



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

AUDIT OF THE COMPLETENESS OF USAID/MEXICO'S WORK PLAN DELIVERABLES

AUDIT REPORT NO. 1-523-06-006-P
June 2, 2006

SAN SALVADOR, EL SALVADOR



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MEMORANDUM

TO: USAID/Mexico Director, Edward L. Kadunc Jr.

FROM: RIG/San Salvador, Timothy E. Cox "/s/"

SUBJECT: Audit of the Completeness of USAID/Mexico's Work Plan Deliverables
(Report No. 1-523-06-006-P)

This memorandum transmits our final report on the subject audit. We have considered your comments on the draft report and have included your response in its entirety in Appendix II.

The report contains two recommendations for USAID/Mexico's action. Based on your comments, a management decision has been reached for Recommendation No. 1. A management decision will be made for Recommendation No. 2 when USAID/Mexico develops a firm plan of action with timeframes for implementing the recommendation. Determination of final action for both recommendations will be made by the Audit Performance and Compliance Division (M/CFO/APC).

I would like to express my appreciation for the cooperation and courtesy extended to my staff during the audit.

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SUMMARY OF RESULTS

Mexico has great strategic importance for the United States and for the other countries in Latin America. For fiscal year (FY) 2005, USAID/Mexico had contracts and cooperative agreements with 13 implementers. USAID/Mexico obligated over \$32 million and spent over \$14 million to fund activities in justice reform, government transparency and accountability, environmental protection, energy, microfinance and remittances, infectious diseases, and competitiveness. (See page 2.)

The Regional Inspector General/San Salvador, as part of its fiscal year 2006 audit plan, performed this audit to determine whether USAID/Mexico ensured that its implementers completed deliverables as outlined in their annual work plans. (See page 3.)

For 10 of 13 agreements reviewed, USAID/Mexico ensured that its implementing partners completed deliverables as outlined in their annual work plans. For the three remaining agreements, one implementer did not submit a work plan, one implementer's work plan did not describe deliverables in specific terms, and the third implementer did not clearly link its progress reports to its work plan. With these exceptions, USAID/Mexico used work plans for its implementers to outline tasks and products that would be accomplished and delivered during FY 2005 and ensured that progress toward achieving individual tasks and indicators was addressed in implementers' progress reports. In this regard, the Mission used work plans, performance monitoring plans, and progress reports as a tool to monitor the effectiveness of its partners in achieving planned outputs. (See page 4.)

The Mission could improve its use of work plans and progress reports by ensuring that work plans have clear indicators and that progress is reported against these same indicators in the implementers' progress reports. In addition, the Mission could do more to monitor efficiency issues by obtaining, where appropriate, progress reports that relate quantified outputs to cost data. (See pages 4 through 8.)

The report includes two recommendations: (1) that USAID/Mexico correct, for the next cycle of approvals, the deficiencies in the three implementers work plans and progress reporting formats and (2) that USAID/Mexico obtain progress reports from recipients under cooperative agreements that comply with 22 CFR 226.51(d) and obtain progress reports from contractors that will permit USAID/Mexico staff to ensure that efficient methods and effective cost controls are used. (See pages 6 and 8.)

USAID/Mexico generally agreed with the conclusions in our draft audit report and agreed with Recommendation No. 1. For this recommendation, during the next cycle of annual work plan approvals, the Mission will require three implementing partners to correct the deficiencies in their work plans and progress reporting formats as specified in the audit report. The Mission did not believe that it could implement Recommendation No. 2 as stated in the draft audit report. Based on the Mission's comments and additional discussions, we made changes to Recommendation 2 to address the Mission's concerns. Our evaluation of management comments is provided on page 9. USAID/Mexico's comments in their entirety are included in Appendix II.

BACKGROUND

Mexico has the largest economy in Latin America, the 15th largest economy in the world, and its population is the second largest in Latin America. Using the purchasing power parity method, Mexico's per capita income in 2005 was estimated at \$10,000, tied with Costa Rica and Uruguay for the third-highest in Latin America after Argentina and Chile. However, income distribution is unequal, and a quarter of Mexico's population lives on less than \$2 per day. Mexico's common border with the United States creates strong mutual influences between the United States and Mexico in the areas of immigration, trade, and other issues. In sum, Mexico has great strategic importance for the United States and for the other countries in Latin America.

Monitoring the implementation of USAID program activities is an ongoing process. An important step in the process is ensuring that planned outputs are achieved. Establishing clearly defined and objectively measurable outputs in work plans, and obtaining progress reports that show whether these outputs are actually achieved, helps USAID hold its implementers accountable for their performance.

USAID/Mexico obtains work plans and progress reports from implementers working under two types of agreement mechanisms – contracts and cooperative agreements. Under the contracts, the content of work plans is defined in the contracts themselves. USAID/Mexico requires contractors to submit work plans that contain the following items:

- Description of the principal tasks and assistance activities to be undertaken by the contractor for the period under each project component and include a schedule for each activity and a listing of principal counterparts for each activity.
- Description and estimate of the amounts of technical expertise, training, and other support resources that would be required to provide the assistance proposed.
- Description of the accomplishments expected for each activity or combination of activities that explain how and to what extent those accomplishments will contribute to achieving the project's overall targets, benchmarks, and results.

For cooperative agreements, format and content requirements for work plans were not explicitly defined: the agreements state that a work plan will be developed, but give authority to Cognizant Technical Officers (CTOs) to approve the content of work plans and progress reporting formats.

For FY 2005 USAID/Mexico had contracts and cooperative agreements with 13 implementers to assist it in meeting its program objectives. In FY 2005, USAID/Mexico obligated over \$32 million and spent over \$14 million to fund activities in justice reform, government transparency and accountability, environmental protection, energy, microfinance and remittances, infectious diseases, and competitiveness.

AUDIT OBJECTIVE

As part of its fiscal year 2006 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following question:

- Did USAID/Mexico ensure that its implementers complete deliverables as outlined in their annual work plans?

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

AUDIT FINDINGS

Did USAID/Mexico ensure that its implementers complete deliverables as outlined in their annual work plans?

For 10 of 13 agreements reviewed, USAID/Mexico ensured that its implementing partners completed deliverables as outlined in their annual work plans. For the three remaining agreements, one implementer did not submit a work plan, one implementer's work plan did not describe deliverables in specific terms, and the third implementer did not clearly link its progress reports to its work plan.

With the three exceptions noted above, USAID/Mexico used work plans for its implementers to outline tasks and products that would be accomplished and delivered during FY 2005 and ensured that progress toward achieving individual tasks and indicators was addressed in implementers' progress reports. In this regard, the Mission used work plans, performance monitoring plans and progress reports as a tool to monitor the effectiveness of its partners in achieving planned outputs.



Photo taken by an Office of Inspector General auditor on March 13, 2006 of two recipients of USAID technical assistance. The technical assistance was provided by a USAID implementer with the goal of reducing water consumption to raise tomatoes.

However, the Mission needs to work with three implementers to more clearly link reported accomplishments with their work plans, and the Mission needs to focus more monitoring effort on efficiency issues. These two issues are discussed in the following sections.

Mission Could Improve On Work Plan Clarity and Progress Reporting

Summary: Title 22, Section 226.51 of the Code of Federal Regulations requires that progress reports compare actual accomplishments with goals and objectives established for the period. In addition, USAID/Mexico's cooperative agreements in most cases require that implementers consult with the CTO prior to drafting their annual work plans. However, one implementer did not submit a work plan, another implementer did not describe deliverables in specific terms, and the third implementer did not clearly link its progress reports to its work plan. This occurred because 1) CTOs and Strategic Objective Team Leaders did not always insist that implementers present work plans in measurable terms, 2) one of the implementers had just begun operating in Mexico, and 3) the Mission thought reporting on results at the activity level was sufficient. Resolving these problems will allow the Mission to track the progress of outputs through progress reports.

USAID/Mexico could improve their use of work plans and progress reports by ensuring that work plans have clear indicators and that progress is reported against these same indicators in the implementer's progress reports.

Title 22, Section 226.51 of the Code of Federal Regulations requires that progress reports make a comparison of actual accomplishments with goals and objectives established for the period. USAID/Mexico contracts and cooperative agreements in most cases require that implementers consult with the CTO prior to drafting their annual work plans and prior to submitting the initial quarterly report.

For the 13 agreements reviewed, one implementer did not submit a work plan, another implementer submitted a work plan with vague objectives, and a third implementer did not link its progress reports to the work plan at the output level. For one agreement, no work plan was required and none was submitted. The implementer was supposed to provide a performance monitoring plan which would have listed deliverables; however, this was never submitted. For another agreement, we could not determine whether the implementer delivered planned outputs because the work plan did not describe planned outputs in measurable terms. Finally, progress reports submitted by a third implementer – a contractor – did not clearly link actual accomplishments to planned outputs in its work plan. The contractor's progress reports did present some information on actual accomplishments, but at an aggregated level that did not permit any detailed comparison of planned and actual outputs.

These deficiencies occurred for three main reasons. First, CTOs and Strategic Objective Team Leaders did not always insist that implementers present work plans and progress reports that described planned and actual outputs in measurable terms. Second, one of the implementers presented a somewhat vague work plan because the implementer had just begun operating in Mexico and lacked the information it would have needed to present a more specific work plan. Third, for one implementing partner, the Mission thought reporting on results at an aggregated level was sufficient.

Clear work plans and progress reports are essential for assessing the progress of outputs and the effectiveness of implementers' actions. Because all USAID/Mexico agreements and contracts give CTOs significant authority on an annual basis over work

plan development and over progress reporting, we are making the following recommendation.

Recommendation No. 1: We recommend that USAID/Mexico correct, for the next cycle of approvals, the deficiencies in the three implementers' work plans and progress reporting formats.

USAID/Mexico Needs to Monitor Efficiency Issues

Summary: The Office of Management and Budget (OMB), through the President's Management Agenda and other initiatives, is encouraging federal agencies to improve the effectiveness and efficiency of their programs. While USAID/Mexico has expended considerable effort establishing and monitoring indicators of effectiveness, relatively little effort has been devoted to monitoring efficiency issues. USAID/Mexico did not obtain progress reports that related quantified outputs to cost data for any of the 13 cooperative agreements and contracts we reviewed. Relatively little attention was devoted to efficiency issues because USAID's organizational culture is much more focused on monitoring effectiveness than on monitoring efficiency. Devoting more attention to efficiency issues would at least potentially permit USAID/Mexico to achieve efficiencies in its programs and accomplish more with fewer resources.

The body of guidance that encourages federal agencies to monitor the efficiency of federal programs is extensive. The following paragraphs outline some of this guidance, first describing high-level policies that apply to all federal programs and then describing lower-level policies that apply more specifically to USAID grants, cooperative agreements, and contracts.

Part 26, Section 26.1 of OMB Circular A-11 states that:

Implementation of the President's Management Agenda (PMA) is helping agencies improve effectiveness and efficiency. Agencies are also working to improve their efficiency in delivering program services. In addition, all programs are developing efficiency measures as part of the Budget and Performance Integration Initiative. Becoming more effective and efficient will help the government make better use of taxpayers' dollars and in some cases also operate with fewer resources.

In addition, OMB's *Guidance for Completing the Program Assessment Rating Tool (PART)*, dated March 2005, indicates that:

The PART emphasizes robust outcome, output, and efficiency measures, because each kind of measure provides valuable information about program performance. Collectively, these measures convey a comprehensive story regarding what products and services agencies provide, how well they do so, and with what result.

While outcome measures provide valuable insight into program achievement, more of an outcome can be achieved with the same resources if an effective program increases its efficiency. The President's Management Agenda (PMA) encourages agencies to develop efficiency measures. Sound efficiency measures capture skillfulness in executing programs, implementing activities, and achieving results, while avoiding wasted resources, effort, time, and/or money. Simply put, efficiency is the ratio of the outcome or output to the input of any program.

Section 226.51(d) of Part 22 of the Code of Federal Regulations, which applies to all USAID grants and cooperative agreements with U.S.-based non-governmental organizations, provides that performance reports shall generally contain a comparison of actual accomplishments with the goals and objectives established for the period and, whenever appropriate and the output of programs or projects can be readily quantified, such quantitative data should be related to cost data for computation of unit costs. Performance reports should also contain other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

For contracts, Section 16.301-3(a) of the Federal Acquisition Regulations provides that cost-reimbursement contracts – commonly used to obtain technical services to support implementation of USAID programs – may only be used when:

- (1) The contractor's accounting system is adequate for determining costs applicable to the contract; and
- (2) Appropriate Government surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used.

USAID Contract Information Bulletin 98-21 states that the USAID strategic objective team must determine what minimum reporting requirements are needed to adequately monitor the contractor's performance; the USAID contracting officer will then incorporate these reporting requirements in the schedule of the contract.

Contrary to these policy requirements that encourage USAID to monitor the efficiency with which its programs are carried out, USAID/Mexico did not obtain progress reports that related quantified outputs to cost data for any of the 13 US based cooperative agreements and contracts we reviewed. Even though our audit did not include steps to determine if outputs could be quantified, because of the potential efficiency savings, we believe that the mission should determine if obtaining cost data on outputs is appropriate and obtain the information it needs to monitor efficiency.

USAID/Mexico did not more actively monitor the efficiency with which its programs were carried out, in our opinion, because USAID's organizational culture does not encourage CTOs to concern themselves with efficiency issues. Over a period of many years, beginning with passage of the Government Performance Results Act in 1993, USAID has placed progressively more emphasis on measuring effectiveness (that is, accomplishment of planned outputs and outcomes), but relatively little emphasis has been placed on monitoring efficiency. This lack of emphasis is reflected in Section 203.3.2 of the Automated Directives System (ADS), entitled "Performance Management," which contains an extensive discussion on monitoring effectiveness but is silent on monitoring efficiency. Still, 22 CFR 226.51 and Section 16.301-3(a) of the Federal Acquisition Regulations do place specific requirements on USAID/Mexico and its implementers, and these requirements should be met.

Weak monitoring of efficiency issues makes it difficult for USAID/Mexico to fulfill its fiduciary responsibility for U.S. Government funds and reasonably ensure that outputs and outcomes are achieved at the lowest feasible cost. Stated more positively, stronger monitoring of efficiency issues would at least potentially permit USAID/Mexico to achieve efficiencies in its programs and accomplish more with fewer resources. For example,

relating outputs to cost data for the computation of unit costs, and obtaining explanations of cost overruns and high unit costs could allow USAID/Mexico to:

- Better relate expenditures to physical progress.
- Identify efficiencies that have been achieved and replicate them.
- Identify and correct inefficiencies.
- Promote transparency and good financial stewardship by implementers, providing better accountability over resources when activities are delayed or cancelled.

In light of the requirements for monitoring efficiency issues described above, and the benefits that may be realized by doing so, we are making the following recommendation.

Recommendation No. 2: We recommend that USAID/Mexico obtain progress reports from recipients under cooperative agreements that comply with 22 CFR 226.51(d) and obtain progress reports from contractors that will permit USAID/Mexico staff to ensure that efficient methods and effective cost controls are used.

EVALUATION OF MANAGEMENT COMMENTS

USAID/Mexico's comments to the draft report are included in Appendix II.

USAID/Mexico generally agreed with the conclusions in our draft audit report and agreed with Recommendation No. 1. For this recommendation, during the next cycle of annual work plan approvals, the Mission will require three implementing partners to correct the deficiencies in their work plans and progress reporting formats as specified in the audit report. Based on USAID/Mexico's comments, a management decision has been reached for this recommendation.

The Mission did not believe that it could implement Recommendation No. 2 as stated in the draft audit report. Based on the Mission's comments and additional discussions, we made changes to Recommendation 2 to address the Mission's concerns. A management decision can be recorded for Recommendation No. 2 when USAID/Mexico develops a firm plan of action with timeframes for implementing the recommendation. Determination of final action for both recommendations will be made by the Audit Performance and Compliance Division (M/CFO/APC).

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/San Salvador conducted this audit in accordance with generally accepted government auditing standards. The purpose of the audit was to determine whether USAID/Mexico ensured that its implementers completed deliverables as outlined in their annual work plans.

In planning and performing the audit, we obtained an understanding of and assessed the Mission's controls related to the management of implementer's work plans and progress reporting. The management controls identified included semi-annual and annual portfolio reviews; the Strategic Objective Team Coordinator's oversight of Cognizant Technical Officers (CTOs); and the annual performance rating process completed by the CTOs for its contractors. Relevant criteria included Office of Management and Budget (OMB) Circular A-11, OMB guidance for completing the program assessment rating tool, 22 Code of Federal Regulations (CFR) 226, Section 16.301-3(a) of the Federal Acquisition Regulations, Contract Information Bulletin 98-21, and the signed cooperative agreements and contracts with USAID/Mexico's implementers.

We reviewed 12 work plans submitted to USAID/Mexico for FY 2005 as well as the corresponding progress reports. We verified reported accomplishments by judgmentally selecting four implementers to review additional documentation that supported outputs in implementers' progress reports. We selected them based on achieving a mix of geographical locations and types of implementers.

The audit was conducted at the offices of USAID/Mexico and the offices of two Mission implementers in Mexico City and Oaxaca from February 27, 2006 through March 16, 2006.

Methodology

To answer the audit objective, we obtained from the Mission a list of the Mission's agreements and the names of the CTOs assigned to each of the implementers. We then obtained the cooperative agreements and contracts to determine work plan and reporting requirements contained in the agreements. For each of the implementers that submitted a work plan, we obtained and compared the work plans with their progress reports.

To test the validity of the implementers' reported accomplishments, we performed site visits to interview two implementers and reviewed CTO documentation that supported accomplishments reported in progress reports submitted to USAID/Mexico. For one implementer, we also observed program activities, and interviewed project participants.

In planning the audit, we considered that exceptions of 10 percent or more of the items reviewed would be considered significant and therefore reportable.

MANAGEMENT COMMENTS

May 16, 2006

MEMORANDUM

FOR: Regional Inspector General/San Salvador, Timothy E. Cox

FROM: USAID/Mexico Director, Edward L. Kadunc

SUBJECT: Management comments and management decision on the recommendations stated in Audit Report No. 1-523-06-00X-P "Audit of the Completeness of USAID/Mexico's Work Plan Deliverables" dated April 4, 2006.

We have carefully reviewed the draft subject Audit Report. Below you will find USAID/Mexico's comments and the management decisions made on the audit's recommendations.

I appreciate the professionalism of your team, Jerry Hintz and John Vernon, in conducting the audit as well as the opportunity to receive an independent assessment of an important aspect of our portfolio management.

The audit's recommendation to require greater cost-based data and program efficiency analysis to complement the Mission's extensive monitoring of program effectiveness is well taken. We also concur with the related point that Agency overall organizational culture, as well as the general policies and systems that govern the monitoring of assistance instruments in particular, need to better take into account the importance of cost, and management efficiency. Following are our specific comments related to each one of the recommendations:

Recommendation No. 1 stated: *We recommend that USAID/Mexico correct, for the next cycle of approvals, the deficiencies in the three implementers' work plans and progress reporting formats.*

Actions planned to close Recommendation No. 1: In the next cycle of annual work plan approvals, USAID/Mexico will require its implementing partners to correct the deficiencies in their work plans and progress reporting formats, as specified in the audit report. The next cycle of approvals occurs between October and December of 2006.

Recommendation No. 2 stated: *We recommend that USAID/Mexico obtain progress reports from its partners that relate quantified outputs to cost data and, where appropriate, provide analysis and explanation of cost overruns and high unit costs.*

Actions planned to close Recommendation No. 2: 22 CFR 226, which is the governing regulation for the recipient organizations, states in its Section 226.51 (d) (1) that

“Whenever appropriate and the output of programs or projects can be readily quantified, such quantitative data should be related to cost data for computation of unit costs”. Therefore, In the case of our recipient partners, the Mission can not implement the recommendation as stated. Instead, during the next cycle of approvals of annual work plans, USAID/Mexico will request its recipient partners to ensure that they are in compliance with regulation 22CFR226.51 (d) (1).

In the case of our contractor partners, during the next cycle of approvals of annual work plans, USAID/Mexico, will request its contractor partners to relate quantified outputs to cost data, and where appropriate, provide analysis and explanation of cost overruns and high unit costs. It should be noted that the next cycle of approvals will take place during October and December of 2006.

Please consider the actions planned in this memorandum as our management decision and provide your concurrence accordingly.

cc: USAID/EI Salvador Controller

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