

Regional Inspector General for Audit
Bonn

Audit of the Department of Commerce's
Consortia of American Businesses
in the New Independent States Program

Report No. 8-110-93-11
September 24, 1993



Commonwealth of Independent States



Final borders of Estonia, Latvia, and Lithuania with the former Soviet Union are expected to be confirmed by agreement. Other boundaries represent information of necessary authoritative.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

September 24, 1993

MEMORANDUM

TO: Director, NIS Task Force, Malcolm Butler

FROM: *for* RIG/A/BONN, *James R. Bonnell*
John P. Competello

SUBJECT: Audit Report on the Department of Commerce's Consortia of American Businesses in the New Independent States Program (Audit Report No. 8-110-93-11)

This is the report on our audit of the Department of Commerce's Interagency Agreement with the NIS Task Force for the Consortia of American Businesses in the New Independent States Program (CABNIS). In preparing the report, we took into consideration the NIS Task Force and Department of Commerce comments provided on a draft of this report. Those comments are attached as Appendices II and III, respectively. We also acknowledge receipt of the NIS Task Force representation letter that was provided and which we found to meet our needs.

We cannot agree with the NIS Task Force's position suggesting that we redirect our recommendations to the Office of the Coordinator, within the Department of State, and the Department of Commerce. We believe that as a signatory to the interagency agreement, A.I.D.'s NIS Task Force has a fundamental responsibility for ensuring the effective use of funds appropriated to the Agency even after those funds are transferred to other U.S. government agencies. Your willingness to follow-up with the Department of Commerce to elicit appropriate responses to the recommendation is appreciated; however, this effort simply does not go far enough to ensure that corrective action is taken. Therefore, this report continues to ask that the NIS Task Force work with the Department of Commerce to see that corrective actions are taken. Since we have not reached agreement on this issue, the recommendation is considered unresolved.

Please provide us comments within 30 days on any actions taken to implement the report recommendation. If we cannot reach agreement, we will consider forwarding the report recommendation to the Deputy Administrator for resolution. I appreciate the courtesies and cooperation extended to my staff during the audit.

Background

A large portion of A.I.D.'s New Independent States (NIS) program funding is transferred to other U.S. government agencies using interagency agreements. As of July 31, 1993, A.I.D. had transferred approximately \$177.2 million, representing about 26 percent of A.I.D.'s NIS funds, to 11 U.S. government agencies. Of this amount, the NIS Task Force had transferred approximately \$5 million to the Department of Commerce to implement CABNIS.

Under the terms of the interagency agreement, the Department of Commerce's International Trade Administration, Office of Export Trading Company Affairs implements CABNIS in accordance with the purposes as described in an attachment to the agreement. By establishing consortia to represent member U.S. businesses, CABNIS assists the businesses in building a commercial presence in the NIS. Under the program, the International Trade Administration makes grants to U.S. trade associations to pay up to half the costs, not to exceed \$500,000, of establishing the consortia.

In our February 1993 audit report dealing with interagency agreements¹ we pointed out that A.I.D.'s oversight role for funds transferred to other U.S. government agencies under A.I.D.'s Central and East Europe and NIS programs is unclear. With respect to the NIS program, we reported that the NIS Task Force has defined its oversight role as that of "broad monitoring to ensure complementarity and avoid duplication, but not to oversee or ensure proper implementation, contracting, and financial management" by other U.S. government agencies. However, we also pointed out that Congress and the State Coordinator may have different expectations as to A.I.D.'s oversight role and that the lack of clarity concerning A.I.D.'s role has created vulnerabilities within A.I.D.'s internal control structure—especially that of the NIS Task Force. Although we proposed various options that the A.I.D. Administrator, Department of State, and Congressional committees could consider to clarify A.I.D.'s oversight role, we know of no actions taken in this regard. Thus, A.I.D.'s oversight role with respect to funds transferred to other U.S. government agencies remains unclear.

¹ *Audit Report No. 8-000-93-02, dated February 26, 1993, titled "A.I.D.'s Oversight Role for Interagency Agreements Under the Central and East Europe and New Independent States Programs Needs Clarification"*

Audit Objective

The objective of our audit of the Consortia of American Businesses in the New Independent States Program was to answer the following question:

- What were A.I.D. funds used for and what results were being achieved in relation to the project purposes as stated in the NIS Task Force's interagency agreement with the Department of Commerce?

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

Audit Findings

What were A.I.D. funds used for and what results were being achieved in relation to the project purposes as stated in the NIS Task Force's interagency agreement with the Department of Commerce?

The International Trade Administration had awarded six grants of about \$500,000 each to U.S. trade associations under the Consortia of American Businesses in the Newly Independent States Program (CABNIS). The grants covered up to half the costs of establishing consortia offices in the NIS. Grant funds were being used to lease office space, purchase office furniture and equipment, and hire staff. Plans call for awarding at least three additional grants.

Consortia that had been established were in very early stages of operation. However, as discussed below, we were unable to determine what results in relation to the program purposes were being achieved for CABNIS because of a lack of reporting on specific objectives and progress indicators.

Results and Progress Difficult to Measure

Specific objectives and progress indicators were established for activities implemented with CABNIS funds. Sound management practices require reporting on the specific objectives and progress indicators to provide managers with information needed to monitor progress, identify problems, evaluate impact, and ensure sustainable results. However, quarterly progress reports submitted to the International Trade Administration did not report on specific objectives and progress indicators. Such

reporting was not done because CABNIS grant agreements did not specify the content and format of quarterly progress reports required from grantees. Unless grantees are required to report on specific objectives and progress indicators, International Trade Administration officials will not be able to adequately monitor program progress, identify and correct problems, evaluate impact, and ensure that CABNIS activities achieve sustainable results.

Recommendation No. 1: We recommend that the Director, New Independent States Task Force:

- 1.1 formally request the Department of Commerce's International Trade Administration to amend the CABNIS grant agreements to specify the content and format of quarterly progress reports to include reporting on specific objectives and progress indicators needed to monitor progress, identify problems, evaluate impact, and ensure sustainable results; and**
- 1.2 follow-up with the International Trade Administration to ensure appropriate corrective actions have been taken.**

CABNIS grant agreements included work plans specifying objectives and progress indicators for the consortia established with grant funds. In preparing CABNIS proposals, U.S. trade associations developed work plans specifying the objectives and progress indicators for the proposed consortia. These work plans were incorporated into the grant agreements.

Sound management practices require reporting on specific objectives and progress indicators to provide managers with information needed to monitor progress, identify problems, evaluate impact, and ensure sustainable results. At the time of the audit, only two consortia had been operating long enough to prepare progress reports. Grantees for those consortia had each submitted two quarterly progress reports to the International Trade Administration. Analysis showed that the reports did not describe progress in achieving most of the specific objectives and progress indicators contained in the work plans. For example:

- The work plan for the Telecommunications and Electronics Consortium established three specific objectives for the "start-up phase," October 1992 through May 1993. The consortium would: (1) solicit private sector membership; (2) develop a detailed business plan; and (3) establish committees to direct site selection, solicit membership, and determine the services and programs to be offered

by the consortium. However, the two quarterly progress reports covering most of the period (January through March 1993) addressed—in very general terms—only efforts to solicit private sector membership. The reports did not discuss the other two specific objectives.

- The work plan for the Food Processing Consortium identified 19 progress indicators to be accomplished between October 1992 and March 1993. These progress indicators included publishing a directory of Russian food industries, conducting a food seminar in Russia, and disseminating market studies on NIS countries to U.S. government agencies. However, the two quarterly progress reports covering the six-month period discussed only six of the 19 tasks.

Although CABNIS grant agreements required grantees to submit quarterly progress reports, the agreements did not specify the format and content of the reports. As a result, grantees were not reporting on specific objectives and progress indicators. Such reporting is essential to provide International Trade Administration officials information needed to monitor progress, identify and correct problems, evaluate impact, and ensure that sustainable results are achieved.

In response to a draft of this report, International Trade Administration officials emphasized that at the time of the audit only two consortia had been operating long enough to prepare required quarterly progress reports. At that time, the quarterly report format required each grantee to provide information on progress in relation to its individual scope of work. International Trade Administration officials said that they recognized the need to improve the quarterly report format and expanded it to obtain increased data that will be useful in evaluating grantee performance and program effectiveness. The officials noted that they have reiterated to each CABNIS grantee the requirement to report on progress in fulfilling objectives specified in approved workplans and each has expressed a willingness to comply with the revised report format.

International Trade Administration officials also noted that reviewing quarterly progress reports submitted by grantees was one of three methods used to monitor grantee progress. Quarterly report reviews are supplemented by day-to-day communication with individual grantees and frequent on-site inspection tours. Officials believe that through this three-prong approach, they will be able to effectively monitor CABNIS grant activities.

We realize that the audit was done early in the CABNIS program and that only two consortia had been operating long enough to prepare quarterly progress reports. In addition, we agree that the revised format for quarterly progress reports supplemented by day-to-day communication with grantees and frequent site visits should be an effective monitoring system for CABNIS grantees. However, we believe that action must be taken to amend the CABNIS grant agreements to specify the format and content of quarterly progress report and require that grantees report on specific objectives and progress indicators. Otherwise, information needed by managers to identify problems and take corrective actions, monitor progress, evaluate impact, and ensure sustainable results may not be provided by the grantees.

Management Comments and Our Evaluation

In responding to a draft of this report, the NIS Task Force stated that it is in agreement with the general thrust of the recommendation contained in the report. However, the Task Force maintains it is limited by the Freedom Support Act, the authorizing legislation for the NIS program, and staffing from taking a more proactive role to "ensure" the implementation of the recommendation proposed in this report.

For example, the Task Force cited section 102 (d) of the Freedom Support Act entitled, "Accountability For Funds", which states:

Any Agency managing and implementing an assistance program for the independent states of the former Soviet Union shall be accountable for any funds made available to it for such programs.

According to the Task Force, based on the above legislative language, the Department of Commerce, not A.I.D., has the authority and responsibility to implement the recommendation made in this report.

The Task Force noted that in developing its standard format for interagency agreements it was careful to ensure that the terms of the agreements were consistent with the Freedom Support Act and that responsibility for implementation was clearly defined. The Task Force further noted that A.I.D. staffed the Task Force at levels consistent with the limited management and accountability role as defined under the Freedom Support Act. Consequently, according to the Task Force, it is not in the position, based on current law or staffing levels, to expand its management and accountability responsibilities beyond where they currently rest.

The Task Force stated that its approach to interagency agreements was consistent with congressional intent and was good management. Also, until it receives additional guidance from the Agency and staff needed to implement any increased responsibilities, it must continue to manage interagency agreements as discussed above. The Task Force suggested that we direct the recommendation to the Office of the Coordinator, within the Department of State, and to the Department of Commerce. The Task Force agreed, however, to provide the necessary follow-up with the Department of Commerce to elicit appropriate responses to the recommendation.

We cannot agree with the NIS Task Force's position suggesting that we redirect our recommendation to the Office of the Coordinator, within the Department of State, and to the Department of Commerce. We believe that as a signatory to the interagency agreement, the Task Force has a fundamental responsibility for ensuring the effective use of funds appropriated to the Agency even after those funds are transferred to other U.S. Government agencies. The Task Force's offer to act as a channel of communication for responses to the audit recommendation with the Department of Commerce and our office simply does not go far enough to ensure that corrective action is taken.

The Task Force's assertion that their approach to interagency agreements was consistent with congressional intent and represented good management is also not entirely supported. First, with regard to congressional intent, our February 1993 report on A.I.D.'s oversight role for interagency agreements concluded that there was less than complete acceptance, at least by key congressional staffers, that the NIS Task Force would have little or no responsibility for A.I.D. appropriated funds once they had been transferred to other U.S. government agencies.

Second, and perhaps more important, we do not consider it good Agency management to have the NIS Task Force and the Bureau for Europe assume differing roles in monitoring and providing oversight for interagency agreements. The Bureau for Europe, responding in part to its 1993 Appropriation Act language, has accepted more responsibility for ensuring that programs carried out by other U.S. government agencies with A.I.D. funding are effectively implemented. One specific procedure being used is requiring other agencies to prepare country-specific workplans containing specific objectives and progress indicators for the programs being implemented. Thus, we have the current situation where the Department of Commerce, which has interagency agreements with both the NIS Task Force and the Bureau for Europe, being faced with different requirements. This simply does not make good sense, nor good management.

In summary, this report continues to direct the recommendation to the NIS Task Force, not to the Department of State or the Department of Commerce. We consider the recommendation unresolved and, unless appropriate action is taken, we will consider forwarding the recommendation to the Deputy Administrator for resolution in accordance with Agency and Office of Inspector General guidelines.

<p>SCOPE AND METHODOLOGY</p>

We audited the Consortia of American Businesses in the New Independent States Program (CABNIS). The program is implemented by the U.S. Department of Commerce's International Trade Administration, Office of Export Trading Company Affairs under an interagency agreement with A.I.D. The audit was conducted in accordance with generally accepted government auditing standards. The scope of the audit included approximately \$5 million transferred to Commerce by A.I.D. under an interagency agreement to support CABNIS. The purpose of the audit was to determine how the funds were being used and what results were being made in achieving the program purposes. The audit was conducted between March and August 1993.

The audit sought to determine (1) how funds transferred to Commerce for the CABNIS program were being used and (2) whether grantees were reporting on specific goals and objectives and progress indicators established for program activities. Audit work was conducted in Washington, D.C.; Moscow, Russia; and Kiev, Ukraine. The work consisted of:

- reviewing CABNIS documentation and contacting International Trade Administration officials in Washington;
- contacting three U.S. trade associations in Washington that received CABNIS grants;
- visiting three consortia in Moscow established with CABNIS funds;
- discussing with Commerce Attaches in Moscow and Kiev their roles in overseeing CABNIS activities; and
- interviewing USAID/Moscow and USAID/Kiev officials concerning the USAID Missions' roles in CABNIS.

9

We asserted criteria for the problem area discussed in the audit report because specific criteria did not exist. The problem area discusses our inability to measure results of the program in achieving its purposes because quarterly progress reports submitted to the International Trade Administration did not report on specific objectives and progress indicators. Grant agreements with the U.S. trade associations did not require such reporting. However, we believe that reporting on specific objectives and progress indicators is critical to the success of any assistance program. Without such reporting, program managers cannot identify problems and take corrective actions, monitor progress, evaluate impact, and ensure that sustainable results are achieved.



U.S. AGENCY FOR
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AUG 26 1993

Director
Task Force
for the New
Independent States

MEMORANDUM

TO: RIG/A/BONN, John P. Competello

FROM: Malcolm Butler *MB*

SUBJECT: Comments on Proposed Draft Audit Reports of the
Department of Commerce Interagency Agreements
(SABIT/CABNIS)

The New Independent States Task Force (NIS/TF) appreciates having the opportunity to comment on the draft audit reports covering the SABIT and CABNIS programs which are being implemented under inter-agency agreements between A.I.D. and the Department of Commerce. The Task Force is in agreement with the general thrust of the recommendations contained in the reports, i.e. the SABIT and CABNIS programs could benefit from better benchmarking and oversight. However, we are limited by the FREEDOM Support Act (FSA) and staffing limitations from taking a more proactive role in order to "ensure" the implementation of the recommendations as currently proposed in the draft reports.

Section 102 (d) of the FSA entitled, "Accountability For Funds" states any agency managing and implementing an assistance program for NIS countries "shall be accountable for any funds made available to it for such program." A.I.D. has made available funds to the Department of Commerce for these programs, and Commerce is the "managing and implementing" agency within the meaning of Section 102 (d) and is accordingly accountable for its management of the programs in question. Put simply, the Department of Commerce, not AID, under the FSA has the authority and responsibility to implement the recommendations made by the AID/IG.

In developing our standard format for interagency agreements (IAA's), we were careful to ensure that the terms of the agreements were consistent with the FSA legislation and that responsibility for implementation was clearly defined. A.I.D. has staffed the Task Force at levels consistent with the limited management and accountability role as defined under the FSA. Consequently, the Task Force is not in the position based on current law or staffing levels to expand its management and accountability responsibilities beyond where they currently rest.

Apart from the issues surrounding accountability and management responsibilities, there were a few items, which we noted during our review, which should be reflected in the final audit reports. For the most part, these items pertain to both audits:

- 1) On page 1, paragraph 1 of the Background section, both reports cite September 30, 1992 figures for the amounts transferred to other government agencies. As of July 31, 1993, our records indicate we had obligated or transferred approximately \$177.2 million to 11 U.S. Government agencies, representing 26% of NIS funds.
- 2) In both reports on page 1, paragraph 3 of the Background section, you state that "the agreement does not delineate the specific roles and responsibilities of the Department of Commerce or the NIS Task Force for program implementation, monitoring, or evaluation." The statement is inaccurate. We have clearly indicated in our Interagency Agreement Standard Provisions, consistent with the provisions of the FREEDOM Support Act, that the recipient agency is fully accountable for all funds made available to it which includes complete responsibility for implementation, monitoring and evaluation. We buttress this point in Section F (Implementation and Monitoring) of our Interagency Agreement Standard Provisions by stating "overall Program supervision shall be the responsibility of the recipient agency."
- 3) Appendix I of the SABIT discussion paper states that there was an "inability to measure results of the program in achieving its overall objectives because specific objectives and progress indicators had not been established. The interagency agreement between A.I.D. and Commerce does not require these elements." We agree that the Department of Commerce should establish specific objectives and progress indicators. However, they do not belong in the interagency agreement as you recommend; rather, the Department of Commerce should establish means to monitor its own performance and for preparing the quarterly progress report to the NIS Task Force required by the Agreement, the purpose of which is to "report progress made in each of the major activities financed under the Agreement, identify implementation problems and propose corrective actions

necessary for the successful completion of the program."

We believe our approach is not only consistent with congressional intent but also represents sound management. We are however, aware that there are Agency-wide policy issues concerning AID's responsibilities in monitoring IAA's; and in advising Agency management of the arrangements included in our IAA's, we have pointed this out. Until and unless we receive additional guidance from the Agency, and staff needed to implement any increased responsibilities, we must continue to manage IAA's as discussed in this response.

In closing, we ask that the final audit reports on the SABIT and CABNIS programs respect the clear lines of accountability established by the FREEDOM Support Act, and direct the recommendations to the Office of the Coordinator, within the Department of State, and the Department of Commerce. NIS/TF will provide the necessary follow-up with the Department of Commerce to elicit appropriate responses to the recommendations and to communicate them to the appropriate officials in the Office of the Coordinator as well as the AID/IG.

12



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

SEP 17 1993

MEMORANDUM FOR: Frank DeGeorge
Inspector General

FROM: Timothy J. Hauser, Acting 

SUBJECT: Draft Report: Audit of Consortia of American
Businesses in the Newly Independent States
Grant Program Implemented by the Department
of Commerce Under an Interagency Agreement
with A.I.D.'s NIS Task Force

The draft report referenced above on the audit by the A.I.D. Regional Inspector General in Bonn (IG) has been reviewed. Attached are comments on the recommendations made by the A.I.D. IG.

We appreciate the opportunity to have our views included in the final report.

Attachment



RESPONSE TO RECOMMENDATIONS
IN THE DRAFT REPORT ON
THE AUDIT OF THE
CONSORTIA OF AMERICAN BUSINESSES IN THE NEWLY INDEPENDENT STATES
(CABNIS)
IMPLEMENTED BY THE DEPARTMENT OF COMMERCE UNDER
AN INTERAGENCY AGREEMENT WITH A.I.D.'S NIS TASK FORCE

GENERAL COMMENT

We appreciate the opportunity to comment on A.I.D.'s August 27, draft report on the results of its audit regarding Commerce's Consortia of American Businesses in the Newly Independent States (CABNIS) grant program, funded by the Agency for International Development. I trust that you will find the following information useful in ensuring our effective administration of the newly instituted program.

A.I.D. Recommendation: A.I.D. recommends "that the Director, New Independent States Task Force ensure the Department of Commerce's International Trade Administration amends the CABNIS grant agreements to require reporting on specific objectives and progress indicators needed to monitor progress, identify problems, evaluate impact, and ensure sustainable results."

As mentioned in A.I.D.'s draft report, only two consortia had been operating long enough to prepare required quarterly progress reports. At that time, the quarterly report format required each grantee to provide information on progress made or not made in relation to their individual "scope of work." Prior to A.I.D.'s audit, our Office of Export Trading Company Affairs--OETCA (responsible for the administration of the CABNIS program) recognized the need to improve the quarterly report format. OETCA has clarified and expanded the interrogatories to obtain increased data that will be useful in evaluating individual grantee performance and program effectiveness. A copy of the new format was included in our July 8, response to your initial June 28, draft Report of Audit Findings (RAF).

As a follow-up to A.I.D.'s RAF, OETCA has formally reiterated to each CABNIS grantee the requirement to report on their progress in fulfilling objectives specified in their approved workplan. Each CABNIS grantee has expressed a willingness to comply with the revised report format.

When considering the Inspector General's above recommendation, the NIS Task Force should be aware that OETCA's system for monitoring grantee progress includes 1) the review of grantee quarterly progress reports; 2) OETCA's day-to-day communication with individual grantees; and, 3) frequent on-site inspection tours, which include not only inspection of grantee operations but also discussions with A.I.D. field representatives, U.S. Department of Agriculture officials and Commerce's Foreign Commercial Service staff. We believe that this three-prong

-15-

approach will ensure our effective monitoring of the grant projects.

Again, we appreciate the opportunity to provide you with additional information.

16

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