

Assistant Inspector General for Audit

AUDIT REPORT ON USAID'S SYSTEMS FOR MEASURING PROJECT RESULTS

Report No. 1-000-95-007
June 30, 1995



"USAID Needs To Improve Its Systems for Measuring Project Results"



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

June 30, 1995

*Assistant
Inspector General
for Audit*

MEMORANDUM FOR AA/PPC, Colin I. Bradford

FROM: AIG/A, James B. Durnil

SUBJECT: Audit Report on USAID's Systems for Measuring
Project Results - Audit Report Number 1-000-95-007

This capping report summarizes the results of our reviews of USAID's systems for measuring project results conducted at two Washington bureaus and four overseas missions.

The audits found that USAID had taken steps to improve its systems for measuring project results, including the undertaking of significant reengineering efforts aimed at setting specific goals and objectives, and measuring program effectiveness. However, the Agency still needs to ensure that specific quantifiable indicators are established and that reporting systems are in place to objectively evaluate progress through measuring project results.

This report makes five recommendations for improving USAID's ability to measure project results and for improving its reporting on project results. Based upon your comments to our draft report, all recommendations are considered resolved and will be closed when the recommended actions have been properly implemented. Your comments were fully considered in finalizing this report and are included in their entirety as Appendix II.

I appreciate the cooperation and courtesies extended to the audit staff.

A

**Regional Inspector General for Audit
San José, Costa Rica**

**Audit of
USAID's System for
Measuring Project Results**

**Report No. 1-000-95-007
June 30, 1995**

***"USAID Needs To Improve Its Systems for
Measuring Project Results"***

EXECUTIVE SUMMARY

The U.S. Agency for International Development (USAID) is responsible under the Foreign Assistance Act (Act) to promote economic development and political stability in recipient countries. To enable USAID and others to assess USAID's success in implementing its programs and projects, Section 621A of the Act states that foreign assistance funds could be utilized more effectively by the application of a management system that: (1) defines objectives for United States foreign assistance, (2) develops quantitative indicators for measuring progress towards those objectives, (3) adopts methods for comparing actual program and project results against anticipated results, and (4) provides information to USAID and Congress that relates funding to the objectives and results in order to assist in the evaluation of program performance. As of March 31, 1994, USAID had approximately 750 active projects with total obligations and expenditures totaling \$13.3 billion and \$7.9 billion, respectively. (See pages 1 and 2)

We reviewed active projects being implemented by two USAID/Washington bureaus (the Global Bureau and the Bureau for Europe and the New Independent States) and four overseas missions (in the Philippines, Nepal, Indonesia, and Panama) to determine if they had effective systems for measuring project results. As of March 31, 1994, these two bureaus and four missions had obligations and expenditures under active projects totaling \$4.7 billion and \$2.8 billion, respectively. (See page 8)

The Global Bureau and the four overseas missions had established some indicators for measuring progress toward accomplishing their project objectives and had prepared periodic reports identifying project results. Also, the Bureau for Europe and New Independent States has made substantial progress over the last two years in designing and implementing an innovative project monitoring system. Furthermore, during the past year USAID has undertaken a significant "reengineering" effort that focuses on setting goals and being able to clearly measure the effectiveness of its activities (including projects) in accomplishing those goals. (See page 4)

However, each of the bureaus and missions reviewed—as well as USAID overall—still had some work to do to ensure that appropriate indicators with specific targets are established and that reporting systems are in place

to enable USAID management and others to objectively evaluate progress and compare project results against what was anticipated when the projects were authorized. Examples of problems found at the bureaus and missions reviewed include the following:

- There was a need to establish baseline data and better indicators for the projects reviewed. For example, many indicators which were established for measuring project results were not quantifiable or even objectively verifiable and measurable with specific targets on what was expected to be accomplished. (See page 9)
- The lack of adequate indicators has impaired (1) the bureaus' and missions' ability to report on actual project results compared to what was anticipated when the projects were authorized, and (2) the usefulness of their periodic reports to assist USAID management and others to objectively evaluate progress toward accomplishing project objectives. (See page 12)

Many of the problems occurred because the bureaus and missions did not follow USAID's guidance which requires that indicators be stated: (1) in explicit and precise terms, (2) in countable and/or measurable terms, and (3) in terms that are objectively verifiable. In addition, some of the problems with the indicators and most of the problems with progress reporting can be attributed to insufficient USAID guidance. For instance, the guidance did not specifically state what should be reported in order to assist USAID management and others in objectively measuring progress and in comparing actual results against anticipated results. (See page 14)

Due to these problems, USAID management does not have the necessary information to objectively evaluate progress or to compare actual results against what was anticipated when projects were authorized. We believe that without this information, USAID may find it difficult to justify further funding of projects by Congress. This report includes detailed examples of specific problems with indicators and/or reporting for eight (of the 27) projects we reviewed. For the eight projects, USAID had obligated and expended a total of \$560.0 million and \$364.4 million, respectively (as of March 31, 1994). (See pages 9-14)

The problems found during our audit have previously been reported by others. For example, a joint USAID/Office of Management and Budget (OMB) Swat Team reported in July 1992 that USAID (1) did not have uniform guidance for oversight of field activities; (2) had not defined and did not uniformly collect necessary information for USAID/Washington oversight of field activities; and (3) did not have a comprehensive system to

evaluate all project and program activities or to identify problem activities. Also, the U.S. General Accounting Office issued a report in June 1993 that stated:

According to mission officials, no agency-wide criteria exists to assess project [performance]; generally, mission directors establish their own criteria to judge project performance. Even when geographic bureaus provide some criteria for evaluating projects and programs, missions do not always use it. (See page 18)

This audit report includes five recommended actions to the Deputy USAID Administrator aimed at improving USAID's ability to measure project results against what was anticipated when the projects were authorized and to provide better reporting on project results. (See page 5)

In responding to a draft of this report, USAID management generally concurred with the findings and recommendations. Management commented, however, that although the current guidance for reporting on project results may be ambiguous, the guidance does require operating units to assess the degree to which projects accomplish their objectives at different levels. Management also believed that the draft of this audit report did not adequately address actions already taken to improve the effectiveness of USAID's current management systems for measuring project results. This final report has been revised to better address those actions already taken such as a significant "reengineering" effort undertaken in the past year to improve USAID's ability to identify and report on project results. Management comments are discussed on page 23 and are included in their entirety as Appendix II.

Office of the Inspector General
Office of the Inspector General
June 30, 1995

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INTRODUCTION

Background

The U.S. Agency for International Development (USAID) is responsible under the Foreign Assistance Act (the Act) to promote economic development and political stability in recipient countries. To enable USAID and others (e.g., Congress) to assess USAID's success in implementing its programs and projects, Section 321A of the Act states that foreign assistance funds could be utilized more effectively by the application of a management system that: (1) defines objectives for United States foreign assistance, (2) develops quantitative indicators for measuring progress towards those objectives, (3) adopts methods for comparing actual program and project results against anticipated results, and (4) provides information to USAID and Congress that relates funding to the objectives and results in order to assist in the evaluation of program performance.

In line with these requirements, USAID Handbook 3 emphasizes the need for baseline data and progress indicators to be used to measure progress from when the project objectives were established to the planned targets in accomplishing the objectives. USAID has also issued guidance for preparing periodic project implementation reports. USAID's Bureau for Policy and Program Coordination (PPC) is responsible for designing USAID's management systems for measuring program and project results.

The United States General Accounting Office reported in June 1993 that USAID management lacked strong central management controls to ensure that headquarters offices and overseas missions implement programs in accordance with USAID policies and procedures. And, as a result, USAID offices in Washington, D.C. and overseas missions have operated with too much independence—each often setting its own objectives, developing its own implementation strategies, and instituting its own management systems. The report also stated that, according to mission officials, no agency-wide criteria existed to assess projects and, therefore, mission directors established their own criteria to judge project performance.

Our office recently issued an audit report to USAID management on the Agency's system for measuring program performance.¹ We reported that although USAID is making significant progress—especially in the past year—in implementing a system for measuring program results, it still had a way to go before the requirements for quantifiable indicators (or even objectively verifiable and measurable indicators) and reporting systems were fully implemented. However, USAID recently issued a new directive (May 1994) on setting and monitoring program strategies which when fully implemented should resolve most of the problems identified in that audit report.

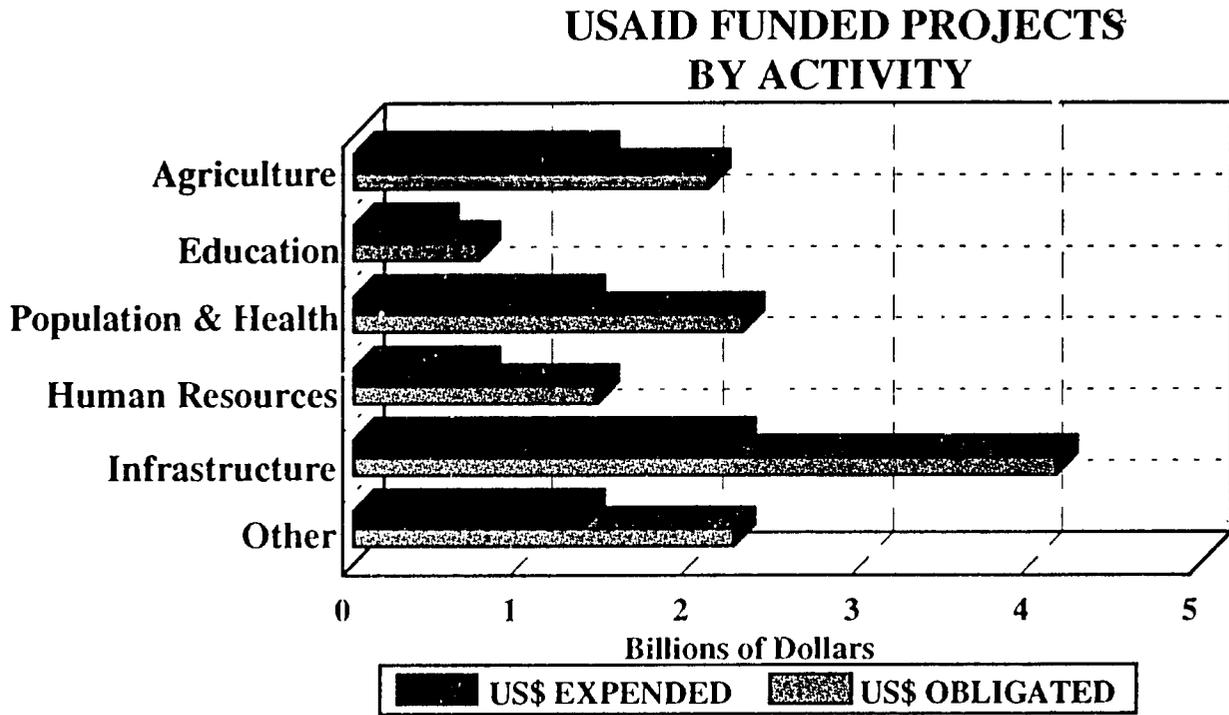
USAID management recognizes that in addition to having a system to measure for program results, USAID also needs a system to measure individual project results against what was anticipated when the projects were authorized. For example, the May 1994 directive states that further changes to USAID's programming systems for designing and implementing individual projects will be needed to improve measuring progress in achieving project objectives. Also, in a March 1994 hearing before the Senate Appropriations Subcommittee on Foreign Operations, Export Financing and Related Programs, the USAID Administrator stressed his commitment for managing for results in helping people in the developing world to measurably improve their lives and to achieve results that all Americans can be proud of. The Administrator stated:

To do this, we must move away from "managing inputs" to defining clear, people-oriented objectives that can be achieved within specific time-frames. These objectives must grow directly out of our overall strategies for sustainable development and our country strategies. The achievement of strategic objectives must be managed project by project and program by program: each endeavor must make a direct and measurable contribution to specific strategic goals.

As of March 31, 1994, USAID had approximately 750 active projects with total obligations and expenditures totaling \$13.3 billion and \$7.9 billion,

¹ See Audit Report Number 1-000-95-006. For clarification USAID "programs" are usually made up of a collection of "individual project activities" which share a common set of program outcomes that contribute toward achievement of a higher-order strategic objective.

respectively. As illustrated below, these funds reportedly supported the following types of activities:²



Audit Objective

The Regional Inspector General for Audit/San Jose, Costa Rica, with the assistance of other audit offices, audited USAID's systems for measuring project results to answer the following audit objective:

- **Did USAID have effective management systems for measuring project results?**

The audit was performed at the Bureau for Europe and New Independent States, the Bureau for Global Programs Field Support and Research (Global Bureau), and four overseas missions in the following countries: the Philippines, Nepal, Indonesia, and Panama. Appendix I contains a complete discussion of the scope and methodology for this audit including several scope limitations.

² As noted in Appendix I, the funding breakout is primarily based on data in USAID's Project Accounting and Information System (PAIS). While the exact funding by the specific activities cannot be identified, the chart gives the reader some idea of the type of activities on which USAID spends its money.

REPORT OF AUDIT FINDINGS

Did USAID have effective management systems for measuring project results?

USAID did not yet have fully effective management systems for measuring project results.

The Global Bureau and the four overseas missions (in the Philippines, Nepal, Indonesia, and Panama) that we reviewed had established indicators for measuring progress in accomplishing their project objectives (at the output, purpose, and goal levels) and had prepared periodic reports identifying some project results. Also, the Bureau for Europe and New Independent States has made substantial progress over the last two years in designing and implementing an innovative project monitoring system. Furthermore, at the time of our audit USAID was in the process of undertaking a significant "reengineering" effort to improve its management systems for measuring project results.

Until this "reengineering" effort is completed, USAID issued a "Project Development Interim Directive" in November 1994 which is intended to build a bridge to the new "reengineering" system. The directive places greater emphasis on planning and managing for development results by ensuring that all USAID-funded proposed activities have (1) clear descriptions of the intended project results, (2) indicators and performance targets for monitoring progress, and (3) criteria for measuring the activities impact on the mission's and other operating unit's strategic program objectives and related program outcomes.

However, partly due to insufficient USAID guidance, each of the bureaus and missions reviewed—as well as USAID overall—still had some work to do to ensure that quantifiable or even objectively verifiable and measurable indicators (including interim and end-of-project targets) are established and reporting systems are in place to enable USAID management and others (e.g., Congress) to objectively evaluate progress and compare project results against what was anticipated when the projects were undertaken. These issues are discussed below.

USAID Needs to Establish Better Indicators and Reporting Systems

The Foreign Assistance Act requires that USAID establish a management system for measuring project results. Although USAID has issued guidance for doing so, it still needs to meet the requirements for establishing indicators and reporting systems for measuring project results. Many of the problems with the indicators occurred because the bureaus and missions did not follow USAID guidance. However, some of the problems with the indicators and most of the problems with reporting on project progress can be attributed to insufficient USAID guidance such as what specifically should be reported to enable USAID management and others to objectively evaluate project progress. As a result of these problems, USAID management and others do not have the necessary information to objectively evaluate progress and compare actual results against anticipated results. Therefore, USAID may find it difficult to justify further funding of projects by Congress. As of March 31, 1994, the two USAID bureaus and four missions reviewed had obligations and expenditures under active projects totaling \$4.7 billion and \$2.8 billion, respectively.

Recommendation No. 1: We recommend that the Deputy USAID Administrator:

- 1.1 design the roles of the central and regional bureaus to ensure that operating units, including overseas missions, establish the required baseline data, indicators with specific interim and end-of-project targets, and reliable reporting systems for measuring progress in accomplishing project objectives (at the output, purpose, and goal levels);**
- 1.2 provide more specific guidance on the extent quantifiable, objectively verifiable, and measurable indicators with specific interim and end-of-project targets are required to be established for measuring progress in accomplishing each project's objectives (at the output, purpose, and goal levels);**
- 1.3 provide more specific guidance for uniform periodic reporting on actual project results toward accomplishing project objectives (at the output, purpose, and goal levels) against specific interim and end-of-project targets that were established when the projects were authorized or last amended;**

- 1.4 issue a cable to all operating units including overseas missions instructing them to review their active project objectives and related indicators to determine if the objectives are expected to produce a measurable impact and directly support the operating unit's strategic program objectives; and**
- 1.5 establish time frames for operating units to review their active projects and to make appropriate revisions to ensure baseline data, indicators with specific interim and end-of-project targets, and reporting systems have been established to measure progress in accomplishing project objectives (at the output, purpose, and goal levels).**

To enable USAID to assess success in implementing its program and projects, Section 621A of the Foreign Assistance Act (Act) states that foreign assistance funds could be utilized more effectively by the application of a management system that: (1) defines objectives for United States foreign assistance, (2) develops quantitative indicators of progress toward those objectives, (3) adopts methods for comparing actual results of programs and projects with those anticipated when they were undertaken, and (4) provides information to USAID and to Congress that relates funding to the objectives and results in order to assist in the evaluation of program performance.

In line with these requirements, USAID Handbook 3 (Appendix 3K) and the A.I.D. Evaluation Handbook emphasize the need for establishing baseline data and indicators (targets and time frames) to be used to measure progress from when the project objectives were established (i.e., baseline conditions) to the planned targets in accomplishing those objectives. For example, Appendix 3K states that baseline data and indicators should be incorporated into all project designs in their earliest stages so that the design will permit and facilitate (1) measurement of progress toward planned targets, (2) determination of why the project is or is not achieving its planned targets, and (3) determination of whether the project purpose continues to be relevant to the country development needs.³ Appendix 3K also states:

³ USAID Handbook 3 (Appendix 3K) states that: (1) targets should automatically be included in the Project Paper Logframe and (2) baseline data should normally not be spelled out in the Project Paper Logframe but should be spelled out elsewhere in the Project Paper.

Every project plan must contain (or reference another document which contains) definite baseline data; i.e., a statement of pertinent conditions at the time the project begins or as soon thereafter as practical.

Statements of targets may be quantitative or qualitative but are to have three characteristics: they are to be stated in explicit and precise terms; they are to be stated in finite [i.e., countable and/or measurable] terms; they are to be stated in terms that are objectively verifiable [i.e., present evidence which has the same meaning for both a skeptic and an advocate] irrespective of whether these terms are quantitative or qualitative. Quantitative targets are preferable where they can be formulated.

To measure progress from the baseline conditions to the planned targets requires the use of progress indicators. It is important that these indicators be formulated at the project design stage so that change can be systematically observed and the data required to support the indicators can be routinely collected.

The Evaluation Handbook prescribes that all projects will include an information component to provide timely information to managers for ongoing evaluations on the project's interim progress and effects, rather than limiting the collection and analysis of such information to a one-shot evaluation exercise. The Handbook further states:

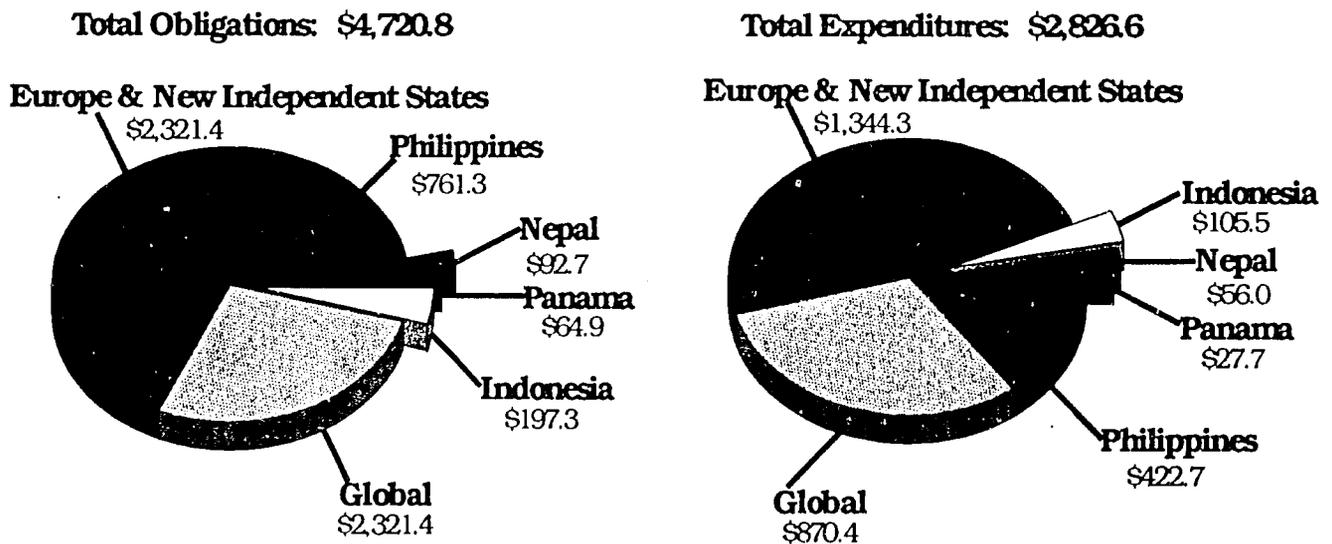
At the project level, monitoring and ongoing evaluations should provide information about the use of project resources and should track progress toward the development objectives of the project, as defined by the output, purpose, and goal statements of the project's Logical Framework [in the Project Paper]. On the basis of such information, managers should be better able to determine what changes are needed to improve project performance.

While our office believes that Section 621A of the Foreign Assistance Act does require the use of quantifiable indicators for measuring progress under each project, the USAID Office of General Counsel issued its opinion in August 1994 that Section 621A does not require that such indicators be used in each and every program or project. The General Counsel also stated: "The agency has established systems over the years which include both types of indicators [qualitative and quantitative] and accordingly appears to be in compliance with the law."

Regardless of whether an indicator is quantitative or qualitative, the key (in our view) to an indicator being meaningful and measurable is that baseline data and targets be established against which progress and results can be objectively measured toward accomplishing the project objectives. Without these, it would not be possible to provide information to USAID management and others for evaluating progress and comparing actual results with those anticipated. We believe this audit report supports the fact that USAID still has some work to do before it fully meets these requirements to assist USAID management and others in objectively evaluating project progress.

Our review of 27 active projects being implemented by the Bureau for Europe and New Independent States, the Global Bureau, and four overseas missions (in the Philippines, Nepal, Indonesia, and Panama) found that the bureaus and missions needed to establish better performance indicators, including related baseline data and interim and end-of-project targets, and reporting systems to enable USAID management and others to objectively measure progress and compare actual results against what was anticipated when the projects were undertaken. As illustrated below, these bureaus and missions have active projects obligations and expenditures totaling \$4.7 billion and \$2.8 billion, respectively (as of March 31, 1994).

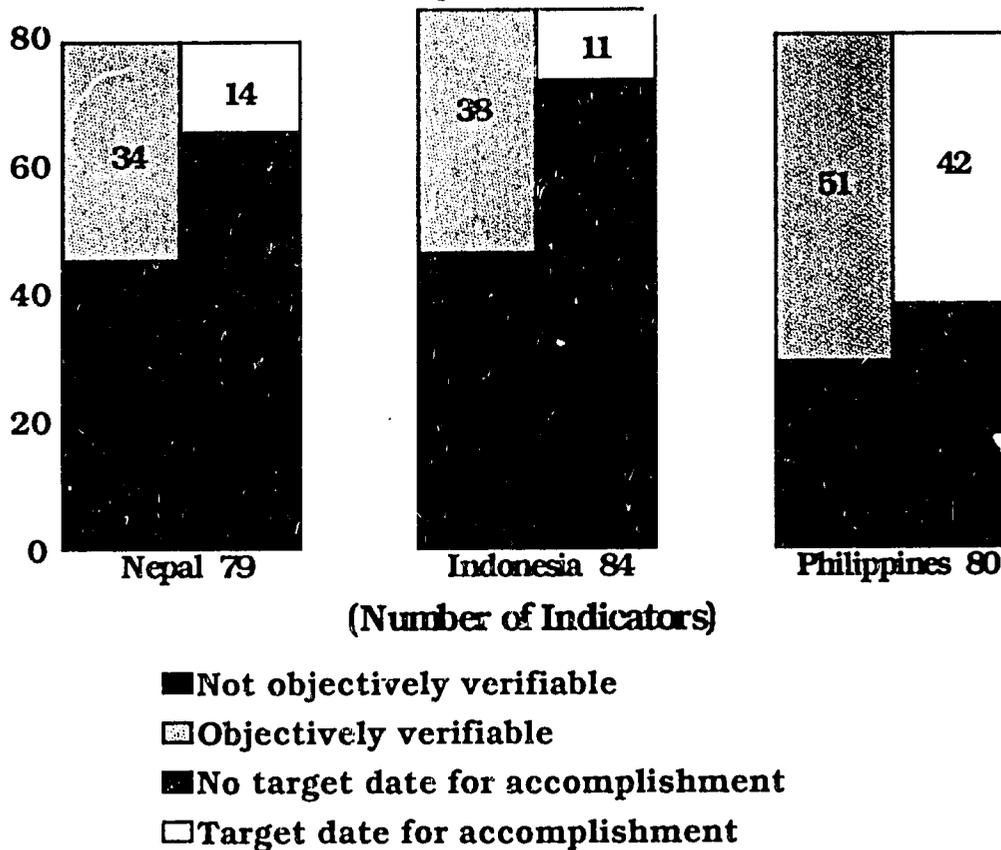
Analysis of Obligations and Expenditures (In millions of US\$)



Better Indicators are Needed

USAID needs to establish baseline data and better indicators to enable management and others to measure progress and compare actual results toward accomplishing project objectives (i.e., at the output, purpose, and goal levels) against what was anticipated when the projects were undertaken. For example, many indicators were not quantifiable or even objectively verifiable with specific targets on what is expected to be accomplished. As shown below, many of the indicators for the 15 projects we reviewed at the three missions in Asia were not objectively verifiable and did not identify a specific date for when the indicator was to be achieved.

Analysis of Indicators for Projects Reviewed



Similar problems were found for each of the 12 projects we reviewed at the Bureau for Europe and the New Independent States, the Global Bureau, and USAID/Panama. Some examples of the problems found regarding baseline data and indicators for the projects reviewed at these three locations are discussed below (all expenditures are for the period ending March 31, 1994).

- A traditional USAID Project Paper Logical Framework was used in planning documentation for a \$160 million democratic initiatives project (\$21.1 million expended) in the New Independent States, but indicators for measuring progress were stated mostly in qualitative rather than quantitative terms. For example, under one of the project objectives, "enhancing pluralistic civil societies", two "impact indicators" were described as "general public perception that participation of political and civic organizations is effective" and "the existence of an open and transparent system for organizing, registering and operating as a legal political organization." Output indicators listed under this objective included "organizational documents, budgets and headquarters established, including calendars and long-range plans"; "increased involvement by women and younger constituents in political party activities"; and "party platforms reflect women's and younger constituent[s] issues." However, there were no precise description of what specifically was to be accomplished by these indicators (e.g. the degree of increased involvement by women and younger constituents).
- Project Papers for a \$150 million privatization and enterprise restructuring project (\$57.1 million expended) in Central and Eastern Europe had no quantifiable indicators and listed no specifics as to how progress would be measured. For example, one project objective was "to develop a cadre of local consultants to eventually take over the function of the foreign consultants." However, there was no timetable or other information in project documentation as to how to measure progress.
- The Project Paper for the Global Bureau's Family Health International Project (\$90.8 million expended) is vague with regard to what exactly is to be accomplished under this \$121 million project. The project purpose is: "To improve family planning technology available for use in developing countries and to improve understanding of such technologies." One of the three objectively verifiable indicators to measure progress in achieving this purpose is: "Better knowledge and appropriate use of methods of family planning." However, no baseline data and specific targets were identified, nor is it clear what is meant by "better knowledge and appropriate use of methods of family planning", or how progress towards achieving this indicator could be measured. Furthermore, while the indicators for achieving the expected project outputs could be considered quantitative in terms of description, they are not useful in objectively determining to what extent, if any, they are contributing toward accomplishing the project purpose and goals. For example, one indicator is "350 publications" but there is no criteria for determining whether the

publications are good or bad, or whether they are contributing to the project purpose and goals.

- The Project Paper for the Natural Resources Management Project (\$1.0 million expended) at USAID/Panama identifies 12 project outputs with an objectively verifiable indicator for each one. However, none of the indicators are quantifiable (or even objectively verifiable and measurable) to objectively measure project progress in accomplishing the anticipated results. For example, one output is: "The clearing and degradation of forest land in the Canal Watershed will be halted and the productivity of existing land holders increased." However, the only indicator for measuring progress in achieving this output is: "Economic studies and farmer interviews." This indicator identifies how officials will obtain data—it is not a quantifiable or objectively verifiable indicator with specific targets to measure progress in achieving the output such as the anticipated amount of increased productivity of existing land holders.
- The project goal of the Improved Administration of Justice Project (\$2.5 million expended) is: "...a Panamanian justice system that is expeditious, fair and independent of political and other extra-judicial influences." Although all four objectively verifiable indicators identified in the Project Paper to determine what is expected toward achieving this goal are described in quantifiable terms, none of them are in fact quantifiable because no baseline and/or targets have been established. For example, one indicator is: "Reduction in the average length of detention before sentencing". However, no baseline data were established identifying the average detention period when the project started, and no targeted detention time at project completion.

Better Reporting is Needed

The lack of quantifiable or objectively verifiable indicators with specific interim and end-of-project targets discussed above have impaired (1) the two bureaus and four missions ability to report on actual project accomplishments, and (2) the usefulness of their progress reports to management and others to objectively evaluate and compare progress against what was anticipated then the projects were authorized. Some examples of the type of problems in reporting on project progress found during our review of semiannual reports (or other portfolio review documents), prepared by the bureaus and overseas missions we reviewed, are discussed as follows:

- A March 1994 quarterly implementation report on a political and social process project (\$17.0 million expended) in Central and Eastern Europe reported accomplishments exclusively in qualitative or descriptive terms. For example, under the project's Education Reform component the key accomplishments reported were (1) "efforts to introduce civic education in the classroom in Central Europe have been boosted by USIA [U.S. Information Agency] summer programs for education officials and experts at Russel Sage College;" and (2) "Fulbright lecturers in Hungary have received high marks for their contributions to improved teaching in political science and other social sciences." While the information reported is encouraging, no anticipated results or quantifiable indicators (including targets and time frames) had been established under this project component. Consequently, there was no basis upon which to assess the stated accomplishments against anticipated results or to determine if the component was on track in producing the anticipated results.
- A March 1994 project implementation review report on a \$250.0 million energy efficiency and market reform project (\$42.2 million expended) in the New Independent States also reported progress in exclusively qualitative or descriptive terms. For example, under the project's energy efficiency and performance improvement component the key accomplishments reported were (1) "installation by RMA [Resource Management Associates, a principal contractor] of instrumentation and controls at the heating plant of the State Opera House in Kiev has successfully demonstrated energy savings; a request has been made for additional installations;" (2) "RMA completed weatherization installations at hospital wards and at the Ministry of Energy in Yerevan, Armenia, and conducted a demonstration in apartment buildings;" and (3) "in March 1994 RMA started the design of a pilot project to retrofit residential apartments in Bela Cyrkik, Ukraine, that will lead to a \$7 million grant from the World Bank's Global Environmental Fund." However, no anticipated results were stated in the report to allow the reader to compare progress and results with what was expected. From the information provided, it is not possible to determine if the project component is on schedule or whether it will achieve the expected results.
- A March 1994 semiannual "Portfolio Review" for the Global Bureau's AIDS Technical Support Project (\$132.7 million expended) does not include any information that can be used to objectively measure progress and compare results against what was anticipated. For example, although the document identified that one of the indicators established for showing project accomplishments at the project output level is "a decreased incidence of sexually transmitted

diseases among clients", there was no discussion of to what extent such incidences have decreased, if any.

- A March 1994 semiannual Project Summary Report for the Global Bureau's Family Health International Project (\$90.8 million expended) does not provide information that can be used to objectively measure progress and compare results against what was anticipated under the project. In fact, the report includes only one paragraph to describe "Progress Towards EOPS (End-of-Project Status) to Date" since the project was initiated in fiscal year 1985. That paragraph states: "Studies are continuing on safety, efficacy and acceptability of new and improved methods including Lea's Shield, thermoplastic made condoms, and vaginal contraceptive films. Work continues on the development of a non-surgical technique for female sterilization. Training of overseas clinicians and other research staff in new and improved methods continues. Information regarding new and improved contraceptive methods and service delivery modes continues to be disseminated. Introduction of NORPLANT into USAID-supported family planning programs continues." That is the entire description under the heading "Progress Towards EOPS to Date". Based on the above cited progress, a reader of the semiannual report can conclude that work "continues", but cannot determine what specific progress and results have been accomplished, if any, from this \$121 million project.
- A September 1993 semiannual report on the Improved Administration of Justice Project (\$2.2 million expended) at USAID/Panama does not discuss specific progress of any of the four indicators in accomplishing the project goal. For example, the report does not discuss progress towards reducing (1) the number of persons detained and awaiting trial or (2) the average length of detention before sentencing. Although, the report discusses the progress of each of the six indicators at the purpose level, a reader of the report cannot determine whether progress is being made because the indicators are not quantifiable and no interim indicators (targets) were established. For example, regarding one of these indicators—"Judicial Career established and employees have career status"—, the semiannual report identifies two quantifiable achievements: (1) 234 positions have been filled through the competitive selection process as of June 1993 and (2) 15 percent of the career candidates were not given career status. However, because no targets on either of these achievements had been established, USAID management cannot determine whether the project is on schedule in accomplishing this indicator.

USAID's Guidance Is Insufficient

Many of the problems with the lack of quantifiable or even objectively verifiable and measurable indicators were attributable to the bureaus and missions not following the guidance in USAID Handbook 3 (Appendix 3K)—indicators were not always stated in terms that were explicit and precise, finite (countable and/or measurable), or objectively verifiable. However, some of the problems with the indicators and most of the problems with reporting can be attributed to insufficient USAID guidance. The guidance does not specify what information is necessary in order that USAID management and others (e.g., Congress) can objectively measure progress and compare actual results against what was anticipated when the projects were undertaken.

For example, although USAID has issued guidance for meeting the requirements of Section 621A of the Foreign Assistance Act, the guidance is ambiguous as to what type of indicators are needed (e.g., the extent that quantifiable, objectively verifiable, and measurable indicators with specific interim and end-of-project targets). Following is a few examples of why clearer guidance is necessary and how it would assist USAID/Washington offices and overseas missions in establishing better indicators:

- The guidance states that quantitative targets are preferable where they can be formulated. This, in essence, allows missions to not establish any quantifiable targets for measuring project results against what was anticipated. Even the opinion issued by the USAID Office of General Counsel in August 1994 is vague regarding the extent to which "quantitative indicators" are required under Section 621A of the Foreign Assistance Act. The General Counsel opined that the law does require the development of such indicators but does not require that such indicators be used in each and every program or project. Thus, without specific guidance on the extent "quantitative indicators" are required, some missions could believe that they do not have to establish any quantitative indicators for their projects. Also, USAID overall could consider that it is meeting the requirements of 621A by establishing two or three quantitative indicators for only one project.
- The guidance requires the use of progress indicators to measure progress from the baseline condition to the planned targets. The guidance further states that these indicators be "objectively verifiable" (i.e., the indicator must present evidence which has the same meaning for both a skeptic and an advocate) and are "targeted" (e.g., contain a magnitude and a time when the desired change is to be observable). However, the word targeted is vague by not specifically requiring "interim targets". Consequently, this allows

missions and USAID/Washington offices to establish the end of the project as the time when the desired change is to be observable with no interim targets to measure progress toward the project objectives. Without such interim targets, USAID and others cannot objectively evaluate progress and determine results until the end of the project—after all funds had been disbursed.

- Although USAID Handbook 3 (Appendix 3K) states that statements of targets and progress indicators "...will automatically be included in the logical framework matrix (discussed in Appendix 2F)" in the Project Paper, Appendix 2F has never been prepared.
- USAID issued a cable in October 1992 stating that Mission Directors and Directors of USAID/Washington offices were responsible for establishing appropriate project and program "performance indicators"; but the cable did not provide additional guidance on what would be considered an appropriate indicator (e.g., a quantifiable or even objectively verifiable and measurable indicator with specific interim and end-of-project targets).
- The USAID Administrator testified at a Congressional hearing in March 1994 that he is committed to making USAID an Agency that manages for results, that is dedicated to helping people in the developing world to measurably improve their lives, and that achieves results that all Americans can be proud of. The Administrator also testified that: "The achievement of strategic objectives must be managed project by project and program by program: each endeavor must make a direct and measurable contribution to specific strategic goals." However, USAID has not issued any clear and specific guidance requiring all operating units to review their active projects to assess whether or not (1) the project objectives are expected to produce a measurable impact and (2) the project objectives and indicators identified in the Project Paper Logframes contribute to the operating units' strategic program objectives under USAID's Program Performance and Information System for Strategic Management (PRISM).

Also, we found differences in opinions on whether project objectives and related indicators for measuring progress should be directly related to accomplishing the strategic program objectives. For example, the Bureau for Latin America and the Caribbean issued guidance in (October 1993) for the preparation of the semiannual report for the period ended September 1993 which directed each mission to review the end-of-project indicators in the Project Paper Logframes and reported in the semiannual report. The purpose of these reviews were to assess whether or not the existing indicators in the Logframe are set forth in the most efficient manner for

assessing project progress and its contribution to the missions strategic objectives under USAID's Program Performance Information System for Strategic Management (PRISM) system which was initiated in 1991 to provide better information on program results.

On the other hand, USAID/Philippines officials do not believe on-going projects should be retro-fitted to have a direct link to strategic objectives established under the PRISM. For example, in commenting on a discussion paper on our audit of USAID/Philippines' systems for measuring program and project results, USAID/Philippines officials stated in August 1994 that:

Most of our projects are far into their life cycles and retro-fitting these with PRISM is not cost effective or beneficial. We strongly believe that these old projects should be "grandfathered" and evaluation of their success or failure should be consonant with the terms of their original logframe indicators approved in the Project Paper...

While USAID/Philippines officials were correct in saying that most of their projects are far into their life-cycles (e.g., more than three years), 15 of USAID/Philippines' 27 active projects (as of September 30, 1993) had expected completion dates between October 1, 1995 and September 30, 1998—or approximately one to four years to go at the end of our audit. These 15 projects had total obligations and expenditures of \$455.8 million and \$236.4 million, respectively. In light of the \$221.4 million remaining to be spent under these projects (as of September 30, 1993), in our opinion it would make sense to assess whether the objectives and related indicators for measuring progress of these projects are consistent with accomplishing USAID/Philippines' strategic objectives under the PRISM.

Furthermore, whereas the USAID guidance on what type of indicators were needed for measuring project results was somewhat ambiguous, the guidance for reporting on project results is very deficient. For example, there is no uniform USAID requirement for missions and other operating units to prepare periodic reports identifying progress towards accomplishing the specific targets and objectively verifiable indicators that should have been established during the project design process to measure progress in accomplishing project objectives (at the output, purpose, and goal levels). Without such a reporting requirement, USAID does not meet the requirements for a management system that assists management and others in objectively evaluating progress and comparing actual results of projects with those anticipated when the projects were authorized.

Problems in USAID's system for assessing and reporting on project performance has been identified in previous audits and reviews.

Problems in USAID's system for assessing and reporting on project performance has been identified in previous audits and reviews. For example, the United States General Accounting Office reported in June 1993 that USAID project officers performed quarterly or semiannual reviews to monitor project performance and that these reviews were used to brief senior mission management and the Geographic Bureaus on the status of ongoing projects.⁴ However, the General Accounting Office report concluded that the project reviews did not determine whether the projects have met the development goals of the mission and host country. Rather, the reviews primarily identify implementation and financial problems, such as the timeliness of the projects or the rate of obligation of funds. The report further stated that:

According to mission officials, no agency-wide criteria exist to assess project [performance]; generally, mission directors establish their own criteria to judge project performance. Even when geographic bureaus provide some criteria for evaluating projects or programs, missions do not always use it.

Problems were also identified in a cable ("Semiannual Portfolio Reporting") issued by USAID in October 1992 that noted the following:

In past years each Geographic Bureau had in place systems through which field missions periodically reviewed their assistance portfolios to note progress and take corrective action as needed. Common to most of these systems was the compilation of a report to AID/W [Washington] on the status of the portfolio. Over time, due largely to increased emphasis on delegation of authority and responsibility to the field [overseas missions] for portfolio management and an intended USAID/W focus on development impact of total country programs, several Geographic Bureaus de-emphasized receipt and review of mission portfolio reports even though missions continued to regularly review their portfolios.

⁴ The General Accounting Office performed their work from June 1991 to January 1993 and covered 13 overseas missions and regional offices.

The cable further noted that a joint USAID/Office of Management and Budget (OMB) Swat Team, which examined USAID's systems for monitoring USAID-funded activities from the obligation of funds to project completion and USAID/Washington's oversight of those activities, concluded in its July 1992 report and USAID management agreed that:

- there was no uniform USAID guidance for oversight of field activities;
- with the exception of several specific activity areas, USAID/Washington had not defined, and did not collect in a uniform manner, much of the information necessary for USAID/Washington oversight of field activities; and
- USAID did not have a comprehensive system to evaluate all project and program activities or to identify problem activities.

USAID management also agreed with the Swat Team's recommendations that USAID (1) develop and implement USAID-wide standards for reporting project and program activities status and (2) formally specify the information required for project and program oversight at each level of management and communicating these needs throughout USAID.

In an attempt to develop the management system recommended by the Swat Team, the October 1992 cable included details of a "proposed system" for reporting on project activities. This system was to include semiannual reports on project activities and was to include the following information:

- The reports should discuss the indicators included in the original or amended Project Paper Logframe. In some instances, however, missions may need to revise these indicators in order to accurately reflect the scope/purpose of the project and measure progress. But, in order to provide measurable comparisons over time, these indicators, once adopted, should not be changed without good justification.
- The reports should briefly state the end-of-project status indicators and progress to date in achieving those indicators. These indicators should be taken from the original or amended Project Paper Logframe and be indicative of development "impact" at the purpose level. The indicators and cumulative status should be presented in a tabular format.
- For each major output from the original or amended Project Paper Logframe, the reports should identify the planned targets for (1) the life of project, (2) the current reporting period, (3) cumulative through the respective reporting period, and (4) the next reporting period.

The report should also identify the actual accomplishments during the respective reporting period, cumulative accomplishments through that period, and the percentage accomplished to date (i.e., cumulative accomplished divided by total planned life-of-project targets as indicated in the Project Paper Logframe). The targets and actual results should be quantified to the maximum extent possible. This information should also be presented in tabular format. Furthermore, if existing data do not provide this type of information (i.e., quantifiable targets and results), the report should state what is being done to collect such data.

- The reports should provide a brief narrative of project status in terms of the Project Paper Logframe indicators.

While the above requirements would have helped greatly to meet the requirements for comparing progress against what was anticipated when the projects were undertaken, another cable USAID issued in March 1993 stated that the above information would not be required to be reported. Instead, this later cable, which established USAID's new policy on "portfolio reviews and reporting requirements", stipulated that all overseas missions and USAID/Washington offices with project and program portfolios will formally review their portfolios semiannually; but they are only required to submit annual reports to the Bureau level.⁵ This cable also stated:

There is no requirement at this time to standardize the format and content of the field level portfolio review systems. Some Bureaus may want to review the detailed project data from the field reviews and the data underlying the annual report requirement. This is an individual Bureau option. The decision whether or not to submit the full semiannual field-level portfolio review documents rests with Geographic Bureaus and relevant A.I.D./W [Washington] Bureaus.

This new policy falls far short of the "proposed system" described in the October 1992 cable mentioned above. For example, the new policy does not require missions and other operating units to identify in their semiannual project implementation reports nor the annual reports to the Bureau level any specific data on progress being made in achieving the indicators and

⁵ The Portfolio Review System prescribed in the March 1993 cable "... replaces prior USAID guidance on portfolio reviews and reporting except where specifically augmented by a particular Bureau for its [operating] units." The cable further states that this new policy will be incorporated in the revised USAID Handbook series. As of September 1994, the revised Handbook series had not been finalized.

targets that should have been included in the original or amended Project Paper Logframe.

The March 1993 cable further stated that a key reason for not developing a new full standardized system to meet reporting requirements for measuring project results at this time is:

...that USAID is just beginning the implementation of the new Relational Data Base Management System (ORACLE) and the UNIX Platforms on which it will run. These are scheduled to be implemented in all Missions over the next several years.

This cable also noted that virtually all missions who responded to the October 1992 cable were concerned with the additional workload to meet the proposed reporting requirements. Also, a February 1993 cable, which provided a summary of 43 USAID/Washington bureaus and overseas missions responses to the reporting requirements stipulated in the October 1992 cable, stated that it was clear from missions' and USAID/Washington Bureaus' responses that virtually all missions already have in place portfolio review systems that collect data and information on a regular basis to evaluate the status of their project activities. This February 1993 cable also stated:

Missions frequently cited their experience that voluminous reporting is already made to Washington with no apparent attention to it.

The March 1993 cable concluded that it bears pointing out that the process leading to this new portfolio review and reporting system was a major collaborative effort and is a model of what can be accomplished when all levels of USAID function as a team. While we agree that collaborative efforts are beneficial in some situations, we also believe that USAID needs better directions in implementing an effective reporting system on project results. Furthermore, a report issued by The President's Commission of the Management of A.I.D. Programs in April 1992 identified some problems in relying too much on collaborative efforts. The report stated:

Large, redundant staffs in AID/W [Washington] and a lack of discipline have produced a distorted program and project management process. Decisions are made by committees functioning on the basis of collegiality and consensus. Instead of the sharp distinction between AID/W policy development and field Mission project development explicit in the formal delegation of project approval authority to the field, relationships between top management in AID/W and the field are vague and contradictory. AID/W does not uniformly review

and approve Mission strategies and action plans and hold field Missions accountable for them through systemic evaluations...

In May 1994 USAID issued another cable for the "Spring 1994 Agency-wide Portfolio Review" which contained essentially the same requirements as the March 1993 cable. This latest cable stated that the portfolio review system was under review for "reengineering" and is expected to change in the future. Thus, at the time of our review there was no uniform USAID requirement for periodic project implementation reports to specifically identify progress being made in accomplishing project objectives and comparing actual results (at the output, purpose, and goal levels) against what was anticipated when the projects were authorized or last amended.

In response to an early draft of this audit report, USAID Bureau for Policy and Program Coordination officials stated that they believe that it is important to integrate project results reporting into the overall framework for reporting on program results. The officials commented that they:

...believe that much of the lack of adherence to current Agency guidance on project-level reporting is due to the Agency's failure to explicitly link the two [project and program reporting] more closely, leading some to conclude (erroneously) that program-level results monitoring substitutes for project-level results monitoring. A more coherent results-monitoring and-reporting framework is needed which brings them both together, assigning each its distinct, and complementary, role in our managing for results framework.

A unified results-monitoring framework bringing project- and program-level results together is needed in any case: first, to ensure project results are considered within the larger program context, with the latter driving management choices at the project level (otherwise we lose any program management benefit from a managing-for-results framework); and second, to ensure that the measurement and reporting requirements for project results and program results be compatible and mutually reinforcing, and are not excessively onerous. At a minimum, they must use equivalent concepts and terms; a common program management structure; and compatible reporting time-frames. It should also imply a fully integrated review procedure in USAID/W to minimize redundancy and ensure a common agenda for follow-up by operating bureau management.

We fully agree with the above comments on the importance of integrating reporting on project results into the overall framework for reporting on

program results.⁶ While the recommendations in this report should facilitate in the integration of the two reporting systems, we are not making a formal recommendation for integrating the systems at this time because, in our opinion, much needs to be done to correct the problems discussed in this report before the systems can be integrated. However, USAID should nevertheless continue to focus attention on eventually integrating the systems.

**Other Reasons for Problems;
at the Locations Audited**

Besides or because of the insufficient USAID guidance for establishing indicators and reporting on project progress, there were various reasons why the indicators and reporting systems for measuring project progress at the bureaus and missions reviewed were not insufficient. These reasons included the following:

- Bureau for Europe and New Independent States officials noted that they were under extreme pressure in the early stages of providing assistance to their countries to get activities up and running quickly without the benefit of the traditional USAID project design process. Thus, there was no time to develop and ensure that baseline data and quantifiable indicators were included in project designs. A July 1994 draft statement of work for the Bureau's evaluation contracts states that the design approaches used have made it difficult to evaluate impact because baseline data were not collected in most cases, assistance objectives were stated in the most general terms only, and there was neither the time nor a mandate to undertake country-specific needs assessments or strategies prior to project start-up in almost all cases. Bureau officials also contend that some project activities do not lend themselves exclusively to quantifiable indicators and, therefore, qualitative indicators must be used.
- Global Bureau officials generally agreed that better indicators could be established. However, the officials stated that because of the complex and serendipitous nature of the research projects, quantifiable indicators at the purpose and goal level were not established. With regard to reporting on project progress, the officials stated that part of the problem was the lack of clear USAID guidance on what type of indicators have to be established and what

⁶ As previously noted on page 2 of this report, our office recently issued an audit report identifying that USAID still had a way to go before it fully implements the requirements for indicators and reporting systems for measuring program results.

should be discussed in their "Portfolio Review" document regarding progress in accomplishing specific project objectives and related progress indicators.

- USAID/Panama officials attributed the problems to the fact that they did not believe that Section 621A of the Foreign Assistance Act requires quantifiable indicators to be used for measuring project progress and noted that USAID guidance allows for qualitative indicators. The officials also said that for some projects quantifiable or even precise descriptions of what was anticipated could not be identified.
- A major cause of the problems at the three Asia missions (i.e., USAID/Nepal, USAID/Indonesia, and USAID/Philippines) was that the missions' project design process had not given enough attention to consistently develop performance indicators that are objectively verifiable and targeted in terms of when the anticipated results are to be achieved. For example, following the receipt of the draft audit report on USAID/Indonesia's Rural Roads Maintenance Project in November 1993, that mission identified a need to review its system for monitoring and evaluating project outputs. The review reported that the mission's projects had monitoring difficulties due to a lack of clearly established objectively verifiable progress indicators at the output level. The review attributed deficiencies to improper project design procedures which resulted in the lack of clear indicators and periodic targets, making the reporting of project achievements difficult. While USAID/Indonesia is establishing a new reporting system in response to the previous audits and its own review, this system is only designed to report progress at the project output level—not at the purpose or goal level. USAID/Indonesia officials said they do not want to establish a reporting system at the project purpose level (and apparently the project goal) until USAID establishes a uniform reporting system. Furthermore, these officials prefer to restrict reporting to exceptions (problem areas) rather than report progress against anticipated targets.

Conclusion

In conclusion, we believe that the findings discussed in this report warrant top level USAID management attention to improve USAID's systems for measuring project results and ensure that bureaus and missions consistently implement prescribed guidance or directions. There is an apparent need for clearer guidance of the requirement for quantifiable and even objectively verifiable and measurable indicators with interim and end-of-project targets and for better reporting systems. Without baseline data and better indicators (e.g., expressed in quantifiable, objective, and

measurable form) with specific targets along with reliable reporting systems, USAID management and others do not have the information needed to objectively evaluate progress and compare actual results against anticipated results when the projects were authorized or last amended. Without this information, USAID may find it difficult to justify further funding of projects by Congress. This audit report includes detailed examples of specific problems with indicators and /or reporting for eight (of the 27) projects reviewed for which USAID had obligated and expended \$560.0 million and \$364.4 million, respectively (as of March 31, 1994).

Management Comments and Our Evaluation

USAID management generally concurred with the findings and recommendations in this audit report. Management commented, however, that although the current guidance for reporting on project results may be ambiguous, the guidance does require operating units to assess the degree to which projects accomplish their objectives at different levels. Management also believed that the draft of this audit report did not adequately address actions already taken to improve the effectiveness of USAID's current management systems for measuring project results. This final report has been revised to better address those actions already taken such as the significant "reengineering" effort undertaken in the past year to improve USAID's ability to identify and report on project results.

Management expects to issue new program operations directives as part of this reengineering effort by October 1995. Management believes that with the caveat that the proposed reengineered program operations system will not have projects per se, the audit recommendations should be interpreted as applying to USAID activities broadly. Management further believes that the new operations directives will address each of the recommendations and should help resolve most of the problems found by the audit when fully implemented. For example, the new guidance will (1) address the roles of the central and regional bureaus to ensure operating units establish the required baseline data, indicators, and reliable reporting systems for measuring progress in accomplishing the objectives of USAID-funded activities; (2) establish standards for developing baseline data, indicators, and interim targets for all activities; (3) establish common reporting standards for all operating units; and (4) address how active projects in the portfolio will be brought into conformance with the precepts of the new system. Management also stated that it intended to issue appropriate guidance to operating units to review their active project portfolio and to make appropriate revisions to ensure baseline data, indicators with specific targets, and reporting systems have been established to measure progress in accomplishing objectives.

Based on Management's comments, the five parts of Recommendation No. 1 are considered resolved and can be closed when the recommended actions have been satisfactory implemented.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General for Audit in San Jose, Costa Rica, with the assistance of other audit offices, audited USAID's systems for measuring for project results in accordance with generally accepted government auditing standards. The audit was conducted from December 1993 through September 1994. We met with officials and reviewed systems being implemented to measure project results at the Bureau for Europe and New Independent States, the Global Bureau, and the following missions: USAID/Panama, USAID/Philippines, USAID/Indonesia, and USAID/Nepal. These bureaus and missions had obligations and expenditures totaling approximately \$4.7 billion and \$2.8 billion, respectively (as of March 31, 1994).

The audit had the following scope limitations:

- We did not attempt to verify the overall reliability of the funding data (i.e., obligations and expenditures) nor the number of active projects identified in the report. For the Bureau for Europe and New Independent States we used the funding data reported by them because we found apparent significant errors in USAID's Project Accounting and Information System (PAIS) for this Bureau's active projects. All other financial data and the number of active projects presented in the audit report were obtained from the PAIS. We do not believe that not verifying the data used would change the audit findings except that the total amount of funding and number of active projects would probably be higher than those identified in the audit report.
- We did not attempt to determine the adequacy of all the indicators in relationship to whether they were adequate for showing a direct impact toward accomplishing the project objectives (at the output, purpose, and goal levels). Although the auditors did not have the expertise to determine this relationship, the problems found and

reported in this report were evident and did not require special expertise to determine that the indicators were not quantifiable or even objectively verifiable and measurable with specific targets to assist USAID management and other (e.g., Congress) to objectively evaluate progress and compare results against what was expected when the project was undertaken.

At the request of Bureau for Policy and Program Coordination officials, we also performed a very limited review at USAID/Dominican and USAID/El Salvador to determine if problems similar to those discussed in this audit regarding indicators and reporting systems existed at those missions. We selected five of the largest projects at each mission to determine if (1) the Project Papers included quantifiable or even objectively verifiable and measurable indicators with related baseline data and specific targets (both interim and end-of-project) on what was expected in accomplishing the project objectives at the output, purpose, and goal levels and (2) the semiannual reports as of March 31, 1994, identified specific progress in accomplishing the project objectives and related indicators. Our review of these documents identified that problems discussed in this report did, in fact, exist at USAID/Dominican Republic and USAID/El Salvador for the projects reviewed. However, because we did not attempt to identify the reasons for the problems at these two missions and did not perform an in-depth review of the problems, we are not including the results of our review at these two missions as part of the findings discussed in the audit findings part of the audit report.

Methodology

To accomplish the audit objective, we reviewed the requirements for establishing a system for measuring project results as stipulated in Section 621A of the Foreign Assistance Act. We also reviewed USAID Handbook 3 and a series of cables setting forth USAID policies and procedures for establishing baseline data and indicators and related reporting systems to measuring project results. We also downloaded data from USAID's Project Accounting and Information System (PAIS) and obtained reports from the Bureau for Europe and New Independent States to identify obligation and expenditure data for active projects as of March 31, 1994. We reviewed the Bureau for Europe and Independent States', the Global Bureau's, and the four missions' systems for establishing indicators and reporting on project

progress. At these bureaus and missions, we reviewed in detail the indicators and periodic project implementation reports or other periodic portfolio review documents for a total of 27 of their approximately 180 active projects. We also met with Bureau for Policy and Program Coordination officials to discuss the results of our audit.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MAR 30 1995

MEMORANDUM

TO: AIG/A, James B. Durnil

FROM: AA/PPC, Colin I. Bradford, Jr. *CB*

SUBJECT: Draft Audit Report on "USAID's Systems for Measuring Project Results"

The Agency concurs with the recommendations of the report, but believes that our operations reengineering will address the underlying issues raised with respect to management of performance measurement and reporting systems. Furthermore, the report does not adequately reflect USAID's current actions to improve its management systems for measuring project results. USAID recommends that the IG accept the recommendations of the report as resolved based on the steps taken and underway to address the fundamental issues raised by the audit, and consider the recommendations closed with the publication of new Agency directives on program development and management, scheduled for October 1, 1995.

The Agency has made considerable effort in putting in place a performance measurement and reporting system. The recent reorganization of USAID, the issuance of directives on strategic planning and project development, and the current efforts to reengineer the Agency's program operations demonstrate our commitment to address the kinds of issues the audit report raises, and to carry out needed reforms with dispatch. Evidence of the Agency's commitment and ability to make necessary management improvements is provided by the Ferris Commission's recent reassessment of the Agency's progress in reforming itself. The Commission commended USAID for the significant progress that it has made in addressing the issues that the Commission identified a couple of years ago. We believe that the significant progress the Agency has made with respect to the audit recommendations should be reflected in the final audit report.

Our response to specific report recommendations follows, with the caveats that the proposed reengineered program operations system will not have projects per se, and that the recommendations should be interpreted as applying to Agency

activities broadly. Our program operations reengineering is currently working on the areas covered in the various parts of the recommendation. The policies and essential procedures that will govern the new operating system will replace the current Handbooks 1-4 and 7-10; these are expected to be issued by October 1995.

Recommendation 1.1 Management Roles. USAID concurs with the recommendation. As part of reengineering, the relationships between USAID/Washington bureaus and field missions will be redefined. An essential feature of the new system will be increased emphasis on management responsibilities for ensuring that operating units establish the required baseline data, indicators of performance, and reliable reporting systems for measuring progress in accomplishing the objectives of USAID-financed activities. These new definitions will be embodied in the new directives and corresponding delegations of authority.

Recommendation 1.2 Guidance on Indicator Development. CDIE, as part of the reengineering effort, is leading the effort to develop new directives that will establish standards for developing indicators, baseline data, interim targets, etc. for all programs and activities.

Recommendation 1.3 Guidance on Reporting Performance. We concur with the spirit of the recommendation, but do believe that current guidance already requires that operating units comply with this recommendation (a brief synopsis of the history of this issue is attached). Although there are statements in those cables that could be construed to imply that the Agency rescinded past guidance on reporting standards, the history of the guidance also includes significant references that speak to the Agency's concern that operating units' portfolio reviews assess the degree to which projects accomplish their objectives at different levels. Nevertheless, the Agency is developing common reporting standards for all operating units as part of the new program operations directives, which will be issued in October 1995.

Recommendation 1.4 Instruction to Review Active Projects' Fit with Strategic Objectives. The Agency's reengineering effort directly addresses this recommendation. The new program operations system will address how active projects in the portfolio will be brought into conformance with the precepts of the new system. Also, the Interim Project Development Directive addresses this recommendation for new projects developed prior to the issuance of the new program operations directives.

Recommendation 1.5 Instruction to Develop Performance Measurement and Reporting Systems for Active Projects. The Agency concurs with the need to review the active project portfolio to ensure that all projects have adequate performance measurement and reporting systems. The Agency intends to issue

appropriate guidance to operating units to review their active portfolio and to make appropriate revisions to ensure baseline data, indicators with specific targets, and reporting systems have been established to measure progress in accomplishing objectives. However, as we are in the process of establishing a new program operations system that will no longer be project-based, we are concerned with the prospect of issuing guidance that will be overtaken by the new policies within a matter of months. We propose to address the audit recommendation in the context of issuing the new directives for the reengineered operating system. By that time we will have made the critical and fundamental decisions as to how active projects are to be brought into the new system, and will be better able to define the appropriate guidance that needs to be issued.

SYNOPSIS OF HISTORY OF PORTFOLIO REVIEW GUIDANCE TO OPERATING UNITS

The audit report cites a statement in STATE 93-066657 that indicates that this cable replaces all prior guidance on portfolio reviews, and does not prescribe the "format or content" of field review systems as implying that USAID/W rescinded the requirement for comparisons between planned and actual results for projects. However, we maintain that it was never the intent of the Agency to rescind those aspects of the guidance that deal with performance measurement standards and requirements. This is borne out by STATE 93-125805, issued after STATE 93-066657, and which clarifies that "this cable is a continuation of the information developed, approved and reported on in REFS A, B, and C, and it should be useful for missions to keep these together as a package for reference until the revised system is incorporated into the Agency handbooks." REF A, it should be noted, is STATE 92-355133, which was issued prior to STATE 93-066657 and included the specific requirements for comparisons of actual accomplishments to planned targets.

The streamlined reporting in the post-1992 cable dealt with reports from the field to USAID/W; the portfolio review system maintained the requirements established in STATE 92-355133 under paragraph 4: "Management Responsibilities for Portfolio Monitoring." In February 1993, the Acting A/AID approved the new portfolio review system. The Action Memorandum noted that missions accepted the management responsibilities for each organizational unit as outlined in STATE 92-355133. The major modifications from the requirements in that cable dealt with the amount of data USAID/W would require.

The major issue was standardization of format. Originally, the idea was for the 1992 reporting to be in a standardized electronic format that would permit easy transmission to USAID/W. As indicated in the February 1993 Action Memo for the A/AID, and reiterated in a separate September 3, 1993 memo from AA/FA, Richard Ames to the A/AID, this was not feasible due to the lack of automation capabilities in the missions to assemble standardized data, and the problems in telecommunications connectivity to permit automated reporting. In a December 1992 summary of mission comments on the proposed review system outlined in STATE 92-355133, USAID/W noted that "it is clear from mission responses that virtually all missions already have in place portfolio review systems that collect and evaluate on a regular basis all the essential data and status information on their project and program activities. The only real differences lie in formatting."

Another issue dealt with missions' expressed concerns that providing USAID/W too much detail would eventually undermine delegations of authority to the field by inviting greater Washington micro-management. To deal with these problems and

concerns, USAID/W streamlined the reports it wanted to see; this did not relieve the missions from their basic responsibilities.

USAID/W did not exonerate the field missions from reviewing planned v. actual data at the mission level. Attachment B to the February 1993 Action Memo is an excerpt from STATE 92-355133, and clearly stipulates in paragraph "g" that mission directors and USAID/W office directors are responsible for: "ensuring that there is in place a process to effectively assess progress being made towards achieving intended development results and meeting a portfolio's strategic objectives."

Given that the February 1993 Action Memo established the system, it is reasonable to conclude that the reference in the statement in STATE 93-066657 that USAID/W would not dictate the format or content of "field level portfolio review systems" referred to the reports that would be forwarded to USAID/W. All other indications point to the continued expectation that missions would continue to assess progress against planned targets.

STATE 94-130601 established the timetable for the Spring 1994 Agency-wide portfolio review. That review was held and a report issued in November 1994. As a result of this review, the USAID Administrator instructed M and PPC to follow up on several actions designed to improve portfolio performance.

In short, we believe the Agency has made considerable progress in meeting this recommendation and that it will be fully complied with when the new directives on program development are issued in October 1995.