop numerous public awareness campaigns to promote social and health initiatives.

Development of the Legal Profession (SO 2.21): Under this activity, a U.S-based implementing partner improves the advocacy skills of lawyers, law students, civil leaders and gender activists. The activity is divided into four components: clinical legal education, legal issues affecting women, advocacy programs, and legal partnerships. Through workshops and training programs, the implementing partner targets those interested in practice-based teaching and develop materials for starting legal clinics and training the teaching staff. Other workshops and programs deal with gender and other advocacy issues. USAID/Russia obligated $1.5 million for this activity in FY 2004 and estimates that the activity's total cost will be $8.7 million during the current agreement period (September 1999 – June 2005).

According to USAID/Russia, as of September 30, 2004, this activity has created or strengthened legal clinics used for training and program development in four Russian cities. The implementing partner has trained social advocates (non-lawyer activists) to assist victims of domestic violence and has created and promoted the use of a model protocol for law enforcement officers responding to domestic violence. The activity introduced the concept of clinical legal education in Russian, leading to the creation of approximately 80 legal clinics at law schools. Through USAID-sponsored legal partnerships, U.S. legal professionals worked with Russian counterparts to promote legal clinics and law school reforms, combat domestic violence, and strengthen legal and judicial ethics.

Improved Local Governance and Economic Development (SO 2.31): Under this activity, a Russian-based implementing partner strengthens local self-governance through improved coordination within local communities. The implementing partner provides training to local government administrators and community leaders, giving them tools to increase efficiency, equity and effectiveness in the delivery of social and communal services. The partner also provides technical assistance to increase the policy-development skills of officials responsible for local governance and social reforms, and trains local-level non-governmental organization (NGO) leaders. The Mission obligated $3.1 million for this activity in FY 2004 and estimates that the activity's total cost will be $13 million during the current agreement period (September 2001 – September 2005).

According to USAID/Russia, as of September 30, 2004, the implementing partner has helped 47 municipalities in 28 regions adopt new social and economic reform models and policies. The partner trained more than 100 government and NGO leaders in broad local-and federal-level policy skills, and trained over 2,000 local, federal and regional administrators and NGO leaders in specific skills of municipal management. USAID/Russia's implementing partner analyzed 61 best practices of municipal management and submitted them to the Code of Best

Practices of Municipal Management for dissemination through municipal associations.

Did USAID/Russia monitor its democracy and local governance program to ensure that intended results were achieved?

USAID/Russia did not fully monitor its democracy and local governance program to ensure that intended results were achieved. Specifically, the Mission did not develop and maintain timely and useful performance indicators to ensure that the program achieved its performance targets. As of September 30, 2004, the Mission had not obtained sufficient performance data to adequately assess program progress. Moreover, some of the performance data submitted by implementing partners contained errors, were not fully supported by source documentation, or were of only limited use for management purposes. Finally, the Mission did not systematically document its implementation of management controls related to the review and revision of performance indicators.

Many Democracy and Local Governance Performance Indicators Were Not Timely or Useful

Summary: Automated Directives System (ADS) guidance requires missions to develop and maintain timely and useful performance indicators for tracking the impact of USAID activities. However, many of USAID/Russia's democracy and local governance program performance indicators lacked timely data because of delays related to the Mission's surveys of Russian citizens. In addition, because the Mission did not systematically implement management controls related to performance indicators, some of the program's intermediate result (IR) indicators did not provide useful data. As a result, USAID/Russia could not use its performance indicators to fully determine the impact of its democracy and local governance activities.

ADS 203.3.3 requires operating units to develop and maintain a Performance Management Plan (PMP). The PMP must include at least one broad performance indicator that will be used to measure progress towards achieving each of the Mission's Strategic Objectives (SOs) and at least one Intermediate Results (IR) performance indicator to measure progress towards essential steps needed to meet the SO goals. Operating units should select indicators that directly measure the intended result, are attributable to USAID efforts, and provide timely and useful information to USAID managers.

As of September 30, 2004, the USAID/Russia's PMP for the democracy and local governance SOs contained 6 SO-level performance indicators and 29 IR performance indicators. However, 15 of the total 35 performance indicators,

including 5 of the 6 SO-level indicators, were not supported by any current data and could not be used for the Mission's FY 2004 Annual Report.

Much of the data was unavailable because of delays in implementing a survey of Russian citizens to measure the impact of SO 2.1 and 2.2 activities. In December 2002, the Mission reported that the first round of its survey of democratic values and practices had been delayed due to the late arrival of funds; therefore, this data would not be included in the Mission's FY 2003 Annual Report. Later, the Cognizant Technical Officer (CTO) for the survey effort was reassigned to another critical post, and the effort stalled until a permanent replacement was found. As a result of these of additional delays, the Mission was unable to use any survey data in its FY 2004 Annual Report issued a year later.

Although the Mission plans to include a limited amount of survey-based performance indicator data in its FY 2005 annual report, survey data will not be available for all indicators. Due to poor communication between the Mission and the survey contractor, the survey effort will not generate data as planned for four SO 2.11 and 2.21 indicators. Because the survey contractor did not develop data for these four indicators, the Mission plans to eliminate the indicators from the PMP. Despite these plans, USAID/Russia has not yet assessed the impact of losing these four indicators on the Mission's ability to measure the success of its democracy activities.

Although the Mission collected data for 20 of its 35 performance indicators, some of these indicators did not provide information that was useful for management purposes. For example:

- Under SO 2.11, USAID/Russia established a performance indicator that tracked the number of stations signing user agreements for a USAID-sponsored software package to assist with news production. However, the implementing partner was not required to collect information on the number of stations actually using the software, or the software's impact on quality or amount of independent news programming. As a result, the Mission cannot use this indicator data to determine how the dissemination of software contributes to the goal of expanded independent news programming.

- Under SO 2.21, the Mission established a performance indicator to measure the number of improved court administration or case management procedures adopted by pilot courts or replicated in other courts. But while the implementing partner collected data on procedures for four pilot courts, they did not collect data regarding the replication of procedures in other courts. Consequently, the Mission cannot use the indicator to assess the overall impact of the activity on courts in Russia.

- Under SO. 2.31, USAID/Russia established a performance indicator to determine the number of local governments that adopt legal reforms promoting active private real estate markets. However, while the

implementing partner reported municipality data on a cumulative basis, neither the Mission nor the implementing partner has verified whether reforms implemented in previous years were still in place. Without such verification, the implementing partner may be overstating the number of reforms actually in place.

These weaknesses were not corrected because the Mission had not systematically implemented and documented management controls designed to review and improve performance indicators (see pages 11-13 for a full discussion of this problem area).

Since performance indicators did not meet ADS standards for timeliness and usefulness, USAID/Russia could not fully monitor progress toward its democracy and local governance performance indicators to ensure that intended results were achieved. Without assessing the impact of eliminating four performance indicators from the PMP and revising some indicators, the Mission may not be obtaining adequate and complete information for management purposes. Therefore, we are making the following recommendation:

Recommendation No. 1 We recommend that USAID/Russia review and revise, as needed, performance indicators for the democracy and local governance program to ensure that data collected provides information necessary to determine progress towards goals.

USAID/Russia Should Improve the Documentation of Performance Indicator Management Controls

Summary: ADS and Mission guidance establishes management controls to ensure that performance indicators are periodically reviewed and, if necessary, revised and strengthened. However, USAID/Russia management did not ensure that these review and revision procedures were systematically implemented and documented. As a result, the Mission could not provide reasonable assurance that performance indicator weaknesses have been and will be appropriately identified and corrected.

ADS and Mission guidance establishes management controls to ensure that performance indicators are periodically reviewed and, if necessary, revised and strengthened. Specifically, ADS 203.3.7 requires that Operating Units conduct annual portfolio reviews to assess, among other things, the adequacy of performance indicators to ensure that they meet management needs. Furthermore, during the annual Federal Management's Financial Integrity Act (FMFIA) review, Mission managers are required to assess their indicators and certify that they are adequate. In addition, USAID/Russia's Guidance on Data Quality Assessments

(DQAs) states that staff should indicate whether the performance indicator should be flagged for closer examination at a later review. According to ADS 596.3.1, information regarding the review of performance indicators should be documented and communicated to management and others within the organizational unit who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.

However, USAID/Russia did not maintain sufficient documentation to show that required reviews had been conducted and had resulted in appropriate actions to improve the indicators. For example, following the September 2004 portfolio review, the Mission did not document its review of indicators or efforts to mitigate any identified weaknesses. During the FY 2004 FMFIA process, Mission personnel certified that the democracy and local governance indicators were adequate, but they did not document any concerns about lack of data or potential indicator weaknesses.

Furthermore, while the DQA records show that USAID/Russia staff identified weaknesses in the indicators, there is no evidence that the Mission always considered and addressed these concerns, and that the resulting actions were documented. For example, during a 2002 DQA, Mission staff noted that an SO 2.21 IR indicator regarding legal ethics should be changed in order to better reflect the impact of the work; however, as of September 2004, the Mission had made no such change. Similarly, the September 2002 DQA of the media activity indicators noted that the implementing partner was not collecting software data often enough, and that the indicator's "practicality may be low" because most stations were already using the software. However, as of September 2004, the Mission had taken no action to replace or improve the indicator. Mission managers agreed that they had not required staff to systematically implement and document efforts to review and revise performance indicators.

As a result, the Mission could not demonstrate with reasonable assurance that performance indicators were being reviewed and revised in accordance with USAID guidance. In addition, Mission personnel lacked support for their determinations that indicators had been reviewed and were adequate. Finally, the Mission did not have a systematic process for evaluating improvements identified during the DQA process. To ensure that USAID/Russia reviews and documents revisions to its performance indicators, and that there is a documented record for determinations during the FMFIA process, we are making the following recommendation:

Recommendation No. 2 We recommend that USAID/Russia document its process to periodically review and update its democracy and governance program performance indicators.

USAID/Russia Should Improve the Verification and Documentation of Performance Data

Summary: According to ADS guidance, performance data should be accurate and reliable, and the Mission should take steps to ensure that submitted data is adequately supported and documented. Our tests of 11 performance indicators identified 6 instances where data reported by implementing partners contained errors or was not adequately supported. The Mission lacked clear guidance regarding CTO responsibilities to systematically verify performance data during site visits, and to document the results of these efforts. Consequently, the performance data submitted by implementing partners has not always been an accurate and reliable measure of activity results.

To be useful in managing for results and credible for reporting, ADS 203.3.5 requires performance data to be precise and reliable. Furthermore, USAID/Russia's internal guidance on data quality states that adequate documentation is important to provide assurance that quality standards are being maintained in the collection and reporting of performance data. The guidance also notes that if data are collected by an implementing partner, this partner should maintain all the documentation on the data collection process.

To confirm the accuracy and reliability of data reported by implementing partners during the period FY 2002–2004, we judgmentally selected 11 of 29 intermediate result (IR) indicators for detailed testing. In six instances, the reported data did not materially match the documentation retained by the implementing partner. Table 2 summarizes the reported indicator results data as compared to the documented indicator data.

Table 2: Material Discrepancies between Reported Results and Documented Results

SO, Indicator Number and Definition[2]	Reported Result and Year	Documented Results	Percent Difference
SO 2.11, IR 1: Percentage of Citizens with Access to Non-state News	**75 (FY 04)**	**None Available**	**Unknown**
SO 2.21, IR 3: Model Court Procedures Being Used or Adopted in Other Courts	**4 (FY 04)**	**5**	**20%**
SO 2. 31, IR 2: Governments with Active Programs for Public Participation in Budgets and Resource Allocation	**2 (FY 04)**	**1**	**100%**
SO 2. 31, IR 3: Governments that Increase Cost Recovery for Services	**11 (FY 02)**	**22**	**50%**
SO 2.31, IR 1.3: Governments That Adopt Legal Documents Promoting Active Real Estate Markets	**3 (FY 04)**	**2**	**50%**
SO 2.31, IR 1.1: Training Courses Offered for Local Governments	**6 (FY 03)**	**9**	**33%**

[2]For SO 2.31 indicators reported on a cumulative basis, we evaluated the reported increase for each year, not the cumulative total.

In addition to these results from our sample, one of the implementers had recently reviewed and reconciled previously submitted results data from FY 2001–2004. This internal review identified an additional 7 data reporting errors (out of the 42 data elements) that the implementer had reported to the Mission. Three of these errors were included in the Mission's FY 2004 Annual Report to USAID headquarters.

According to USAID/Russia management officials, CTOs are responsible for reviewing the accuracy of data submitted by implementing partners, ensuring the adequacy of supporting documentation, and verifying data during field visits. But

because USAID/Russia had not established clear guidance for these verification activities—including the timing of data reviews and appropriate documentation standards—CTOs were not consistently verifying performance data and documenting the results in field visit reports. As a result, the performance data submitted by implementing partners has not always been accurate and reliable.

To ensure that Mission managers have accurate and reliable data for reporting democracy and local governance results to USAID/Washington, the Congress and the public, we are making the following recommendation:

> **Recommendation No. 3: We recommend that USAID/Russia clearly define staff responsibilities for the verification of democracy and local governance indicator data and the review of supporting documentation.**

USAID/Russia Should Fully Implement Certain Management Activities

Summary: The Mission does not comply with three management requirements contained in ADS and Bureau guidance. Specifically, the Mission does not document its compliance with (1) ADS guidance related to the establishment of SO teams, (2) Bureau requirements to evaluate activity performance against planned performance targets, and (3) ADS requirements to develop a written plan to ensure that all CTOs receive appropriate professional training.

USAID/Russia Should Implement Guidance Related to SO Teams – According to ADS 202.3.3, the head of each operating unit is strongly encouraged to establish an SO Team to plan and manage activities to achieve each approved SO. Using team structures in operational decision-making and the assessment of effectiveness can greatly facilitate the involvement of implementing partners, customers, and stakeholders of programs. If an operating unit decides not to establish such a team to manage an SO, the decision and the alternative way of managing the SO must be documented in writing.

During the FY 2004 FMFIA review, USAID/Russia managers noted that the Mission had not established formal SO Teams as recommended by the ADS. Moreover, the Mission had not documented its decision not to use teams nor established a written plan for the SO's management under an alternative approach.

Although the problem was identified as part of the FMFIA process, Mission management did not take action to resolve it. To ensure that Mission management takes appropriate action in compliance with the ADS requirements,

we are making the following recommendation:

> **Recommendation No. 4: We recommend that USAID/Russia implement USAID requirements to either adopt Strategic Objective Teams or document its decision to adopt an alternative method of managing its activities.**

USAID/Russia Should Implement Procedures to Monitor Activity Performance Against Established Targets – Bureau Operating Procedure 311 requires operating units to describe how the unit will monitor and document the performance of USAID-funded activities. The guidance states that performance information must compare actual performance against planned results and accomplishments for each contract, grant and cooperative agreement. These achievements by individual activities are considered crucial to managing for results, as they are the first steps in demonstrating achievements at the SO and IR levels.

To implement this guidance, USAID Mission Order RU203 requires staff to periodically develop and submit activity description documents that include, among other things:

- performance information that compares actual performance against planned results and accomplishments;
- major issues that negatively affect activity implementation; and
- remedial measures, if any.

Although USAID/Russia staff prepared activity description documents for democracy and local governance activities, these documents did not include performance information that compares actual performance against planned results and accomplishments. Moreover, these documents did not address issues that negatively affect implementation and did not describe any remedial measures.

USAID/Russia had limited the collection of detailed performance information for activity description documents because of concerns about politically-sensitive internal management information being released inadvertently to the public. However, unless detailed information is collected, documented and evaluated, the Mission is not in compliance with the Bureau's guidance on activity monitoring. Furthermore, USAID/Russia will not have immediate access to important and useful information about each activity's implementation status for making the best informed decisions and submitting accurate status reports. Therefore, we are making the following recommendation:

> **Recommendation No. 5: We recommend that USAID/Russia require democracy and local governance program Cognizant Technical Officers to periodically report performance**

information that compares actual performance against planned results and accomplishments.

USAID/Russia Should Develop a CTO Training Plan – CTOs act as the contractor's representatives and are responsible for the daily management of USAID assistance agreements. To ensure that individual CTOs possess the core competencies required for the position, the Office of Federal Procurement Policy Letter 97-1 requires that agencies develop mandatory education, training and experience requirements. USAID's mandatory training for CTOs consists of two 5-day courses in Acquisition Management and Assistance Management. According to ADS 202.3.4, Operating Units must develop a written plan that allows individuals to receive the necessary training as quickly as possible in order to obtain required competencies and subsequent certifications.

During the audit, in October 2004, the Mission hosted a two-week training course, at which nine democracy and local governance staff members received mandatory CTO training and became certified. However, three of the Mission's democracy and local governance CTOs were not scheduled for and did not attend the training. Furthermore, as of December 2004, USAID/Russia had not developed a written plan describing when and how these CTOs will obtain these competencies and subsequent certification.

USAID/Russia officials were unaware of the requirement for a written plan related to CTO training. As a result, the Mission was not complying with the ADS requirements to plan how CTOs will obtain competencies and professional certifications required to assure the appropriate performance of their duties. To ensure that all CTOs receive training in a timely manner, we are making the following recommendation:

Recommendation No. 6: We recommend that USAID/Russia develop a training plan that ensures that democracy and local governance program Cognizant Technical Officers obtain the needed competencies and certifications.

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Evaluation of Management Comments

In their response to our draft report, USAID/Russia concurred with our recommendations and described actions planned to address our concerns. As a result, management decisions were reached on all six of the recommendations.

In their comments on our draft findings, USAID/Russia pointed out the inherent difficulties related to the measurement of democratic development. The Mission noted that changes in the political environment are multi-dimensional, often erratic and in many ways subjective. The Mission stated that it is currently participating in efforts with USAID/Washington to develop common Agency indicators which may be incorporated or substituted for current indicators. We agree that the effort to develop common indicators should result in better and more consistent Agency-wide data on democracy program performance.

The Mission further noted that while there were some weaknesses with some performance indicators, USAID/Russia actively monitors its democracy and local governance program through a variety of means, including regular communication with implementing partners and site visits. In response to the Mission's comment, we revised the report to better reflect our specific concerns related to the Mission's democracy and local governance performance indicators.

USAID/Russia commented that due to political sensitivities, the Mission eliminated the requirement for public release of detailed performance information in public activity description documents. We found that, in addition to eliminating the requirement for public release of information, the Mission had stopped collecting some required performance data. The report text has been adjusted as appropriate.

USAID/Russia further noted that the lack of SO teams had not impeded the gathering of stakeholder information. The Mission also suggested that comments and recommendations be phrased so as to clarify that they pertain to the democracy and local governance program and not all Mission offices. In response to these concerns, we adjusted the relevant text.

In response to Recommendation No. 1, the Mission agreed to reassess its current set of indicators and ensure that all proposed indicators have appropriate, adequate and verifiable data sources. Target completion date for these actions is 12 months from the date of approval of the new Mission strategy. Additionally, before October 2005, the Mission plans to institute an internal portfolio review process to assess program performance, progress toward indicators performance data, and financial issues.

In response to Recommendation No. 2, USAID/Russia plans to improve internal documentation of program management decisions and ensure that the DQA findings become an element of the internal portfolio review. The Mission plans to produce a Memorandum to the File at the end of each review to be used during subsequent reviews to assure that recommended changes and adjustments are in progress or completed.

In response to Recommendation No. 3, USAID/Russia agreed to establish an internal training program for activity managers prior to October 2005. This training will review performance indicator standards with CTOs, how to evaluate indicator data and program progress during their site visits with implementing partners, and how to best document their findings, suggestions and actions taken.

In response to Recommendation No. 4, USAID/Russia agreed to document the decision not to use an SO Team structure. These details will be documented by September 1, 2005 in a Memorandum to the File signed by the Mission Director.

In response to Recommendation No. 5, USAID/Russia plans to issue updated guidance on Annual Portfolio Reviews and activity description documents The Mission plans to reinsert the original written attachment to each activity description document, containing internal management information on performance, funding and problems. Target date for completion of these actions is October 2005.

In response to Recommendation No. 6, the Mission agreed to refine and update a training plan for employees who have not yet been certified as CTOs but who are expected to be designated as CTOs. Target date for completion of this action is April 30, 2005.

Management's Comments are included in their entirety in Appendix II.

Scope and Methodology

Scope

The Regional Inspector General/Budapest conducted this audit in accordance with generally accepted government auditing standards. This audit was designed to determine how USAID/Russia funds had been spent under the democracy and local governance program, and whether USAID/Russia monitored its democracy and local governance program to ensure that intended results were achieved.

In planning and performing the audit, we assessed management controls related to the development, implementation, use, and management review of performance measures and indicators. Specifically, we reviewed (1) the fiscal year 2003 and 2004 annual reports, (2) the Performance Management Plan, (3) ADS and Bureau requirements related to performance measures, (4) data quality assessment procedures and results, (5) FMFIA requirements related to performance indicators, and (6) the portfolio review process. Additionally, we considered relevant prior audit findings from a similar audit completed in Macedonia.

We evaluated the Mission's current performance indicators for democracy and local governance activities performance data that had been collected and reported as of September 30, 2004. We collected, but did not audit, USAID/Russia's reported obligation levels for FY 2002–2004.

We conducted the audit at USAID/Russia, located in Moscow, Russia and at various implementing partner site locations in Moscow. The audit fieldwork was conducted from October 4 through December 22, 2004.

Methodology

To answer both audit objectives, we reviewed applicable USAID policy and procedures. We selected the three largest democracy and local governance projects for more detailed examination based on estimated contract amounts as of September 30, 2004. Obligations for these projects totaled $7 million out of $20.5 million obligated by the Mission in FY 2004. We evaluated 35 SO-level and intermediate result (IR) performance indicators under the Mission's SOs 2.11, 2.21 and 2.31 as of September 30, 2004, for compliance with ADS quality standards.

We interviewed CTOs, implementing partners, and Mission managers regarding their roles in developing and maintaining performance indicators and related performance data. We tested various management controls relevant to performance indicators—including the Performance Management Plan, data quality assessment procedures and results for all active indicators, the FMFIA review process and the portfolio review process—and evaluated the effectiveness of these controls. We also evaluated the Mission's compliance with relevant

Agency and Bureau polices, including ADS 202, ADS 203 and Bureau Operating Policy 311.

We validated performance results and compared reported to documented results for a judgmentally selected sample of indicator data results submitted by implementing partners from FY 2002–2004 to verify the Mission's determination of the individual project's performance. In reviewing the projects, we used a 5 percent threshold to determine if results were accurately reported. That is, if the reported result was within 5 percent of the documented result (based on records retained by the implementing partner), we concluded that the data had been accurately reported.

Management Comments

MEMORANDUM

TO: Regional Inspector General/Budapest, Nancy J. Lawton

FROM: Acting Mission Director, USAID/Russia, Janina Jaruzelski /s/

SUBJECT: Response to Audit of USAID/Russia's Democracy Program (Report No. B-118-05-00X-P)

USAID/Russia appreciates the recommendations of the audit report, the professionalism of the auditor, and the opportunity to comment on the draft report on the Mission's Democracy and Governance (DG) program and performance indicators. The audit helps inform our ongoing process to improve performance measurement and internal program management procedures.

As discussed below, we have set forth a plan to respond to and close the recommendations set forth in the draft audit. Additionally, we are providing Management Comments regarding the body of the draft report in order to clarify specific points for greater accuracy.

Management Comments:

Measuring Democracy: As USAID missions all over the world have found, the establishment of quantitative measures for the inherently qualitative and non-linear process of political development has inherent challenges. Democratic development is multi-dimensional, often erratic, and in many respects subjective (with different observers evaluating the same events quite differently), making the tracking and measurement of improvements difficult, at best. The draft audit report correctly identifies some of the weaknesses and problems inherent in the measurement of DG programs. In response to these challenges, in 2002 USAID/Russia introduced the use of public opinion surveys to attempt to improve the process of measuring progress in democratic development; however, the survey approach is not without flaws and we continue to refine its use. Presently, the Mission is participating in the efforts of USAID/Washington to establish common Agency indicators. As appropriate, the Mission's Office of

Democratic Initiatives (DI) will study the performance indicators that come out of the effort, incorporate or substitute as necessary, and continue to fine-tune the indicators for USAID/Russia's DG portfolio.

Program monitoring vs. performance measurement: In general, there are instances where the draft audit report's discussion of the process of *performance measurement*, which formally assesses progress toward program indicators, could be misunderstood by some readers as referring also or instead to the process of basic *program monitoring*, which involves regular data collection for management and oversight. USAID/Russia uses a variety of approaches to design, administer and monitor programs to achieve the Mission's goal of helping the Russian people to build a stronger, more democratic society. The tracking of formally established performance indicators is one—but only one—of these approaches. Furthermore, we wish to emphasize that notwithstanding the weaknesses that were cited with regard to some of the DG portfolio performance indicators, the Mission has been and remains firmly committed to continuously improving both performance measurement and program monitoring—and achieving the most programmatically useful and objectively valid data feasible, within our operating constraints.

Therefore, while we agree that despite our efforts there were some weaknesses with some DI indicators, we wish to point out three summary statements that we believe do not accurately reflect the specific findings of the audit and realities of USAID/Russia.

- First, Page 9 of the draft report states: "USAID/Russia did not monitor its democracy and local governance program to ensure that intended results were achieved."

  While USAID/Russia would agree that changes in the DG indicators were not consistently documented, the Mission actively monitors the program and the work of our partners. DI actively monitors programs through a variety of means, including regular communication with implementing partners and site visits. This monitoring is reflected in a variety of written documents, including trip reports, contemporaneous accounts in Weekly Reports to the Ambassador, and correspondence. We suggest that the original language be replaced with phrasing that reflects more accurately the errors in monitoring *performance indicators*, as opposed to phrasing that suggests overall neglect of program monitoring of the DG portfolio. We would propose: "USAID/Russia did not adequately document the monitoring of its democracy and local governance program to ensure that all intended performance indicator targets were achieved." This revision would also be more consistent with the Summary of Results on page 5.

- Second, Page 15 states: "Because USAID/Russia has not adopted the SO [Strategic Objective] Team concept, SO activities do not benefit from the regular input of all stakeholders."

  USAID/Russia regularly and routinely gathers extensive input from stakeholders through a variety of program management methods. Program Cognizant Technical Officers (CTOs) and managers regularly visit project implementers and project sites. They meet with counterparts and beneficiaries, as well as other USAID colleagues and USG officials both in Russia and in Washington—all of whom comprise the stakeholders of USAID's program. The lack of SO teams has in no way impeded the gathering of stakeholder input. Moreover, ADS guidance provides discretion on the creation of SO teams and allows for alternative organizational structures, as discussed below. We request that the sentence be struck from the report.

- Third, Page 16 states: "The Mission eliminated the requirement for detailed performance information in activity description documents because of concerns about the information being released inadvertently to the public."

  Given the sensitivity of supporting a political development program in Russia and the implications on USAID's relationships with partners, this change reflected a management decision to restrict the public release of internal program administration and budget information. However, as described below, annual internal reviews and discussions regularly address program and performance issues that require management decisions or adjustments, including progress toward indicators, implementation problems and budgetary issues. External documentation must be respectful of sensitivities that could negatively impact the ability of USAID's democracy program to operate in Russia. We are concerned that the statement, as written, could be interpreted as a desire by the Mission to withhold negative information from the public or Washington, which is not the case. Therefore we propose the following language: "Due to the political sensitivities in which the USAID/Russia program operates, the Mission eliminated the requirement for public release of detailed performance information in public activity description documents because of concerns about internal management information being released inadvertently."

Finally, we would note that the audit looked only at the DG program but some recommendations/comments are phrased broadly in a manner suggesting that they apply to all Mission offices. We believe the comments/recommendations should be phrased so as to clarify that they pertain to the DG portfolio.

Response to Recommendations:

Recommendation No. 1:

> **We recommend that USAID/Russia review and revise, as needed, performance indicators for the democracy and local governance program to ensure that data collected provides information necessary to determine progress towards goals.**

In December 2002, USAID/Russia approved a new performance monitoring plan (PMP) for its DG portfolio, with several new indicators that rely on public survey data. This survey was intended to improve the quality and accuracy of performance indicators and data that aggregated the impact of varied activities and programs within the Strategic Objective (SO). Like many USAID missions worldwide, USAID/Russia hired expert researchers to help refine the proposed indicators, design a questionnaire to gather data, and conduct--and analyze responses to--an annual survey that would provide baseline data for the performance of USAID/Russia's DG programs. Unfortunately, the Mission did encounter problems with the process of survey development, which led to problems in the quality and timeliness of the data, and subsequently the quality, usefulness and usability of the indicators themselves.

We agree with the substance of the recommendation. Presently, USAID/Russia is revising its strategy and will revise and reexamine its indicators when developing a new PMP. Using the experience gained from the use of surveying, and drawing on the new common Agency indicators to be produced by USAID/Washington, the Mission will assess which of the current set of DG indicators may still be appropriate and where adjustments will be needed. USAID/Russia will also ensure that proposed indicators have appropriate, adequate and verifiable data sources, whether from survey data or other

sources. Conditional on the approval of the new USAID/Russia strategy expected this summer, these actions will be completed within 12 months of the strategy approval (or summer 2006), as required by the ADS.

Additionally, the DI Office will institute an internal DI portfolio review process to assess program performance, progress toward indicators and performance data, financial issues, and any issues in implementation. In reviewing the performance indicators, DI will check for progress toward targets, the quality of the data collection systems, and the continued appropriateness of the indicators. This process will be initiated before October 2005.

Recommendation No. 2:

> **We recommend that USAID/Russia document its process to periodically review and update its democracy and governance program performance indicators.**

USAID/Russia consistently collects data on a variety of performance indicators in the PMP, including those that are not reported annually. These data are reviewed as part of the Annual Portfolio Review, along with other qualitative measures of program performance, to help make management decisions.

The Mission also utilizes formal Data Quality Assessments (DQAs) and the annual internal control process to appraise the quality of indicators and their data. Although the DQA systems exist, they constitute just one element in assuring indicator and data accuracy, as well as revising weak or flawed indicators. In some cases, problems with DI indicators and proposed adjustments were not documented or completed on a timely basis through these processes. In other cases, the DQAs and other means have identified indicator weaknesses. For example, when four of the DG program indicators that relied on the aforementioned survey proved unworkable due to survey limitations, the team did determine that those indicators should be discontinued. These changes, which were noted in the audit findings, were documented in an internal DQA memo (December 2004) from the DI Office to the Mission Director. We agree that such decisions have not always had sufficient paperwork or official memoranda to document the need for changes to indicators, proposed adjustments, or the ultimate actions taken.

We agree with the substance of the recommendation, and will improve internal documentation of program management decisions, such as those related to the follow-up of DQA reviews and indicator adjustments. The DI Office will ensure that the DQA findings become an element of the internal DI portfolio review. A Memorandum to the File will be produced at the end of each review, including the need to adjust or change indicators, and DI will utilize this memorandum at subsequent reviews to assure that recommended changes and adjustments are in progress or completed. As noted below, the Mission will also pay attention to ensuring that CTOs diligently pursue the necessary follow-up to DQA recommendations, performance indicator and data management, and monitoring project progress toward indicator targets.

Recommendation No. 3:

> **We recommend that USAID/Russia clearly define staff responsibilities for the verification of indicator data and the review of supporting documentation.**

The DI Office utilizes a Data Quality Assessment (DQA) Team that periodically verifies the quality and accuracy of performance data and indicators. As per ADS guidance, formal DQA reviews are conducted at least once every three years for each indicator. Each review results in a DQA

Memorandum with major findings and recommendations; however, DI CTOs/activity managers were not always fully informed about DQA recommendations and have not always implemented them in a timely fashion.

The Mission strives to report accurate information to the public, Washington and Congress. Therefore, the Mission also verifies indicator data in the preparation of the Annual Report. Because of the Mission's extensive and ongoing program monitoring and regular interaction with program implementers, CTOs gather information about program progress and challenges or achievements through a variety of sources, including anecdotal and/or subjective information that may not be fully documented by the implementers. While analytically imperfect, this type of information often has substantial practical utility. In fact, this first-hand information has allowed the Mission to identify incompleteness or inaccuracy in a counterpart's formal transmission of project data and make appropriate corrections. Such corrections have been made prior to the submission of the Annual Report whenever possible (as is the case with some examples on page 14); unfortunately in other cases, the errors were not identified in time to be included in the Annual Report.

We agree with the substance of the recommendation. Over the next six months, USAID/Russia intends to devote more attention to ensuring that DI activity managers clearly understand their follow-up responsibilities after the DQA process, can better verify the quality and accuracy of data, and respond to all DQA recommendations in a timely fashion. An internal training will be provided to all DI activity managers prior to October 2005 and the initiation of the DI internal portfolio review. This training will review performance indicator standards with CTOs, how to evaluate indicator data and program progress during their site visits with implementing partners, and how to best document their findings, suggestions and actions taken.

Recommendation No. 4:

> **We recommend that USAID/Russia implement ADS requirements to either adopt SO Teams or document its decision to adopt an alternative method of managing its activities.**

USAID/Russia uses a team approach in activity management and relies on close collaboration between various Mission technical and support offices to design, manage and monitor all its grants and contracts. Employees regularly meet with colleagues, counterparts, beneficiaries, implementers and other USG officials, who comprise the stakeholders of USAID's program. There is close, constructive collaboration with the Embassy and with non-USG donors. Although the Mission does not have SO Teams, as recommended in the ADS, the core characteristics of an SO Team are operationally in place. For example, the DI Office regularly involves colleagues from other teams and offices in activity designs, proposal or work plan reviews, and activity approvals in order to draw on the skills and perspectives from representatives of other offices.

ADS 202.3.3 provides the Mission with the flexibility at its "discretion to choose to manage activities through an organizational structure other than an SO Team. If an Operating Unit chooses not to establish a team to manage an SO, the decision not to use an SO Team, and the planned way of managing the SO, must be documented in writing." To fully comply with the recommendation and ADS 203.3.3, USAID/Russia will document the decision not to use an SO Team structure and explain the Mission structure and portfolio management, which is in fact very similar to the SO Team concept. These details will be documented by September 1, 2005 in a Memorandum to the File signed by the Mission Director.

Recommendation No. 5:

> **We recommend that USAID/Russia require Mission CTOs to periodically report performance information that compares actual performance against planned results and accomplishments.**

For the last several years, USAID/Russia has used Activity Monitoring Reports (AMRs) as a primary tool to report on performance information that is examined during the Annual Portfolio Review. After USAID/Russia launched its external Internet website, the Mission decided to use the AMRs as a means to present USAID's activities to the general public. Since the original version of the AMR contained sensitive performance data and financial information, as well as internal information on major problems and concerns, the Mission decided to exclude this information from the AMR form and instead discuss these issues internally during the Annual Portfolio Review. As a result, the written AMRs have become purely public documents and the Annual Portfolio Reviews have become the primary tools to discuss internal issues, program performance, budgeting and the comparison of actual performance and planned results.

The Mission recognizes the need to formalize this process and to better document findings and recommendations of Annual Portfolio Reviews regarding the performance of each activity. We agree with the substance of the recommendation and will issue updated guidance on Annual Portfolio Reviews and AMRs to resolve this concern prior to mid-October 2005 and the next Mission portfolio review. Additionally, the Mission plans to reinsert the original written attachment to each AMR, containing internal management information on performance, funding and problems. This portion of the revised document will be used in Annual Portfolio Reviews, and for the formal files and management purposes, but will not be available publicly.

Recommendation No. 6:

> **We recommend that USAID/Russia develop a training plan that ensures that CTOs obtain the needed competencies and certification.**

The Mission agrees that CTO training is vital to the daily management of USAID assistance and acquisition instruments. All CTOs have received extensive and substantive on-the-job training. The Mission recognizes that formal CTO course training is also valuable and important. For the past several years, USAID/Russia's Management Control Review Committee (MCRC) process has noted the need for formal CTO training, but budget limitations had previously limited the Mission's ability to provide formal CTO course training to all CTOs. In 2003, the MCRC began to assess how the Mission could fulfill the training requirement in light of budget constraints and CTO certification class-size limitations.

In 2004, the MCRC developed a training plan for the Mission that included bringing qualified CTO trainers from the United States to Russia to provide in-country CTO training. Over a two-week period in October 2004, three CTO certification courses were conducted—one for supervisors, one for CTOs, and a two-day supplement on acquisition management. The three employees identified in the audit who did not take the CTO training are all supervisory personnel, each of whom has over ten years USAID experience and each of whom completed the CTO Supervisors Training course.

The Mission believes it is in substantial compliance with the spirit of CTO training requirements, as stated in the ADS and elsewhere. The Mission will act to comply with the letter of ADS 202.3.4, which

requires that “Operating Units must develop a written plan that allows individuals to receive the necessary training as quickly as possible in order to obtain required competencies and subsequent certification.” By April 30, 2005, the Mission will refine and update a training plan for employees who have not yet been certified as CTOs but who are expected to be designated as CTOs. The Mission will ensure that only employees who are certified CTOs are designated as CTOs in the future.

We look forward to working with your office to finalize the audit and implement final actions to close the audit recommendations in the coming months.