Audit of the Department of Labor's Technical Assistance Activities in Hungary

Report No. 8-185-93-09
September 24, 1993
AUDIT OF THE DEPARTMENT OF LABOR'S TECHNICAL ASSISTANCE ACTIVITIES IN HUNGARY

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The U.S. Department of Labor (DOL) spent approximately $1.2 million of A.I.D. funds transferred under interagency agreements for technical assistance activities in Hungary and plans to continue and significantly expand its programs—budgeting approximately $1.4 million for the period April 1993 through March 1994. The audit found considerable confusion concerning the merits of DOL's proposed program, confusion caused by (1) problems encountered by the Bureau for Europe in implementing a new requirement for country-specific workplans and (2) uncertainty on the part of DOL over the roles and responsibilities of the AID/Representative for Hungary and A.I.D.'s Washington-based project officials for DOL's activities in Hungary. The Bureau took actions to provide more specific guidance to the DOL on the workplan requirements and to clarify the roles and responsibilities of the AID/Representative and Washington-based project officers.

The audit also found that the AID/Representative for Hungary was not fully carrying out its oversight responsibilities for DOL's activities in Hungary. However, the Bureau for Europe and the AID/Representative were taking actions to increase this oversight role.
MEMORANDUM

TO: RME/A-DIR, Robert W. Nachtrieb
FROM: RIG/A/B, John Competello

This is our report on our audit of the U.S. Department of Labor's interagency agreements with the Regional Mission for Europe for labor transition activities in Hungary. We previously issued an audit report on the Department of Labor's technical assistance activities in Bulgaria (Audit Report No. 8-183-93-06, dated August 12, 1993) and we plan to issue a report on the Department's technical assistance activities in Poland.

We have reviewed your comments and those provided by the Department of Labor to the draft report and included them as Appendices II and III, respectively. Based on your comments and actions taken, Recommendation Nos. 1.1, 1.2 and 2.1 are considered closed and Recommendation No. 2.2 is considered resolved and can be closed when required actions are completed. We also acknowledge receipt of the representation letters that were provided and which we found to meet our needs. These letters are also in Appendix II.

I want to point out to you two issues which because of their importance we intend to follow-up and report on in future audits of the Bureau's use of interagency agreements. These issues concern the Bureau's and AID/Representatives' coordination both between themselves and with the implementing agency, and the degree that AID/Representative offices are staffed to monitor the activities of other U.S. government agencies. As discussed in this report, we noted problems in these areas which, notwithstanding Bureau actions to date, could be cause of concern in the future.

Please provide us information within 30 days indicating any actions planned to be taken to implement the open recommendation. I appreciate the courtesies and cooperation extended to my staff during the audit.
Background

A large portion of A.I.D.'s Central and Eastern Europe (CEE) program funding is transferred to other U.S. government agencies using interagency agreements. As of June 30, 1993, A.I.D. transferred approximately $407 million of CEE funds, representing approximately 37 percent of A.I.D.'s CEE funds, to 18 U.S. government agencies. Of this amount, the Regional Mission for Europe transferred approximately $20 million, under four interagency agreements, to the U.S. Department of Labor (DOL) for the purpose of implementing labor market transition programs in seven CEE countries and the Baltic States (Estonia, Latvia and Lithuania). DOL has provided a wide range of technical assistance in selected CEE countries to address problems caused by mass layoffs and increasing unemployment in the region, assistance activities which include:

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

In Hungary, following the change of the political and economic regime in 1990, the labor market had to cope with employment related conflicts and tensions arising from conversion to a market economy. Hungary's unemployment rate—12.6 percent in June 1993—ranks among the highest in Central and Eastern Europe. Many unemployed have now exhausted their benefits and are no longer registered as jobless. Also, consider that:

- Small, single-industry towns such as Komlo, Encs, Ozd, and Sellye are plagued by high unemployment. For example, unemployment ranged from about 28 percent in Komlo to about 39 percent in Sellye. According to one Hungarian employment services official, the labor force in these towns is unskilled and has a low education level—making prospects for future employment bleak.
Although unemployment could possibly reach 20 percent by the end of 1993, the Hungarian Government has shortened the unemployment benefit period.

To help the Government of Hungary deal with its growing unemployment problems, DOL has been providing technical assistance to the Government since 1990, mainly in the area of employment services.

Audit Objectives

The objectives of the audit in Hungary were to answer the following questions:

- What were A.I.D. funds used for and what results were being achieved under the Regional Mission for Europe’s interagency agreements with the Department of Labor in Hungary?

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

This audit is part of our first in a series of audits of individual U.S. government agencies’ activities being carried out with funds transferred by A.I.D. through interagency agreements. The audit was included in RIG/A/Bonn’s revised fiscal year 1993 audit plan.

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

Audit Findings

What were A.I.D. funds used for and what results were being achieved under the Regional Mission for Europe’s interagency agreements with the Department of Labor in Hungary?

As of June 30, 1993, the U.S. Department of Labor (DOL) spent approximately $1.2 million of A.I.D. funds transferred under interagency agreements for technical assistance activities in Hungary. Major program activities included: upgrading a
employment services office ($616,000), providing self-employment and entrepreneurial skills training ($123,000), providing advisory services for dislocated workers ($97,000), and updating vocational training ($16,000). These funds were spent mainly for: (1) grantees and contractors who helped to implement DOL's technical assistance programs; (2) salaries, travel and per diem costs associated with sending technical assistance teams (made up of State employment services experts) to Hungary; and, (3) travel, per diem and salaries of DOL officials assigned to work on the program.

Results achieved by DOL's technical assistance include:

- Along with other donors, such as the International Labor Organization, DOL helped the Hungarian Government establish an upgraded (sometimes referred to by DOL as a "model") employment center in Baranya County, a county with a population of approximately 417,000 and which was considered to be a potential crisis zone because of anticipated mass layoffs;

- Through a contract with the AFL-CIO's Free Trade Union Institute, a full-time employment and training adviser was provided to assist Hungary's Ministry of Labor, municipal governments, and labor unions in addressing problems caused by mass layoffs. Government officials we interviewed were satisfied with the technical assistance provided by the adviser. In addition, Hungary's Democratic Confederation of Free Trade Unions assigned one of its staff members to work as an interpreter for the adviser and, at the same time, learn the adviser's training methods in order to continue the training after the adviser leaves, thus providing for program sustainability.

- Through an agreement with the National Women's Economic Alliance Foundation (a U.S.-based not-for-profit organization), DOL sponsored three Hungarian women to participate in an entrepreneurial-related internship program in the United States. One of the participants we interviewed stated that the program provided her with practical information on how to choose employees, advertise, market, and organize her business. This participant also started to mentor three other Hungarian women, two of whom have their own small businesses.

DOL plans to continue and significantly expand its technical assistance activities in Hungary—budgeting approximately $1.4 million for the period April 1993 through March 1994. However, our audit showed that certain aspects of DOL's proposed
programs need clarification to better ensure DOL's programs are properly focused and necessary.

**Aspects of DOL's Proposed Programs for Hungary Need Clarification**

The U.S. Department of Labor's (DOL) technical assistance activities should be addressing critical and high priority problem areas, as agreed to by the Department of State Coordinator, Bureau for Europe, DOL, the AID/Representative for Hungary, and Hungarian Government officials, in order to maximize the use of limited assistance resources. Some components of DOL's proposed program, however, may not be addressing the most critical problem areas and there were questions as to whether some technical assistance activities were necessary. Questions concerning DOL's proposed programs occurred because of (1) problems encountered by the Bureau for Europe in implementing its new requirement for country-specific workplans and (2) uncertainty as to the roles and responsibilities of the AID/Representative for Hungary and the Regional Mission for Europe concerning DOL's programs in Hungary. As a result, there was considerable confusion about the technical assistance priorities in Hungary and whether DOL's proposed program adequately addressed these priorities.

**Recommendation No. 1:** We recommend the Bureau for Europe, in coordination with the AID/Representative for Hungary:

1.1 develop specific guidance detailing the format and substance for the annual country-specific workplans to be submitted by the Department of Labor; and

1.2 clarify the roles and responsibilities of the AID/Representative for Hungary and the Regional Mission for Europe with respect to the Department of Labor's programs.

Although not specifically required in the interagency agreement, we believe that in order to maximize the effectiveness of limited assistance resources, technical assistance activities, such as those carried out by DOL, should be directed to high priority problem areas. There should also be a consensus and agreement among the Department of State Coordinator, Bureau for Europe, DOL, the AID/Representative for Hungary, and Hungarian Government officials as to what these critical and high priority technical assistance needs are.
Department of Labor’s Budget for Technical Assistance Activities in Hungary April 1993 to March 1994

In June 1993, the Regional Mission for Europe and DOL entered into a new $6 million interagency agreement to fund DOL's technical assistance activities in CEE countries for the period April 1993 to March 1994. For Hungary, DOL budgeted approximately $1.4 million for five different activities, as shown in the chart on the opposite page. In April 1993, prior to the final approval of the interagency agreement, DOL submitted for the Bureau for Europe's approval an implementation plan for Hungary providing more details on its programs.

While we recognize that, at the time of our audit field work in May 1993, DOL's proposed programs had not been finalized and were still undergoing refinement and review by DOL, Bureau for Europe, AID/Representative, and Hungarian Government officials, our review of DOL's programs identified a number of problems with its proposed technical assistance activities, problems which raise questions as to whether the assistance activities were addressing high priority needs and were actually necessary. Examples of these problems are cited below.

**Self-Employment and Entrepreneurial Skills Training**

DOL's objective for the self-employment and entrepreneurial skills training program is to offset unemployment resulting from the restructuring of state enterprises by increasing self-employment and creating small businesses. DOL contracted with Ohio State University to implement the program, a program similar to the one the University started in Poland under a DOL grant. Ohio State began implementing the program in 1992 and, as of June 30, 1993, had spent approximately $123,000. DOL budgeted an additional $275,000 for the period April 1993 through March 1994.

While there is obviously a need for programs to offset unemployment there were questions as to whether this specific program was needed. For example:

- Entrepreneurial training programs already exist in Hungary and it was not clear how the Ohio State program would differ or complement these programs.

- Hungarian Government officials we contacted expressed mixed views on the need for the program. One official (a senior economist with the Government) believed that funds designated for the program could be better spent elsewhere. Two other officials felt the program was needed but raised concerns about linkages—who would pay the tuition for unemployed workers to take the course and where would course
graduates obtain financing to start businesses. These linkages were not addressed in DOL's workplan.

Further, we noted some problems with the pilot test conducted to determine the course’s usefulness and the relevancy of the course materials. For example, although the course was intended for participants with a low education level, the pilot test group consisted mainly of unemployed engineers and professionals who may not be representative of the target audience. Also, we were told that most of the test participants never expressed an interest in starting their own business. Thus, questions existed as to whether this pilot test served as a true test of the usefulness and relevancy of the course.

**Updating Vocational Skills Training**

The objectives for this component are to train Hungarian Ministry of Labor and Regional Training Center administrative staff in order that they will be able to oversee vocational training programs in Hungary. DOL plans to provide vocational training programs in the following areas: (1) vocational advisory committees, (2) curriculum development, (3) economic development, (4) instructor/manager training, (5) updating vocational construction training, and (6) entrepreneurship training. DOL budgeted approximately $712,500 for this component for the period April 1993 through March 1994. DOL officials told us that the vocational construction skills training accounted for about 20 percent of this component.

Our discussions with DOL, Bureau for Europe, AID/Representative, and Hungarian Government officials disclosed that there was no consensus as to whether all aspects of this program were needed. For example:

- DOL officials told us that the construction skills component of the program was designed in response to a request from the Bureau for Europe and the Hungarian Ministry of Labor. On July 2, 1993, the Hungarian Ministry of Labor, in a letter to DOL, affirmed its desire for the construction skills component stating that the component would complement and add to its overall reform efforts. However, the AID/Representative for Hungary told us that he did not consider the construction skills training portion of the component to be necessary and that he felt there were other higher priority issues that DOL should be addressing.
Vocational training courses in small appliance repairs and computer applications being provided to unemployed workers at the Miskolc Regional Training Center.
The Regional Training Center in Miskolc already has a construction training program which was funded by donors other than the DOL and the Regional Training Center in Pécs is planning to offer construction training when it opens in September 1993.

The reasons for the problems and the confusion concerning DOL's proposed programs centered around (1) the Bureau for Europe's implementation of a new requirement that DOL submit annual work plans and (2) uncertainty as to the roles and responsibilities of the AID/Representative for Hungary and the Regional Mission for Europe concerning DOL's programs in Hungary.

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

DOL officials told us that they received little guidance on how to prepare their workplan and were only told to pattern their plan after a traditional A.I.D.-developed planning document. Our review of the plan showed that it did not include all the information required by the new agreement, such as benchmark indicators toward achieving the program goals and objectives or identifying specific resources to be applied to achieve specific activities. For example:

- One of the activities DOL identified in its workplan for the dislocated worker program was the creation of a model employment, education and training center in Budapest by September 1993. However, it was unclear from DOL's workplan as to how the $100,000 budgeted by DOL for this and other activities under the component would result in the creation of the model center, particularly by September 1993.

In discussing DOL's workplan with the AID/Representative, he stated that the format used by DOL, based on instructions from an A.I.D./Washington official, did not provide him the information he needed to determine if he could approve DOL's programs in Hungary. The AID/Representative advised the Bureau for Europe in June 1993, about two months after receiving DOL's workplan for approval, as to the type information he wanted to be included in DOL's workplan.
In addition to the problems encountered by A.I.D. in implementing the new workplan requirements, we also noted that there were questions as to the specific roles and responsibilities of the AID/Representative for Hungary and the Regional Mission for Europe with respect to DOL's programs. DOL officials noted that during the past year their relationships with the Regional Mission for Europe and the AID/Representatives has been complicated by both legislative and procedural changes. They cited the Fiscal Year 1993 Foreign Operations Appropriation Act which gives AID/Representatives in the field the authority to monitor programs such as DOL's—authority that did not exist in the past. DOL officials told us, however, it was unclear as to the division of responsibilities between A.I.D.'s Washington-based project officials and the AID/Representatives in the field.

This uncertainty as to these roles/responsibilities was evident, for example, when DOL was instructed by A.I.D./Washington officials to prepare its workplan in a particular format which was subsequently rejected by the AID/Representative for Hungary.

Also, DOL officials cited cases where they were instructed by the Bureau for Europe or the Regional Mission for Europe to design assistance programs in Hungary without the apparent knowledge of the AID/Representative for Hungary. For example, DOL officials mentioned that A.I.D./Washington officials apparently did not notify the AID/Representative in Hungary about the Government of Hungary's request for the construction skills component of the vocational training program and thus the AID/Representative was not supportive of this component of DOL's proposed program.

The Bureau for Europe recently took actions to address these problems. In July 1993, for example, the Bureau, in response to a recommendation contained in a previous audit report¹, issued Mission Order No. 104 to define the roles and responsibilities of project officers in the Bureau for Europe and Regional Mission for Europe and their relationships to other Bureau and Mission staff and A.I.D. country representatives. According to the Mission Order, project officers are to "collaborate closely with AIDReps in identifying needs, designing projects, developing implementation workplans and monitoring projects being implemented in the AIDReps' countries. They work in partnership with the AIDReps to ensure that the latter can fulfill their responsibilities for project and program oversight and monitoring and contribute optimally to the effective use of Agency resources."

¹Audit Report No. 8-180-92-01, dated June 30, 1992, titled "Audit of the A.I.D. Organizational Structure for Central and Eastern Europe".
In summary, we found considerable confusion concerning the merits of DOL's proposed technical assistance activities for Hungary, confusion caused by (1) problems encountered by the Bureau for Europe in implementing its new requirements for country-specific workplans and (2) uncertainty on the part of DOL over the roles and responsibilities of the AID/Representative for Hungary and Regional Mission for Europe for its activities in Hungary. However, the Bureau for Europe recently took actions to resolve these problems, actions which should help to ensure that DOL's technical assistance activities in Hungary are properly focused. We intend to follow-up on the Bureau's corrective action in future audits involving A.I.D.'s transfer of funds to other U.S. government agencies.

Management Comments and Our Evaluation

Both the Bureau for Europe and the U.S. Department of Labor provided comments to our draft report which are included as Appendices II and III, respectively.

Concerning Recommendation No. 1.1, the Bureau for Europe stated it agreed that there is a need for programmatic structure and coherence in DOL's activities in Eastern Europe and had already taken action to achieve this objective by providing specific guidance detailing the format and substance for the annual country-specific workplans, as well as the establishment of working arrangements for the preparation and submission of workplans.

The Bureau for Europe did not agree, however, with our conclusion that confusion concerning DOL's proposed programs occurred for the reasons cited on page 8. According to the Bureau, there were questions concerning DOL's proposed activities long before the June 1993 interagency agreement established workplan requirements. The Bureau maintained that DOL's failure to impose programmatic discipline on itself is the very reason that it instituted the workplan requirement as an integral element in the interagency agreement. The Bureau also stated that our discussion of the problems encountered in implementing the workplan requirement gives a strong implication that the Bureau and/or the AID/Representative did something wrong which caused these problems. The Bureau considers that any problems were the normal result of the implementation of a new procedures, with a period of several months required to develop the guidance, format and content of a workplan which would provide structure to DOL's program and at the same time provide A.I.D. with the information necessary to fulfill its monitoring and management responsibilities.
Concerning Recommendation No. 1.2, the Bureau for Europe stated it already had taken actions to close this recommendation, actions which included issuing Mission Orders on the roles of the AID/Representatives and project officers and issuing specific guidance related to DOL. Our report discusses some of these actions.

In commenting on our draft report, DOL stated that the role of the AID/Representative for Hungary has still not been adequately clarified. DOL, for example, notes that it is to submit its workplans to the Regional Mission for Europe, but raises the question as to what its responsibility is to the AID/Representative for Hungary. According to DOL, the three cornered relationship—the Regional Mission for Europe based in Washington, the AID/Representative in the field, and the Department of State Coordinator—has caused a great deal of confusion. DOL cited as an example the illustration discussed in this report where it prepared a workplan based on guidance provided by A.I.D./Washington which was subsequently rejected by the AID/Representative for Hungary. DOL maintains that, as a contracting agency, it should report to only one A.I.D. entity and that clearly the AID/Representative should not have veto power over DOL’s proposals after Department of State Coordinator and A.I.D./Washington approval is granted.

DOL also provided detailed explanations with respect to questions raised in this report on DOL’s self-employment and entrepreneurial skills training and vocational training programs. These explanations are included in Appendix III.

We recognize the confusion caused by the evolving roles and responsibilities of the AID/Representative and the Regional Mission for Europe and the difficulties experienced by DOL in trying to adapt and respond to these roles and responsibilities. We believe, however, that the Bureau for Europe has made a good faith effort to try and clarify the respective roles of the AID/Representative and its Washington-based project officers. We also noted that the Bureau recognizes that DOL is still not clear on A.I.D.’s roles and responsibilities for its programs and plans to prepare a response to DOL which is intended to resolve any misunderstandings by clarifying how the A.I.D. program operates in Central and Eastern Europe.

Accordingly, based on the actions taken by the Bureau for Europe, Recommendation Nos. 1.1 and 1.2 are considered closed. At the same time, however, we are sensitive to the difficulties and problems experienced by DOL in trying to meet requirements imposed by A.I.D. and will continue to look into the adequacy of the definition of the various roles and responsibilities in future audits of U.S. government agencies’ activities carried out with funds transferred by A.I.D.
Did the Office of the AID/Representative for Hungary carry out its oversight responsibilities for the Department of Labor interagency agreements in accordance with applicable legislative and internal requirements?

The Office of the AID/Representative was not fully carrying out its oversight responsibilities in accordance with applicable legislative and internal requirements.

In recent months the AID/Representative has improved its monitoring of DOL's activities in Hungary. For example, the AID/Representative in June 1993 provided review comments on DOL's proposed program for the period March 1993 through April 1994 and provided additional guidance to DOL on the format and type of information it needed to approve and monitor DOL's programs.

As discussed below, however, the AID/Representative was not adequately monitoring DOL's activities.

AID/Representative Need to Increase Its Monitoring of DOL's Activities in Hungary

The Fiscal Year 1993 Foreign Operations Appropriation Act and a Regional Mission for Europe Mission Order state that the AID/Representative is responsible for in-country oversight and monitoring of all activities financed by or through A.I.D. in their countries. We found, however, that AID/Representative officials had limited knowledge and involvement with DOL's programs in Hungary. This limited oversight role occurred because (1) until early 1993, the Embassy's Labor Reporting Officer was assigned primary responsibility for DOL's activities in Hungary; (2) the AID/Representative lacked sufficient staff to adequately monitor the numerous U.S. activities in Hungary; and (3) the AID/Representative lacked key documents essential to monitoring DOL's activities. As a result, the AID/Representative was not able to exercise its oversight responsibilities as envisioned by legislation and internal guidance.

Recommendation No. 2: We recommend the Regional Mission for Europe:

2.1 review the staffing levels of the Office of the AID/Representative for Hungary to determine if there is sufficient staff to adequately exercise oversight responsibilities for activities of other U.S. government agencies in view of the large number of such activities and the
anticipated increase in the Department of Labor technical assistance activities; and

2.2 ensure that the AID/Representative for Hungary obtains key documents (such as interagency agreements, contractors' and grantees' scopes of work and progress reports, and DOL's quarterly progress reports) needed to monitor the Department of Labor's technical assistance activities in Hungary.

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

At the time of our field visit in May 1993, we found that the AID/Representative had a limited oversight role with respect to Labor's activities in Hungary. This limited role occurred for three reasons. First, until early 1993, the Embassy's Labor Reporting Officer, not the AID/Representative, had been given primary responsibility for overseeing DOL's activities in Hungary. However, the Labor Reporting Officer told us that he devoted only about 10 percent of his time to DOL's activities and that most of this time was spent on administrative matters related to DOL's activities. He also said that he did not have the training to assess how well DOL's programs have worked or if they have been effective. The AID/Representative also acknowledged that coordination between the AID/Representative project officer and the Labor Reporting Officer was less than optimal due to competing priorities for both officers.

Second, the AID/Representative maintained that his office did not have sufficient staff to monitor all A.I.D.-funded activities in Hungary. According to the AID/Representative, the office had seven vacancies out of 25 authorized positions. With this limited staff and large number of vacancies, he was required to monitor over 100 activities, only several involving DOL activities.
Third, we found that the AID/Representative did not have key documents that would be essential to monitoring DOL's activities. For example, the AID/Representative files were missing copies of interagency agreements, scopes of work for DOL's contractors and grantees operating in Hungary, DOL's quarterly progress and financial reports, and trip reports prepared by DOL officials. These documents contain information essential for monitoring DOL's activities.

As a result, AID/Representative officials did not have sufficient information on DOL's activities in Hungary to carry out their oversight responsibilities. For example, the Hungary country strategy document prepared in the fall of 1992 stated that the focus of DOL's assistance had been the development of a model employment office in Baranya County. However, DOL had not provided technical assistance to this office since February 1992 and, according to a Hungarian Government official, there are no plans to replicate the office. AID/Representative officials stated that the strategy paper contained this statement concerning the focus of DOL's activities because until they received a DOL progress report in the fall of 1992 they had no reports indicating otherwise.

Also, AID/Representative officials had little information about the activities of the AFL/CIO's Free Trade Union Institute advisor, which at the time of our visit was one of three DOL-supported technical assistance activities. The AID/Representative did not have any progress reports prepared by the advisor and had only one meeting with the advisor. In fact, the advisor told us he was not even aware that A.I.D. had any involvement with his project.

The AID/Representative was taking actions to increase its monitoring of DOL's activities. In early 1993, for example, the AID/Representative, in response to the Fiscal Year 1993 Foreign Operations Appropriation Act and the Mission Order implementing this Act, assumed responsibilities for coordinating and monitoring DOL's activities in Hungary—responsibilities previously assigned to the Embassy's Labor Reporting Officer. In June 1993, the AID/Representative provided DOL review comments on DOL's proposed program for April 1993 to March 1994 and requested additional information from DOL on these programs to enable the AID/Representative to approve the program and provide a better basis for monitoring DOL's activities. Also, the AID/Representative provided guidance to DOL on the format and type information it needed in a workplan, such as benchmarks for success and methodology for measuring benchmarks which, when provided by DOL, should facilitate the AID/Representative's monitoring of DOL's activities in Hungary.
In summary, until recently, the AID/Representative has had a limited oversight and monitoring role with respect to DOL’s activities in Hungary. However, with DOL planning to significantly increase its program in Hungary, the AID/Representative needs to increase its monitoring role. This monitoring role should be facilitated once DOL submits its revised workplan for Hungary containing information needed for monitoring purposes. The AID/Representative still needs to ensure that it receives essential documents, such as copies of interagency agreements, scopes of work, and progress and trip reports. In addition, the Regional Mission for Europe and the AID/Representative need to carefully review the staffing of the AID/Representative office to determine if the AID/Representative can adequately carry out its oversight responsibilities in view of the large number of U.S. government activities and the proposed increase in DOL’s technical assistance activities in Hungary.

Management Comments and Our Evaluation

Concerning Recommendation No. 2.1, the Bureau for Europe stated that it reviewed the staffing level for the Office of the AID/Representative for Hungary as part of the annual budget submission process in August and concluded that no additional U.S. direct hire positions could be allocated to Hungary because of the limited number of additional positions which would be approved were more desperately needed at other AID/Representative offices. However, the Bureau stated it decided that several personal service contractors and foreign service nationals would be added to the AID/Representative for Hungary staff. According to the Bureau, while these positions will not be for DOL activities, the additional positions will give the existing staff more time to monitor the activities of DOL and other agencies.

Based on the Bureau’s response, Recommendation No. 2.1 is considered closed. However, the issue of staffing of AID/Representative offices remains a concern to us because of the extraordinary number of project activities being conducted in these countries and the small number of staff available to monitor the activities. Accordingly, we plan to follow-up on the effectiveness of AID/Representative monitoring of other U.S. government agencies’ activities in future audits.

Concerning Recommendation No. 2.2, the Bureau for Europe indicated actions are being taken to ensure that all AID/Representatives are provided key documents needed to monitor DOL’s technical assistance activities in Eastern Europe. Recommendation No. 2.2 is considered resolved and can be closed when the required action is completed.
SCOPE AND METHODOLOGY

We audited the U.S. Department of Labor's (DOL) activities in Hungary under its interagency agreements with the Regional Mission for Europe. We conducted the audit from May 5 through June 21, 1993, in accordance with generally accepted government auditing standards. We conducted our audit work in the offices of DOL and the Regional Mission for Europe in Washington. Our field work in Hungary included visits to the Office of the AID/Representative, the Ministry of Labor, three of the 10 planned regional training centers, and three of the 19 county labor centers.

We reviewed DOL and A.I.D. project documentation to: (1) determine the specific technical assistance objectives for activities conducted in Hungary; (2) identify the amount of A.I.D. funds budgeted for and expended by DOL; and (3) determine if progress indicators had been established. We interviewed A.I.D., American Embassy, DOL, DOL contractor, Hungarian Government, labor union, and other donor officials in the U.S. and Hungary to obtain their views on the effectiveness and usefulness of DOL's technical assistance activities.

We visited three regional training centers and county employment offices located in Pecs, Derbrecen, and Miskolc, and discussed the adequacy and usefulness of DOL's technical assistance with the Directors, Deputy Directors, and their staffs. The three training centers were selected because these were the only centers we were aware of at the time of our visit. The employment offices we visited were located near the regional training centers. We also interviewed AID/Representative officials to determine how the office carried out its oversight responsibilities for DOL's activities.

We asserted criteria for the first problem area discussed in this report—certain aspects of DOL's technical assistance need clarification to better ensure Labor's programs are properly focused and necessary. Although not specifically required in the interagency agreement, we believe that in order to maximize the effectiveness of limited assistance resources, technical assistance activities, such as those carried out by DOL, should be directed to high priority problem areas. Further, there should be a consensus and agreement among the Department of State Coordinator, the Bureau for Europe, DOL, the AID/Representative for Hungary, and Hungarian Government officials as to what these critical and high priority assistance needs are.
MEMORANDUM

TO: RIG/A/EUR/W, James Bonnell
FROM: EUR/A-DAA, Frank Almaguer
SUBJECT: Response to Draft Audit of Department of Labor Hungary

We received subject draft report and have several comments on the two recommendations. Regarding Recommendation No. 1.1, we fully agree that there is need for programmatic structure and coherence in DOL's activities in Eastern Europe and have already taken action to achieve this objective. Specific guidance detailing the format and substance for the annual country and activity-specific workplans, as well as the establishment of working arrangements for the preparation and submission of workplans, were provided by EUR/DR's letter to Ambassador Ferch of DOL on July 27, 1993 (copy attached).

We do not agree, however, with RIG's conclusion on page 5 that "Questions concerning Labor's proposed programs occurred because of (1) problems encountered by the Bureau for Europe in implementing its new requirement for country-specific workplans." In fact, there were questions concerning Labor's proposed activities long before the IAA signed on June 16, 1993, established workplan requirements. DOL's failure to impose programmatic discipline on itself is the very reason that we instituted the workplan requirement as an integral element in this IAA. With reference to the discussion of the "problems" encountered in implementing the workplan requirement, there is a strong implication that EUR and/or the AIDREP did something wrong which caused these problems. We consider that any problems were the normal result of the implementation of a new procedure, with a period of several months required to develop the guidance, format and content of a workplan which would provide structure to DOL's program and at the same time provide A.I.D. with the information necessary to fulfill its monitoring and management responsibilities.
For Recommendation No. 1.2's requirement that the roles of the AIDREP and RME be clarified with respect to DOL programs, actions have already been taken. In addition to the issuance of Mission Orders No. 103 and No. 104 on the role of the AIDREPs and project officers, specific guidance related to DOL was stated in State 236691 dated 8/4/93 and in State 251055 dated 8/17/93 (copies attached). Also, as we know RIG is aware, we received a letter of concern from the DOL regarding the lack of clarity of the AIDREP and RME roles. We are preparing a response to this letter which intends to resolve any misunderstandings by clarifying how the A.I.D. program operates in Central and Eastern Europe.

Recommendation No. 2.1 requires RME to review the staffing levels of the AIDREP/Hungary to determine if there is sufficient staff to adequately exercise oversight responsibilities for activities of other U.S. government agencies. RME considered this factor in its review of staffing levels of all EUR AIDREP offices as part of the ABS process in August and concluded that no additional USDH positions could be allocated to Hungary as the limited number of additional positions which would be approved by State and FA/Budget were more desperately needed at other AIDREP offices. However, it was decided that several program-funded PSCs and O.E.-funded FSNs would be added to the AIDREP/Hungary staff. While these positions are not for DOL activities, they will give the existing USDH more time to monitor the activities of DOL and other agencies. Based on the review performed at the time of the ABS, we request that Recommendation No. 2.1 be closed.

Regarding Recommendation No. 2.2, actions are being taken to ensure that all AIDREPs are provided key documents needed to monitor DOL's technical assistance activities in Eastern Europe. This includes DOL's first quarterly progress report (4/1/93-6/30/93) for the Labor Market Transition Project which was transmitted to all appropriate AIDREPs on August 9, 1993. DOL has been advised to distribute all future Quarterly Progress Reports simultaneously to EUR/DR and the AIDREPs. Action is also being taken to ensure that all implementors of DOL's A.I.D.-funded activities work with the AIDREPs to determine reporting arrangements acceptable to the AIDREP in the case of each activity to be conducted in his/her area of responsibility. In order to close this recommendation, the AIDREP/Hungary and EUR/DR will work together to ensure the AIDREP's DOL files are complete. When this process is completed (which we anticipate will be by December 1993), we will request that RIG close this recommendation.

We would like to thank RIG for their thorough work on this audit and look forward to receiving a copy of the final report.
TO: RIG/A/Bonn

This representation letter is issued in connection with your Audit of the Department of Labor's Technical Assistance Activities in Hungary. Your audit was conducted between May 5 and June 21, 1993. As of September 7, 1993, and to the best of our knowledge and belief, we confirm the following representation made to you during your audit:

1. We have asked the most knowledgeable, responsible members of our staff to make available to you all records in our possession for the purposes of this audit. Based on the representations made by those individuals, of which we are aware, and our own personal knowledge, we believe that those records constitute a fair representation as to the status of Labor's technical assistance activities within the EUR Bureau and EUR/RME. Please note that faxes, notes, and other informal communications, which are not part of the official files, are not systematically kept by our office.

We request that this representation letter be included as a part of the official management comments on the draft report and that it be published herewith as an annex to the report.

Sincerely,

[Signature]

Frank Almaguer
Acting Deputy Assistant Administrator
Bureau for Europe

[Signature]

Robert Nachtrieb
Acting Director
Regional Mission for Europe
TO: RIG/A/Bonn

This representation letter is issued in connection with your Audit of the Department of Labor's Technical Assistance Activities in Hungary. Your audit was conducted between May 5 and June 21, 1993. As of September 7, 1993, and to the best of my knowledge and belief, I confirm the following representation made to you during your audit:

1. I have asked the most knowledgeable, responsible members of my staff to make available to you all records in our possession for the purposes of this audit. Based on the representations made by those individuals, of which I am aware, and my own, personal knowledge, I believe that those records constitute a fair representation as to the status of Labor's technical assistance activities within the Office of the AID/Representative for Hungary. Please note that faxes, notes, and other informal communications, which are not part of the official files, are not systematically kept by our office.

I request that this representation letter be included as a part of the official management comments on the draft report and that it be published herewith as an annex to the report.

Sincerely,

David Cowles
AID/Representative for Hungary

9/15/93
MEMORANDUM FOR JOHN P. COMPETELLO
AID Regional Inspector General for Audit/Bonn

FROM: AMBASSADOR JOHN A. FERCH
         Director, Office of Foreign Relations

SUBJECT: Comments on Draft Audit Report on Technical Assistance in Hungary

In response to your letter of August 27, 1993 requesting comments on your draft audit report on the Regional Mission for Europe's interagency agreement with the Department of Labor for technical assistance in Hungary, I offer the following comments:

The role of the AID/Representative for Hungary has still not adequately been clarified. The report says that we are to submit workplans to the Regional Mission. But what is our responsibility to the AID Representative? The three cornered relationship has caused great confusion. For example, when the AID representative in Hungary requested DOL to prepare a country workplan, AID Washington passed along instructions that it comply using the Logical Framework procedure. This was done. Two months later the AID Representative declared that the procedure was not appropriate to his needs and requested a narrative. While ultimately we conformed to the narrative request, significant productive work had to be shelved.

In the case of the Hungarian Vocational Education program, the AID representative continues to raise questions. In a cable dated June 14, 1993, specific questions were raised which we answered through AID Washington. Those comments were also transmitted to the AID Representative as well. This program, which is apparently still being debated, was approved by the SEED ACT Coordinator and AID Washington. As far as I know, AID Washington has yet to make known to the AID Representative its interest in the program. The AID Representative also raised questions about how the vocational education program fits into the country strategy. It was not until we complained that we didn't have any of the country strategies and long after the AID Representative raised the issue that we were forwarded country strategy documents for Central and Eastern European countries.

The confusion over the vocational education program demonstrates the need to resolve the modalities of the three cornered relationship. As a contracting agency, it seems to me DOL should report to only one AID entity. Clearly, the AID Representative should not have veto power over the contractor's
proposals after State Department/AID approval is granted. I believe that some entity in AID should have final say and that entity should be the one the contracting agency deals with.

I am enclosing additional comments with respect to the Self-Employment and Entrepreneurial Skills Training and Vocational Skills Training Programs for your information and consideration:

Self-Employment and Entrepreneurial Skills Training

Question 1: Entrepreneurial training programs already exist in Hungary and it was not clear how the Ohio State program would differ or complement these programs.

Response: (supplied by Dr. Cathy Ashmore, Director of Ohio State University's program in Hungary)

"We came to Hungary because the U.S. Department of Labor third party evaluators reported the need for a comprehensive, country-wide entrepreneurial training program for the unemployed. DOL had sponsored Women's Conferences and the participants said they wished there were training available for them (such as we already were doing in Poland).

"When we came to Hungary in the summer of 1992, we met with the U.S. Embassy staff and identified current programs in Hungary that dealt also with small business assistance. We met with leaders of these existing programs and found no duplication for our plans to establish trainers in every county in Hungary to offer programs especially for the unemployed. We found the following:

-- SEED Foundation is providing entrepreneurship training for high school teachers.

-- PHARE and the MVA-sponsored LEAs are providing counseling for entrepreneurs and startups in their new centers. In 1992, they were in 6 counties, but had plans to expand to all counties. This program is not focused on the unemployed only. It is for small and medium businesses which are mostly larger than our micro enterprise start-ups.

-- Vocational Retraining Centers exist in 6 cities to provide adult vocational retraining for the unemployed. They have a 300-hour training course for business managers with a
section on small business that does not focus on becoming an entrepreneur. This was established by FAS in Ireland.

-- The SUNY Center has developed a series of 64 videotapes and booklets on small business that cost $1000. They have invited people from all over Hungary to lectures given by American University faculty.

"We are working in cooperation with all of these organizations and in the third year of our program we hope to sponsor a conference where we could bring all of their instructors and advisors together to share ideas.

"Our program is different from all of these because we focus on a unique teaching method that is very practical and more interesting for the participants who are not academics. We have established a strong network between all the instructors who are being trained to deliver the program in 20 counties throughout the entire country. Most programs are designed to help anyone interested or involved in small business. Ours has special features that focus on the problems of the unemployed in particular. This program does not duplicate any other in Hungary.

Dr. Ashmore's comments about plans for cooperating with other organizations address the concern for linkages expressed by two officials. The matter of who would pay the tuition for unemployed workers to take the course has been addressed by local Labor Centers where unemployed workers make application to take the course. Those who meet the qualifying criteria are being sponsored by the Labor Centers to take the course. The Small Business Administration is working on sources for graduates of the course to obtain financing. These matters were not addressed in the Department of Labor's plan because input and cooperation for such details of the plan had to be received from the host government in order to establish an on-going program.

Question 2. Was the pilot test a true test of the usefulness and relevancy of the course? What did you learn from the pilot that was useful? How should relevancy of the pilot be rated?

Response: (supplied by Dr. Cathy Ashmore)
"The purpose of the pilot program was to test the usability of the first phase of the program. This included 300 pages of adapted and translated materials that were designed to help the participants decide whether they wanted to enter the second part of the program where they would actually learn how to start a business.

"We obtained support from the ERAK Vocational Retraining Center in Miskolc which provided 19 students who were in their manager training program. These unemployed people had not considered being an entrepreneur as they were there to learn how to be managers in all sizes of business. This two-week pilot replaced the one-week small business section of their manager training program.

"This pilot was not planned as a test for the business startup for unemployed because the Phase II section of our program was not scheduled for translation until the second year. We learned from the pilot what we wanted to know:

-- The materials needed some additional adaptation for Hungary.

-- The process of learning was new, but very much enjoyed by all.

-- The Hungarian teacher was able to handle the format of the materials.

-- The translation of words was very clear and understandable.

-- We needed to add a few additional activities.

-- The cost estimates for running the program were too low.

-- The Hungarian coordinator learned how to pace the preparation of materials to be ready for a small workshop.

-- National advisors for the program had a chance to see it in operation and lend support to future workshops.

-- The unemployed participants were very positive about the experience.
"We feel the pilot was very relevant to the first phase of this project and was quite a success considering we had only started the whole project four months before. It should be rated very high because it enabled us to learn important information about Hungarian students and teachers. And, it also told us that our Hungarian coordinator was quite able to handle the responsibilities of the second phase of the program with much more translation and a much larger workshop.

Updating Vocational Skills Training

Question 1: The AID/Representative for Hungary did not consider the construction skills training portion of the component to be necessary and he felt there were other higher priority issues that should be addressed.

The Regional Training Center in Miskolc already has a construction training program which was funded by donors other than the Department of Labor and the Regional Training Center in Pecs is planning to offer construction training when it opens in September 1993.

Response:

DOL respectfully requests the AID representative to inform Labor of areas that he thinks should receive greater emphasis.

The construction skills training program was requested by Dr. Adrianna Soos of the Ministry of Labor, Dr. Andras Benedek, Deputy Minister of Labor, and others at the Ministry. It is true that Miskolc and Pecs have construction training programs. The Ministry plans to put in this type of program in at least ten retraining centers and as soon as possible, in all vocational retraining centers in the country. DOL has not developed the construction training part of this program in specific terms, but has identified it as a component of the updating program. The study tours of the first phase of the program include opportunities for officials to learn about construction training in the U.S.. Ideas from the study tours will go into the anticipated 5-Year Plan to be developed with the Hungarians during this DOL project. Few of the vocational trades will be entirely new to the re-training centers in existence. This DOL program is designed to assist the Hungarians to update their existing programs. The U.S. experience with updating and community involvement in program development has been highly successful in stimulating job creation in economically depressed areas of the country. It is reasonable to assume that this approach would serve Hungary well, also.
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