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**OFFICE OF INSPECTOR GENERAL**

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**AUDIT OF USAID/UKRAINE'S  
LOCAL GOVERNANCE  
PROGRAM**

AUDIT REPORT NO. 8-121-06-004-P  
July 10, 2006

FRANKFURT, GERMANY



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*Office of Inspector General*

July 10, 2006

**MEMORANDUM**

**TO:** USAID/Ukraine, Mission Director, Earl Gast

**FROM:** Regional Inspector General, Frankfurt, Gerard M. Custer /s/

**SUBJECT:** Audit of USAID/Ukraine's Local Governance Program  
(Report Number 8-121-06-004-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the draft report and have included them in their entirety as Appendix II. The report contains two recommendations; based on your comments and the documents you submitted, final action is considered to have been taken on both recommendations.

I want to express my sincere appreciation for the cooperation and courtesies extended to my staff during this audit.

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# SUMMARY OF RESULTS

USAID/Ukraine's Local Governance Program seeks to enhance the capacity of local governments to deliver municipal services, develop transparent financial planning and management strategies, and provide forums for an informed citizenry to actively participate in local decision-making. (See page 2.)

This audit of USAID/Ukraine's Local Governance Program was designed to determine if the Mission was monitoring the program in accordance with USAID guidance to ensure that the activities were progressing as intended. The audit was part of the Office of Inspector General's fiscal year 2006 annual audit plan and was conducted to promote improvements in the way USAID/Ukraine monitors its activities to advance the growth of democracy and good governance in Ukraine. (See page 2.)

USAID/Ukraine developed seven useful performance indicators to measure the progress of its Local Governance Program. Most of the related performance data that the Mission collected, maintained and reported in connection with these indicators was found to be accurate and readily verifiable; however, some of this data was incomplete, erroneous or not adequately supported. This occurred because the Mission had not implemented prescribed data quality procedures in monitoring its implementing partners, and because the Mission had not fully reviewed the performance data before including it in the Mission's annual report. Consequently, the performance data maintained and reported by USAID/Ukraine has not always been a fully reliable measure of the Local Governance Program's progress toward its intended results. (See pages 3 through 5.)

In addition, the Mission did not document the reasons for changes made to some indicators—changes that had a significant impact on reported program results. For fiscal year 2005 reporting, the Mission significantly changed the methodology for evaluating progress under three of its indicators. However, contrary to USAID's Automated Directory System (ADS) requirements, the reasons for these changes were not well documented, and the Mission did not update its Performance Monitoring Plan to reflect the changes. When a mission fails to adequately document revisions to its performance measurement methodology, it increases the risk that data may not be consistently collected and reported over time. (See pages 6 through 7.)

In comments on our draft report, USAID/Ukraine officials concurred with our report findings and outlined actions they had taken to address our concerns. Specifically, USAID/Ukraine issued a Mission Notice that established procedures for ensuring performance data is adequately verified and reviewed prior to the data's inclusion in the Mission's Annual Report. In addition, USAID/Ukraine documented changes made to its three Local Governance performance indicators and updated the PMP to reflect those changes. As a result, we consider that final action has been taken on both recommendations. (See page 11.)

# BACKGROUND

USAID/Ukraine's activities in the areas of local government, municipal development and local economic development are designed to enhance the capacity of local governments to improve service delivery, further develop transparent financial planning and management strategies, and provide forums for an informed citizenry to actively participate in local decision-making.

According to USAID's guidance on performance management, missions need well-designed performance indicators to effectively monitor activity progress and to measure and compare actual results against expected results. ADS Chapter 203 provides guidance on how Operating Units should assess whether activities are actually achieving the intended results. Specifically, it requires missions to develop and maintain a Performance Management Plan (PMP) that includes at least one broad performance indicator to measure progress towards each Strategic Objective (SO) and at least one Intermediate Result (IR) performance indicator under each SO to measure progress towards essential intermediate steps. These indicators should provide, among other things, direct, objective and useful information about the program's progress toward achieving intended results.

As of September 30, 2005, USAID/Ukraine's PMP defined seven indicators for assessing the progress of the Local Governance program activities: two SO-level performance indicators, two IR-level indicators, and three sub-IR indicators (for a complete list of the indicators, see Appendix III). The Mission collected performance data for the two SO-level indicators from independent surveys and evaluations related to democratic conditions in Ukraine. Data for the remaining five performance indicators was submitted by the program's four primary implementing partners, as the performance indicators closely tracked the specific outputs from contracts and grant agreements.

## AUDIT OBJECTIVE

This audit was part of the Office of Inspector General's fiscal year 2006 annual audit plan and was conducted to promote improvements in the way USAID/Ukraine monitors the activities that advance the growth of democracy and good governance in Ukraine.

The audit was conducted to answer the following question:

- **Has USAID/Ukraine monitored its Local Governance activities in accordance with USAID guidance to ensure that those activities were progressing as intended?**

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

# AUDIT FINDINGS

In general, USAID/Ukraine monitored its Local Self Governance Program to ensure that the activities were progressing as intended. For example, the Mission's performance indicators, which represent a critical tool in the Mission's monitoring of this program, were determined to be appropriate for tracking program progress, with most of the performance data collected, maintained and reported under these indicators having met USAID's quality standards. However, some of the reported results were incomplete, erroneous or not adequately supported. In addition, the Mission did not document the reasons for changes made to some indicators—changes that had a significant impact on reported program results.

USAID/Ukraine's Performance Management Plan (PMP) defines each indicator's baseline and target values, the source of data and the data collection method, a schedule for data collection, and other relevant items required by ADS 203.3.3. The SO-level indicators track the general attitudes and perceptions of the citizens regarding local government effectiveness and confidence, while the IR and sub-IR indicators are tied directly to outputs and deliverables from USAID implementing partners—results that are reasonably expected to contribute to the Mission's objective of improving municipal operations.

With regards to the performance indicator results for fiscal years 2004 and 2005, much of the Mission's data was accurate and could be readily verified. The SO-level results utilized surveys and analyses which were professionally completed following clear and appropriate methodology. Furthermore, most of the data derived from implementing partner reports could be verified as complete and accurate through a review of implementer submissions, source documents, Mission site visit reports, and our own site visits to a limited number of participating cities.



**Photograph taken April 10, 2006 of a water pumping station in Chernigov, Ukraine that had been upgraded as part of a USAID/Ukraine-sponsored effort.**

In some instances, however, the performance data reported by the Mission was incomplete, erroneous or not adequately supported and revisions to indicators were not always documented. Specific concerns are discussed below in greater detail.

## Some Mission Performance Data Did Not Meet USAID Quality Standards

Summary: According to ADS data quality standards, performance data should be accurate and reliable, and the Mission should take steps to ensure that submitted data is adequately supported and documented. While much of the Mission's performance data met these requirements, in some instances the data was incomplete, erroneous or not adequately supported. These problems occurred because Mission personnel had not always followed prescribed data quality procedures while monitoring the activities of implementing partners, and because the Mission had not effectively reviewed indicator data prior to submitting its annual report. Consequently, the performance data reported by USAID/Ukraine, at times, overstated or understated actual activity results.

To ensure that performance data is useful in managing for results and credible for reporting, ADS 203.3.5 requires that the data be precise and reliable. According to this guidance, performance data should clearly and adequately represent the intended results, and the Mission should take steps to ensure that submitted data is adequately supported and documented. Towards this end, USAID/Ukraine issued guidance requiring that data quality assessments for implementer-submitted data be incorporated into normal activity monitoring through site visits, review of supporting data and interviews with responsible individuals to verify data.

While in most cases USAID/Ukraine's performance data met the data quality standards, in three instances, it did not, causing the Mission to overstate or understate actual program results for two of its seven performance indicators as shown below.

### Impact of Data Discrepancies on Local Governance Performance Results, FYs 2004 and 2005

Performance Indicator	Fiscal Year	Reported Annual Results	Actual Results per Audit	Impact on Annual Results
Services improved in targeted cities	2005	18	12	Overstated results by 33 percent
Targeted cities that use financial analysis model	2005	19	35	Understated results by 46 percent
Services improved in targeted cities	2004	4	18	Understated results by 350 percent

These problems occurred because prescribed data quality efforts had not been incorporated into normal monitoring activities for all implementing partners and because the Mission had not effectively reviewed indicator data prior to submitting its annual report. Specific problems and related errors are discussed below.

For example, the performance data submitted by one of USAID/Ukraine's four implementing partners for FY 2005, relating to municipal service improvements, had not been subjected to effective data quality procedures. Specifically, USAID/Ukraine could not provide evidence that Mission personnel, as part of their normal activity monitoring, had attempted to validate the reported improvements through site visits, interviews with officials in the targeted cities, or reviews of implementer data. Furthermore, the audit found that the partner maintained no documentation to support its reported municipal service improvements, and we were unable to verify the claimed improvements during site visits to two cities. As a result, the number of cities with verified improvements for FY 2005 was only 12, rather than the 18 reported, causing the data reported under this performance indicator to be overstated by 33 percent.

Other errors occurred because USAID/Ukraine had not adequately reviewed its performance data after the Mission received and aggregated the various implementer data submissions. For example:

- In a FY 2005 submission, implementers accurately reported that 35 cities had adopted an advanced financial analysis model to support the municipal budgeting process. However, the Mission's FY 2005 annual report erroneously indicated that only 19 cities adopted the model that year—46 per cent less than the actual total. This error occurred as a result of a posting error during the preceding fiscal year, resulting in the accidental exclusion of 16 cities from the cumulative database. Effective review of the data should have identified the discrepancy between the implementers' submissions and the reported increase.
- In December 2004, one of the Mission's implementing partners submitted performance data identifying municipal improvements in 14 cities for FY 2004. However, the Mission misplaced this data submission, and the cities were not included in the annual reporting for that fiscal year. Had the Mission included this data, the number of cities showing improvements in FY 2004 would have increased from 4 to 18—a 350 percent increase. Effective review of the data should have noted that the input from one of the four implementers was missing.

As a result of these discrepancies, the Mission's FY 2004 and 2005 annual reports contained three errors that caused the data reported with respect to the Local Governance Program's performance to be either overstated or understated. Such errors reduce the usefulness and effectiveness of performance data as a management tool.

To address these concerns, we are making the following recommendation:

*Recommendation No 1: We recommend that USAID/Ukraine develop procedures to ensure performance data is adequately verified and reviewed prior to the data's inclusion in the Mission's annual report.*



## Changes to Performance Indicators Were Not Documented

Summary: According to ADS guidance, Operating Units may change, add, or drop performance indicators based on a compelling reason, but such changes should be well documented to facilitate performance data analysis and evaluation of compliance with data quality standards. In FY 2005, USAID/Ukraine significantly altered the data collection methodology for three of seven local governance performance indicators. However, due to an administrative oversight, these changes were not documented during the portfolio review process, and the PMP was not updated to reflect the changes and ensure the continuity of the data collection process. As a result, the Mission did not maintain appropriate documentation of the performance measurement methodology to ensure data would be consistently collected and reported over time.

According to ADS 203.3, performance indicators should be (1) precisely defined in the PMP, (2) unambiguous about what is being measured, and (3) reflect stable and consistent data collection processes and analysis methods. While Operating Units may change, add, or drop performance indicators based on a compelling reason, operating units are responsible for documenting these changes (including the reasons for the changes) and updating their PMPs. Adequate documentation facilitates the collection of comparable performance data from one measurement period to the next and is especially important in an organization like USAID, where there is considerable staff turnover. Furthermore, documenting the specific characteristics of indicators and data allows staff to explain their procedures to those who are seeking assurance that quality standards are being maintained in the collection and reporting of performance data.

In FY 2005, USAID/Ukraine significantly changed the data collection methodology for three of seven Local Governance performance indicators. Prior to FY 2005, the Mission counted each city that implemented municipal improvements, adopted a strategic plan, and/or adopted advanced financial analysis models only once even if the city had achieved more than one of these performance measures. For FY 2005, the Mission started counting the number of improvements, strategic plans or adopted financial analysis models separately. Consequently, cities with multiple advances in each category were counted multiple times. This change resulted in a significant increase in the program's performance results under three of the performance indicators for FY 2005, as shown in the table on the following page:

**Comparison of Performance Results Fiscal Year 2005:  
Original and Revised Methodologies**

<b>Performance Indicators</b>	<b>FY 2005 Results with Original Methodology</b>	<b>FY 2005 Results with Revised Methodology</b>	<b>Percentage Difference with Revised Methodology</b>
Services improved in targeted cities	10	18	+80 percent
Targeted cities that use strategic plans	5	12	+140 percent
Targeted cities that use financial analysis model	14	35	+150 percent

Although the changes had a significant impact on program results—increasing the final results under each indicator—the Mission had no record of why the change was made or who had approved the change. Furthermore, the Mission had not updated the PMP to reflect the changes and ensure the consistent collection of data over time as required.

According to Mission personnel, the changes in data collection methodology had been discussed and approved by Mission management during the most recent portfolio review of the Local Governance Program. However, because of an administrative oversight, these approved changes were not documented, and the PMP was not updated to reflect the changes.

As a result, the Mission’s current performance measurement methodology for the three performance indicators is not adequately documented for future reference. This lack of documentation increases the risk of confusion and the possibility that performance data may not be consistently collected and reported over time.

To correct this situation, we are making the following recommendation:

*Recommendation No. 2: We recommend that USAID/Ukraine document the recent changes made to its three Local Governance performance indicators and update the PMP to reflect those changes.*

# EVALUATION OF MANAGEMENT COMMENTS

In its comments on our draft report, USAID/Ukraine agreed with the audit findings and provided documented evidence of the actions taken to address our concerns. Specifically, USAID/Ukraine issued a Mission Notice that established procedures for ensuring performance data is adequately verified and reviewed prior to the data's inclusion in the Mission's Annual Report. In addition, USAID/Ukraine documented changes made to its three Local Governance performance indicators and updated the PMP to reflect those changes.

We believe that the Mission's actions are appropriate to correct the identified problems and consider that final action has been taken on both recommendations.

Mission comments have been included in their entirety in Appendix II of this report.

# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General in Frankfurt audited USAID/Ukraine's monitoring of its Local Governance activities in accordance with generally accepted government auditing standards. The purpose of the audit was to determine whether USAID/Ukraine was monitoring the activities in accordance with USAID guidance to ensure that the activities were progressing as intended. In particular, the audit focused on the Mission's compliance with ADS Chapter 203, as this chapter provides guidance on how operating units should assess whether activities are actually achieving their intended results.

In planning and performing the audit, we assessed management controls related to the development, implementation, use and management review of performance measures and indicators. Specifically, we reviewed (1) the Mission's fiscal year 2004 and 2005 annual reports, (2) the Performance Management Plan, (3) ADS requirements related to performance measures, (4) data quality assessment procedures and results, (5) Federal Manager's Financial Integrity Act requirements related to performance indicators, and (6) the portfolio review process. Additionally, we considered relevant prior audit findings from a similar audit completed in Russia. We also evaluated the Mission's current performance indicators for Local Governance activities as well as the performance data collected and reported under these indicators as of September 30, 2005.

We conducted the audit at the USAID/Ukraine Mission in Kiev, Ukraine and at various implementing partner site locations in Kiev. To further verify results, we also visited four cities in Ukraine that had participated in USAID-sponsored Local Governance activities. The audit was conducted from February 21 through April 21, 2006.

## Methodology

To form a conclusion about whether USAID/Ukraine monitored its Local Governance in accordance with USAID guidance, we first reviewed applicable USAID policy and procedures. We interviewed CTOs, implementing partners and Mission managers regarding their roles in developing and maintaining performance indicators and related performance data. We also tested various management controls relevant to performance indicators—including the Performance Management Plan, data quality assessment procedures and results for all active indicators, the FMFIA review process, and the portfolio review process—and evaluated the effectiveness of these controls.

We then evaluated the Mission's compliance with relevant Agency policies, including ADS 202 and ADS 203, including the requirements to develop and maintain useful performance indicators. Furthermore, we tested a judgmental sample of performance results and compared reported results against documented results for a judgmentally selected sample of indicator results submitted by contractors and implementing partners for FYs 2004 and 2005 to verify the Mission's determination of each project's performance. Finally, our testing included site visits to four Ukrainian cities to verify reported performance results for selected indicators.

When testing reported results, we used a five percent threshold to determine if the Mission accurately reported its specific performance results. That is, if the Mission's specific reported result under each indicator was within five percent of the documented result (based on records retained by the implementing partner), we concluded that the data had been accurately reported.

# MANAGEMENT COMMENTS



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June 21, 2006

## MEMORANDUM

**TO:** Gerard M. Custer /s/, Regional Inspector General, Frankfurt

**FROM:** Earl Gast, USAID/Ukraine, Mission Director

**SUBJECT:** Response to Draft Report on the Audit of USAID/Ukraine's Local Governance Program Report Number 8-121-06-00x-P

Dear Mr. Custer:

Thank you for allowing us the opportunity to review the draft report on the Audit of USAID/Ukraine's Local Governance Program and for the professional and cooperative way in which the review was conducted. We agree with the audit review findings and believe it will assist us to improve our performance monitoring and reporting.

Description of the actions taken to address the findings and recommendations of the draft report, are as follows:

### **Recommendation No. 1**

We have issued a Mission Notice, a copy of which is attached, that sets forth procedures for ensuring performance data is adequately verified and reviewed prior to the data's inclusion in the Mission's Annual Report.

### **Recommendation No. 2**

USAID/Ukraine has documented the recent changes made to its three Local Governance performance indicators and updated the PMP to reflect those changes. A copy of the updated PMP, which includes Performance Indicator Reference Sheets and SO 4 Performance Data Table, is attached, as is a Memorandum to the Files describing actions taken to address this audit recommendation.

We believe that the Mission has taken corrective meaningful actions, as indicated above, to close both audit recommendations upon issuance of the final report.

Sincerely,

Earl Gast,  
Mission Director

# USAID/UKRAINE LOCAL GOVERNANCE PERFORMANCE INDICATORS

## **Strategic Objective 4: Government Institutions are More Effective, Transparent, and Accountable to the Citizens**

Indicator 1: Local Good Government Index

Indicator 2: Freedom House Governance Rating

## **Intermediate Result 4.1 Autonomy and Responsiveness of Local Self-governance Increased**

Indicator 1: Services Improved in Targeted Cities

Indicator 2: Progress in Local Government Autonomy-Enhancing Reforms Scorecard

## **Sub-Intermediate Result 4.1.1 Management of Municipal Services and Assets Improved**

Indicator 1: Targeted cities that use strategic plans

Indicator 2: Targeted cities that use financial analysis model

Indicator 3: Targeted cities that use advisory boards in decision-making