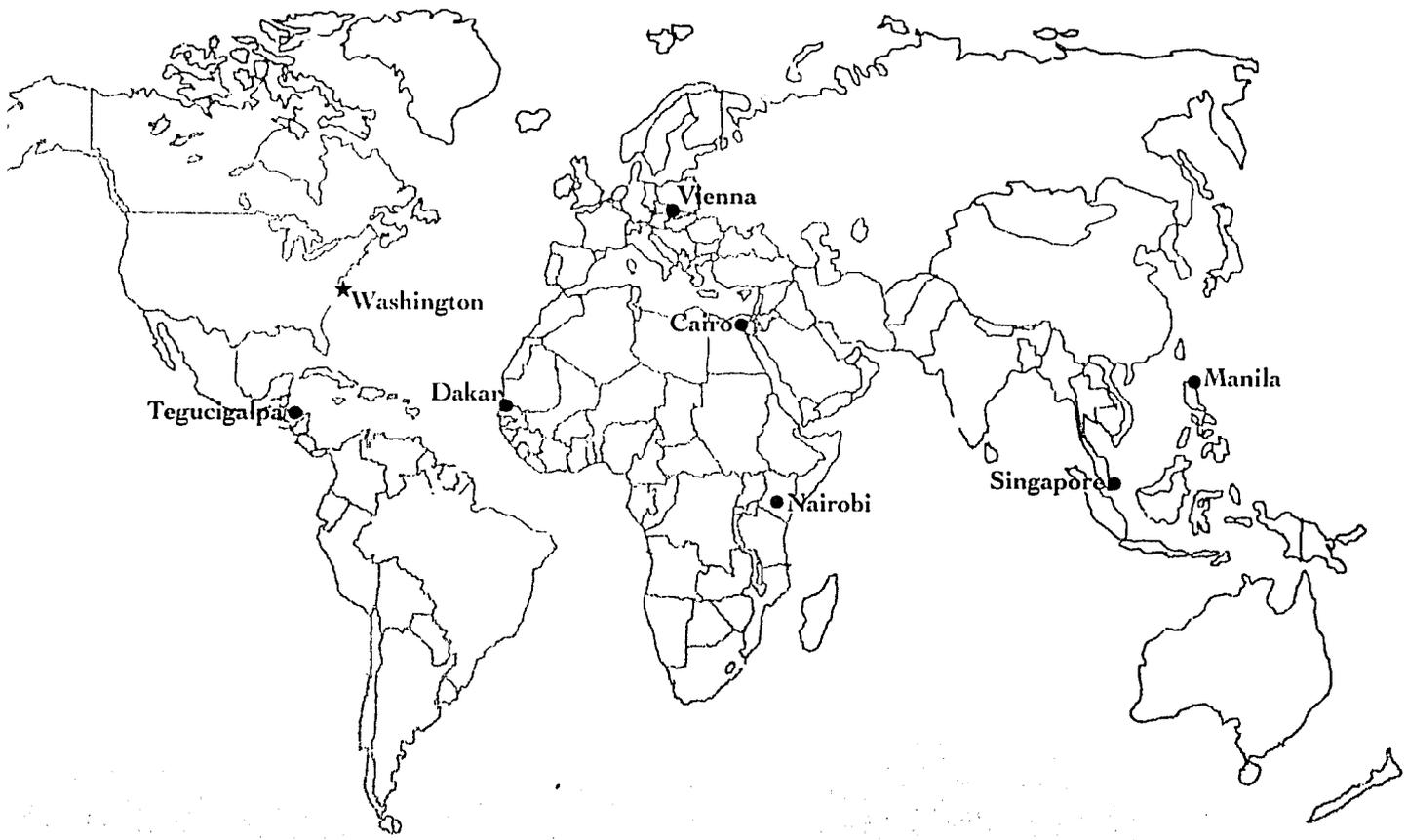

Summary Report
Audits of the Department of Labor's
Technical Assistance Activities
in Central and Eastern Europe

Report No. 8-180-94-007
March 25, 1994





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

March 25, 1994

MEMORANDUM FOR AA/ENI, Thomas A. Dine

Assistant Inspector
General for
Audit

FROM:

AIG/A, James B. Durnil

SUBJECT:

Summary of the USAID Office of Inspector General
Audits of the Department of Labor's Technical
Assistance Activities in Central and Eastern Europe
(Audit Report No. 8-180-94-007)

The enclosed audit report summarizes the results of our audits of the Department of Labor's (DOL) technical assistance activities in Central and Eastern Europe (CEE). Our audits were conducted in three CEE countries—Bulgaria, Hungary and Poland. We believe that the audit problems found in these three countries are reflective of the programs operations being carried out by DOL in other CEE countries. Further, our current audit efforts on Interagency Agreements with the Departments of Commerce, Energy and Treasury, and the Nuclear Regulatory Commission are finding similar problems.

While DOL's technical assistance activities were achieving some significant results, the three audits identified areas where DOL's assistance activities can be improved. For example, DOL's technical assistance activities in Bulgaria and Poland lacked specific objectives and progress indicators making it difficult to measure the results of these activities. Also, audit work in Hungary determined that USAID's role and responsibility with respect to DOL's assistance activities needed clarification. The three audit reports made recommendations to improve DOL's programs and address problems caused by the uncertainty as to USAID's oversight role and responsibilities. Both USAID and DOL have been very responsive to the audit report recommendations. USAID is working with DOL to implement a new requirement for DOL to provide country-specific workplans containing, among other things, benchmark indicators of progress toward achieving its program goals and objectives. USAID also took actions to clarify its oversight role and responsibilities for DOL's programs.

With respect to whether the Offices of the USAID Representatives were carrying out their responsibilities for the DOL interagency agreements in accordance with applicable legislative and internal requirements, the three audits found varying degrees of involvement by the USAID Representatives with DOL's assistance activities. While the oversight role of the USAID Representatives in Hungary and Poland for DOL activities was limited at the time of the audits, the oversight role in both countries was expected to increase. The audits found, however, that the offices in both countries lacked key documents needed to monitor DOL's programs. In response to the audit report recommendations, USAID was assisting the USAID Representatives in obtaining these key documents.

The ENI/EUR corrective actions are being applied, in most instances, on a system-wide basis, and there is a good likelihood that similar problems in other CEE countries will also be addressed by ENI/EUR actions. Therefore, we are not making any recommendations at this time but would like to bring to your attention the three common problems found in the DOL activities.

Enclosure: a/s

b

INTRODUCTION

Background

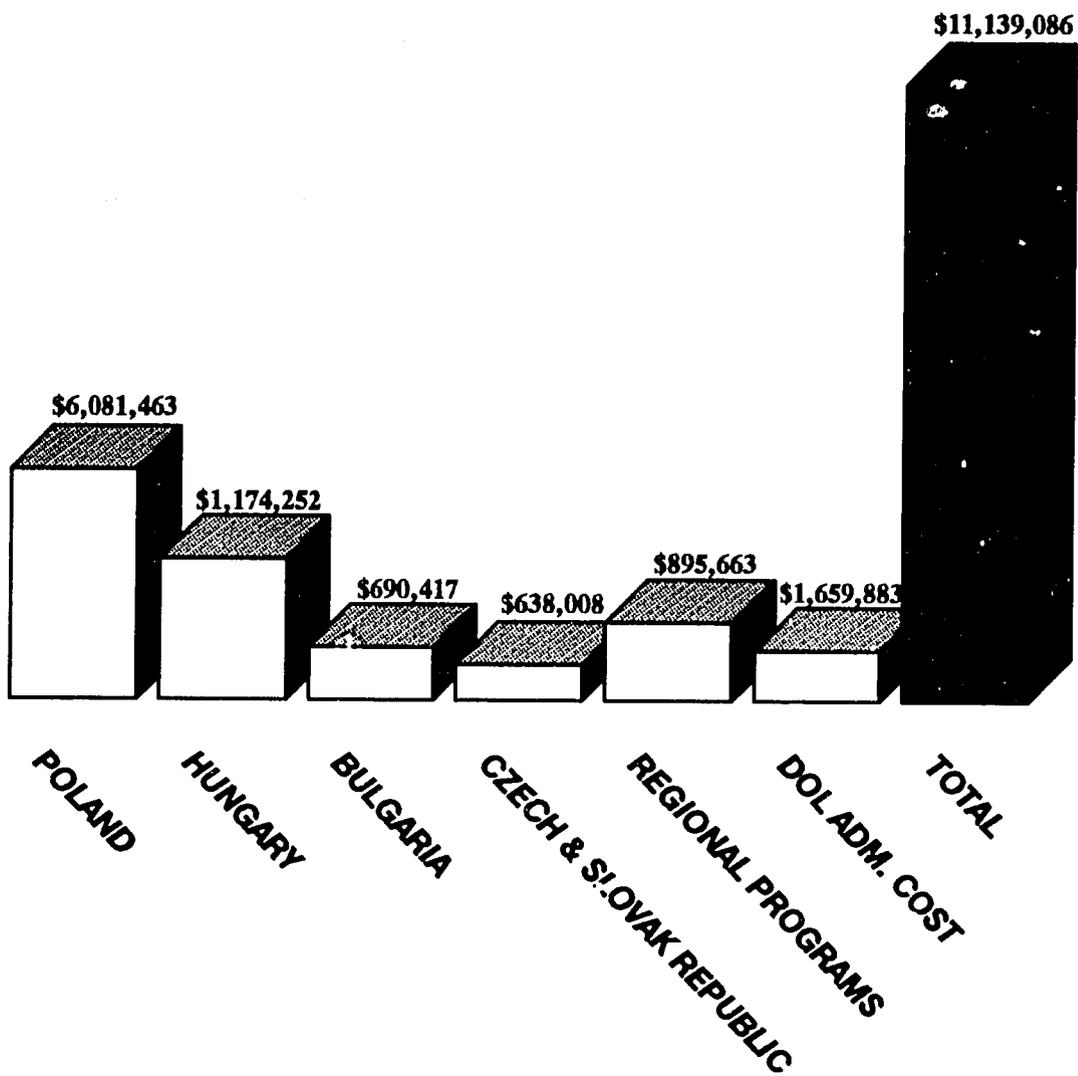
A large portion of USAID's Central and Eastern Europe (CEE) program funding is transferred to other U.S. government agencies using interagency agreements. As of September 30, 1993, USAID transferred approximately \$19.7 million, under seven interagency agreements, to the U.S. Department of Labor (DOL) for the purpose of implementing labor market transition programs in seven CEE countries and the Baltic States (Estonia, Latvia and Lithuania). The chart on the next page shows DOL's cumulative expenditures under the seven interagency agreements through September 30, 1993 by country, regional programs, and DOL's administrative costs.

The following briefly summarizes the employment-related problems in the three countries audited which DOL's program is attempting to alleviate.

In Bulgaria, the transition from a command economy to a market economy led to increased unemployment throughout the country. Prior to the collapse of the communist regime in November 1989, there was practically no unemployment. As of March 1993, the official unemployment rate in Bulgaria was approaching 16 percent—or close to 600,000 people—in a work force of about 4 million. American Embassy, USAID, and other donor officials told us that the actual unemployment rate is probably higher than the 16 percent official rate.

In Hungary, following the change of the political and economic regime in 1990, the labor market had to cope with employment problems caused by the change to a market economy. Hungary's unemployment rate—12.6 percent in June 1993—ranks among the highest in Central and Eastern Europe. Many of the unemployed have exhausted their benefits and reportedly are no longer registered as jobless. Also, small, single-industry towns which we visited during our audit such as Komlo, Encs, Ozd, and Selye have even higher unemployment rates. For example, Komlo is said to have an unemployment rate of about 28 percent and Selye reportedly has a rate approaching 39 percent.

**DOL'S CUMULATIVE EXPENDITURES
AS OF SEPTEMBER 30, 1993**



Source: DOL's Quarterly Financial Reports

In Poland, the move from a centrally planned to a market economy produced a sharp increase in unemployment throughout the country. As of November 1992, the unemployment rate in Poland was approaching 14 percent— close to 2.5 million people out of a workforce of approximately 18 million.

It is clear that USAID assistance cannot do all that is needed to address these serious employment problems caused by moves to market economies. However, under USAID-funded programs, the DOL has provided a wide range of technical assistance in selected CEE countries to help address problems caused by mass layoffs and increasing unemployment. DOL assistance has included:

- helping the countries restructure their employment services;
 - helping to establish entrepreneurial skills and self-employment training programs;
 - providing policy, strategic, and technical guidance in such areas as occupational safety and health, and labor statistical collection and methodology; and
 - sponsoring conferences and study tours to the U.S.
-
-

REPORT OF AUDIT FINDINGS

What were USAID funds used for and what results were being achieved under the Regional Mission for Europe's interagency agreements with the Department of Labor?

In the three countries we visited DOL had spent approximately \$7.9 million as of September 30, 1993, on such activities as:

- upgrading employment services offices (approximately \$448,000 in Bulgaria and \$592,000 in Hungary);
- providing self-employment and entrepreneurial skills training (approximately \$595,000 in Poland and \$123,000 in Hungary);
- establishing construction crafts skills training centers in Poland (approximately \$2.3 million); and
- operating an American Polish Labor Center in Warsaw, Poland (approximately \$260,000).

A large portion of DOL's expenditures funded contractors and grantees implementing technical assistance programs. In Poland, for example, DOL had a \$2.3 million cooperative agreement with the AFL-CIO to establish the construction crafts skill training centers located in Praga and Gdynia. Additionally, DOL used funds to pay for travel and per diem costs associated with sending technical assistance teams (made up of employees, or former employees, from several U.S. state employment services agencies) to countries it was assisting. Funds were also used for travel, per diem, and the salaries of DOL officials assigned to work on the programs.

In the three countries we visited DOL was also implementing programs in the areas of social insurance reforms, labor management relations, occupational safety and health, and labor statistics. We did not audit these programs because they had either

just begun or had expended only a small portion of funds relative to DOL's other technical assistance programs.

DOL's technical assistance activities were achieving some significant results. For example:

- DOL helped establish model employment services offices in all three countries visited, offices used to demonstrate new and improved employment service concepts. Some of the techniques introduced in the DOL-assisted model offices, such as job registration cards, job centers, improved organizational structures, were being adopted on a nationwide basis in other employment offices. Also, local employment office officials told us DOL helped to educate them in how to better deal with the vast numbers of unemployed workers.
- In Poland, DOL, through its cooperative agreement with the AFL-CIO, established two construction crafts skills training centers to train unemployed workers in the latest construction techniques. According to the Center's Director, virtually all graduates were able to find employment, some even starting their own businesses. Graduates we interviewed were very enthusiastic about the training they received.
- Also in Poland, DOL, through its grants with Ohio State University and later the Solidarity Economic Foundation, implemented a self-employment and entrepreneurial skills training program. Officials told us that over 4,000 poles have taken the course and that 570 program graduates have started their own businesses. Graduates we interviewed all spoke highly of the training.

Notwithstanding DOL's achievements, our audits identified areas where DOL's assistance activities can be improved. Also, our audits found that USAID's role and responsibility with respect to DOL's assistance activities needed to be clarified. These problems are briefly discussed below.

DOL's Technical Assistance Lacked Specific Objectives and Progress Indicators

Certain program design elements must be established to ensure technical assistance activities are properly focused and that information is available with which to measure the progress and results of such activities. DOL's technical assistance

activities in two of the three countries¹ visited, however, lacked specific objectives and progress indicators making it difficult to measure the results of this assistance.

In Bulgaria, for example, DOL was assisting the Government in developing its employment services offices and had helped establish three model employment offices with the idea of replicating the procedures and processes used in these model offices in all of Bulgaria's 122 employment offices. However, since DOL had not established any targets or timeframes for when its model office concept was to be replicated, it was difficult to determine what stage the replication process was in or when the replication process was to be completed. The absence of progress indicators also made it difficult to determine if the Government of Bulgaria actually was replicating the DOL-developed model or if barriers existed that prevented full replication.

DOL's technical assistance lacked specific objectives and progress indicators because, according to DOL officials, in the early stages of the CEE program DOL's programs were not viewed from a long-term perspective. The programs were initiated with the understanding that agencies, such as DOL, would get in and get out quickly. Further, according to DOL, during the early years, the thinking behind the replication process for the model employment services offices in Bulgaria and other countries was that the offices would replicate themselves due to the highly skilled employees in such countries. Furthermore, since there was no intention for DOL to participate in the replication process there was no reason for DOL to insist that the host government commit itself to a replication process that would include the documentation of quantifiable benchmarks.

USAID has recognized the need for DOL to develop specific objectives and progress indicators and in its most recent interagency agreement with DOL included a requirement for DOL to provide country-specific workplans containing benchmark indicators of progress toward achieving its program goals and objectives. We believe that implementation of this new requirement will help ensure that specific objectives and progress indicators are identified for DOL's technical assistance activities.

¹For the third country visited (Hungary), at the time of our visit DOL did not have a large on-going program but was proposing some new technical assistance activities. Our audit, therefore, focused on DOL's proposed program, identifying some problem areas which are discussed on page 8 of this report.

**Opportunities Exist to Improve
Effectiveness of DOL's Assistance Activities in Poland**

DOL's largest assistance program is directed at Poland. While DOL's assistance was achieving some significant results, our audit identified areas where DOL's technical assistance activities can be improved, particularly in looking toward the long-term continuation of this assistance.

For example, DOL, through its cooperative agreement with the AFL-CIO, was helping to develop construction crafts skills training centers located in Praga and Gdynia. While the Gdynia Center had not officially opened at the time of our audit, the Praga Center had been operating for two years. Both Centers were required to develop self-financing plans to ensure their continued operations after U.S. assistance is discontinued. Although the Praga Center has been seeking alternative funding sources, it had not developed a realistic plan for replacing DOL funding. Unless realistic self-financing plans are developed, the continuation of the Centers, once DOL funding ceases, is in doubt. Accordingly, we recommended that USAID ensure DOL's workplan for Poland provides for the development of a strategy for assisting the construction centers to become self-sufficient.

DOL was also supporting a self-employment and entrepreneurial skills training program. We found, however, that the program lacked some key linkages that could improve the program's impact, linkages in such areas as helping graduates obtain start-up business financing and providing follow-up technical assistance to graduates who started their own businesses. We recommended that USAID ensure DOL's annual workplan for Poland provide for the preparation of a plan for linking the training program with information on start-up capital and follow-up assistance activities.

Finally, DOL established and funded the operation of the American Polish Labor Center, located in Warsaw, to facilitate DOL's technical assistance activities in Poland. We found, however, that the Center's role with respect to DOL's assistance activities was not well defined. As a result, it was difficult to assess the Center's performance and to determine whether additional funding was warranted. We recommended that USAID ensure that DOL clarified the role the Center was expected to play with respect to DOL's technical assistance activities in Poland.

DOL was taking actions to improve its assistance activities along the lines we recommended. For example, DOL agreed that there is a need to find alternative funding sources for the two construction centers and was pursuing possible ways to

help ensure the sustainability of the centers once DOL funding ends. DOL also agreed that they needed to develop linkages to start-up capital and follow-up advice for its entrepreneurial skills training program and was in the process of doing so. Finally, DOL agreed that the role of the American Polish Labor Center was not well defined and decided to close the Center.

USAID's Role and Responsibility With Respect to DOL's Assistance Activities Needed Clarification

Our audit work in Hungary raised questions as to whether some components of DOL's proposed program for this country would address the most critical problem areas and whether some technical assistance activities were necessary. Questions concerning DOL's proposed program arose because of (1) problems encountered by USAID in implementing its new requirement for country-specific workplans and (2) uncertainty as to the roles and responsibilities of the USAID Representative for Hungary and the Regional Mission for Europe concerning DOL's programs in Hungary.

For example, the new interagency agreement, signed in June 1993, required, for the first time, that DOL submit, **in form and substance satisfactory to USAID**, annual country-specific workplans. While the agreement was not signed until June 1993, a draft of the agreement existed since early 1993. Acting on the instructions and guidance provided by the USAID project officer, DOL prepared its first workplan for Hungary and submitted it for approval to both the Regional Mission for Europe and the USAID Representative for Hungary in April 1993.

DOL officials told us that they received little guidance on how to prepare their workplan. Our review of the plan showed that it did not include all the information required by the new agreement, such as benchmark indicators toward achieving the program goals and objectives or identification of specific resources to be applied to achieve specific activities. In discussing DOL's workplan with the USAID Representative in Hungary, he stated that the format used by DOL, based on instructions from a USAID/Washington official, did not provide him the information he needed to determine if he could approve DOL's programs for Hungary.

In addition to the problems encountered by USAID in implementing the new workplan requirements, we also noted that there were questions as to the specific roles and responsibilities of the USAID Representative for Hungary and the Regional Mission for Europe with respect to DOL's programs. DOL officials noted that during the past year their relationships with the Regional Mission for Europe and the

USAID field representatives have been complicated by both legislative and procedural changes. They cited the Fiscal Year 1993 Foreign Operations Appropriation Act which gives USAID field representatives the authority to monitor programs such as DOL's—authority that did not exist in the past. DOL officials told us, however, it was unclear as to the division of responsibilities between USAID Washington-based project officials and the USAID representatives in the field.

USAID has taken actions to address these problems. In July 1993, for example, the Regional Mission for Europe issued a Mission Order to define the roles and responsibilities of project officers and their relationships to other USAID staff and USAID country representatives. The Regional Mission for Europe also provided specific guidance to DOL detailing the format and substance for the annual country-specific workplans, as well as the establishment of working arrangements for the preparation and submission of workplans.

Despite USAID's actions, DOL continued to believe that the role of the USAID Representative had still not been adequately clarified. DOL, for example, noted that it is to submit its workplans to the Regional Mission for Europe, but raised the question as to what its responsibility is to the USAID field representative. According to DOL, the three cornered relationship—the Regional Mission for Europe based in Washington, USAID field representatives, and the Department of State Coordinator—has caused a great deal of confusion. DOL maintained that, as a contracting agency, it should report to only one USAID entity and that clearly the USAID field representative should not have veto power over DOL's proposals after the Department of State Coordinator and USAID/Washington approval is granted.

We recognize the confusion caused by the evolving roles and responsibilities of the USAID field representatives and the Regional Mission for Europe and the difficulties experienced by DOL, and other U.S. government agencies, in trying to adapt and respond to these roles and responsibilities. We believe, however, that ENI/EUR has made a good faith effort to try and clarify the respective roles of the USAID field representatives and its Washington-based project officers. We plan to continue to look into the adequacy of the definition of the various roles and responsibilities in future audits of U.S. government agencies' activities carried out with funds transferred by USAID.

Did the Office of the USAID Representative carry out its oversight responsibilities for the Department of Labor interagency agreements in accordance with applicable legislative and internal requirements?

We found varying degrees of involvement by the USAID representatives with DOL's assistance activities in the three countries we visited. The USAID Representative in Bulgaria was carrying out its oversight responsibilities in accordance with applicable legislative and internal requirements. The USAID Representative in Poland's oversight role for DOL's activities was limited due to the extensive involvement of the Embassy's Labor Attache with DOL's technical assistance activities in Poland. The USAID Representative in Hungary was not fully carrying out its oversight responsibilities in accordance with applicable legislative and internal requirements but had improved its monitoring in recent months.

The following is additional information on the applicable legislative and internal requirements and how the three USAID Representatives were implementing them.

Details on Legislative and Internal Oversight Requirements and How Three USAID Representatives Implemented Them

The Fiscal Year 1993 Foreign Operations Appropriation Act states that, under the general direction of the President's Coordinator for United States Assistance for Eastern Europe and under the guidance of the Ambassador in each respective country in Eastern Europe and the Baltic States, the USAID Representative would be responsible for coordinating the implementation in the field of the overall activities of all U.S. government agencies in Eastern Europe and the Baltic States. In response to this legislation, the Regional Mission for Europe issued Mission Order No. 103, dated December 1, 1992, containing guidance for the USAID Representative on how to comply with this and other requirements contained in the Appropriation Act. With respect to activities carried out by other U.S. government agencies, the Mission Order stated that USAID Representatives will continue to be responsible for in-country oversight and monitoring of all activities financed by or through USAID in their countries.

In Bulgaria, we found the USAID Representative was monitoring DOL's activities in accordance with the Mission Order. The USAID Representative was well aware of DOL's assistance activities, having been periodically briefed by DOL teams. The

USAID Representative also reviewed DOL's budget proposals for Bulgaria and provided comments to USAID/Washington on its review.

In Hungary, we found that the USAID Representative had a limited oversight role with respect to DOL's activities in Hungary for three reasons. First, until early 1993, the Embassy's Labor Reporting Officer, not the USAID Representative, had primary responsibility for overseeing DOL's activities. Second, the USAID Representative maintained that his office did not have sufficient staff to monitor all USAID-funded activities in Hungary. Third, we found that the USAID Representative did not have key documents essential to monitoring DOL's activities.

In Poland, at the time of our field visit, the Embassy's Labor Attache was responsible for coordinating and monitoring DOL's activities in Poland, devoting about 50 percent of his time to this task. The USAID Representative defined his role as being knowledgeable about DOL's activities in Poland but, in view of the Labor Attache's role, not getting heavily involved with monitoring DOL's activities. The USAID Representative said that he was kept well informed of DOL's activities in Poland (both progress and problems) by the Labor Attache and was routinely briefed by visiting DOL project officials and contractors.

While the oversight role of the USAID Representatives in Hungary and Poland for DOL activities was limited at the time of our visit, the oversight role in both countries was expected to increase. We found, however, that the USAID Representatives in both countries lacked key documents concerning DOL's programs needed to monitor the programs. Responding to our recommendation, the Regional Mission for Europe is assisting the USAID Representatives in obtaining these key documents. Also, once DOL submits its country-specific workplans containing specific objectives and progress indicators, the ability of the USAID representative to monitor DOL activities will be greatly enhanced.

SCOPE AND METHODOLOGY

We audited the U.S. Department of Labor's (DOL) activities in Bulgaria, Hungary and Poland under its interagency agreement with the Regional Mission for Europe in accordance with generally accepted government auditing standards. We conducted the audits in Bulgaria, Hungary and Poland from April through October 1993. DOL's activities in these countries were selected for audit because DOL's assistance programs in the three countries accounted for the majority of its assistance activities in Central and Eastern Europe.

We reviewed DOL and USAID project documentation to: (1) determine the specific technical assistance objectives for activities in each of the three countries; (2) identify the amount of USAID funds budgeted for and expended by DOL; and, (3) determine if progress indicators had been established. We interviewed USAID, American Embassy, other donor, host government, and DOL officials in the U.S., Bulgaria, Hungary, and Poland to obtain their views on the effectiveness and usefulness of DOL's assistance activities. We visited selected project sites in each of the three countries and discussed with appropriate officials at these sites their views on the effectiveness and usefulness of DOL's technical assistance activities.

Additionally, where possible we interviewed recipients of DOL's assistance, such as graduates of the DOL-funded construction skills craft training centers and self-employment and entrepreneurial skills training programs in Poland, to discuss the adequacy and usefulness of the programs. We also interviewed USAID Representative officials to determine how they carried out their oversight responsibilities for DOL's technical assistance activities in the three countries visited.

For some of our audit findings we found it necessary to assert criteria for the finding because specific criteria did not exist. For example, in two of three countries we found DOL's technical assistance lacked specific objectives and progress indicators.

The interagency agreements in effect at the time of our audits did not require that DOL establish specific objectives for its technical assistance or develop progress indicators. We believe these program design elements—specific objectives and indicators of progress—are critical to the success of any assistance program and without them it is difficult to measure the results of this assistance. The Regional Mission for Europe's latest interagency agreement with DOL, signed on June 16, 1993, now requires DOL to provide country-specific workplans containing, among other things, benchmark indicators of progress toward achieving the program goals and objectives.

The objectives of our audits did not allow for sufficient testing to comment on the internal controls of either the Regional Mission for Europe or the Offices of the USAID Representatives. Therefore, we did not prepare a separate report on internal controls. We did, however, assess the USAID Representatives' for Bulgaria, Hungary and Poland internal controls for monitoring DOL's activities in their countries. Further, our audit work testing for compliance dealt only with whether the USAID Representatives in Bulgaria, Hungary and Poland were carrying out their oversight responsibilities for DOL's interagency agreement in accordance with the requirements contained in the Fiscal Year 1993 Foreign Operations Appropriation Act and Mission Order No. 103, concerning the role and responsibilities of the USAID Representatives for the activities being carried out by DOL.

RIG/A/BONN AUDIT REPORTS

AUDITS OF THE DEPARTMENT OF LABOR'S
TECHNICAL ASSISTANCE ACTIVITIES
IN CENTRAL AND EASTERN EUROPE

<u>Report Number/Date</u>	<u>Title</u>
8-183-93-06 8/12/93	Audit of the Department of Labor's Technical Assistance Activities in Bulgaria
8-185-93-09 9/24/93	Audit of the Department of Labor's Technical Assistance Activities in Hungary
3-181-94-01 11/15/93	Audit of the Department of Labor's Technical Assistance Activities in Poland

APPENDIX III

REPORT DISTRIBUTION

<u>Office</u>	<u>No. of Copies</u>
USAID Administrator (A/AID)	1
D/EEA	1
DOL/OFR	5
AA/ENI	1
A-DAA/ENI/PA	1
A-DAA/ENI/PO	1
ENI/EUR/DR	1
ENI/EUR/RME/DIR	1
ENI/EUR/RME/FMS	15
ENI/EUR/RME/ECA	1
ENI/EUR/RFMC/CEE/Budapest	1
AIDREPs/CEE Countries	1
USAID Missions/NIS	1
AA/G	1
LPA/XA/PR	1
GC	1
PPC/POL/CDIE/DI, Acquisitions	1
M/FA/MC	2
M/FA/FM/FPS	2
IG	1
AIG/A	1
IG/A/PPO	3
IG/LC	1
IG/A/FA	1
IG/A/PSA	1
AIG/RM	12
AIG/S&I	1
RIG/As	1

15