

PD-ABI-994

DN-89047

Agency for International Development
Washington, D.C. 20523

IMPORTANT

FOR -

→ Pres Mgmt Commis

→ AID's Vulnerability
Process

MAR 5 1991

→ C.F.O operation

MEMORANDUM

TO: AA/ENE, Carol C. Adelman

FROM: FM/C, Michael G. Usnick *M. Usnick*

SUBJECT: Financial Vulnerability Assessment of the Office of European Affairs

The Federal Managers Financial Integrity Act requires each executive department and agency to establish and maintain a system of internal controls to provide reasonable assurance that Government resources are protected against fraud, waste, mismanagement or misappropriation and that both existing and new program and administrative activities are effectively and efficiently managed to achieve the goals of the Agency.

Pursuant to OMB Circular A-123, "Internal Control Systems", the Office of Financial Management (FM) conducted a Financial Vulnerability Assessment of the Office of European Affairs (ENE/EUR). Transmitted herewith are three copies of the report for action by your office. The assessment was conducted during the period January 23, 1991 through February 18, 1991.

The Vulnerability Assessment process is similar to the initial diagnosis performed by hospital emergency room personnel. The vital signs of our programs or functions are examined so that attention may be given to the most critical areas. The purpose of the assessment is to make a judgment regarding the susceptibility of a program or function to waste, fraud, abuse, mismanagement or unfavorable public opinion.

The assessment process consists of the following four basic activities:

1. Analysis of the General Control Environment;
2. Analysis of Inherent Risk;
3. Preliminary Analysis of Internal Controls; and
4. Determination of Overall Vulnerability.

The methodology consisted of interviews with selected A.I.D. personnel familiar with various aspects of the EUR program; analysis of responses from approximately twenty EUR officers to detailed vulnerability assessment questionnaires; and an examination of various program and administrative documents.

The report identifies problems that are significant to the EUR program and classifies these problem areas as major weaknesses. Recommendations are included, where appropriate, and when implemented should reduce the vulnerabilities noted. The Office of Financial Management is available to assist the Bureau to the extent possible in implementing the recommendations.

I would appreciate you keeping this Office informed of actions planned or taken to implement the recommendations within thirty days of receipt of the assessment report.

Attachment: Three copies of Assessment Report

cc: A/AID, R. Roskens
DA/AID, M. Edelman
AA/LEG, R. Randlett
DAA/ENE, D. Merrill
ENE/EUR, D. Pressley
ENE/EUR, D. Larson

FINANCIAL VULNERABILITY ASSESSMENT
OF THE
EASTERN EUROPEAN PROGRAM

BUREAU FOR EUROPE AND NEAR EAST
AGENCY FOR INTERNATIONAL DEVELOPMENT

Office of Financial Management
February 1991

TABLE OF CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY	1
SCOPE OF WORK	2
BACKGROUND	3
RESULTS OF VULNERABILITY ASSESSMENT	4
I. GENERAL CONTROL ENVIRONMENT	4
A. ORGANIZATIONAL STRUCTURE	4
1. ORGANIZATION AND STAFF	4
2. CONTROLLER, ACCOUNTING, FUNDS CONTROL	7
3. ADMINISTRATIVE SUPPORT	11
4. MORALE	12
5. MANAGEMENT INFORMATION SYSTEM	12
6. FOOD AID/LOCAL CURRENCY MANAGEMENT	13
B. POLICIES/PROCEDURES	14
C. COMMUNICATIONS	15
D. BUDGETING	16
II. RISK ASSESSMENT	17
A. PURPOSE/POLICY	17
B. CHARACTERISTICS AND BUDGET LEVEL	18
C. AGE AND LIFE EXPECTANCY	19
D. DEGREE OF CENTRALIZATION	20
E. PRIOR REVIEWS	20

EXECUTIVE SUMMARY

This vulnerability assessment covers the financial management and administrative functions of the Office of Eastern European Affairs (ENE/EUR) as they apply to the the Eastern European program.

*leads to
be
a - anomaly
10/10/69*

We have concluded that the overall rating of the control environment is unsatisfactory. The "risk" factors for the ENE/EUR Office are assessed as between moderate to high.

The report identifies problems that are significant to the Eastern European program and that by professional standards are classified as material weaknesses. Recommendations are included where appropriate and, if they are implemented, should reduce the vulnerabilities noted.

The expressed needs of the Coordinator's Office (STATE) for maximum expediency in preparing program documentation, obligating and disbursing of funds by A.I.D., and broad application of the "notwithstanding any other provision of the law" clause in the legislation have contributed to a control environment that can only be rated as vulnerable and at a high degree of risk. Further, the separation of authority and planning (Coordinator and staff) from responsibility for program implementation (A.I.D.) contribute to a high level risk assessment. An accommodation should be reached with the Coordinator's Office leading to satisfactory operating procedures and reduced crisis management. (Recommendation #17, page 18.) There needs to be a basic understanding on the part of the Coordinator's Office of A.I.D.'s management and accountability requirements, which likely will be reinforced by Congress when implementation problems arise.

There are material weaknesses within the ENE/EUR office. The lack of an effective/efficient organizational structure; absence of clear-cut, written policies and procedures; faulty lines of communication; funds control violations; and a lack of secretarial and administrative support are examples. ENE/EUR is currently addressing many of these weaknesses, but given their large and labor intensive project portfolio and the design work scheduled for this fiscal year, the tasks appear almost overwhelming. The proliferation of projects with numerous project components will require much more monitoring than was initially anticipated by the managers of this program. The Agency can assist by providing adequate staffing, office space and operating expenses.

SCOPE OF WORK

This vulnerability assessment is not intended to be a full, in-depth analysis and will not attempt to recommend solutions to all problem situations which may be identified in the process. Further, a separate effort is presently underway with respect to assessment of project planning and design activities.

In general, this work involved a financial management and control assessment of the East European program and related support activities as follows:

- A. Analyzing the control environment, including but not limited to determining whether:
 1. the organization structure supports a system of controls;
 2. policies and procedures including delegations are clear-cut, understandable, and precisely stated so that established control systems are successfully used;
 3. data necessary for managing the program is collected, organized, and retained to support a system of internal controls; and
 4. organizational checks and balances exist to support a system of controls, self-assessment, and prompt follow-up and resolution of identified deficiencies and audit findings.
- B. Determining the potential risk for A.I.D. keeping in mind that all activities have a potential for loss, damage, or difficulty. Identifying problems that are significant to the East European program and that by current professional standards could be classified as material weaknesses.

The methodology for this assessment included interviewing selected A.I.D. personnel, both within and external to EUR, familiar with various aspects of the East European program, obtaining responses from approximately twenty ENE officers to extensive risk assessment and general control environment questionnaires, and examining program and administrative documents.

The format of the report basically follows the outline of the Agency's standard Vulnerability Assessment questionnaire. Therefore, some repetition in supporting the findings for various control environment and risk factors is unavoidable.

BACKGROUND

As democratic reform spread through Eastern Europe, the U.S. government recognized the need for a broad assistance effort, initially for the countries of Poland and Hungary, resulting in the Support for East European Democracy (SEED) Act of November 1989. Actual obligations for FY 1990 totaled \$286 million for ten projects with 28 components while the plans for FY 1991 envision 35 projects, over 65 project components and obligations of \$380 million, plus about \$70 million in food aid programs. This represents one of the largest (dollar volume and number of management units) program management responsibilities in the Agency.

In December 1989, the President appointed Deputy Secretary of State Lawrence S. Eagleburger as Coordinator for Eastern European Assistance. By law, the Coordinator is directly responsible for overseeing and coordinating all programs described in the SEED Act and all other activities conducted by the U.S. government in furtherance of the purposes of that Act. The President also named Michael J. Boskin, Chairman of the Council of Economic Advisors, and John E. Robson, Deputy Secretary of the Treasury, as Deputy Coordinators. Deputy Secretary of State, Lawrence S. Eagleburger, designated Robert L. Barry as his Special Adviser for East European Assistance. Ambassador Barry has a deputy and three special assistants. The latter have been assigned technical areas of responsibilities consistent with the categories of assistance provided in the legislation, as well as policy planning and liaison with the Agency for International Development (A.I.D.). A Coordinating Council consisting of all U.S. agencies involved in the assistance effort to Eastern Europe was formed. These arrangements represent the key coordinating mechanisms for the overall U.S. Government's efforts to promote political and economic reform in Eastern Europe. In mid 1990, the A.I.D. Administrator was invited to join the Coordinating Council.

A.I.D.'s role is to implement the assistance strategy developed by the Coordinator and to receive and account for apportionment of funds appropriated by Congress for Eastern European assistance. At the working level, A.I.D. must operate as part of an interagency team rather than as an independent agent, yet remain accountable for demonstrating that funds have been used prudently and effectively. A.I.D.'s job of rapid and quality programming is further complicated by a number of factors:

- o First, the institutional and managerial constraints in Eastern Europe require "hands-on" implementation rather than cash transfers.

- o Second, the greatest need is for top quality technical assistance that has to be drawn from the best talent in the private sector including business and universities. Frequently, this requires preparation of justifications for salary waivers.
- o Third, A.I.D. has to manage implementation in a way which maintains U.S. leadership, entailing co-financing with other donors and focusing on high visibility efforts with a maximum political impact.
- o Fourth, while working within the framework of the Coordinating Committee and Congressional directives, A.I.D. must meet fiduciary and accountability responsibilities.
- o Fifth, A.I.D. does not have an abundance of East European expertise and skills needed for projects in areas like promoting democratic reform or privatization in formerly Communist countries.

RESULTS OF VULNERABILITY ASSESSMENT

I. GENERAL CONTROL ENVIRONMENT

The overall rating of the Control Environment for the ENE/EUR Office is unsatisfactory.

A. ORGANIZATIONAL STRUCTURE

1. ORGANIZATION AND STAFF

To meet East European program responsibilities, A.I.D. reorganized the ANE Bureau, which is now the Bureau Europe and Near East (ENE) including an office dedicated to Eastern Europe (ENE/EUR). The ENE/EUR office has expanded from five officers in early 1990 to about 25 positions in February 1991, while receiving on-going support from various offices throughout the Bureau. Within the past year, the Bureau has assigned to the DAA/ENE/EUR position three different officers, with different philosophies of management, and/or styles of operations. The changes in DAA/ENE/EUR leadership were also accompanied by several changes in ENE/EUR staff members. An organization chart for ENE/EUR was not approved until February 1991, although the ENE/EUR Director submitted proposals to the previous DAA/ENE/EUR in June 1990. The organization chart was not published as of February 15, 1991 and presently almost all of ENE/EUR staff report directly to the ENE/EUR Director.

8

The Eastern European assistance program is described as "experimental." Experimental is said to refer to conducting the program with (1) limited staff resources, and (2) selective non-compliance with established A.I.D. procedures and federal regulations where practical and within legal restrictions. Regardless, the program appears to be comprised of labor intensive activities, i.e., largely traditional technical assistance, including training. Except for the Poland stabilization fund and to a lesser extent the investment in the enterprise funds in Poland and Hungary, there are no large turn-key programs. There have been instances where the personal service contract approach has been selected for implementation of projects when the work could have been turned over to reputable firms to manage. The latter method would have required less supervision/monitoring by U.S. direct hire employees and less support services by the U.S. Government.

With regard to point (2) above, the application of the clause, "notwithstanding any other provision law," in the legislation has been invoked to overcome certain legal restrictions and the usual regulatory requirements. In large measure, this approach was taken pursuant to pressure from the Coordinator's staff for "action over analysis." However, during the implementation phase A.I.D. accountability can only be ignored at the expense of embarrassment to the Agency and the USG. Therefore, many of the staff-saving steps taken during the planning and authorization phases will only delay to a later stage of the implementation process the work that must be done to properly monitor project activities and ensure accountability for project funds. For example, the necessary analysis for developing scopes of work for executing contracts and grants in order to assure effectiveness of contractor/grantee performance will have to take place later in the project implementation process.

A cursory review of the portfolio indicates that the number of management units equates to a relatively large A.I.D. monitoring staff to reasonably assure that fraud, waste, abuse and mismanagement are minimized. The presence of resident auditors in the region does not prevent the occurrence of these problems; it only insures that deficiencies will be publicized. The letter dated February 12, 1991 to the Chairman, Subcommittee on Foreign Operations from the A.I.D. Administrator and the Deputy Secretary of State updates the plans for placing A.I.D. staff in Eastern European posts. The plans provide for three additional U.S. direct hire (USDH) employees, i.e., a total of four USDH, and a total of eight Foreign Service National (FSN) employees in Poland. An A.I.D. representative with two FSN employees is planned for each of four other posts, Hungary, Czechoslovakia, Bulgaria and Romania. These staffing plans are subject to review semiannually. In our opinion, the monitoring workload (volume and quality) would appear to exceed present staffing plans over the near to mid-term.

The "Mission in Washington" concept adopted by ENE/EUR has not been well developed as yet. In addition to the change in organizational structure and leadership, there have not been clear delegations of authority. Supervisors are over-taxed, cannot delegate, and often are too busy to be reached on a regular basis.

It is noted that in January 1991 the Agency appointed an experienced Mission Director to the DAA/ENE/EUR position and in recent months ENE/EUR has acquired the services of a senior/experienced General Counsel, Controller and Contracting Officer. Their expertise and advice, if afforded to a wide and receptive A.I.D. audience in project and general meetings, and included in the clearance and improved communications processes should assist materially in reducing the vulnerability of the program.

The role of the Special Assistant/AA/ENE (SA-AA) should be clarified vis-a-vis the ENE/EUR office. Presently the dual role, liaison and operations, of the SA/AA leads to confusion and some frustration among operating officers. The traditional role of a Special Assistant to the AA, would be to liaise for the AA with her/his staff for follow-up of AA directives and for two way communications. It is counterproductive to organizational discipline when a special assistant performs in an operational, or supervisory capacity. If the duties of the SA continue to include substantial, specific operational responsibilities for the Eastern European program, then the incumbent should be assigned to a position within the ENE/EUR office.

RECOMMENDATIONS

1. At this point, the DAA/ENE/EUR should be given full authority and strong support in establishing the approved organizational alignment with appropriate delegation of authority consistent with assigned responsibilities. The Administrator should be called upon to lend the necessary support commensurate with the priority of this program in selection of the best candidates for each position within ENE/EUR.
2. The DAA/ENE/EUR should have a thorough and realistic evaluation performed to determine the required size and skill mix of the total USDH and FSN staffs. Contemplated position grade levels should be commensurate with the assigned responsibilities, not necessarily in keeping with the Embassy grade structure. (STATE was adamant in 1975 that the program in Egypt could be run out of the Embassy by five or six A.I.D. officers reporting to their Economic Officer.)
3. If the SA-AA is to be operational in the ENE/EUR program, then consideration should be given to assigning the person to a suitable operating position within the ENE/EUR office.

2. CONTROLLER STAFF, ACCOUNTING AND FUNDS CONTROL

Recognizing the need for financial support for the operations of the A.I.D. Office of European Affairs, ENE/EUR requested FM to conduct a financial needs assessment of its operations. That assessment, conducted in August 1990, recommended consolidation of financial and financial related functions for the ENE/EUR program in an ENE/EUR Financial Office. The maintenance of program accounting records, a routine function of overseas USAID Controllers, would continue to be handled by the FM Accounting Division (FM/A). The American Embassies in Eastern Europe, where A.I.D. programs were located, would be responsible for handling Operating Expense accounting and reporting under FAAS agreements. Arranging for the provision of purely accounting functions in this manner allowed the ENE/EUR Financial Office to be staffed with one USDH Controller whose primary function was to be analysis and oversight of the country programs. The Controller would also ensure that periodic audits of program implementors were conducted and the reports acted upon.

The ENE/EUR Controller, who reports to the DAA/ENE/EUR through the ENE/EUR Office Director, came on board in November 1990, approximately one year after inception of the program.

The actual role of the ENE/EUR Controller has evolved over time. The unsatisfactory control environment within ENE/EUR, i.e., lack of effective/efficient organizational structure, absence of clear-cut, understandable written policies and procedures, faulty lines of communication, lack of secretarial and administrative support, etc., as discussed in other sections of this report, has hampered the effective functioning of the Controller office.

The assessment team believes that there is a substantive role for the Controller to play in the ENE/EUR office. In fact, ENE/EUR, as the "Mission in Washington", requires all of the financial services that a controller in an overseas Mission would provide. The project papers, or "Green Covers", do not include detailed technical and/or financial analyses. The financial analysis sections of project papers are usually prepared or at least reviewed by financial analysts on the staff of the Mission Controller. Financial implementation reviews, pre-award surveys, financial capability studies, audit liaison, liaison with USG agencies, contract/grant financial monitoring, financial reporting, substantive review of PIOs and OE budget formulation and monitoring are areas where financial efforts are required in ENE/EUR. In addition, when the five A.I.D. Representatives and their staffs, plus the IG/EUR Offices are established overseas, ENE/EUR will have to consider whether the present arrangement for OE accounting by Embassy Budget and Fiscal Officers continues to

be a viable option. It is likely that consideration will have to be given to the establishment of a financial office in the field.

The ENE/EUR Controller has been concentrating on the role of his office, the resources required to enable the office to assume responsibility for the functions mentioned above and has prepared a plan of action for approval by the DAA/ENE/EUR. We have seen a draft of the proposed organizational structure and urge the Bureau to give serious consideration to adopting the plan. Failure to provide the required level of financial oversight leaves the large EUR program highly susceptible to waste, fraud, abuse and mismanagement.

A limited review of the functions performed by the ENE/EUR program accounting station, FM/A, disclosed the following:

Local Currency. Substantial amounts of local currency are or will soon be generated by the Section 416 food aid programs in Romania and Bulgaria. (See the Food Aid/Local Currency section of this report, pages 13-14.) Accounting for the generation and uses of local currency has been the responsibility of accounting stations in the field Controller offices. Discussions with FM/A disclosed that no arrangements have been made to undertake this responsibility which is extraneous to its operation and would consequently be a new area of operations requiring additional resources and procedures for obtaining documentation from the field to support a local currency accounting system. A.I.D. has no personnel stationed in either country at present. There has been strong Congressional interest in the general area of local currency accountability and the Agency's policy on local currency is still being developed.

To the extent that these local currencies are not being "tracked" at any level, FM and ENE/EUR are vulnerable.

FM/A Accounting System. The project accounting module in FACS in AID/W was designed primarily for central and regional projects where obligations and commitments are usually represented by grant agreements or contracts. FACS offers good funds control procedures, but documents must be delivered to SA-2. FACS allows Bureau officials on-line access to the data base, but it is not as flexible as the Mission Accounting and Control System (MACS) as a project accounting system. As long as ENE/EUR can manage their portfolio with the data and reports available from the FACS system and the ENE/EUR program is implemented primarily with grant agreements and contracts, FM/A sees no problem in continuing to serve as the official accounting station. Proliferation of projects and methods of implementation and financing could pose problems for the limited FM/A accounting staff. This does not yet seem clearly to be the case and the assessment team does not see an immediate need for changing accounting stations.

Interagency Transfer Agreements Pursuant to Sections 632 (a) and (b) of the FAA. ENE/GC published a memorandum dated February 12, 1991 that discusses the important differences between Sections 632 (a) and (b) and PASAs/RSSAs. This memorandum was widely distributed within ENE/EUR. The recordation of these agreements in the A.I.D. financial records is functional, but poses some operational problems. For example, ENE/EUR must be aware of the fact that when transfers or allocations are made under Sec. 632 (a), FM/A tracks the activity only at the appropriation level, therefore, information at the obligation by obligation level is not available and detailed financial and budgetary reports must be obtained from the recipient agencies, if required or needed. Similarly, transfers under Sec. 632 (b), while recorded in the FACS system, do not appropriately reflect the true accounting status of the obligation.

Funds Control. Our limited review of the ENE/EUR program documentation processed through FM/A disclosed the existence of what appears to be four significant funds control violations. One involved the provision of fiscal citations to overseas posts via cable and authorized the issuance of travel orders without clearance by the accounting station. FM/A notified ENE/EUR of this violation by memorandum dated January 10, 1991 requesting a written statement concerning the circumstances. We understand the Bureau's response has been prepared and will be transmitted soon. The second involved ENE/EUR funding where an ASHA grant amendment appears to have been executed several days before the document was passed to FM/A for clearance and fund availability. In both these instances time or a lack of time appears to have been a critical factor in the violation but the lack of written clearance procedures no doubt contributed to the violations. FM/A will have to initiate a report to the Administrator if indeed violations did occur, as appears to be the case.

In addition there have been instances where contractors have been permitted to commence work prior to execution of their contracts presumably on the basis of verbal commitments by USG personnel. Two such instances came to our attention. The first involves PIO/T 180-0014-3-0183481, executed September 28, 1990, and recorded as an administrative reservation under a Government of Poland grant agreement dated August 23, 1990. The funds reservation apparently was cancelled as of September 30, 1990 in the absence of a supporting contract since it does not appear to be in the FACS. The PIO/T requested MS/OP to enter into a direct contract with the Wharton School at the University of Pennsylvania for technical studies on privatization in Poland. Files in ENE/EUR indicate that a University of Pennsylvania professor and members of his staff commenced work in Poland in August 1990. As of February 1, 1991, a new PIO/T had not been processed and the covering contract with the University of Pennsylvania had not been executed.

The second instance involves a purchase order for the production of a series of public information media relations strategies to assist East European countries to re-establish their democratic institutions. Documentation in EUR indicates that work commenced in mid-November 1990 prior to the execution of the PIO/T requesting/authorizing the purchase order. As of February 7, 1991, the PIO/T was still "in process." Therefore the purchase order has not been issued.

The first, third and fourth violations cited above result in the incurrence of obligations which have not been recorded in the Agency's official records. They exemplify the types of infractions that could lead to violations of the Anti-Deficiency Act. Violations of the Anti-Deficiency Act must be reported to the President. However, because the violations cited in the paragraphs above do not result in the over-obligation or over-commitment of allotments or fund authorizations, we do not believe that they are Anti-Deficiency Act violations. They are violations of the Agency's administrative control procedures and must be reported to the A.I.D. Administrator by the Controller.

RECOMMENDATIONS

4. ENE/EUR should give serious consideration to providing the additional resources, human and physical, required to enable its Controller operation to function effectively.
5. ENE/EUR and FM should recognize that local currencies generated by its food aid programs in Eastern Europe are not being tracked financially and fix responsibility for the establishment and maintenance of the required accounting system.
6. FM/A should investigate and report, if required, the apparent administrative funds control violations that occurred involving A.I.D./ASHA grant number 518, amendment number 1; PIO/T 180-0014-3-0183481; and the Public Information media relations purchase order.
7. ENE/EUR should issue clear instructions to its personnel to avoid all types of verbal or other informal commitments to potential contractors.
8. ENE/EUR should not permit contractors to commence work in the absence of valid contracts.

3. ADMINISTRATIVE SUPPORT

The ENE Bureau has undergone significant reorganization and changes in program managers and technicians over the past year while establishing an office for the major program initiatives for Eastern Europe. The dollar value of this program equates to the second or third largest country program in the Agency. The political sensitivity (resulting in continuous interagency relationships with State, Treasury, CEA, and others) of the Eastern European programs is extremely high. The size of ENE/EUR staff is presently about 25 and growing to an estimated 70. However, basically the allocation of administrative support augmentation to the EUR Office consists of only one non-A.I.D. experienced employee. Thus the administrative support during the developmental period has been grossly inadequate. For example, there is no consistent distribution of cables, office memoranda and other important communications. Funds control clearances have been overlooked. Requests for office supplies, furniture and equipment, and the need for drafting of PIO/Ts go unmet for weeks or months. Position descriptions have not been completed; support in preparation of organizational charts has not been available; a paucity in issuance of procedural guidelines exists; etc.. The management staff needs to be supplemented by personnel intimately knowledgeable of A.I.D. regulations and procedures concerning personnel, job classifications, communications, travel, organizational alignment, office space acquisition, data processing, etc.. Otherwise, other officers' time will continue to be misspent in attempting to perform these services and the results will not be satisfactory in most instances. The administrative management tasks associated with building a functioning organization needed to implement the mandated program is substantial. This function requires and deserves the best management talent the Agency has to offer. Implementation of the "Mission in Washington" concept will be difficult to realize under favorable circumstances. Attempting to do it without the required blueprint, physical plant and seasoned managers will be next to impossible.

RECOMMENDATION

9. The Agency should immediately provide the administrative, management talent and physical resources needed by either (a) establishing and staffing a separate EMS function for ENE/EUR, or (b) expanding (by contract with proven performers if necessary) the present ENE/EMS staff for a temporary period with management trained professionals to meet the existing workload in this area. If the (b) option is preferred, a "Mission" management office could be gradually built to meet the growing needs of ENE/EUR.

4. MORALE

Judging the morale of an organization is not a particularly easy task. However, there are enough indicators to sound the alert. Many factors may have contributed to a low morale of some of the ENE/EUR personnel, including:

- o changes in organization, leadership, and modus operandi over the past year precluding a stable and clear pattern of roles, responsibilities and lines of authority;
- o Coordinator's staff setting unrealistic deadlines inconsistent with EUR staff's perceived time required to meet a satisfactory standard of professional quality performance;
- o most program and project selection, planning and decisions made at the Coordinator level, with frequent changes in direction. A.I.D. personnel responsible only for documenting obligations with abbreviated paper work;
- o paucity of timely communications from top levels (internal and external to A.I.D.) of program leadership; and
- o limited administrative support.

RECOMMENDATION

10. The leadership of ENE/EUR should give priority to team building initiatives. (See the section "Communications" below.)

5. MANAGEMENT INFORMATION SYSTEM

Personnel in ENE/EUR recognize the need for financial and programmatic data to manage their growing portfolio of projects and program activities in Eastern Europe. In fact, several officers are investigating the sources and capacity of the Agency to provide the data in the format and frequency to meet their individual and specific needs. Obviously, a data base and an integrated system must be developed to meet management needs at all levels and in various offices of ENE/EUR. Action should be taken promptly to preclude a proliferation of systems that will be inefficient and with data that will soon be non-reconcilable.

RECOMMENDATION

11. DAA/ENE/EUR should assign, and announce to the office, responsibility for developing in conjunction with MS/IRM and FM an integrated management information system meeting the data needs of ENE/EUR offices to manage the program.

6. FOOD AID/LOCAL CURRENCY MANAGEMENT

Significant problems have arisen in the management of the Eastern European food aid programs in Poland and Romania and can be expected to arise in Bulgaria where the program will soon generate local currency. A recent TDY visit to Poland disclosed the need to improve local currency programming and management. Specifically the programming process requires attention and plans to monitor, track and audit local currency activities/generations and uses need to be finalized and put into place. However, all A.I.D. responsibilities for the food aid programs in Poland were assumed by the USDA in December 1989. Therefore, A.I.D. has no further responsibilities for the program and no vulnerability attaches to A.I.D. in connection with this program.

In Romania where there is a \$71 million food aid program in place (FY 90), the agreements require that the local currency equivalent of the USG procurement value of the commodities be placed in the special account while the GOR is selling the commodities at a long standard official price which generates only about half the USG procurement value. In addition, ocean shipping costs are being deducted from sales proceeds before deposit into the special account in violation of the terms of the Section 416 agreement. The existence of these problems indicates a need for greater oversight and more effective management of this large program. There are no A.I.D. personnel in Romania and the Regional Agricultural Attache is posted in Yugoslavia. The Embassy in Bucharest is not adequately staffed to oversee even the basic elements of the program, i.e., commodity arrival/distribution and accountability for local currency generations. Use of the proceeds will add more management requirements.

The food aid program in Bulgaria is just being initiated with the first shipments of commodities scheduled to arrive at the U.S. ports in January/February 1991. However, similar problems can be expected to arise in connection with this program. The Embassy/Sofia advised A.I.D./W in October 1990 about the concern that its small staff would be unable to oversee the distribution and monitoring of the proposed program. No A.I.D. personnel are presently stationed in Bulgaria.

A.I.D. Handbook 19, Financial Management, requires the submission of various local currency financial reports for incorporation in its Foreign Currency reporting to OMB. The report required on local currency special accounts (U-205) has not been submitted for any of the food aid programs in Eastern Europe because no provision for its preparation and submission have been made.

ENE/EUR and FVA received recommendations for improving the management and oversight of the Romanian program as a result of a site visit by EUR and FVA personnel in September 1990. The suggestions in that report for improving program management and accountability could possibly serve as a model for similar food aid programs in Eastern Europe. In January 1991, ENE/EUR urged the American Embassy (State 018988) in Bucharest to develop a comprehensive food and local currency management plan based on the recommendations in the October 24, 1990 trip report. That message does not appear to have been answered. With respect to the Bulgaria food aid program, the files did not disclose what actions were taken to provide the assistance that the Embassy/Sofia requested in October 1990.

Serious shortcomings exist in the current A.I.D. oversight systems for the food aid programs in Romania and Bulgaria. Failure to provide the required levels of management attention will render the programs vulnerable to possible abuse and the Agency open to criticism.

RECOMMENDATION

12. ENE/EUR should, on a priority basis, take definitive action to improve its management of these food aid programs. Implementation of the recommendations in the October 24, 1990 trip report of Messrs. O'Meara and Hough would constitute a good initial step.

B. POLICIES/PROCEDURES

The "notwithstanding other provision of the law" clause leads to uncertainty in application of existing statutes and A.I.D. regulations. A.I.D. Officers disagree with the Coordinator's staff as to the intent of the clause. The Coordinator's staff is said to press for wider application of the clause than deemed prudent by most of the ENE/EUR staff. In addition, we understand the pressure on A.I.D. for expediency in obligating and disbursing funds by the Coordinator's staff is unrelenting.

However, A.I.D. opinion does hold that this program may operate with a considerable amount of flexibility since funds have been appropriated in both FY 1990 and 1991 "notwithstanding any other

provision of the law." A.I.D./GC believes there are three important aspects in applying this clause as follows:

(1) It is clear the program can operate in countries that otherwise would be barred by legislative restrictions.

(2) It also seems clear that the Congress intended in appropriate cases that this authority could be used to avoid those legal (statutory and regulatory) requirements that are constraints to providing timely, effective assistance.

(3) However, there is no indication the Congress intended the Executive Branch be excused from any normal requirements of accountability. On the contrary, with regard to the Inspector General and the Enterprise Funds in particular, the Senate Appropriations Committee indicated a preference for a higher order of oversight/monitoring.

Therefore, while A.I.D. has a broad initial authority, implementation, where many of the oversight, monitoring, and accountability requirements lie, appears subject to most A.I.D. regulations.

RECOMMENDATION

13. ENE/EUR should formulate and issue a policy paper covering the application of the "notwithstanding" clause vis-a-vis those significant A.I.D. standard procedures and practices that may be ignored or revised in conducting the Eastern European program.

C. COMMUNICATIONS

ENE/EUR utilizes an "expanded family" concept in carrying out program responsibilities; i.e., ENE/PDP, ENE/TR, etc. provide technical support to ENE/EUR. Frequently, the Coordinator's staff, AA/ENE and DAA/ENE/EUR go directly to these action offices outside of ENE/EUR without providing information to ENE/EUR operating offices. Early awareness of program direction and components by the ENE/EUR General Counsel, Contracting Office, Program Office and the Controller, among others, would greatly facilitate overall ENE/EUR performance. Likewise, dissemination of decisions, revisions and other pertinent information from the Coordinator Committee meetings to the working level by the DAA/ENE/EUR would be helpful.

The communications with the few personnel in the office that the two supervisors (DAA/ENE/EUR and ENE/EUR Director) could reach on a regular basis were satisfactory. However, there are several

other staff members that are "outside the loop" due to basically a "horizontal" organizational structure.

The planned new organization structure and the recommendations contained above in that section, pages 4 to 14, should enhance the flow of communications.

Regular meetings with the full staff improve communications, but often time is not available for the DAA/ENE/EUR, or the ENE/EUR Director to maintain such a schedule. With the overload of meetings for the DAA/ENE/EUR, it would appear that effective use could be made of a special assistant to facilitate two way communications, formal and informal, e.g., by issuing notices explaining the status of pending issues and ENE/EUR and inter-agency decisions and other actions, thus, affording general, relevant knowledge to the entire staff on a timely basis. A special assistant to the DAA/ENE/EUR could also handle a myriad of other administrative activities.

RECOMMENDATIONS

14. ENE Bureau leadership should take action to assure appropriate distribution of information to the several offices as established in the pending organization chart.

15. DAA/ENE/EUR should consider adding a special assistant to his staff.

D. BUDGETING

ENE/EUR is now suffering from the failure of the previous DAA/ENE/EUR to submit an operating expense (OE) budget for FY 1991. Lack of adequate OE funds is now a critical item to staffing overseas posts in Eastern Europe and for resources for the ENE/EUR office in the Bureau. The Controller has prepared an OE budget for the current year, but at this stage ENE/EUR is experiencing difficulty in obtaining assurances that the necessary funding level will be made available to it.

The program operational year budget (OYB) is in constant fluctuation as the last Congressional Presentation (CP) included only a lump-sum item for Eastern Europe. Under these circumstances the Coordinator's staff makes revisions frequently, "almost daily," in allocating and reallocating funds to various programs or projects. In an effort to minimize this situation, EUR has prepared a line item, by project CP for FY 1992.

RECOMMENDATION

16. The DAA/ENE/EUR should follow-up with ENE/PDP and PPC to obtain a sufficient OE budget level to meet firm and doable staffing decisions.

II. RISK ASSESSMENT

The risk factors for the ENE/EUR Office are assessed as between moderate to high. If actions are taken pursuant to the recommendations in this report, we believe the vulnerable areas will be substantially reduced.

A. PURPOSE/POLICY

In compliance with directions from the Coordinator's office and by justifying the use of the "notwithstanding" clause in the 1990/91 legislation, ENE/EUR greatly simplified program documentation and omitted certain regulatory and procedural requirements in an effort to meet extremely tight deadlines dictated by political realities as perceived by the Coordinator and his Special Advisors. Consequently, vulnerability to waste and mismanagement is high.

However, the application of the "notwithstanding any other provision of the law" clause in the legislation appears to be evolving as the program moves more fully into the implementation phase. This seems to be the case with respect to the views of the people associated with the program, from the "Hill" staffers to A.I.D. officers, with the notable exception of the Coordinator's staff. Among A.I.D. officers, there is an uncertainty or confusion about obviating certain statutory authority and standard A.I.D. operating practices. The latter is in essence a part of the internal control system assuring accountability.

ENE/EUR has employed certain expediencies in programming and obligating funds, e.g. reducing the time required for contracting services and procurement, deleting or minimizing pre-award actions, broadening source/origin which, in the instances that we observed, were justified and documented for the program under the SEED Act legislation. ENE/EUR has attempted to work with a whole new set of project documentation. These program documents tend to be superficial and do not provide an adequate basis to determine that Agency policy and procedures are followed or even considered. Although the SEED Act does not require use of FAA statutory check lists, etc., basic project design issues inherently require more extensive consideration to assure effectiveness and accountability. Attempts to avoid such procedures and processes by design or by

placing new personnel in sensitive positions without adequate familiarization, or organizational support can only lower the efficacy of the process in the long run. The system of internal control provides for clearing documents through technical offices, obtaining funds control clearances through the Office of Financial Management, and providing for sufficient oversight by adequate project monitoring. These measures are inherent in good management and accountability.

In summary, the overall management, planning, and programming direction from the Coordinator's level, forces A.I.D. to implement programs that have not been subjected to rigorous analysis and review. This is not a viable operational style unless A.I.D. is prepared to accept a high degree of vulnerability.

RECOMMENDATIONS

17. The DAA/ENE/EUR should develop a set of operating procedures vis-a-vis the Coordinator's office encompassing basic minimum A.I.D. requirements for project design and analysis prior to obligation of funds; necessary actions preliminary to commitment of funds to contractors and grantees, related time frames for the foregoing; requirements for written communications supporting program decisions; requirements for forward planning/budgeting with necessary flexibilities; and size and grade level of staff for effective implementation/monitoring at overseas posts. (It seems appropriate that these procedures be agreed upon in principle at the A.I.D. Administrator and Coordinator level.)

18. The ENE/EMS function serving ENE/EUR should maintain a set of A.I.D. Handbooks and develop and publish a set of "Mission Orders" covering the principal policy and process guidelines for ENE/EUR, as well as such permanent information as delegations of authority, clearance procedures, distribution lists, etc.

B. CHARACTERISTICS AND BUDGET LEVEL

In general the authority for this program rests with the Coordinator, his committee and staff while the responsibility for implementation of the program rests with A.I.D. This division of authority and responsibility increases the risk to a high level.

The Eastern European program of \$380 million, plus approximately \$70 million in PL 480 funding (FY 1991) is very large by present A.I.D. standards and there are several attendant features of this activity that tend to make the program highly vulnerable.

STATE has a strong bias to restraining A.I.D. to a limited number of resident staff in recipient countries. Present staffing plans, after remaining at one (1) USDH from August 1990 to, perhaps, July 1991, call for eight USDHs and sixteen FSNs located at five A.I.D. Representative offices in Eastern Europe.

The use of many USG interagency agreements to perform project implementation requires more than the usual interaction with organizations outside of A.I.D.'s chain of command. In total much of the program is being accomplished through intermediaries, i.e., grantees who may sub-grant funds. The proliferation of the program into many projects and components, limited staffing for monitoring and large program funding may well render the Eastern Europe program an "auditor's paradise."

ENE/EUR has far too many "new starts" for a small, fledgling operation. Plans call for over 30 projects requiring design and entailing more than 100 obligations this fiscal year. Moreover, many of these obligations are planned for multiple countries, some in all six Eastern European countries, increasing the monitoring requirement beyond any present plans for such coverage. In contrast, USAID/Cairo with 100 USDH and over 200 FSN personnel may only competently handle 10-12 designs in a given year. This workload equates to vulnerability, as it is unreasonable to expect ENE/EUR, including the "expanded family" of ENE/PDP and ENE/TR support, to handle, even with streamlined design, the authorization, obligation and implementation action required. It may well become an exercise in identifying notional amounts of money and passing them along to a variety of poorly identified contractors and grantees with the hope that the selected entity will do something good with the money. However, the fact that a lot of the funds go to intermediaries with A.I.D. experience and not to foreign governments may be a mitigating factor.

The recommendations for dealing with the problems inherent in the "characteristics" and the "budget level" of this unit are cited in other parts of this assessment and, when possible to implement, should mitigate the vulnerabilities under the existing very difficult operating circumstances.

C. AGE AND LIFE EXPECTANCY

The SEED Act legislation provides only three (3) years authorization and one and one-half (1.5) years have elapsed. Most officers believe that a longer Congressional mandate will be forthcoming. In fact the implementing stage and the related problems are now only commencing. Much of the organization and operating procedures are in the process of development and not fully in place. In view of the newness of the program and organization, the vulnerability to waste and mismanagement is rated high.

D. DEGREE OF CENTRALIZATION

The present "horizontal" organization does not provide for decentralization, or delegation of authority. When the organizational development is completed and the staff is at full strength, the issue of decentralization should be addressed, if not crisis management will continue to prevail as the Director and the DAA/ENE/EUR can not deal successfully with all of the details of a program of this magnitude.

RECOMMENDATION

19. Upon publishing the new organization chart, formal delegation(s) of authority should be formulated and issued.

E. PRIOR REVIEWS

There are no prior vulnerability assessments on record of the Eastern European office. The program is only in its second year.