



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

**FOLLOW-UP AUDIT OF
USAID/RUSSIA'S DEMOCRACY
PROGRAM**

AUDIT REPORT NO. 8-118-07-005-P
September 12, 2007

FRANKFURT, GERMANY



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Office of Inspector General

September 12, 2007

MEMORANDUM

TO: USAID/Russia Acting Mission Director, Janina Jaruzelski

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

SUBJECT: Follow-up Audit of USAID/Russia's Democracy Program
(Report Number 8-118-07-005-P)

This memorandum transmits the Office of Inspector General's final report on the subject audit. The report contains no recommendations for your action.

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

This follow-up audit was conducted by the Regional Inspector General in Frankfurt, Germany, to determine whether USAID/Russia had taken appropriate corrective actions on six recommendations previously reported in the Office of the Inspector General's *Audit of USAID/Russia's Democracy Program*, Audit Report No. B-118-05-002-P, dated March 31, 2005 (see page 2).

In response to the aforementioned audit, USAID/Russia took appropriate action to justify final action on five of the audit's six recommendations. These actions included:

- Reviewing and updating performance indicators used to track progress within the Mission's democracy program;
- Training program staff on developing and maintaining performance indicators and evaluating indicator data for quality assurance purposes; and
- Developing a mission order documenting the Mission's decision and justification for not using Strategic Objective Teams and maintaining its existing modular team structure instead (see pages 3-4).

For the sixth audit recommendation—requiring Cognizant Technical Officers (CTOs) to regularly compare actual results with planned accomplishments under the Mission's contracts and grants—USAID/Russia had not implemented adequate measures to justify final action on the recommendation. Specifically, USAID/Russia had not updated its portfolio review guidance or changed the format of its Activity Management Reports as proposed in the Mission's written response to the original audit report.

After this issue was brought to USAID/Russia's attention, the Mission amended its existing procedures to address the recommendation. Specifically, the Mission issued revised guidance for annual activity reviews that now requires a comparison of activity results with the planned results contained in the work plans for each contract and agreement. This additional action was deemed to be sufficient to address the auditors' original concerns and justify final action on the recommendation (see pages 4-5).

In its comments regarding this audit, USAID/Russia agreed with the findings and the recommendation to strengthen mission guidance on performing Activity Implementation Reviews (AIRs). The Mission noted that these annual reviews have long incorporated the comparison of activity results with each program's planned results, but stated that it expected the implementation of the report's recommendation will improve the Mission's internal procedures (see page 6).

BACKGROUND

In March 2005, USAID's Office of Inspector General issued an audit report focused on USAID/Russia's Democracy Program. The objective of the audit was to determine how USAID/Russia spent its funds under this program and whether the Mission effectively monitored the program to ensure that intended results were achieved.

The audit determined that USAID/Russia should review its performance indicators to ensure that they provide the most appropriate information for determining program achievements. The audit also concluded that the Mission should better document its periodic efforts to review and revise performance indicators, and clarify responsibilities for verifying performance data. Finally, the audit report stated that the Mission needed to document its compliance with guidance related to plans for establishing strategic objective teams, track the progress of program activity against established performance targets, and establish a training plan for CTOs.

The report contained six recommendations to correct these deficiencies. USAID/Russia concurred with all six of the recommendations and proposed specific procedural actions to address these concerns.

AUDIT OBJECTIVE

This follow-up audit was added to the Office of Inspector General's fiscal year 2007 Annual Plan and was conducted to follow-up on actions taken to address formal recommendations associated with an earlier audit of USAID/Russia's Democracy Program. Specifically, this audit was conducted to answer the following question:

- **Did USAID/Russia take corrective actions to justify final action on the recommendations from Audit Report No. B-118-05-002-P, dated March 31, 2005?**

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

AUDIT FINDINGS

USAID/Russia had taken appropriate actions to justify final action on five of the six audit recommendations previously reported, as discussed below.

Recommendation No. 1: We recommend that USAID/Russia review and revise, as needed, performance indicators for the democracy and local governance program to ensure that data collected provides information necessary to determine progress towards goals.

In the Mission's comments to the draft audit report, USAID/Russia agreed to reassess its current set of indicators and ensure that all proposed indicators have appropriate, adequate and verifiable data sources.

As evidence of the actions taken, the Mission provided documents related to the revised portfolio review process. These documents indicated that each project was examined to ensure that it had clearly stated goals and objectives and that appropriate performance measures and targets had been established to allow for the tracking of program progress. As a result of this review, the Mission's Office of Democracy identified numerous instances where indicators needed to be modified and procedures for reviewing data quality needed to be strengthened. Mission records documenting the Mission's review and revision of its performance indicators for the democracy program were deemed to be sufficient to justify final action for the recommendation.

Recommendation No. 2: We recommend that USAID/Russia document its process to periodically review and update its democracy and governance program performance indicators.

In its written comments to the draft audit report, USAID/Russia agreed to improve its internal documentation of program management decisions and ensure that the results of data quality assessments become an element of the internal portfolio review. The Mission planned to produce a memorandum to the file at the end of each review to document the results of the review and to consult during subsequent reviews to ensure that recommended changes and adjustments are completed.

As evidence of the actions taken, the Mission provided documents related to its Democracy Office's most recent data quality assessment. The resulting memorandum to the file clearly stated the process used to assess the quality of data and the outcome of the assessment. The documentation submitted detailing the Mission's review of indicators was deemed sufficient to justify final action for this recommendation.

Recommendation No. 3: We recommend that USAID/Russia clearly define staff responsibilities for the verification of indicator data and the review of supporting documentation.

In response to the audit report, USAID/Russia agreed to establish an internal training program for activity managers. This training would review performance indicator standards with CTOs, explain how to evaluate indicator data and program progress during site visits with implementing partners, and provide instruction on how best to document findings and recommendations.

As evidence of the actions taken, the Mission provided materials related to a training course on indicators and data quality that had been conducted in August 2005. These materials included a roster of attendees and an outline of the training presentation. The training covered topics related to the development of useful indicators, the collection of data, and efforts to maintain data quality. The documentation submitted detailing the training effort was deemed sufficient to justify final action on this recommendation.

Recommendation No. 4: We recommend that USAID/Russia implement USAID requirements to either adopt Strategic Objective (SO) Teams or document its decision to adopt an alternative method of managing its activities.

In response to this recommendation, USAID/Russia agreed to document the decision not to use a SO Team structure.

As evidence of the actions taken, USAID/Russia provided a copy of Mission Order RU202a, which documented the Mission's decision and justification for maintaining modular teams instead of establishing an SO Team structure. The Mission Order explained that due to the size, diversity, complexity and importance of Russia, modular teams would offer the most practical and effective organizational approach. The documentation submitted justified the Mission's organizational structure was deemed to be sufficient to justify final action for the recommendation.

Recommendation No. 6: We recommend that USAID/Russia develop a training plan that ensures that democracy and local governance program CTOs obtain the needed competencies and certifications.

The Mission agreed to refine and update a training plan for employees who had not yet been certified as CTOs, but who were expected to be designated as CTOs.

As evidence of actions taken, USAID/Russia provided an updated listing of CTOs showing the dates that CTO training had been completed. Several CTOs were selected for interviews, and they confirmed that the training had been provided and completed. The documentation submitted showing the status of CTO training was deemed sufficient to justify final action for the recommendation.

USAID/Russia, however, had not yet taken appropriate measures to justify final action on one audit recommendation, as discussed below.

Recommendation No. 5: We recommend that USAID/Russia require democracy and local governance program CTOs to periodically report performance information that compares actual performance against planned results and accomplishments.

In its response to the initial audit, USAID/Russia agreed to issue updated guidance on annual portfolio reviews, which would include procedures formalizing the process of comparing actual performance to planned results. The Mission also agreed to require that each Activity Monitoring Report (AMR) contain information on performance, funding, and implementation problems that would allow managers to more easily assess the performance of each contract or grant.

As evidence of actions taken, USAID/Russia provided updated guidance for portfolio reviews (currently referred to as Activity Implementation Reviews). The revised guidance required that during the reviews, staff should assess performance using the officially approved indicators or proxies, if data is not available. However, by focusing on indicator data in comparing planned results and outcomes with those actually achieved, the scope of the review appeared to be unnecessarily limited. Many grant and contract activities have planned outputs, results, and deliverables that are not related to indicator data. Unless Mission guidance requires that the progress under these activities also be subject to review and assessment, the intent of the recommendation will not be met.

In addition to the updated guidance, the Mission provided the most recent AMRs for the Democracy Program's contracts and grants. However, none of the AMRs contained information on performance or problems that would allow managers to assess current progress. According to USAID/Russia Program Office staff, because the AMRs would be made available to the public, the Mission decided not to include detailed performance information in these documents.

Because the Mission had not fully implemented the proposed actions to address the recommendation, either through updating guidance for Portfolio Reviews or by revising its AMRs, final action on the recommendation was not initially deemed to be justified.

In response to this finding, USAID/Russia agreed to take immediate action. Specifically, USAID/Russia issued revised guidance for annual activity reviews that now requires a comparison of actual activity results with the planned results specified in the work plans for each contract and agreement. We determined that the implementation of this guidance will meet the goals and intent of the original recommendation; consequently, this additional action was deemed sufficient to justify final action.

EVALUATION OF MANAGEMENT COMMENTS

In its comments regarding this audit, USAID/Russia agreed with the findings and the recommendation to strengthen Mission guidance for performing Activity Implementation Reviews. The Mission noted that these reviews have long incorporated the comparison of actual activity results with each program's planned results. Nevertheless, the Mission stated that the implementation of the report's recommendation will further improve the Mission's internal procedures in this area.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Frankfurt conducted this follow-up audit of USAID/Russia's Democracy Program in accordance with generally accepted government auditing standards. The purpose of the audit was to determine whether USAID/Russia had taken sufficient corrective actions to justify final action on the recommendations from Audit Report No. B-118-05-002-P, dated March 31, 2005. The audit scope covered all six recommendations from this report.

In planning and performing the audit, the audit team reviewed relevant guidance related to Mission, USAID/Washington, and OIG responsibilities related to actions taken in response to audit recommendations. The audit team considered guidance provided by the USAID/Russia Management Control Review Committee, as well as subsequent audit work that had been performed at USAID/Russia, including a recent audit of the Mission's HIV/AIDS activities.

In planning and performing this limited scope audit, the audit team assessed the appropriateness and effectiveness of the new procedures and other measures implemented by the Mission in response to each audit recommendation. The audit fieldwork was conducted from May 21 to June 1, 2007 at the USAID/Russia Mission in Moscow, Russia.

Methodology

In performing the audit work, the audit team obtained and reviewed the Audit of USAID/Russia's Democracy Program, dated March 31, 2005. The team also reviewed the Mission's written response to the audit, which outlined the specific steps to be taken to correct identified deficiencies.

For each of the six audit recommendations, the audit team requested and obtained documentation that adequately reflected Mission actions implemented in response to the audit. This documentation included data quality assessments, revised performance indicators, revised Activity Monitoring Reports, revised CTO guidance (including mission orders), CTO training materials, and CTO presentations made at annual implementation reviews. The audit team also interviewed appropriate officials, including CTOs to verify implementation of the various measures. Following these efforts, the audit team formed a judgment about whether or not the actions taken by the Mission justified final action under each recommendation.



Moscow, Russia

August 24, 2007

**UNCLASSIFIED
MEMORANDUM**

TO: Regional Inspector General, Frankfurt, Gerard M. Custer

FROM: USAID/Russia Acting Mission Director, Janina Jaruzelski /s/

SUBJECT: Follow-Up Audit of USAID/Russia's Democracy Program

USAID/Russia agrees with the findings and thanks the RIG staff for their cooperation. In particular, we wish to thank the auditors for their recommendations to strengthen Mission guidance on our annual Activity Implementation Reviews (AIR).

USAID/Russia has long incorporated into Annual Reviews the comparison of activity results with each program's planned results. The suggestions of the RIG auditors about the AIRs will further improve our internal procedures.

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