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AUDIT OF A.I.D.'s MANAGEMENT SYSTEM FOR IDENTIFYING AND SOLVING PROJECT IMPLEMENTATION PROBLEMS

AUDIT REPORT NO. 9-000-88-008

JUNE 17, 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

Deputy
Inspector General

June 17, 1988

MEMORANDUM FOR AA/PPC, Richard E. Bissell

FROM: D/IG, James B. Durnil

James B. Durnil

SUBJECT: Audit of A.I.D.'s Management System for Identifying and Solving Project Implementation Problems

The Inspector General's Office of Programs and Systems Audits has completed the subject worldwide review. A draft of the report was provided to your bureau and the regional bureaus for review and comments. A copy of the consolidated response is attached to the report as Appendix 1. Five copies of the report are attached for your action.

The report contains 7 recommendations which are considered unresolved until more definitive actions to resolve the problems have been taken. Please provide to the Office of Programs and Systems Audits within 30 days the actions planned or taken to implement the recommendations.

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

EXECUTIVE SUMMARY

A principal mechanism A.I.D. utilizes to promote growth and development in lesser developed countries is bilateral foreign assistance projects. As of September 30, 1987, A.I.D. had a portfolio of approximately 2,300 active projects located in more than 82 countries which had life of project funding of $22.2 billion. Because these projects are highly susceptible to implementation problems it is imperative that USAIDs have effective management systems to rapidly identify problems, systematically resolve them, and shift funds to more productive areas when funds are excess or when projects are failing or are marginally progressing.

The objectives of this program results audit were to determine whether USAIDs (1) had adequate systems in place to surface project problems; (2) were vigorously utilizing their systems to solve implementation problems in a timely manner; (3) were utilizing objectively verifiable indicators to monitor progress, detect problems and demonstrate the impact of projects on target groups; (4) were deobligating funds from projects that were failing, marginally progressing or had excess money and were reobligating these funds to more productive areas and (5) were adequately assessing alternatives before extending project completion dates to ensure that funds were put to their most productive use.

The audit found that missions had established systems for monitoring their project portfolios and were identifying implementation problems. However, mission and bureau management were not always taking a systematic and focused approach to problem solving as was possible, were not effectively utilizing objectively verifiable indicators as part of their management systems, were not using deobligation-reobligation authority as often as they should have and were frequently extending project completion dates without considering whether there were more productive uses for the funds.

Delegations of authority instituted during the past few years have given USAIDs wide latitude in establishing project management systems. There were excellent aspects associated with these systems at individual USAIDs, and the systems generally identified project related problems and provided a basis for resolving them. Also, A.I.D./Washington bureaus had taken several steps to strengthen project management systems. However, the thrust of our audit was to identify areas which had potential for improving performance in solving implementation problems. While mission management systems were surfacing implementation problems, there was not always prompt or effective resolutions. USAIDs were not always utilizing objectively verifiable indicators to measure progress against plans, detect problems or slippage, ensure that project purposes were being achieved or demonstrate project impact on the targeted group or area. The Agency's system of managing its deobligation-reobligation authority did not ensure that it was used to its full potential. Also Missions Directors frequently extended projects that were essentially complete or had persistent schedule and quality problems without formally assessing alternative strategies.

Management systems devised by missions to monitor project implementation were surfacing problems, but there was not always prompt or effective resolution. Agency guidance places responsibility on the bureaus and missions to establish project management systems that identify projects not performing satisfactorily. We identified implementation problems in the countries visited which had existed for several years before being satisfactorily resolved. In our opinion, many of these problems could have been resolved more timely if mission project management systems had better defined the problem, clearly fixed responsibility for corrective action, documented actions taken and tracked the problem until it was satisfactorily resolved. Prolonged implementation problems were attributed to a variety of causes; however, a significant cause was the absence of a framework for systematically tracking and reporting actions taken to resolve serious problems. Unless corrected promptly, serious implementation problems quickly undermine project success and erode the development impact of A.I.D. assistance. We recommended that guidance on project monitoring and portfolio oversight systems be expanded to emphasize resolution of problems and to require mission management systems to better define and track problems and force resolution of longstanding problems or document the reasons for nonresolution. Agency management agreed that guidance should be reviewed to assess whether it is adequate, clear and readily accessible.

Missions were not always utilizing objectively verifiable indicators to measure progress against plans, detect problems or slippage, ensure that project purposes were being achieved or demonstrate project impact on the targeted group or area. The Foreign Assistance Act requires A.I.D. to develop a management system that includes quantitative indicators for measuring progress toward defined objectives. There were several reasons why data was lacking to verify project progress and impact. The principal factor was lack of a policy requiring data management components to be designed into projects and the concomitant provision of resources to make the components work. Without the data required to measure project performance, A.I.D. managers did not have the empirical basis necessary to detect problems quickly, ensure that the project purpose was being achieved and demonstrate the impact of projects. We recommended that all future projects include cost effective data management components and the resources to make these components work. We recommended that guidance be revised to ensure that design documents establish interim and end of project indicators, implementing documents contain provisions for gathering data and reporting progress and mission management systems and project implementation status reports use performance data as an integral element. Agency management agreed with the finding, however, they suggested certain revisions to the recommendations.

A.I.D.'s system of managing its deobligation-reobligation authority did not ensure that it was used to its full potential. Good management of the authority dictates establishing detailed criteria that specifies when the authority should be used and requires systematic reviews to surface applications of the authority as part of the regular project portfolio review process. However, such a management system was not employed. The Agency had issued very limited criteria for using the authority and had not required a structured forum to identify, quantify, report and review deobligation situations through a mechanism such as the regular portfolio review process. Therefore, not all missions and bureaus systematically and consistently identified potential deobligations. We estimate that if all missions adopted aggressive programs, deobligation-reobligation actions could increase by as much as $70 million annually. (See footnote on page 19 which may limit the authority to $25 million for fiscal years 1988 and 1989.) We recommended developing guidelines identifying when deobligation-reobligation actions may be appropriate, modifying guidance on project monitoring to ensure that potential deobligation situations are surfaced and reported on in project implementation status reports, and gathering and maintaining statistics to facilitate agencywide analyses of deobligation-reobligation actions. Agency management felt comprehensive guidelines were in place but that the guidelines are in the process of being reviewed for clarification. The recommendations were also believed to be too detailed and inappropriate for worldwide guidance. The recommendations were revised to provide more flexibility in implementation.

Mission Directors frequently extended Project Assistance Completion Dates on projects that were essentially complete or had persistent schedule and quality problems without formally assessing alternative strategies. Performing assessments would help ensure selection of the best development alternatives or most cost-effective courses of action. However, while A.I.D. policy encouraged assessments of alternatives before extending project completion dates, the policy stopped short of requiring that reasonable alternatives be formally developed and considered. As a result, there was no assurance that the funds involved in project extensions had been put to their most productive uses. Also, projects received repeated extensions without determining whether the delays were avoidable. Since approximately half of the Agency's projects were extended one or more times during their life, with the funds involved reaching as much as $863 million annually, it would be prudent management to clarify and expand requirements for decisions on extending project completion dates. We recommended that guidance be revised to require assessments of alternative investment strategies and for overcoming problems causing persistent schedule slippages and that final action memorandums document the basis for a decision to extend a project's completion date. Agency management agreed that the points made are by and large thoughtful and pertinent but that the report gives the impression that something is inherently wrong with PACD extensions. Also, certain changes to the recommendations were suggested.

Office of the Inspector General

AUDIT OF A.I.D.'s MANAGEMENT SYSTEM
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PART I - INTRODUCTION

A. Background

A principal mechanism A.I.D. utilizes to promote growth and development in lesser developed countries is bilateral foreign assistance projects. As of September 30, 1987, A.I.D. had a portfolio of approximately 2,300 active projects located in more than 82 countries which had life of project funding of $22.2 billion. These projects were addressing development problems in fields such as agriculture, health, education, family planning and private enterprise.

The primary responsibility for managing bilateral assistance projects generally lies with the cooperating country. A.I.D. recognizes that host countries are responsible for their own development and hence they are generally the project managers for our assistance efforts. A.I.D. nevertheless is still responsible for project monitoring to ensure prudent oversight and effective utilization of resources.

Foreign assistance projects in underdeveloped countries are highly susceptible to implementation problems and frequently encounter serious difficulties which threaten their success. Many of these problems are endemic to underdeveloped countries because there is generally a shortage of managerial talent, limited infrastructure, ineffective institutions, inappropriate policies and limited budgetary support. Also, A.I.D. contributes to project implementation difficulties by sometimes designing projects which are too complex, establishing overambitious goals and objectives, implementing more projects than a mission can effectively manage, and allowing frequent turnover of project officers and other key personnel.

For the above reasons, it is imperative that the Agency have an effective system in place to identify and systematically resolve problems in a timely manner. Also, the system should cause funds to be shifted to more productive areas when funds are excess or when projects are failing or marginally progressing. Without such a system the development impact of the Agency's multi-billion dollar investment in project assistance could be seriously diluted.

B. Audit Objectives and Scope

The objectives of this program results audit were to:

-- determine whether USAIDs had adequate systems in place to surface project problems,

-- ascertain whether missions were vigorously utilizing their systems to solve implementation problems in a timely manner,

-- assess how well USAIDs were utilizing objectively verifiable indicators to monitor progress, detect problems and demonstrate the impact of projects on target groups,

-- determine whether missions were deobligating funds from projects that were failing, marginally progressing or had excess money and were reobligating these funds to more productive areas and

-- ascertain whether missions were adequately assessing alternatives before extending project completion dates to ensure that funds were put to their most productive use.

The review was conducted by various Inspector General offices from July 1986 to July 1987. Audit work in A.I.D./Washington was performed at the Bureau for Program and Policy Coordination, the Bureau for Management and the Bureaus for Africa, Asia and Near East and Latin America and the Caribbean. At A.I.D./Washington we analyzed project financial reports, interviewed bureau officials, analyzed portfolio review procedures and examined project implementation status reports and the results of portfolio reviews.

Detailed field work was performed at USAID missions in Kenya, Liberia, Honduras, Thailand and the Philippines. At these locations we interviewed mission officials, analyzed mission systems and procedures for monitoring projects, reviewed project implementation status reports, reviewed the results of site visits and decision papers relating to substantive project actions and examined appropriate files and financial records.

The Regional Inspectors General for Audit participating in this review issued audit reports for USAIDs Kenya, Liberia, and Honduras (Audit Report No. 3-615-87-13, dated May 29, 1987, No. 7-669-87-10, dated July 14, 1987, and No. 1-522-87-38, dated September 29, 1987 respectively). No reports were issued as a result of the field work done in Thailand or the Philippines, however, summaries of the conditions at these locations are on file at IG/PSA. This report draws extensively on the results of these audits, on the results of several program/administrative management audits in West Africa and on findings from prior project audits and evaluations. A discussion draft containing detailed examples supporting the findings in this report was sent to the Agency on December 22, 1987. To reduce the length of this report we have summarized much of the detail from the discussion draft. These details are available in the above reports and at IG/PSA. In addition, we also considered a 1983 audit report by the General Accounting Office on the potential for improving A.I.D.'s deobligation and project analysis processes (GAO/ID-83-25) which covered the same general area as Finding No. 3 of this report.

The review of internal controls and compliance with applicable laws and regulations was limited to the findings discussed in this report. The audit was made in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

USAID had established systems for monitoring their project portfolios and were identifying implementation problems. However, USAIDs mission and bureau management were not always taking a systematic and focused approach to problem solving as was possible, were not effectively utilizing objectively verifiable indicators as a part of their management systems, were not using deobligation-reobligation authority as often as they should and were frequently extending project completion dates without considering whether there were more productive uses for the funds.

Delegations of authority instituted during the past few years have given USAID missions wide latitude in establishing project management systems. There were excellent aspects associated with these systems at individual USAIDs, and the systems generally identified project related problems and provided a basis for resolving them. Also, A.I.D./Washington bureaus had taken several steps to strengthen project management systems. Considerable attention had been given to project implementation status reports and bureau portfolio reviews; the Bureau for Asia and Near East had been particularly active in promoting the use of data to manage projects.

However, the thrust of our audit was to identify areas which had potential for improving performance in solving implementation problems. While mission management systems were surfacing implementation problems, there was not always prompt or effective resolutions. Missions were not always utilizing objectively verifiable indicators to measure progress against plans, detect problems or slippage, ensure that project purposes were being achieved or demonstrate project impact on the targeted group or area. The Agency's system of managing its deobligation-reobligation authority did not ensure that it was used to its full potential. Also Mission Directors frequently extended projects that were essentially complete or had persistent schedule and quality problems without formally assessing alternative strategies.

To address these problems, this report makes recommendations to (1) issue guidelines to augment project management systems through tracking and reporting progress made on solving serious implementation problems, (2) require data management components to be designed into projects and issue guidelines to ensure that quantifiable data are used in mission management systems, (3) require missions and bureaus to systematically review projects for deobligation potential and (4) require examination of alternative courses of action before extending project completion dates.

A. Findings and Recommendations

1. Increased Emphasis is Needed to Promptly Resolve Serious Implementation Problems

Management systems devised by missions to monitor project implementation were surfacing problems, but there was not always prompt or effective resolution. Agency guidance places responsibility on the bureaus and missions to establish project management systems that identify projects not performing satisfactorily. We identified implementation problems in the countries visited which had existed for several years before being satisfactorily resolved. In our opinion, many of these problems could have been resolved more timely if mission project management systems had better defined the problem, clearly fixed responsibility for corrective action, documented actions taken and tracked the problem until it was satisfactorily resolved. Prolonged implementation problems were attributed to a variety of causes; however, a significant cause was the absence of a framework for systematically tracking and reporting actions taken to resolve serious problems. Unless corrected promptly, serious implementation problems quickly undermine project success and erode the development impact of A.I.D. assistance.

Recommendation No. 1

We recommend that the Assistant Administrator for Program and Policy Coordination:

a. augment the basic precepts for mission project monitoring and portfolio oversight systems in Handbook 3, Chapter 11E1 to include identification and resolution of implementation problems which threaten the attainment of project objectives, and

b. amend Handbook 3, Chapter 11 to include more specific guidance on definition and resolution of major problems, placing strong emphasis on (1) developing the root causes, (2) establishing responsibility for taking corrective actions, (3) documenting and reporting on actions taken and results achieved to resolve problems, (4) tracking problems until they are resolved, and (5) forcing resolution of longstanding problems or documenting the reasons for nonresolution.

Discussion

A.I.D. devotes a large part of its effort and funds to the design and implementation of projects to foster growth and development in lesser developed countries. These projects are highly susceptible to implementation problems which can limit their success or result in failure to reach planned objectives. Many of these problems are endemic to conditions in under-developed countries while others result from A.I.D.'s own operational procedures and practices. For these reasons, it is critical that the Agency have effective systems in place to identify and solve project problems quickly so that the developmental impact of the Agency's multi-billion dollar investment in project assistance can be maximized.

During the past few years the Agency has adopted a decentralized management structure which places responsibility for establishing project monitoring and portfolio oversight systems on the bureaus and, in particular, the missions. Handbook 3, chapter 11, "Project Monitoring", stipulates that these management systems must satisfy the following six general precepts:

-- oversee borrower/grantee compliance with A.I.D. policies, procedures and regulations;

-- ensure the timely and coordinated provision of A.I.D. (and other) financing and/or inputs;

-- support the borrower/grantee's efforts regarding the effective utilization of resources and accurate forecasting of future problems;

-- identify implementation issues and projects not performing satisfactorily;

-- collect data and information for subsequent A.I.D. project analyses and develop a historical record of implementation for the official A.I.D. project files and

-- prepare periodic reports for mission and/or A.I.D./Washington review.

We found that management systems did not effectively define, document, track and resolve problems and that guidelines were lacking on the establishment of problem solving systems.

Management System Design - Missions we visited had adopted a variety of formal and informal management systems and practices to fulfill the monitoring precepts. These monitoring systems generally had alerted Agency managers to most of the problems we identified during the audit. However, the systems were not designed to clearly define problems, assign responsibility for corrective actions, document actions taken, and track actions until the problems were resolved.

In Kenya, the mission had adopted a variety of procedures, including quarterly reviews of projects. However, the various review mechanisms did not include a formal system for follow-up on problems identified during prior reviews. Each quarterly review was discrete and unresolved problems from one review were not necessarily on the agenda for the next review. When problems were surfaced as "issues"; they were not clearly defined or resolved in a timely manner. We noted three projects where problems had not been resolved four years after they had been identified. Responding to our findings, the USAID agreed to issue a mission order detailing the operation of the portfolio review process which included mechanisms to systematically document, report and follow-up on progress toward resolving major problems.

In Honduras, the USAID's monitoring systems generally identified problems, but it was difficult to determine exactly what actions had been taken to resolve them. There was no documentation linking critical problem identification with corrective actions. Many problems existed for 3 to 5 years after becoming known because of the absence of a formal tracking and reporting system that focused attention on problems and documented the actions taken to correct them. As a result, it was not always clear what specific actions were taken or what the results had been. Although the mission had several management systems to oversee project implementation, the systems were not designed to track, report or eventually assure resolution of critical problems.

In Thailand, the mission had not issued overall guidelines on project monitoring systems and had not established a requirement to document the cause of problems, actions taken to resolve them and results achieved. However, officials in the mission's Office of Project Development and Support told us that required actions were noted by them during implementation reviews and follow-up was conducted to see that these actions were taken. However, our review found a number of projects which had problems causing little implementation progress 2 to 3 years into the projects' life. These problems had not been reported or had been downplayed in project implementation status reports.

The mission in Liberia had not issued a mission order on monitoring systems for overseeing its portfolio of projects. The audit found that problems were not resolved in a timely manner because the mission management system did not identify remedial actions to be taken, designate responsible parties, establish timeframes or provide for systematic follow-up. Serious problems continued for years with the effect being limited or nonachievement of project purposes.

In the Philippines, the USAID had issued mission orders outlining the project management system and establishing responsibilities for each organizational level. The formal project monitoring system appeared to be well designed and fully documented. However, problems were frequently not explained making it difficult to track them through the mission's project implementation status reports. On one of the five projects selected for review we noted that very little appeared to have been accomplished almost four years into the project's implementation phase. Based upon an evaluation report the mission was redesigning this project and considering a deobligation action.

Insufficient Guidelines - We recognize that implementation problems are to be expected when working in underdeveloped countries and that resolving these problems can sometimes be delicate and time consuming. Nevertheless, missions could more rapidly resolve many implementation problems if additional guidelines were established emphasizing mission management systems which define, document, track and resolve problems.

The precepts outlined in Handbook 3, Chapter 11 for mission portfolio oversight systems make no mention of establishing procedures for resolving problems. Handbook 3, chapter 11 states that, when problems are identified which the borrower/grantee is unable to quickly resolve itself ". . . it is, of course not enough to 'observe and record' such problems. Rather, efforts must be made to assist in the resolution of such problems whenever possible, i.e., to accept an additional measure of support or implementation responsibility". Thus, the Handbook indicates that mission management should take an active role in resolving major implementation problems.

The remainder of chapter 11 (Project Monitoring) makes little reference to either mission or project officer roles and responsibilities, or procedures for resolving serious implementation problems. Some reference is made to identifying and resolving problems through site visits and by project status reporting. However, the guidance is brief and is basically presented as a suggested format for missions to follow. Additionally, due to staffing limitations overseas, site visits apparently were not made as frequently as needed and the results of those visits made were not documented as well as they could have been. As discussed in the "Other Pertinent Matters" section of this report, we also did not believe that project status reports were as useful a management tool as they could have been. Our detailed analysis of information contained in project implementation status reports for several projects in Liberia and Honduras demonstrated they were not being used effectively as a means to identify and track problems to resolution.

Bureau Guidelines - We were unable to identify additional guidance issued by the geographic bureaus amplifying the project monitoring precepts established in Handbook 3, Chapter 11E1, but the geographic bureaus had issued guidelines for the preparation and submission of project implementation status reports. However, the guidelines did not provide for establishing procedures to define serious problems, and systematically track and document actions taken until the problem was resolved. The most recent guidelines issued by the geographic bureaus for project status reporting did not require follow-up reporting on the status of problems identified in prior reports. (Prior guidelines issued by some bureaus did require follow-up reporting.)

With the high degree of decentralization which presently exists over portfolio monitoring, it is desirable for the Agency to establish a clear requirement for problem solving at missions. If the Agency monitoring system is to provide uniform control worldwide, the Handbook must clearly delineate the minimum requirements mission systems must meet. Otherwise, the systems will provide uneven control and important areas might not receive the consideration they deserve at some missions.

Three Ways to Improve Project Management - One of the key elements of a problem solving system is identifying the root cause of problems. Without a sound understanding of the root cause it is difficult to gauge the seriousness of a problem or how to go about resolving it. For example, one of the critical problems we identified during the audit concerned the failure of a host government to provide budgetary support to its projects. If the cause of the problem was slow or cumbersome host government budgetary procedures the problem might not be too serious and, hence, require little action by the mission. However, if the problem stems from the government's inability to fund the projects or its lack of desire to fund the projects, the issue becomes much more serious and takes on a whole new perspective for resolution.

It is also important that the problem solving system document actions taken and track implementation problems each reporting period until resolved to minimize the lack of continuity which stems from frequent turnover of mission personnel. It is not uncommon for a project to have one or more project officers within the space of two to three years. Without good project memory, the capability to effectively deal with major implementation problems becomes more difficult. Without good documentation a new project officer will not be knowledgeable about existing problems, how long they persisted, their causes, and what actions were planned and taken. In this regard it should be noted that at nearly all the locations visited, our audit teams experienced difficulty assessing actions taken and results achieved because of inadequate documentation on file for the period from problem identification to eventual resolution.

Finally, problem solving systems should lead to resolution as rapidly as possible. Prolonged implementation problems substantially reduce the potential benefits the projects could have on the intended beneficiaries. In several of the projects we looked at, it was readily apparent that the outputs would be less than planned because problems were not resolved in a timely manner. Prolonged implementation problems also often resulted in delayed delivery of project benefits. In Honduras, seven of eleven projects audited had their completion dates extended by a total of nearly 25 years (the other 4 were less than 3 years old, but they were behind schedule in meeting their objectives). In Kenya, seven projects selected for review had their completion dates extended by an aggregate of nearly 13 years.

Conclusion - One of the major defects in mission project management systems was the lack of focus on timely resolution of implementation problems which threatened the attainment of project objectives. To focus on resolutions, we believe Handbook guidelines should be augmented to require mission management systems to identify and define problems, assign responsibility for corrective actions, document actions taken, force resolution of longstanding problems and track problems through resolution. This will result in increased focus; more timely action and closer control by bureau and mission management of project officer's performance.

Management Comments - Agency management agreed that guidance should be reviewed to assess whether it is adequate, clear and readily accessible.

2. Mission Management Systems Should Make Greater Use of Objectively Verifiable Indicators to Monitor Projects

Missions were not always utilizing objectively verifiable indicators to measure progress against plans, detect problems or slippage, ensure that project purposes were being achieved or demonstrate project impact on the targeted group or area. The Foreign Assistance Act requires A.I.D. to develop a management system that includes quantitative indicators for measuring progress toward defined objectives. There were several reasons why data was lacking to verify project progress and impact. The principal factor was lack of a policy requiring data management components to be designed into projects and the concomitant provision of resources to make the components work. Without the data required to measure project performance, A.I.D. managers did not have the empirical basis necessary to detect problems quickly, ensure that the project purpose was being achieved and demonstrate the impact of projects.

Recommendation No. 2

We recommend that the Assistant Administrator for Program and Policy Coordination issue a statement to bureaus and missions affirming that all project designs include reasonable and cost effective data management components and that funds and personnel be provided to make the components viable.

Recommendation No. 3

We recommend that the Assistant Administrator for Program and Policy Coordination modify Handbook 3, Chapter 3, "Project Development, Analysis and Presentation" to provide guidance on:

a. the use of special covenants in Project Agreements when considered necessary to ensure that cooperating governments and A.I.D., participate in the gathering of baseline data before project activity gets underway as well as periodically during the implementation period, and

b. using contract scopes of work to spell out contractor roles in gathering data, incorporating interim benchmarks into annual work plans and requiring reporting of progress against benchmarks in progress reports to missions.

Recommendation No. 4

We recommend that the Assistant Administrator for Program and Policy Coordination consolidate in related chapters of Handbook 3, by cross reference to the new evaluation handbook, guidance that:

a. clearly defined objectively verifiable indicators, either quantitative or qualitative, be included in project papers to measure progress toward the project purpose or goal (end of project status) and that interim benchmarks be required to measure interim progress,

b. each project budget include cost effective data management components, and

c. each project design provide for a data management specialist for projects with information components requiring specialized expertise.

Recommendation No. 5

We recommend that the Assistant Administrator for Program and Policy Coordination modify Handbook 3, Chapter 11, "Project Monitoring" to provide guidelines for:

a. incorporating performance data generated through the use of quantifiable indicators into project officer monitoring systems,

b. ensuring that progress reports from host government and technical assistance teams report on progress against indicators, including interim benchmarks,

c. utilizing performance data in project implementation status reporting and other mission management systems, and

d. requiring project officers to periodically assess the relevance of quantifiable indicators as conditions change and more realistic targets become apparent and document any decision by A.I.D. and the borrower or grantee to adjust the indicators as the basis for subsequent implementation, monitoring and evaluation.

Discussion

One of the principal tools Agency managers need to assess project progress, rapidly detect problem areas or slippage, facilitate the decision making process for resolving problems and demonstrate the impact of projects, is performance data generated through objectively verifiable indicators (indicators). In many governmental agencies and private sector businesses, empirical data on performance and progress is relied on heavily in decision making. If A.I.D. projects were designed with clearly defined goals and purposes and appropriate indicators, the assessment of progress would be greatly facilitated. (See Exhibit 5 for definition of terms used in this section.)

The Foreign Assistance Act (FAA) requires the development of quantifiable indicators to measure progress towards objectives for United States foreign assistance programs. Section 621A(b) requires A.I.D. to ". . . establish a management system that includes: the definition of objectives and programs for United States foreign assistance; the development of quantitative indicators of progress toward these objectives; the orderly consideration of alternative means for accomplishing such objectives; and the adoption of methods for comparing actual results of programs and projects with those anticipated when they were undertaken."

For bilateral foreign assistance projects, A.I.D. complies with the FAA mandate by devising indicators to measure the progress of its projects. Indicators are expressed as a unit of measure along with a target statement of the desired results. While indicators can be either quantitative or qualitative, quantitative are desirable whenever practical. Indicators can be devised to measure progress toward a project's purpose (end of project status) and its inputs/outputs. It is also feasible to establish indicators for project goals, but at that broad level the relationship between project activities and the desired results is less direct. The indicators are usually contained in the project paper logical framework. We found that indicators received insufficient attention in project design and mission monitoring systems and that data management systems lacked policy and guidance on their use.

<u>Indicators Received Insufficient Attention</u> - On an agencywide basis, there was considerable room for improvement in the gathering and use of data in project management systems to help monitor performance and demonstrate the impact of projects.

The quality of indicators in project papers varied considerably from mission to mission and from project to project within the same mission. Generally, indicators had been devised for the easier to measure areas like project inputs and outputs. However, indicators that measured whether project purposes were being met were either nonexistent or had been superficially treated. Also, project designers failed to establish interim benchmarks for the end of project targets. Project officers could have detected problems or slippages much more rapidly and precisely if interim benchmarks had been established to measure progress toward long range indicators.

Another frequently encountered shortcoming was that baseline data was not gathered at the start of a project activity. Further, data was not periodically gathered as implementation proceeded so that progress could be measured against the baseline. The lack of baseline data seriously affected subsequent project evaluations and limited the ability of missions to demonstrate the impact that projects had on the target group. (See Exhibit 6 for Handbook 3 Chapter 12 policy on evaluations.)

Annual work plans for the project also did not report progress against targets because initial or periodic data were not gathered. In this regard, interim benchmarks would be an excellent technique to monitor progress achieved against targets in the annual workplans. Periodic progress reports to the USAIDs from the host government or the technical assistance contract team also did not always use indicators in reporting progress achieved.

Finally, the project implementation status reports prepared by project officers for use in mission and A.I.D./Washington bureau portfolio reviews did not effectively track progress achieved against indicators; although, to a varying extent, they did address progress achieved against some of the planned indicators. The following examples illustrate mission practices with regard to indicators.

In Liberia, the four projects reviewed revealed that the mission generally used indicators to monitor project inputs and outputs. However, USAID/Liberia did not use indicators at the project purpose level to measure progress; consequently, it could not determine how well the projects were achieving overall objectives.

On the six projects reviewed in Thailand, we found that in some cases indicators had been developed. However, where they were, they were not effectively used to monitor, report or control implementation. In most cases conditions that would indicate achievement of project purpose were expressed in qualitative terms without quantitative indicators, interim benchmarks were not used and no reporting system existed or required reports were not being submitted. These conditions effectively negated the mission's ability to assess project progress.

In Honduras, a review of four projects indicated that the mission had done a good job of establishing objectively verifiable indicators and had adequately planned to use the data. However, because the projects were relatively new, we could not assess the utilization of the performance indicators.

In Kenya, five of seven projects selected for review of indicators showed adequate use. However, no objectively verifiable means existed to assess progress for the other two projects.

In the Philippines, five projects reviewed showed weaknesses in the use of indicators. For example, on one of the projects the grant agreement and contracts did not specify that data be gathered. No provision was made for gathering baseline data and no data was gathered at the start or during the project. Data was not being used to measure project progress. In another, the conditions that would indicate the project's purpose had been achieved were all qualitatively stated, and there was no means presented to quantitatively measure progress. Another had collected no baseline data and no provision was made for gathering data relative to the problem the project was to address.

In Niger, the mission used indicators and interim benchmarks to measure progress in providing inputs and outputs, but not in achieving project purposes. The mission assumed that by meeting target outputs, progress would be achieved toward the project purpose. However, the audit showed this assumption was unrealistic, given invalid design assumptions and other implementation problems.

Lack of Policy and Guidance - The missions' failure to make better use of empirical data in managing projects is attributable to a lack of clear overall policy regarding use of data in managing projects and to fragmented and inadequate guidelines on project design and monitoring. A.I.D.'s policy on designing and funding data management components in projects is unclear. Guidelines on generating data to assist in project management are fragmented throughout Handbook 3, training course manuals, evaluation guidelines and cables put out by individual bureaus. Also, we were not able to identify any policy guidelines which specifically required project designers to plan and fund data management components. We discussed this lack of a requirement for data management components in projects with officials from the Bureau for Program and Policy Coordination (PPC) and the geographic bureaus. Most agreed that lack of an overall policy was the major reason behind the Agency's poor performance with regard to generating data to manage projects.

The spotty mission performance we found in utilizing data to assist in project management is attributable to the lack of a clear policy requiring data management components to be a part of the project design. The instructions which have been issued seem to imply that projects should generate data to assist in managing; however, a strong requirement to do so was missing. This, partly explains why data management requirements in projects range from poor to very good.

PPC has recognized the need for the Agency to improve its use of data as a management tool. The April 1987 Evaluation Handbook revision contains a requirement that all projects include an information component (information plan) that will provide the data necessary for monitoring and evaluating implementation. This revision states that the best way to ensure that data for monitoring and evaluation are collected and analyzed is to integrate data management activities into the overall design and implementation plan. We endorse PPC's Evaluation Handbook revision. However, we doubt that putting these requirements into the Evaluation Handbook alone will produce the desired results. An agencywide policy regarding data management is necessary. Additionally, the information plan PPC envisions is silent on what must be done to make indicators a viable management tool.

Handbook 3 lacked guidance for the design of data management requirements in projects and the utilization of data in the project officer's monitoring system. Handbook 3, Chapter 3, "Project Development, Analysis and Presentation" provides limited guidance for designing projects so that they generate data for managers. Section 3B1 of chapter 3 states that one of the basic design tasks in project development is the ". . . exploration of approaches to be used for overseeing and measuring results achieved by undertaking the project (management, monitoring, and evaluation aspects)." Section 3B5f further states that it is ". . . imperative that monitoring be planned during project development, particularly if periodic data collection is envisioned, and that monitoring plans and reporting requirements be agreed with the B/G (borrower/ grantee)."

The remainder of Chapter 3 gives limited guidance to design teams for planning the information requirements of either project officers or evaluation teams. Superficial information is presented on data collection and analysis and for developing a monitoring plan. The elements of an evaluation plan are discussed in somewhat more detail. However, the details to make information planning more effective are lacking, e.g., designing indicators at the project purpose level, developing interim benchmarks for all indicators, planning the use of covenants to ensure that data is collected, assigning responsibility for data collection, budgeting for data collection, etc.

Putting indicators into a project's logical framework is meaningless unless plans are made for utilizing the data to monitor and make decisions. Project designers should plan for gathering baseline data and for periodically measuring progress against the baseline, and determine how best to incorporate this information into the project officer's monitoring plans and the mission portfolio management system. Additionally, essential to planning for a data management component is the provision of funds to make this component viable. The collection, processing and analysis of performance data could be an expensive undertaking in certain projects. Project designers must develop reasonable and cost effective components and budget for them in project financial plans if data management is to become a viable part of the project management system.

Handbook 3, Chapter 11, "Project Monitoring", likewise could be improved to better present guidelines and criteria to project officers for utilizing data to monitor projects. Section 11E2a states that ". . . a good monitoring system requires the timely collection of management information." However, scant direction on utilizing performance data in the project management system is given. Chapter 11 gives no further guidance on incorporating performance data into project management systems. The chapter does not require that project monitoring systems measure progress against indicators. Reference is made to PPC's "Manager's Guide to Data Collection"; however, this publication primarily addresses collection methods for use in project evaluations. No further instructions are given which address areas such as gathering data to monitor whether the project purpose is being achieved, putting interim measures of performance in project annual workplans to assess progress, utilizing indicators in the logical framework, reporting progress against targets in project status reports and adjusting quantitative targets as situations change and more realistic goals are apparent.

Conclusion - Failure to generate data on project performance and incorporate it into the project management system can seriously curtail a mission's capability to measure project progress, identify problem areas quickly and reach informed decisions. Managers at the project officer and sector chief level may have detailed knowledge of project problems, but this does not assure that serious problems and failing projects are communicated to the Mission Director and bureau officials so that greater pressure is brought to bear to take appropriate action. Additionally, there is particular need for gathering benchmark data to facilitate the periodic evaluations that assess progress and identify problems and unproductive approaches, and also to enable A.I.D. to demonstrate to Congress and the public that U.S. assistance efforts are making a difference in alleviating development problems.

If the Agency is to more fully comply with Foreign Assistance Act management system requirements and improve its capability to monitor projects, it will need to improve the use of performance data. A clear agencywide policy on designing and funding data management components in projects needs to be articulated. Handbook 3 should be amended to reflect this requirement and provide design teams with criteria for planning these components. It should also be revised to ensure that project officer monitoring systems and mission portfolio review procedures incorporate performance data obtained from measuring progress against indicators.

The need for more detailed guidelines in the Project Assistance Handbook is particularly desirable because of the Agency's highly decentralized management structure. Currently, most projects are being designed, reviewed and approved in the field. Consequently, if the Agency wants greater assurance that objectively verifiable indicators are used to manage projects and receive proper treatment by all missions, more definitive guidelines need to be developed and implemented.

Management and Inspector General Comments - PPC suggested that wording of recommendation No. 2 be changed to reaffirm that all project designs include reasonable and cost effective data components. . . . The recommendation was revised accordingly.

Management Comments - PPC believes the actions required by recommendation No. 3 are too detailed, that there is no way for designers to forecast, with sufficient precision to build such a requirement into project design, exactly how the technical assistance needs of the project will be contracted. PPC believes the assigned project officer must determine how best to assign roles for data collection and analysis.

Office of Inspector General Comments - The recommendation is designed to focus attention on various techniques for managing data by the use of covenants for data gathering and scopes of work for establishing contractor participation in progress assessments. These should be used as warranted but Agency guidance should emphasize their use in managing projects. We have added recommendation No. 4 to cross reference related chapters of Handbook 3 to the new evaluation handbook.

Management Comments - PPC concurred with recommendation No. 4 (now recommendation No. 5) with the exception of section (b) and the wording of section (d). It is believed recommendation (b) is too specific and restricts project officer's ability to exercise judgment on reporting. Section (d) needs to be reworded to reflect that the project officer does not have unilateral authority to adjust project targets.

Office of Inspector General Comments - We do not agree that we are restricting project officer's judgment. We are focusing his judgment on areas that require reporting if the project is to be effectively monitored. We have revised section (d) as suggested.

3. A.I.D. Should Increase Emphasis on the Use of Deobligation-Reobligation Authority

A.I.D.'s system of managing its deobligation-reobligation authority did not ensure that it was used to its full potential. Good management of the authority dictates establishing detailed criteria that specifies when the authority should be used and requires systematic reviews to surface applications of the authority as part of the regular project portfolio review process. However, such a management system was not employed. The Agency had issued very limited criteria for using the authority and had not required a structured forum to identify, quantify, report and review deobligation situations through a mechanism such as the regular portfolio review process. Therefore, not all missions and bureaus systematically and consistently identified potential deobligations. We estimate that if all missions adopted aggressive programs, deobligation-reobligation actions could increase by as much as $70 million annually. 1/

Recommendation No. 6

We recommend that the Assistant Administrator for Program and Policy Coordination:

a. in coordination with geographic bureaus assure that guidelines are comprehensive enough to identify and encourage the use of deobligation-reobligation actions when appropriate (potential deobligation situations shown in Exhibit 4 of this report should be included in the guidelines),

b. modify Handbook 3, Chapter 11 to require missions and bureaus, during portfolio reviews, to surface potential deobligation situations and highlight these situations in project implementation status reports and

c. establish a system to gather and maintain the same information on deobligation and reobligation of no-year funds as is presently done for annual funds to facilitate analyses of how well the Agency utilizes the deobligation-reobligation authority on a worldwide basis.

1/ In fiscal year 1988 the Office of Management and Budget has established that the budget authority ceiling will apply to the deobligation-reobligation authority in the same way that it does to newly appropriated funds thus limiting A.I.D.'s use of the authority to the $25 million level. This likewise will apply to fiscal 1989 if Congress approves the Administration's request for this authority. The Agency plans to appeal the limit on the basis of foreign policy considerations. This limit, if it stands, will impact on implementation of part (a) of Recommendation No. 6 below.

Discussion

Deobligation-reobligation authority is a valuable management tool. It allows the Agency to take excess funds or funds from marginal projects and transfer them to more productive areas. If used judiciously, such authority gives Agency, bureaus and missions more flexibility to manage their programs helping ensure that limited funds provide the most impact.

The Agency has two types of deobligation-reobligation authority, one dealing with no-year appropriations and the other with annual funds. No-year funds can be deobligated and reobligated as necessary until they are fully expended without special authority. On the other hand, deobligation-reobligation authority for annual funds must be granted each year in the Appropriation Act.

In 1981, the A.I.D. Administrator announced that, in keeping with the President's orders to eliminate waste and mismanagement, he was terminating or reducing some A.I.D. programs and that others would be redesigned. The Administrator noted that, in the past, most savings had occurred only when projects were completed and had not consumed all the funds originally budgeted for them. He indicated that failing projects too often had been continued rather than terminated. In 1982, the Administrator reported to Congress that he had instructed all bureaus to review their projects at least semiannually to determine if they were progressing properly. If not, they should be redesigned or terminated.

In 1983, the Agency requested limited authority to allow USAID/Cairo to terminate projects that were not progressing and to transfer the funds to more productive areas. Instead, Congress granted A.I.D. a blanket authority applicable to all annual funds. The Administrator heralded this event by sending an agencywide cable stating that Congress had now provided the Agency with authority to manage its portfolio in a more professional and businesslike manner and that he firmly believed A.I.D. should make the most of this opportunity. However, the Administrator gave no guidance per se on what situations called for deobligations.

Handbook guidance on when to deobligate was mainly of a financial rather than a project management nature. Handbooks 3 and 19 provided that funds were to be deobligated when it was clear that the amount obligated by the Project Agreement exceeded the amount required to finance the assistance contemplated in the Agreement. Handbook 19 also indicated that, when project implementation had not progressed on schedule, consideration should be given to renegotiating the agreement and adjusting the obligation downward as required.

Further guidance on when to deobligate was provided in correspondence from the Administrator and the Bureau for

Program and Policy Coordination (PPC) to missions and other bureaus. This correspondence usually coincided with Congressional extensions of the deobligation-reobligation authority for annual funds. Exhibit 1 shows that at various times there were general statements concerning the need to stop projects that were poor performers; projects whose purpose no longer coincided with Agency priorities; projects not consistent with existing plans, policies, and objectives; projects not performing according to plan; projects which were marginally productive; and projects going off course that were no longer effective. Only portions of this guidance were in effect at any one time because the guidance changed from year to year. As a result, deobligation authority was apparently underutilized because management systems were not organized to assure that the authority was used when appropriate.

Underutilized Authority - While manpower limitations as well as the subjectiveness of any deobligation determination prevented us from developing a firm estimate of how much deobligation potential existed agencywide or at any particular USAID, our analysis of deobligation-reobligation statistics maintained by the Agency indicated the authority was not being used in all appropriate situations. Exhibit 2 shows that, during the first four years the authority was available, over half the USAIDs that we expected would have had occasion to use the authority in normal operations either did not use the authority or only used it to recoup residual funds at project completion. It is unlikely that more than half of such USAIDs either had no troubled projects which should have had funds deobligated or had no projects with funds in excess of needs.

Exhibit 2 identifies several missions which had relatively active deobligation-reobligation programs (Egypt, Indonesia, Philippines, Thailand, Kenya, and Jamaica). These six missions deobligated an average 4.1 percent of their total development funds during the period. Had all countries in Exhibit 2 deobligated similar percentages, deobligations would have increased by $279 million over the four years (about $70 million per year). This would represent a 44 percent increase over the amount of annual funds deobligated for the period (Exhibit 3). We recognize that this analysis was based on upper echelon performers and that it presumed the other missions had troubled projects which should have been fully or partially terminated or had projects with excess funds. Nevertheless, we feel the analysis demonstrates that, if all the missions which had taken little or no deobligation action had adopted more aggressive programs, deobligations agencywide would have been higher.

Further indication that deobligation potential existed can be found in Inspector General audit reports. The regional office in Honduras identified $51 million in potential deobligations in 12 of the 36 project audits made during the 19 months ending April 30, 1987. Since not all of the project audits emphasized deobligations, the number of projects that had deobligation potential and the amounts involved could have been higher.

Another indication that the authority was underused can be inferred from a study done by a contractor for PPC entitled "Synthesis of A.I.D. Evaluation Reports FY 85 and FY 86". This study of 210 project evaluation reports showed that 53 of the projects reviewed were unlikely to be sustainable, i.e., unlikely to continue to provide the intended stream of benefits beyond termination of support. This large number of projects with questionable sustainability indicated that a lot of troubled projects were being allowed to continue when deobligation might be appropriate. We recognize that developmental assistance is a high risk business and that failures are to be expected; however, high risk is what makes deobligation authority such an important management tool because it permits potential failures, like nonsustainability, to be acted upon early.

According to the "Synthesis", the 53 projects represented funding authorizations of about $437 million. Most of these projects were also included among another group of 82 projects rated as having strongly negative implementation constraints, inhibiting delivery of project outputs and achievement of project goal and purpose. The "Synthesis" indicated that this latter category of projects involved funding authorizations of $960 million.

We believe that the analysis of deobligation statistics, audit reports, and the "Synthesis" shows that deobligation-reobligation authority is underused. The amount is unknown, but the present management system provides little assurance that the authority is used in all appropriate cases.

<u>Ineffective Management Systems</u> - We attributed the divergent use of the deobligation-reobligation authority among missions, in large part, to the lack of a structured management system designed to focus attention on deobligation potential as part of the portfolio review process. The lack of management system focus on deobligation potential began at the bureau level and extended to the missions. The bureaus themselves did not routinely address the deobligation potential issue during their portfolio reviews nor did they require missions to address deobligation potential as part of the semiannual portfolio review process.

Each regional bureau basically passed on the guidance that it received from PPC to its individual missions. The missions then were expected to review their portfolios and report expected deobligations for the year to the bureau administrative staff. This reporting was separate from the normal semiannual portfolio review process. Therefore, bureau project and program personnel that participated in the portfolio review process were not involved in judging how effective the mission deobligation reviews had been.

At the five missions we visited, varying degrees of review had been made to identify deobligation potential, none which we would characterize as being systematic. The missions did not have mission orders addressing the potential benefits of using deobligation-reobligation authority or clarifying circumstances when use of the authority was appropriate. None had routinely reported deobligation potential as part of the portfolio review process. Although the amount of financial analysis that went into portfolio review reporting was impressive at some of the missions, it was apparently not extensive enough or not used to identify excess funds. None of the missions had applied the authority as effectively as possible on an ongoing basis to ensure the most effective use of developmental assistance funds. Except for deobligation of funds at the end of a project, most of the missions viewed deobligation as a tool of last resort or one to be exercised when some outside source, such as an evaluation or audit, identified the excess funds or recommended a major reduction in project scope. A summary of what we found at each of the five missions follows.

Honduras - This mission had one of the largest budgets in the Latin American region. However, through the end of fiscal year 1986 it had not used the deobligation-reobligation authority despite the several occasions this option was suggested by the LAC Bureau and our regional auditors. For example, of the 11 projects we reviewed, the LAC Bureau recommended that deobligation be considered for three of them (Small Farmer Land Titling, Rural Water and Sanitation, and Health Sector I). Our regional auditors had recommended deobligation on two of the projects, Rural Water and Sanitation and Export Development and Services.

In January 1987, USAID/Honduras reported preliminary fiscal year 1987 deobligation-reobligation information to A.I.D./Washington. The mission identified four projects with deobligation potential. Two of them had already ended and the remaining two were within one year of completion. A total of \$3.6 million was identified in these four projects, of which \$3 million was in the Rural Water and Sanitation Project discussed above. It appeared as though fiscal year 1987 would be the first year that the Honduras mission would make significant use of the authority. However, Agency controller records indicated that only \$264,000 was deobligated.

The mission had not issued a mission order explaining the importance of this authority nor had they issued guidance on its use. Also, the mission did not require that deobligation potential be highlighted in the semiannual project status report. As a result, project assistance completion dates were frequently extended or additional procurement was made for the purpose of using available project funds. Mission officials considered the deobligation-reobligation authority a tool of last resort. Furthermore, mission officials said that bureau guidance did not require disclosure of excess project funds or deobligation potential in semiannual project implementation status reports; therefore, they saw no need for including such information.

An additional point of interest at the Honduras mission was the apparent lack of competition for mission funds. Mission officials stated that, because of the Central American Initiative, Honduras had not had much difficulty in funding its planned activities. This enviable position had resulted in few, if any, fully developed activities not being funded. However, without unfunded demands, there was little incentive for the mission to seriously consider deobligation as a management option. Conditions such as this will require a stronger role by the regional bureau so that use of deobligation-reobligation authority can balance competing needs on a regional basis.

Liberia - Prior to the beginning of our audit, Liberia was in default on payment of interest on U.S. loans, and under the Brooke Amendment. The entire A.I.D. program was in jeopardy of being phased out. Because of this situation, the Africa Bureau and the mission had conducted extensive reviews of the mission's project portfolio resulting in the termination or redesign of some projects.

Our regional auditors identified $5.5 million in project funds which were not being utilized effectively, and the mission had no immediate plans for their use. This condition existed because the mission (1) extended unsuccessful projects rather than deobligate funds and (2) did not have an adequate financial system to monitor project execution or identify unexpended funds that could be deobligated.

Due to poor economic conditions in the country, most of the current projects were considered "troubled." Until these uncertainties were resolved, the mission had no intention of undertaking any new projects. Mission management believed that the Africa Bureau should assume a stronger role in identifying projects where funds should be deobligated and reobligated.

Mission officials indicated that they used deobligations only when a project was in the most advanced state of decay. They considered evaluations, redesigns and extensions of a project completion dates to be tools to fix projects. They stated that they were reluctant to terminate on-going projects because they felt that troubled projects could always be corrected given time and money. Although mission portfolio reviews did not specifically look for deobligation potential, mission staff agreed that it was a good idea to consider deobligations as part of the semiannual portfolio reviews and include them in project implementation reports.

Kenya - Although this mission had an active deobligation program, it could have been improved with better financial analysis. Each year, when Agency cables informed the mission that the authority had been extended, the mission's Program

Office reviewed project implementation status reports, as part of the portfolio review, to identify projects that appeared to have excess funds. This was done by comparing the percentage of funds remaining with the project time remaining, taking into account whether or not the project was on schedule. The burden was then placed on the project officer to defend his need for the funds.

Mission officials believed that the portfolio review process was the appropriate medium to identify deobligation potential. However, they felt it was impractical to do so early in the life of a project. Mission staff told us they did not look for excess funds until about the third year of project implementation and that they preferred not to make a final decision on deobligation until the project's completion date approached. At that time, the mission decided whether to deobligate or extend the completion date.

While we considered the mission to be conscientious in its efforts to identify projects with excess funds, it was apparent there was insufficient financial analysis. Otherwise, the mission would not have had to rely so heavily on project officers to admit that there were excess funds. The mission periodically evaluated actual performance against planned inputs, outputs and expenditures and should have been able to detect excess funding early. Several projects included in our review reached their completion dates with over $1 million in funds remaining. We found no evidence showing whether those projects had been challenged as having excess funds. However, in each case some portion of the funds appeared to have been excess since they were spent on activities not planned in the Project Agreement.

Philippines - The financial data included in the mission's project implementation status reports were excellent and could have been used to help surface excess funds. Mission officials claimed that they were constantly on the lookout for excess project funds that could be deobligated and used elsewhere. However, this was not substantiated by our analysis of their deobligation actions. In most cases, deobligations did not occur until after the project was over. We noted three cases where these end of project funds were each in excess of $1.4 million.

For one of the ongoing projects reviewed, the mission was slow in identifying that excess funds existed. The $15 million Small and Medium Enterprise Development Project started in August 1983 and three years later had spent only $385,000. Based upon a July 1986 evaluation report the mission decided to redesign the project. As of the end of March 1987, the mission was conducting discussions with the Philippine government to deobligate all but $4 million.

Mission officials stated that they often did not know prior to the final year of a project whether there would be excess funds. There was also a tendency to keep the project going if it had not obtained its objectives by the completion date or if further activity in the area was feasible. The mission had not issued a mission order to emphasize using the authority as a management tool and provide guidance on when to deobligate. Deobligation potential was not included in project implementation status reports although planned deobligation actions were.

Thailand - Mission officials agreed that project monitoring should look for potential deobligations throughout a project's life. There was evidence that the mission was doing so; however, the results of its reviews were not routinely reported in its project implementation status reports. Mission officials generally felt that it would be difficult to determine what project funds would be surplus until near the end of the project. They indicated that projects were under continuous review for potential deobligations because funds were scarce. However, more in-depth reviews were performed at the end of the fiscal year and as the project neared completion, unless there was an audit or evaluation that indicated there were problems that required a redesign or deobligation.

The mission did not have a mission order setting forth the criteria for using the authority or promoting it as a management tool. Mission officials did not believe uniform criteria could be applied to all projects to determine which were troubled except in a general sense, and they claimed to be aware of the general criteria and to have applied them.

Our auditors identified three projects that were behind schedule or not achieving their objectives. The four-year, $18 million Emerging Problems of Development Project had expenditures of only $1.3 million after two years of the implementation phase. The seven-year, $35 million Science and Technology for Development project had expenses of only $163,000 after almost two years. The last project, a four-year, $8.1 million Micro-Mini Hydroelectric project had expenditures of only $582,000 after three and one half years. Our auditors did not determine whether any of these projects had excess funds or should be redesigned or terminated, but they did consider the projects to be troubled and have deobligation potential.

The above conditions at five USAIDs illustrate a lack of guidance or a systematic review process to help assure that the authority was used in all appropriate situations. In our opinion, the management system did not contain enough guidance specifying when the authority was expected to be used. Also, there were no reporting requirements and no review processes by mission or bureau personnel to judge whether a mission had highlighted potential deobligation situations in its portfolio and taken appropriate action. Some bureaus informed us they did look for deobligation potential; however, we did not find any evidence that this was done on a routine and comprehensive basis.

A comprehensive listing of reportable deobligation situations needs to be developed and promulgated as guidance to promote consistency of reporting and establish limits generally acceptable for a project's performance. The guidance would not require USAIDs to deobligate in such situations but would require their rationale to be explained in the reports to bureau management if they did not plan to deobligate. A comprehensive list of potential deobligation situations is included in Exhibit 4. This exhibit was developed from all the deobligation situations that we were able to determine from past Agency deobligation-reobligation authority guidance, all the deobligations which occurred under the authority for annual funds during the first four years that it was available, criteria used by one USAID, and examples from prior audit reports.

Another aspect which deterred use of deobligation authority was that missions relied heavily on project officers to identify seriously troubled projects or projects with excess funds. This was a material weakness because project officers had a tendency to defend their projects. Project officers were not necessarily motivated to admit that the projects they were responsible for had become seriously troubled during their management tenure and that they could not correct the problems. Additionally, project officers lacked the incentive to identify excess funds not really needed to accomplish the activities in the Project Agreement because the funds would be lost to another project or country. These biases on the part of project officers reinforce the need for a comprehensive set of criteria for identifying potential deobligation situations and point up the need for a review process to scrutinize a mission's portfolio and provide the impetus for deobligation if warranted.

A final point relates to the Agency's commitment to maintain a statistical base enabling it to evaluate use of deobligation-reobligation authority worldwide. Our ability to analyze the usage of the authority worldwide was possible because the Agency tracked individual actions in response to Congressional notification requirements for deobligation and reobligation of annual funds. The Agency did not accumulate similar information on deobligation and reobligation of no-year funds; therefore, we did not attempt to analyze usage under that authority. However, for the 1987 and 1988 fiscal years Congress changed annual funding rules allowing annual funds to become no-year funds once they were initially obligated. This change means that, unless the Agency begins requiring information on no-year funds similar to what it previously gathered on the deobligation and reobligation of annual funds, the agencywide statistical base on use of the authority will disappear. We believe it is important that the Agency maintain an information base to enable it to centrally monitor and evaluate deobligation and reobligation performance of missions; therefore, we have recommended that the Agency begin tracking deobligation and reobligation of no-year funds in the same manner as it now tracks annual funds.

Conclusion - Although the Agency deobligated and reobligated substantial amounts of annual funds during the first four years of the authority, the majority of USAIDs did not use the authority or used it only to recoup excess end of project funds. In our opinion, the authority should have been used much more. Under its present management system, the Agency is not in a position to know whether the USAIDs are exercising the authority when appropriate. Little guidance has been provided to the USAIDs or regional bureaus specifying situations that might call for full or partial deobligation of project funds. Also, there was no review mechanism at the mission or bureau level to ensure that projects had been thoroughly scrutinized to identify potential deobligations.

We feel that much greater use of the authority would be achieved if (1) project implementation status reports highlighted deobligation potential in a project, (2) mission and bureau portfolio reviews focused more attention on this area and (3) additional criteria were issued pertaining to situations where deobligations should be considered. This additional oversight would help ensure that funds from marginal projects, or excess funds in general, are deobligated and are reobligated to areas which could provide greater developmental impact.

Management Comments - PPC suggested that part (a) of the recommendation be reworded to reflect that comprehensive guidelines already exist. Part (b) is believed to be too detailed for worldwide guidance because excessive specificity could be counterproductive given the wide variation of country projects. Part (c) was believed to be useful.

Office of Inspector General Comments - Part (a) been revised to assure that existing guidelines are adequate. Part (b) has been revised to allow more flexibility in identifying deobligation situations but still requires that missions surface and highlight deobligation situations in the status reports.

4. Alternatives Should be Scrutinized Before Extending Project Assistance Completion Dates

Mission Directors frequently extended Project Assistance Completion Dates on projects that were essentially complete or had persistent schedule and quality problems without formally assessing alternative strategies. Performing assessments would help ensure selection of the best development alternatives or most cost-effective courses of action. However, while A.I.D. policy encouraged assessments of alternatives before extending project completion dates, the policy stopped short of requiring that reasonable alternatives be formally developed and considered. As a result, there was no assurance that the funds involved in project extensions had been put to their most productive uses. Also, projects received repeated extensions without determining whether the delays were avoidable. Since approximately half of the Agency's projects were extended one or more times during their life, with the funds involved reaching as much as $863 million annually, it would be prudent management to clarify and expand requirements for decisions on extending project completion dates.

Recommendation No. 7

We recommend that the Assistant Administrator for Program and Policy Coordination revise Handbook 3, Chapter 13 guidance on decisions to extend Project Assistance Completion Dates to require bureaus and missions:

a. to set forth project progress compared to what was planned, specify the amount of funds involved in the extension and the rate of expenditure and identify the advantages and disadvantages of alternative investment strategies;

b. in cases where projects have essentially completed most of the activities in the Project Agreement, to determine whether greater development impact could be obtained by expanding the scope of the existing project or releasing the funds to other projects;

c. for extensions justified on the basis of a specific activity, to limit the extension to that activity only, with funding for other activities terminated as originally planned;

d. to make an assessment of the recipient's willingness and ability to take the actions necessary to resolve any problems; and

e. to document the above in final action memorandums.

Discussion

A Project Assistance Completion Date (PACD) is the estimated date that all A.I.D. financed goods and services will have been provided to a development project. A.I.D. Project Agreements prohibit missions from financing goods or services after the PACD unless an extension is granted. Agency guidelines stipulate that extensions should not be granted without justification and that the need for an extension should be ascertained and dealt with so that further extensions will be unnecessary.

Handbook 3, chapter 13 provides guidance on PACD extensions. The basic theme of this guidance is that changes can take place in a project's environment which alter the assumptions upon which the project's design and implementation plans were based. These changes need to be recognized early, their impact assessed, alternatives for dealing with them considered, and appropriate modifications made to optimize project impact.

An alternative to extending a PACD is to use the money elsewhere when projects have generally met planned objectives or experienced serious problems. Handbooks 3 and 19 along with several Agency cables and memorandums on the use of the deobligation-reobligation authority contain guidance which generally covers this alternative. The guidance includes: (1) considering negotiating a reduction in a project's scope when implementation has not progressed on schedule and (2) deobligating marginally productive funds, whether or not the mission has a priority alternative use for the money.

Our review of mission monitoring systems included examining the decision making process behind project completion date extensions. To determine whether missions were adequately considering alternatives, including deobligations, before extending PACDs, we reviewed action memoranda and other documentation supporting these decisions at the USAIDs visited. This analysis revealed that, for nearly all the projects reviewed, there was no documentation showing whether alternatives had been assessed.

While the extensions may have been for valid development purposes, there were several which we questioned as not being the most effective use of the funds. For example:

-- we identified projects in Kenya which were essentially completed and appeared to have been extended to utilize the remaining funds;

-- for one case in Kenya, all project components continued to be funded during the extension period when the justification was to complete residual activities under a single component and

-- we found projects in Honduras with persistent schedule slippages or known quality problems that were extended, and expanded in scope and funding evidently without taking actions to effectively correct the problems.

We believe that the discretionary nature of Agency guidance concerning PACD extensions was a significant factor contributing to these practices. Unless alternatives are surfaced and evaluated as part of the extension process, A.I.D. management has little assurance that the decisions will result in the most cost effective courses of action. Since PACD extensions are routinely approved at the mission level, the Agency should promulgate more specific criteria for this process.

We reviewed 20 projects in Honduras, Kenya, Liberia, and the Philippines that had been extended. The circumstances surrounding the project extensions were diverse. Projects had been extended years beyond their original completion dates and required additional funds, modification of approved activities, or more time to use up the original funding. The investments in each project reviewed ranged from a low of $500,000 to a high of $57 million, and project topics included most of the functional areas in which A.I.D. provides assistance.

Several of the 20 projects we reviewed had been extended multiple times; consequently, there were 41 project extension decisions to review. Although action memorandums were signed by Mission Director for 28 project extensions, there were 13 cases where the memorandums could not be located in mission project files. We reviewed the 28 project extension decisions that were documented with an action memorandum and found only one included consideration of alternatives.

The information provided on the project extensions did not appear sufficient to support an informed decision. Information typically lacking about a project proposed for extension was: 1) the amount of funds involved, 2) project progress compared to what was contemplated in the Project Agreement and 3) the extent to which proposed activities during the extension period would go beyond what was contemplated in the Project Agreement. This information was needed to highlight: 1) the magnitude of the resource decision, 2) whether a project was progressing satisfactorily and warranted the use of the funds and 3) the significance of the decision in terms of its developmental impact, so that comparisons could be made with alternative strategies.

The 12 project extensions in Kenya provided good examples of the need for the information that we suggest. All of the projects reviewed reached their PACDs with significant amounts of funds remaining. Several of the projects could have been considered to be essentially complete. However, in every case the only documented options considered were to spend the remaining funds within the project.

Action memorandums supporting the Kenya project extensions provided insufficient bases for informed decision making. For example, in only 4 of the 12 memorandums, were the amounts of the remaining funds clearly stated. This information was omitted for a project with about $4.1 million in unliquidated obligations and two others with more than $1 million each. These large sums undoubtedly would have been sufficient to fund other development priorities for the country and should have been disclosed to highlight the magnitude of the resource decision. Suitable alternative investments within these dollar figures should have been considered. Also, only 1 of the 12 memorandums clearly set forth the status of the project's progress towards the planned objectives. A concise presentation of progress achieved toward objectives could surface questions related to the proposed extension or issues which necessitated the extension and help ensure that the extension period focuses on resolving them.

The memorandums usually did not clearly establish whether the proposed extension would help achieve the objectives contemplated in the Project Agreement or would go beyond them. Thus the decision maker could not easily judge how central to the project's purposes the further proposed expenditures were. We noted that in all 12 memorandums the proposed investments to some extent involved an expansion of the project. While the proposed expenditures had some merit, as a practical matter, they were frequently afterthoughts and not central to the objectives of the project. It is conceivable that the developmental impact of alternative projects would have been greater if they had been considered and analyzed. The Kenya mission authorized approximately $13 million of expenditures on the seven projects that were extended without knowing if the expenditures were the most effective use of U.S. funds. We are not suggesting that the expenditures were not for valid developmental purposes. However, in many instances the projects appeared to have been routinely extended to spend the remaining funds.

Project extensions we reviewed at the Honduras mission were unlike those in Kenya in that most involved substantial expansion of project activities and increases in funding. As a result, it was more difficult in Honduras to analyze whether funds were excess to project needs. For example, on one Honduras project, the mission decided against extending the project a third time resulting in $4.8 million in excess funds. However, the mission decided to spend $1.8 million of these funds on an equipment procurement not planned in the original project design. We recommended deobligating the funds unless the mission could provide evidence that alternatives had been carefully analyzed and that the host country could maintain and use the equipment without further A.I.D. support. While the excess funds may not have been determinable at the point of earlier project extensions, this example demonstrates the mission tendency to expand project scope in order to avoid giving up excess funds.

At the Honduras mission we also found that, of 7 projects included in our review that had been extended, 3 were extended without dealing effectively with known problems. Some of these problems affected the progress of the project, and others were of a quality nature. As a result, the delivery of project benefits was delayed for some projects while the outputs of other projects were subject to premature deterioration. Our review of mission action memorandums showed that they did not include full discussions of the project status or alternatives to extending the PACD. Instead, the memorandums were presented so that the only option seemingly available was to extend the PACD. The Mission Director did not always have sufficient information about alternatives, why prior actions were unsuccessful and what other actions were previously considered.

For both the Kenya and Honduras missions we issued audit reports recommending that action memorandums on PACD extensions set forth minimum information requirements for project extension proposals and that alternatives to the proposed extensions be assessed. In both cases, the USAIDs issued mission orders or guidelines for requirements which should be met before extending PACDs. We did not review this issue in the Philippines, Thailand, or Liberia to the same depth as in Kenya and Honduras. However, for these USAIDs we also found that action memorandums to the Mission Directors seldom discussed alternatives.

To determine the prevalence of extending PACDs throughout the Agency we reviewed historical information in the computerized data base of the Agency's Project Accounting Information System. This revealed that the practice of extending PACDs is widespread and recurring. About 50 percent of the Agency's projects had been extended one or more times and the dollar value of the resources extended was quite significant. For example, in fiscal year 1986 the amount of unliquidated obligations outstanding on projects that were extended was roughly $863 million. PACD extensions, therefore, cumulatively represent a significant application of the Agency's resources.

<u>Conclusion</u> - Agency guidelines contained in Handbook 3, Chapter 13 suggest rather than require that an assessment of alternatives be made when considering the extension of project completion dates. While the guidelines provide that PACDs should not be extended without justification, what is actually meant by this is undefined. As a result, we found that missions frequently extended project completion dates even though documentation supporting these decisions failed to 1)

clearly establish the dollar magnitude and developmental impact of activities proposed during the extension period or 2) evaluate alternative implementation strategies or investments. We believe the Agency needs to strengthen its requirements for approval of PACD extensions to ensure that the funds involved are put to their most productive uses. More precise guidelines are desirable because the Agency operates in an environment of decentralization and frequent turnover of key managers.

Management Comments - PPC believes the report gives the impression that there is something inherently wrong in the fact the PACDs are often extended. This impression is not correct. A PACD extension often results from the sheer difficulty of anticipating exactly in the project design when the desired results will be achieved; as a bridge to an additional stage in the project; or for reasons that are entirely external to the project such as for delays caused by weather or unforeseen technical or political difficulties. Further PACDs are sometimes deliberately based on optimistic schedule for decisions. Using the PACD, at least in part, as a goal rather than as a conservative assessment of project pace is a common tactic of good managers.

Office of Inspector General Comments - When an activity such as extending PACDs is not adequately controlled and there is evidence that projects are extended as an easy way out, it is easy to get the impression that it is inherently wrong. We agree that PACD extensions are required and justified; however, they should be properly justified and alternatives should be included in the justification process.

Management Comments - PPC on recommendation 7(b) indicates that extending the PACD requires AID/W approval which must be supported by strong justification based on sound analysis of among other things, its development impact before amending the project (see Paragraph 13D3(a) of Handbook 3, Chapter 13). It would be redundant to add this requirement to the PACD extension section of the same chapter of Handbook 3.

Office of Inspector General Comments - Paragraph 13D3(a) does not address development impact and discusses PACD extension to facilitate attainment of its original objectives. Our recommendation is addressing PACD extensions where the assigned objectives have been essentially attained and the project is being expanded. We have retained the recommendation to address this specific issue.

Management Comments - On recommendation 7(d) PPC indicates that the action recommended is required as a matter of policy in any project evaluation which should be done as a matter of course before extending a PACD.

Office of Inspector General Comments - The Evaluation Handbook is not nearly as specific as we would like because we do not believe the willingness or the ability of recipients to take action to resolve problems is adequately addressed in evaluations. In addition, we believe this also needs to be stressed in Handbook 3, Chapter 13 and have retained the recommendation.

Management Comments - On recommendation 7(e) PPC indicates that preparation of an Action Memorandum to document significant project decisions is standard management procedure and the use is mentioned in Handbook 3.

Office of Inspector General Comment - We found no definitive requirement for preparation of Action Memorandums and could not locate 13 for the 41 PACD decisions we wanted to review. We believe the use of Action Memorandums should be required.

B. Compliance and Internal Controls

1. Compliance

The audit did not identify any instances of noncompliance with applicable laws or regulations. The review of compliance was limited to the findings discussed in this report.

2. Internal Control

The audit disclosed internal control weaknesses in the following areas:

-- The Agency had not issued sufficient guidelines to ensure that missions developed management systems which documented serious problems, fixed responsibility for corrective actions, and provided follow-up until problems were resolved (Finding No. 1).

-- A lack of policy and guidelines for utilizing quantifiable indicators to monitor project progress detracted from mission capability to identify project problems and demonstrate the impact of assistance efforts (Finding No. 2).

-- The Agency had not issued sufficient guidelines or established a forum for surfacing potential deobligation-reobligation situations to ensure that this authority was utilized when appropriate (Finding No. 3).

-- The lack of guidelines for extending project assistance completion dates lessened the Agency's assurance that funds were being put to their most productive use (Finding No. 4).

The review of internal controls was limited to the findings discussed in this report.

C. Other Pertinent Matters

This audit identified numerous instances where project implementation status reports were not useful for solving problems or keeping managers informed about project status. The centerpiece of the portfolio review process at the USAIDs we visited was the project implementation status report. A.I.D. Handbook 3 requires project officers to prepare these reports to keep Agency managers abreast of the status of project implementation.

We found that the reports did not always report problems, did not adequately discuss the cause(s) of problems, did not provide linkage or continuity among reports, did not always report progress achieved against targets, were not used to surface potential deobligations and did not always track progress made in solving problems. These deficiencies detracted from Agency managers' capabilities to detect and resolve implementation problems and ensure that limited assistance funds were used in the most productive areas.

AUDIT OF A.I.D.'s MANAGEMENT SYSTEM
FOR IDENTIFYING AND SOLVING
PROJECT IMPLEMENTATION PROBLEMS

PART III - EXHIBITS AND APPENDICES

Agency Guidance on Use of Deobligation-Reobligaton Authority FY 1983 through FY 1987

FY	Originator	Type Correspondence	Distribution	Guidance
1983	Administrator	cable	worldwide	None
1984	Administrator	cable	worldwide	Clear our programs of those projects which are poor performers or whose purpose no longer coincides with agency priorities
1984	Administrator	memo	A.I.D./W	For projects not consistent with existing plans and policy we should consider redesign. If you determine that a redesign activity is not worth the effort, or if a redesign effort proves unsuccessful, we should then consider exercising our deob-reob authority
1984	Administrator	cable	worldwide	I am committed to using this as an effective management tool to clear our portfolio of poor performing projects and those whose purpose no longer coincides with agency priorities
1985	Administrator	cable	worldwide	It provides an opportunity to terminate projects which are no longer consistent with our objectives or the objectives of the recipient country Prune out projects which are not performing according to plan Eliminate all projects which are inconsistent with our policy priorities Concentrate on deobligating marginally productive funds, whether or not they have a priority alternative which can use the money

FY	Originator	Type Correspondence	Distribution	Guidance
1986	PPC	cable	worldwide	Nothing in the following guidance on the exercise of deob-reob authority should be construed as discouraging continued efforts to deobligate unneeded funds wherever possible Recover funds from projects going off course or significant end-of-project amounts
1987	PPC	memo	A.I.D./W	Normally funds should be deobligated when (1) a project or activity has been completed; (2) mission managers determine with the host country that projects are going off course and the project is no longer effective; and (3) decisions are made to eliminate projects of marginal value in favor of higher priority projects.

EXHIBIT 2a

[illegible]
Deobligation-Reobligation Authority For Annual Funds
FY 1983 through FY 1986
(Africa Bureau)

COUNTRY	FY 1986				FY 1985				FY 1984				FY 1983			
	# of Mgmt Deobs	$ (000s)	# of Resid. Funds Deobs	$ (000s)	# of Mgmt Deobs	$ (000s)	# of Resid. Funds Deobs	$ (000s)	# of Mgmt Deobs	$ (000s)	# of Resid. Funds Deobs	$ (000s)	# of Mgmt Deobs	$ (000s)	# of Resid. Funds Deobs	$ (000s)
Botswana	3	1,745	3	2,025	0	-	3	262					0	-	2	800
Burundi 1/																
Cameroon	0	-	1	95	0	-	2	500	0	-	1	79	1	101	1	98
CAR 1/																
Congo 1/																
Djibouti 1/																
Eq. Guinea 1/																
Guinea 1/																
Guinea-Bissau 2/													0	-	2	62
Kenya	0	-	1	79	2	3,700	5	351	2	9,520	0	-	1	99	1	49
Lesotho 1/																
Liberia 2/					0	-	2	650	0	-	2	48	0	-	1	30
Malawi 1/																
Mozambique 1/																
Rwanda 1/																
Seychelles 1/																
Somalia	4	7,300	1	200	1	3,100	0	-								
Sudan					2	12,500	2	292					0	-	1	81
Swaziland					1	90	10	2,605	1	750	0	-	0	-	1	10
Togo 1/																
Uganda	2	5,483	0	-									0	0	1	31
Zaire	0	-	2	700					1	100	5	879	1	170	1	30
Zambia 1/																
Zimbabwe 1/																
South Afr. Reg 2/					0	-	1	23								
Africa Reg	2	595	2	730	0	-	3	619	1	127	1	108	2	112	10	553
TOTAL	11	15,123	10	3,829	6	19,390	28	5,302	5	10,497	9	1114	5	482	21	1744

1/ - Country had no deobligation actions
2/ - Country had deobligations but all of them involved return of residual end of project funds
Note: Country programs which were just starting or terminating, those funded with no-year money, and those with only one ongoing project were excluded from this exhibit.

EXHIBIT 2b

Selected USAID's Use of the
Deobligation-Reobligation Authority For Annual Funds
FY 1983 through FY 1986
(Asia and Near East Bureau)

COUNTRY	FY 1986 # of Mgmt Deobs	FY 1986 $ (000s)	FY 1986 # of Resid. Funds Deobs	FY 1986 $ (000s)	FY 1985 # of Mgmt Deobs	FY 1985 $ (000s)	FY 1985 # of Resid. Funds Deobs	FY 1985 $ (000s)	FY 1984 # of Mgmt Deobs	FY 1984 $ (000s)	FY 1984 # of Resid. Funds Deobs	FY 1984 $ (000s)	FY 1983 # of Mgmt Deobs	FY 1983 $ (000s)	FY 1983 # of Resid. Funds Deobs	FY 1983 $ (000s)
Near East																
Egypt	4	5800	8	2799	10	17818	17	11,025					7	83,882	8	18,040
Jordan 2/	0	-	1	150												
Lebanon					0	-	1	481	1	557	0	-				
Morocco 2/	0	-	3	473	0	-	2	208	0	-	3	320	0	-	1	690
Oman 1/																
Tunisia 2/	0	-	1	650									0	-	4	381
Yemen 2/									0	-	1	41	0	-	1	1,358
NE Regional 1/																
Asia																
Bangladesh 2/					0	-	1	70					0	-	3	222
Burma 2/	0	-	1	336	0	-	1	280								
India	2	6900	2	7200												
Indonesia	0	-	4	1199	6	8,737	14	2,997	6	8,325	9	1,598	1	945	0	-
Nepal 2/									0	-	2	417	0	-	2	27
Pakistan 1/																
Philippines	4	67,872	1	58	8	29,437	12	5,687	2	620	8	3,519	2	2,146	4	2,350
Sri Lanka	0	-	1	1,658	1	300	4	3,950					2	725	1	202
Thailand	4	3,030	4	1,064	2	695	2	220	1	500	0	-	2	1,103	0	-
Asia Regional 2/													0	-	1	7
So. Pacific Reg 1/																
TOTAL	14	83,602	26	15,587	27	56,987	54	24,918	10	10,002	23	5,895	14	88,801	25	23,277

1/ - Country had no deobligation actions
2/ - Country had deobligations but all of them involved return of residual end of project funds
Note: Country programs which were just starting or terminating, those funded with no-year money, and those with only one ongoing project were excluded from this exhibit.

EXHIBIT 2c

Selected USAID's Use of the
Deobligation-Reobligation Authority For Annual Funds
FY 1983 through FY 1986
(Latin America and the Caribbean Bureau)

COUNTRY	FY 1986				FY 1985				FY 1984				FY 1983			
	# of Mgmt Deobs	$ (000s)	# of Resid. Funds Deobs	$ (000s)	# of Mgmt Deobs	$ (000s)	# of Resid. Funds Deobs	$ (000s)	# of Mgmt Deobs	$ (000s)	# of Resid.) Funds Deobs	$ (000s)	# of Mgmt Deobs	$ (000s)	# of Resid. Funds Deobs	$ (000s)
Belize 1/																
Bolivia					1	110	1	102	1	5,300	0	-	0	-	1	35
Costa Rica 1/																
Dom. Rep.	2	6,690	0	-									0	-	1	7
Ecuador	1	63	0	-	2	2,500	1	250								
El Salvador									1	1,000	0	-				
Guatemala	1	1,000	2	750					1	544	1	150				
Haiti									1	96	0	-				
Honduras 1/																
Jamaica	1	3,000	2	121	3	9,000	2	500	0	-	1	500	1	2,310	0	
Panama	0	-	1	264	1	315	4	3,120	1	1,100	0	-				
Peru 1/																
Carib. Reg.					1	2,750	0	-								
LAC Reg 1/																
ROCAP	0	-	1	3,400	1	150	0	-								
TOTAL	5	10,753	6	4,535	9	14,825	8	3,972	5	8,040	2	650	1	2,310	2	42

1/ Country had no deobligation actions

Note: Country programs which were just starting or terminating, those funded with no-year money, and those with only one ongoing project were excluded from this exhibit.

A.I.D. Usage of the
Deobligation-Reobligation Authority for Annual Funds
FY 1983 through FY 1986
(in millions)

Bureau	FY 83	FY 84	FY 85	FY 86
Africa	$ 2.6	$ 12.1	$ 36.7	$ 19.0
Asia/Near East	119.7	179.5	81.9	99.2
LAC	27.3	12.9	19.6	15.6
Central Bureaus	.2	5.3	2.1	5.7
TOTAL	$149.8	$209.8	$140.3	$139.5

Note: Totals for the regional bureaus will not match Exhibit 2 because not all countries were included in Exhibit 2 analysis.

General Situations Where Funds Might Be Fully or Partially Deobligated

(Note: References to "project" below apply equally as well to project components)

1. In any instance where the project budget exceeds what is necessary to meet project objectives. For example:

   (a) When the originally planned activity has been or can be accomplished with less than the funds budgeted, or the activity has been reduced in scope (modified, amended, restructured, terminated, changed in focus or transferred to another project) and will not be carried out as planned, or

   (b) When significant fund balances will remain at the Project Assistance Completion Date (PACD) due to slow or non-implementation of activities; and extending the PACD would be unjustified. (Unjustified considering other priorities and the marginal benefits expected from continuing the project, or unjustified due to continuing implementation difficulties which do not appear solvable in the near future.)

2. In situations involving troubled, and marginally progressing projects where:

   (a) the project problems are mainly due to lack of government support including funding, staffing, management attention or legal arrangements,

   (b) the project problems are related to government policy matters such as user fees for services and the government refuses to modify its policy, and

   (c) the project will place a further financial burden on the country when implemented and the country is experiencing serious problems in funding recurrent costs.

General Situations Where Funds Might Be Fully or Partially Deobligated

3. In situations where:

(a) the project has gone off course and is no longer effective or is not meeting objectives,

(b) the project has had serious long standing (two years or more) implementation problems,

(c) project implementation progress is deemed to be excessively slow,

(d) delays in implementation preclude achievement of the project purpose,

(e) there have been extended delays in accomplishing initial implementation actions such as meeting conditions precedents or inability to reach agreement on final design of the project,

(f) the project is seriously underachieving critical project outputs, such that the attainment of project objectives appears unlikely,

(g) there has been an unfavorable change in the project purpose assumptions,

(h) mistaken environment assumptions for the project result in marginal progress or effectiveness,

(i) the grantee has failed to utilize the funds and provide required management attention to the project,

(j) demand for project funds does not materialize to the degree and over the timeframe envisioned in the project agreement (especially applicable to private enterprise type projects),

(k) the project is deemed unlikely to be sustained by the host country upon completion,

(l) the project cannot be completed on time because of uncontrollable circumstances such as continuing hostilities in the project area,

General Situations Where Funds Might Be Fully or Partially Deobligated

(m) the project is marginally productive whether or not a higher priority alternative has been identified for use of the funds that would be released,

(n) the project achieves outputs in excess of needs even though the project has not achieved its planned full implementation, and

(o) the project no longer conforms to Agency policies and goals or country and sector strategy, and redesign of the project proves unsuccessful or not worth the effort.

EXHIBIT 5

DEFINITION OF TERMS

Logical Framework - A summary of proposed design emphasing the results expected when a project is successfully completed. Results are expressed as objectively verifiable indicators.

Goal - The term designating the programming level beyond the project purpose. It provides the reason for the project and articulates the end toward which the effects of A.I.D. are directed.

Purpose - That which is expected to be achieved if the project is completed successfuly and on time. It expresses in quantitative or qualitative terms that which one hopes to create, accomplish or change with a view toward influencing the solution of a country or sector problem.

Target - An indicator with a magnitude to be realized at a specific date; an explicit and objectively verifiable measure of results expected.

Objectively Verifiably Indicator - A way of verifying progress that planned objectives have been accomplished based on evidence rather than opinion.

Inputs - The goods or services (personnel, commodities, training, etc.) provided by A.I.D. with the expectation of producing specific results.

Outputs - The results that can be expected from the inputs provided that will result in achieving the project purpose.

EXHIBIT 6

AGENCY POLICY ON EVALUATIONS

Annual Evaluation Planning - Every year, Missions and AID/W offices which manage projects will prepare an overall evaluation plan, which will contribute to the Agency Annual Evaluation Plan. This plan will address both current needs and future requirements that can be foreseen from the programming cycle. The evaluation plan is considered when preparing an Annual Budget Submission to ensure that personnel requirements are reviewed and funds programmed for evaluation activities. The potential availability of key AID, B/G, or contractor personnel should be taken into account when preparing the plan. The format for annual evaluation plans is contained in guidance issued annually by PPC/E. Additional information regarding the preparation of the evaluation plan and the selection of projects for evaluation is contained in the AID Evaluation Handbook.

Impact Evaluations - In 1979, AID instituted a program of impact evaluations. The AID impact evaluation series examines sets of projects on topical areas of interest to AID's senior staff. The topics for the AID impact evaluation series are determined annually by the Administrator and the Agency's senior staff through a process managed by PPC/E/S. These evaluations supplement and complement the evaluations undertaken by Missions and Bureaus. They are conducted principally by AID personnel and focus on the final outcomes of projects--project impact, the actual beneficiaries of project efforts, and the longevity of project effects.

Evaluations undertaken in this program are published by PPC/E. When several evaluations of a specific type have been undertaken, the findings of these evaluations are synthesized, together with other literature, and published as a program evaluation to form a basis for future policy and project design. For further information on the Impact Evaluation series, see the AID Evaluation Handbook and/or contact PPC/E/S.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

May 18, 1988

MEMORANDUM

TO: IG/PSA, Mr. Mervin F. Boyer

FROM: DAAA/PPC/PDPR, C. Stuart Callison

SUBJECT: Draft Audit Report No. 9-000-88-00, "A.I.D.'s Management System for Identifying and Solving Project Implementation Problems"

REF: Your memorandum to AA/PPC, same subject, dated 3/30/88.

In response to the referenced memo we have reviewed subject draft and, in consultation with the geographic bureaus and other offices in PPC, have compiled the following comments, which we hope will be useful as you prepare your final report.

The report is well written and will be useful to us in improving the Agency's project implementation systems. Overall, the findings and recommendations of the draft audit report are very much in line with our own concerns with strengthening program management in the face of limited resources, and with being fully responsive to Congressional interest in the effectiveness of bilateral assistance. The consistent use of project management information systems for monitoring progress is important for achieving our assistance objectives.

In some areas, we have already taken or contemplate action that responds to the recommendations contained in your report. For example, the basic thrust of recommendations 1-4 are in substantial measure already incorporated in the "A.I.D. Evaluation Handbook," which was issued in April 1987 and incorporated into Handbook-3 (Project Assistance). Also, we will initiate discussion with PM/TD to review the adequacy of A.I.D. training on these aspects of project implementation. Parts of some recommendations are, however, too detailed and inappropriate for world-wide guidance. Excessive specification could be extremely counterproductive given the wide variation of country and project circumstances in which A.I.D. operates. They would constrain the judgement and flexibility needed by the bureaus, missions and project officers in responding to differing circumstances. Specific comments are as follows:

Recommendation No. 1

This recommendation focuses on the kinds of problem-solving activities that are normally considered part of good management and which we should be able to expect of our project officers. Handbook-3 and the annexes already address these concerns; however, it may be appropriate to assess whether or not they are adequately emphasized, clearly presented and readily accessible.

Recommendations No. 2

We suggest that the wording be modified to reflect the fact that this requirement is already included in the "A.I.D. Evaluation Handbook" which constitutes Agency policy, and that AA/PPC "reaffirm" this requirement in a statement to bureaus and missions.

Recommendation No. 3

Sections (a), (d) and (e) of this recommendation would simply have us repeat the requirements already established as policy in the new evaluation handbook for establishing "information plans" in new projects by inserting cross references in related chapters of Handbook-3. This is probably worth doing, but is not establishing new policy, and your report language should reflect that fact. We would not, however, require the actions described in sections (b) and (c) because they are too detailed. In particular, section (c) is an overly detailed guidance requirement. As a practical matter, there is no way for designers to forecast, with sufficient precision to build such a requirement into the project design, exactly how the technical assistance (TA) needs of the project will be contracted. The assigned project officer must determine how best to assign roles for data collection and analysis to support the project's management information system, as well as the format in which various contractors should submit their reports, depending on how and when TA tasks fit into project implementation.

Recommendation No. 4

We concur with this recommendation with the exception of section (b) and the wording of section (d). Once again, our project officers must be able to exercise judgement and have latitude in determining whether, how, and when particular contractors and host government agencies (if any) should report progress against particular benchmarks in a project's management information system. Also, section (d) requires rewording to reflect the fact that project officers do not have unilateral authority to adjust project targets, especially at the purpose and goal levels. We suggest new wording such as "..periodically assess the relevance of quantifiable indicators.." and add the following clause:"...and document any decisions by A.I.D. and the borrower or grantee to adjust the indicators as the basis for subsequent implementation, monitoring and evaluation."

Recommendation No. 5

Recommendation 5(a) should be reworded to reflect the fact that comprehensive guidelines on the use of deob-reob authority are already in place and the Agency encourages the use of that authority as a portfolio management tool within limitations imposed by the budget process. We are in the process of reviewing those guidelines to determine the extent to which clarification is in order with respect to the deobligation and reobligation of no-year funds -- which fall outside of deob-reob authority.

Several bureaus are making credible attempts to identify unneeded or unproductive financial resources during their periodic portfolio implementation reviews or action plan reviews. We recognize, however, that the reviews themselves may not be uniform among missions or bureaus.

Recommendation 5(b) is too detailed and inappropriate for world-wide guidance. Excessive specification could be extremely counterproductive given the wide variation of country and project circumstances in which A.I.D. operates. Also, it would constrain the judgement and flexibility expected of the geographic bureaus and missions in responding to a variety of circumstances.

Recommendation 5(c) is a useful comment and we will consider its implementation.

Recommendation No. 6

The points made regarding PACD extensions are by and large thoughtful and pertinent. However, the report gives the impression that there is something inherently wrong in the fact that PACDs are often extended. This impression is not correct. A PACD extension often results from the sheer difficulty of anticipating exactly in the project design when the desired results will be achieved; as a bridge to an additional stage in the project (the funding for which is sometimes picked up by another donor); or for reasons that are entirely external to the project, such as for delays caused by weather or unforseen technical or political difficulties. Further, PACDs are sometimes deliberately based on an optimistic schedule for project implementation in order to prod host country decisions. Using the PACD, at least in part, as a goal rather than as a conservative assessment of project pace is a common tactic of good managers. If PACD extensions are made too onerous project designers will respond by simply lengthening the project implementation period unnecessarily, thereby losing some of the impetus for action. With respect to the six specific parts of this recommendation:

(a) We would want to qualify any such request for a "formal" (see page vi of the Executive Summary) identification of "the advantages and disadvantages of alternative investment strategies" for small amounts of money, as this could otherwise be construed to require rather extensive and costly project design and analysis.

(b) Expanding the scope of an existing project, whether in conjunction with extending the PACD or not, already requires, at a minimum, AID/W approval of a PP Supplement, which must be supported by strong justification based on sound analysis of, among other things, its development impact, before amending the Project Authorization and the Project Agreement (see Para. 13D3a of HB 3, Ch. 13). It would be redundant to add this requirement to the PACD extension section of the same chapter of HB 3.

(c) Agree, the continued funding should be limited to those activities for which it is justified and approved.

(d) This is already required by HB 3, Ch. 13, Para. 13D6d(ii).

(e) This is required as a matter of policy in any project evaluation (see A.I.D. Evaluation Handbook), which should be done as a matter of course before extending a PACD.

(f) The preparation of Action Memoranda to document significant project decisions is standard management procedure, and the use of them is even mentioned in Para. 13D6d(iii), p. 13-11 of HB 3, under "Justification for Extensions."

LIST OF RECOMMENDATIONS

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Recommendation No. 1 — 5

We recommend that the Assistant Administrator for Program and Policy Coordination:

a. augment the basic precepts for mission project monitoring and portfolio oversight systems in Handbook 3, Chapter 11E1 to include identification and resolution of implementation problems which threaten the attainment of project objectives, and

b. amend Handbook 3, Chapter 11 to include more specific guidance on definition and resolution of major problems, placing strong emphasis on (1) developing the root causes, (2) establishing responsibility for taking corrective actions, (3) documenting and reporting on actions taken and results achieved to resolve problems, (4) tracking problems until they are resolved, and (5) forcing resolution of longstanding problems or documenting the reasons for nonresolution.

Recommendation No. 2 — 11

We recommend that the Assistant Administrator for Program and Policy Coordination issue a statement to bureaus and missions affirming that all project designs include reasonable and cost effective data management components and that funds and personnel be provided to make the components viable.

Recommendation No. 3 — 11

We recommend that the Assistant Administrator for Program and Policy Coordination modify Handbook 3, Chapter 3, "Project Development, Analysis and Presentation" to provide guidance on:

LIST OF RECOMMENDATIONS (Cont)

Page

Recommendation No. 3 (Cont) 11

a. the use of special covenants in Project Agreements when considered necessary to ensure that cooperating governments and A.I.D., participate in the gathering of baseline data before project activity gets underway as well as periodically during the implementation period, and

b. using contract scopes of work to spell out contractor roles in gathering data, incorporating interim benchmarks into annual work plans and requiring reporting of progress against benchmarks in progress reports to missions.

Recommendation No. 4 11

We recommend that the Assistant Administrator for Program and Policy Coordination consolidate in related chapters of Handbook 3, by cross reference to the new evaluation handbook, guidance that:

a. clearly defined objectively verifiable indicators, either quantitative or qualitative, be included in project papers to measure progress toward the project purpose or goal (end of project status) and that interim benchmarks be required to measure interim progress,

b. each project budget include cost effective data management components, and

c. each project design provide for a data management specialist for projects with information components requiring specialized expertise.

LIST OF RECOMMENDATIONS (Cont)

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Recommendation No. 5 — 12

We recommend that the Assistant Administrator for Program and Policy Coordination modify Handbook 3, Chapter 11, "Project Monitoring" to provide guidelines for:

a. incorporating performance data generated through the use of quantifiable indicators into project officer monitoring systems,

b. ensuring that progress reports from host government and technical assistance teams report on progress against indicators, including interim benchmarks,

c. utilizing performance data in project implementation status reporting and other mission management systems, and

d. requiring project officers to periodically assess the relevance of quantifiable indicators as conditions change and more realistic targets become apparent and document any decision by A.I.D. and the borrower or grantee to adjust the indicators as the basis for subsequent implementation, monitoring and evaluation.

Recommendation No. 6 — 19

We recommend that the Assistant Administrator for Program and Policy Coordination:

a. in coordinate with geographic bureaus assure that guidelines are comprehensive enough to identify and encourage the use deobligation- reobligation actions when appropriate (potential deobligation situations shown in Exhibit 4 of this report should be included in the guidelines);

LIST OF RECOMMENDATIONS (Cont)

Page

Recommendation No. 6 (Cont) 19

b. modify Handbook 3, Chapter 11 to require missions and bureaus, during portfolio reviews, to surface potential deobligation situations and highlight these situations in project implementation status reports and

c. establish a system to gather and maintain the same information on deobligation and reobligation of no-year funds as is presently done for annual funds to facilitate analyses of how well the Agency utilizes the deobligation-reobligation authority on a worldwide basis.

Recommendation No. 7 29

We recommend that the Assistant Administrator for Program and Policy Coordination revise Handbook 3, Chapter 13 guidance on decisions to extend Project Assistance Completion Dates to require bureaus and missions:

a. to set forth project progress compared to what was planned, specify the amount of funds involved in the extension and the rate of expenditure and identify the advantages and disadvantages of alternative investment strategies;

b. in cases where projects have essentially completed most of the activities in the Project Agreement, to determine whether greater development impact could be obtained by expanding the scope of the existing project or releasing the funds to other projects;

c. for extensions justified on the basis of a specific activity, to limit the extension to that activity only, with funding for other activities terminated as originally planned;

LIST OF RECOMMENDATIONS (Cont)

d. to make an assessment of the recipient's willingness and ability to take the actions necessary to resolve any problems and

e. to document the above in final action memorandums.

APPENDIX 3

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