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October 13, 1998

MEMORANDUM

FOR: USAID/Ecuador Director, Hilda M. Arellano
FROM: RIG/A/San Salvador, Timothy E. Cox *Timothy E. Cox for*
SUBJECT: Audit of the Quality of Results Reported in USAID/Ecuador's Results Review and Resource Request (R4) Report Prepared in 1997 (Report No. 1-518-99-002-P)

This memorandum is our report on the subject audit. In finalizing the report, we considered your comments on the draft report. Your comments on the draft report are included in Appendix II.

This report contains one recommendation for your action. Based on information provided by the Mission, a management decision has been reached on this recommendation. A determination of final action for this recommendation will be made by the Office of Management Planning and Innovation (M/MPI/MIC) when planned corrective actions are completed.

I appreciate the cooperation extended to my staff during the audit.

Background

Passage of the Government Performance and Results Act of 1993 (Results Act) was intended, among other things, to improve the effectiveness of federal programs and public accountability by promoting a new focus on results. The General Accounting Office (GAO) noted that key steps in building a successful results-oriented organization include collecting and using performance information in the decision making process. Congress also recognized, in the Results Act, that agency managers need performance information to facilitate decision making leading to programs that meet intended goals. GAO also noted that successful implementation of the Results Act is dependent on good information for decision making purposes. In this regard, we adopted five characteristics of what we believe is good management information: objectively verifiable, supported, accurate, complete, and validated.

Since USAID was established in 1961, it has initiated numerous systems to report on program results. However, none of these systems have been fully successful. Over the past several years, the Office of Inspector General (OIG) has intermittently reported on weaknesses in USAID's

ability to measure and report reliable program performance information. Examples of these audit reports include:¹

- A June 1995 audit which reported that USAID needed better direction and control procedures to ensure that (1) objectively verifiable and measurable indicators were established to measure program performance and (2) reliable and useful performance data were reported and documented.
- A March 1998 audit of USAID's fiscal year 1996 financial statements which showed that 29 of the 38 (76 percent) quantified results reported in the program performance section of the overview section were either incorrect, unsupported, or vaguely set forth.
- Another audit report issued in March 1998 which disclosed that 10 of 11 overseas missions reviewed had not developed, or had not finalized, a formal and ongoing system of data collection and verification to report good performance data.

In light of the problems reported, the OIG was concerned that these conditions may be pervasive throughout USAID. This USAID-wide audit of selected operating units was therefore carried out to (1) establish a baseline for future OIG audit work, (2) identify problems with current data reporting, and (3) develop recommendations for improving data reporting. This audit was not intended to assess the quality of performance indicators, but rather to determine if the performance results reported in the Results Review and Resource Requests (R4s) by operating units were objectively verifiable, supported, accurate, complete, and validated. This audit of USAID/Ecuador is one of 18 audits being done on a USAID-wide basis.

USAID/Ecuador's R4 dated May 1997 was approved by USAID/Washington in June 1997, and included 37 indicators for which performance results (or baseline data) were reported for fiscal year 1996. Of these 37 performance indicators, 25 were randomly selected for audit. As of September 30, 1997, USAID/Ecuador had obligated and expended in support of its active programs a total of \$70.3 million and \$58.0 million, respectively.

Audit Objective

The Regional Inspector General/San Salvador, as part of an USAID-wide audit, performed the audit to answer the following question:

Did USAID/Ecuador report results data in its Results Review and Resource Request prepared in 1997 which were objectively verifiable, supported, accurate, complete, and validated?

¹ The three audit reports referred to in this paragraph are Audit Report No. 1-000-95-006 (dated June 30, 1995), Audit Report No. 0-000-98-001-F (dated March 2, 1998), and Audit Report No. 9-000-98-001-P (dated March 26, 1998).

Appendix I describes in detail the audit's scope and methodology.

Audit Findings

Did USAID/Ecuador Report Results Data in its Results Review and Resource Request Prepared in 1997 Which Were Objectively Verifiable, Supported, Accurate, Complete, and Validated?

USAID/Ecuador did not report results data which were objectively verifiable, supported, accurate, complete, and validated. In order to fully meet these standards, improvements were needed in 22 of the 25 results reported in the R4 that were part of our random sample of performance indicators.

Federal laws and regulations require federal agencies to develop and implement internal management control systems that: (1) compare actual program results against those anticipated; (2) provide for complete, reliable, and consistent information; and (3) ensure that performance information is clearly documented and that the documentation is readily available for examination. For example, Office of Management and Budget (OMB) Bulletin 93-06 requires agencies to have internal control systems to provide reasonable assurance that support for reported performance results is properly recorded and accounted for to permit preparation of reliable and complete performance information. (See Appendix IV for a further discussion of relevant laws and regulations, as well as related USAID policies and procedures.)

For the purpose of this audit, the following definitions are used:

- *Objectively Verifiable*—Indicators are to be objective and the results are to be objectively verifiable. This means an indicator has no ambiguity about what is being measured; that is, there is general agreement over interpretation of the results. Indicators are also to be both unidimensional and operationally precise. To be unidimensional means that it measures only one phenomenon at a time, and operational precision means no ambiguity over what kind of data would be collected for an indicator.
- *Supported*—This means that adequate documentation supports the reported result. The support should be relevant, competent, and sufficient (as noted in the GAO's Government Auditing Standards). For example, a memo of a telephone conversation, or "best guesses" would not be considered adequate documentation.
- *Accurate*—This includes (1) being within plus or minus one percent (1.0 percent) of the actual documented result and (2) being consistent with what was to be measured under the indicator (e.g., if the indicator was the number of children vaccinated under 5 years

of age, then the result would not be consistent if the supporting documents show that the result was for children under 3 years of age). A result would also not be considered accurate if supporting documents showed that the result was achieved prior to January 1, 1996. Since we only reviewed results in the R4 "performance data tables" for "1996," a result would not be considered accurate if supporting documents showed that the result was achieved in 1992.

- *Complete*—This means that the result (1) included all data which was anticipated to be measured for the indicator and (2) was for a full year. For example, if 20 regions were to be measured but only 18 regions were measured, the result would not be complete. Also, if the results were only for a partial year (e.g., a six-month period), then the result would not be complete.
- *Validated*—This refers to the source of the data and the reliability of that source. For the purposes of this audit, we considered a source reliable if it is independent such as the World Bank, United Nations, independent evaluators, or an independent Demographic and Health Survey. If the data came from a contractor involved with the program or from the host country government, the data would only be considered from a reliable source if USAID or an independent entity had performed an assessment of the data and/or system for generating the data and found the data or system to be reliable. (Note: For the purposes of this audit, we are not reviewing USAID's determination of validity of these independent sources. USAID's validation process for external information will be assessed at a later time in another audit.)

As shown in Appendix III, our audit found problems with 22 of the 25 results reported for performance indicators for which results were reported in the R4 for fiscal year 1996 (which was prepared in 1997). A breakdown and examples of these problems are as follows:²

- Results for seven indicators were not objectively verifiable. For example, two intended results were *an increased level of confidence in the judicial system by three key groups of customers (judges and court workers, lawyers and other users of the system, and the general public)* and *an enhanced perception of the need for judicial reform by the general public*. However, the Mission did not adequately define a method for measuring the level of confidence or enhanced perception described in these indicators. In addition, there was no established criteria for comparing the results of these indicators from year to year, nor

² To avoid duplicating the problems related to the reported results (e.g., a reported result could be both not supported and not accurate), we classified indicator results as having only one problem according to the following hierarchy: not objectively verifiable, not supported, not accurate, and not complete. We did, however, classify results as not validated (if applicable) in addition to another problem because we believe that the requirement for operating units to assess the quality of data sources was a distinct function and potentially related to each of the type of problems included in the hierarchy. We did not assess whether a result was validated if the result was not objectively verifiable.

were any target results established. Without these elements, the Mission had no objective method for monitoring performance related to these two indicators.

For another indicator, *a unit within the GOE's [Government of Ecuador] OCG [Office of Controller General] with adequately trained staff to effectively detect and take actions to deter corruption practices*, the unit of measure was the number of staff trained. However, the government unit cited in the indicator was never established, and the reported results were for any OCG staff that received training related to fraud. In addition, key words in the indicator were not defined, so there was no objective measure of "adequately" trained to "effectively" detect corruption. As a result, performance for this indicator could not be objectively verified.

The indicator *proper urban and industrial pollution management increased; cleaner industrial operations implemented* was similarly undefined. The unit of measure for this indicator was the cumulative number of firms, municipalities and communities which adopted a pollution prevention model; however, there was no definition of what comprised such a model and, in fact, there was no plan to develop any models, only to implement various pollution prevention technologies. Therefore, applying this unit of measure to determine performance for this indicator was not objectively verifiable.

- Results for eight indicators were not supported. For example, one indicator was *women and children (1-5) using improved or expanded MCH [maternal and child health] services*. The R4 reported 45,300 women and children using such services. However, the reported results were derived from a variety of sources and were based on extensive estimates and projections of data. In addition, some of the data used covered different time periods and included children of different age groups.

For another indicator, *total fertility rate*, the Mission reported a rate of 3.4 percent for 1996 based on information provided by fax by a participating Non-Governmental Organization (NGO). However, the Mission did not retain a copy of the fax and recent attempts to confirm the reported rate for 1996 were unsuccessful; instead, the NGO reported that the 1996 total fertility rate was 3.06 percent. However, rather than being an actual measured performance, the 3.06 percent was a projection for 1996 using data the NGO obtained from various sources. The R4 did note that the reported result of 3.4 was an estimate.

Another indicator, *number of final customers* was to measure the number of direct beneficiaries through a program to provide grants to communities and individuals. The 1996 reported result was 30,400 beneficiaries. This result was not supported because approximately 51 percent of the reported amount was based on an estimate and not actual direct beneficiaries. Specifically, the Mission claimed 15,600 direct beneficiaries from a single \$4,866 grant (\$0.31 per beneficiary) to a bakery belonging to community organization. Normally, the Mission counts as "direct beneficiaries" individuals who directly benefit from the grant, such as the employees of the bakery and their families.

However, in this case, the Mission counted all the members of the community organization whether or not they were directly involved in the bakery. Therefore, this reported result was unsupported.

- Results for seven indicators were not accurate. For example, results reported for *user fees collected from users of national parks* were significantly understated. Based on information obtained from the Government of Ecuador, the Mission reported in its R4 that \$2.7 million in fees were collected in 1996; however, documentation later showed the amount of fees collected to be \$3.9 million.

Results for another indicator, *couple years of protection provided by APROFE [Asociación Pro Bienestar de la Familia Ecuatoriana] and CEMOPLAF [Centro Médico de Orientación y Planificación Familiar]*, were reported to be 447,270 for 1996 based on information provided by the NGOs. However, subsequent documentation from these two organizations showed they in fact provided 411,641 couple years of protection during 1996, a variance of 35,629.

Two other indicators were to measure *increases in the number of microentrepreneur borrowers by year* and *increase the total yearly volume of credit to microentrepreneurs*. For 1996, the Mission obtained performance data by telephone and reported 2,466 borrowers and credit volume of \$2.0 million. However, our efforts to substantiate this reported performance were not successful. Review of 1996 performance documentation obtained after completion of the 1997 R4 and discussions with Mission officials and representatives of the participating bank showed 2,261 borrowers and a total credit volume of \$2.3 million for 1996.

- Of the 18 indicators that were objectively verifiable, results reported for 12 indicators were not validated. These results were primarily based on information from cooperating partners or the Government of Ecuador. However, neither USAID/Ecuador nor an independent entity had performed an assessment of the data and/or the system for generating such data. For the seven indicators which were not objectively verifiable, we did not attempt to determine whether results were validated.

In some cases, a result had a problem because of more than one reason. However, to avoid duplication, we classified a result as having only one problem (except for validation). A specific example is the indicator *national parks, reserves, and adjacent buffer zones under sustainable land use/natural resource management plans*. The results reported in the R4, totalling 152,000 hectares, were obtained from various sources by telephone. The reported result was not supported because documentation for 27,000 hectares did not exist or was based on estimates. In addition to not being supported, the reported result was not accurate because it included only 60,000 hectares for one park; however, when the actual management plan was received by the Mission, it was discovered that the plan actually covered 146,280 hectares. We classified the result as "not supported" although it was also not accurate.

The above problems existed because USAID/Ecuador did not always follow or was not successful in following prescribed USAID policies and procedures (Automated Directives System [ADS] 200 Series) for measuring and reporting on program performance. For example, USAID/Ecuador:

- Did not ensure seven indicators were objective as prescribed by ADS E203.5.5.
- Did not, in eight cases, maintain documentation to support reported results as prescribed by ADS E203.5.5.³
- Did not consistently (1) assess data quality as part of the process of establishing performance indicators and choosing data collection sources and methods; (2) critically assess the performance data at regular intervals to ensure the data are of reasonable quality and accurately reflect performance; and (3) reassess data quality as is necessary but at intervals of no greater than three years as prescribed by ADS E203.5.5.

USAID/Ecuador officials cited a number of reasons for the inconsistent implementation of ADS and other requirements. Overall, they pointed out that this is an evolving process and significant progress has been achieved by the Mission. For the seven indicators found to be not objectively verifiable, they stated that the Mission sometimes lacked the necessary expertise to develop proper indicators. Officials pointed out that three of the seven indicators that were not objectively verifiable were subsequently dropped from their monitoring system, and the other four were modified as the Mission gained additional experience in implementing ADS requirements. Regarding the eight indicators for which reported data was unsupported and the seven for which inaccurate data was reported, the Mission believed that the requirement for maintaining supporting documentation was not clearly established in USAID procedures and that this lack of clarity contributed to the deficiencies noted during the audit. They acknowledged that more attention should be given to ensuring that supporting documentation is obtained and added that such supporting documentation is now being maintained for all reported results.

In addition, activity managers stated that when some indicators were designed, not enough attention was given to how the data was to be collected for the reporting of results. They pointed out that planned data sources did not always prove to be available. In other instances, they cited a need to better define indicators to ensure that data is consistently reported, allowing comparability of reported results for successive years and facilitating the monitoring of progress towards achieving the final target results.

Limited funding was also cited as a cause of the above weaknesses. Mission officials stated that, as a result of a lack of Operating Expense funding, data verification was not consistently or systematically performed. They pointed out that they did not believe that formal verification was

³ The guidance requires the operating unit to establish a performance monitoring system to collect and analyze data which will enable it to assess its progress in achieving results. This system should: (1) provide a detailed definition of the performance indicators to be tracked; (2) specify the data source and its method and schedule of collection; and (3) assign responsibility for data collection to an office team or individual.

needed for data from certain sources because they considered the data to be reliable based on their knowledge and experience (e.g., through site visits and long-term working relations) with these data providers.⁴

USAID/Ecuador made significant changes to the performance indicators covered by this audit. For example, 14 of the 25 indicators reviewed as part of this audit have been dropped as performance indicators. In fact, only one remains unchanged as part of the Mission's performance monitoring and reporting system. These changes were made in USAID/Ecuador's Strategic Plan for fiscal years 1998 through 2002, which was approved by USAID/Washington in June 1997 at the same time as the 1997 R4. This major revamping of performance indicators was principally the result of USAID/Ecuador's planned transition from a Full Sustainable Development Mission to a Limited Mission. However, Mission officials also stated that the changes were due in part to its identification of deficiencies in its performance indicators.

Without reliable performance data, decision makers have little assurance whether an operating unit met, exceeded or fell short in achieving its program objectives and related targets. In our opinion, the problems with performance indicators and results reporting cited in this report impair USAID/Ecuador's and USAID management's ability to (1) measure progress in achieving program objectives, and (2) use performance information in budget allocation decisions. The problems also impair USAID's ability to comply with laws and regulations.

Recommendation No. 1: We recommend that USAID/Ecuador:

- 1.1 ensure its performance indicators in the R4 prepared in 1999 are objective and clearly defined regarding what specific results are to be measured; and**
- 1.2 ensure that the performance data identified in its R4 prepared in 1999 are supported, accurate, complete, and validated; or fully disclose in the R4 any data limitations and their implications for assessing the measurement and achievement of performance targets for each performance indicator, and a time frame for resolving the problems.**

⁴ It should also be noted that USAID/Washington bureaus are responsible for providing support to operating units to develop effective performance monitoring systems to report on program results and for reviewing the R4 process. For example, USAID's policies and procedures (ADS Sections 201.5.11a and 203.3) stipulate that the Bureau for Policy and Program Coordination should (1) ensure the adequacy of operating units' strategic plans for measuring performance and documenting impact, and (2) provide technical leadership in developing USAID and operating unit performance monitoring and evaluation systems. These policies and procedures also stipulate that each regional bureau (e.g., Bureau for Latin America and the Caribbean) should (1) provide oversight and support to its operating units in developing their strategic plans for measuring program performance; (2) support its operating units in achieving approved objectives, and review and report annually those units' performance in achieving their objectives; and (3) manage the R4 submissions for operating units under its authority. The issue of USAID/Washington support and oversight will be addressed in another audit report which will be issued on completion of this USAID-wide audit.

Management Comments and Our Evaluation

USAID/Ecuador generally agreed with the findings of the report. However, the Mission pointed out that it made significant changes to the performance indicators in the 1997 R4 between the time they were developed and the time of our audit. The Mission commented that, of the 25 performance indicators reviewed during the audit, only three remained in its portfolio under its Strategic Plan developed in the spring of 1997. USAID/Ecuador explained that this evolution of its performance indicators was due, in part, to experience and understanding gained from working with performance indicators since the time the performance indicators in the 1997 R4 were developed. Consequently, the Mission questioned the relevance of the audit's findings in view of the changed performance indicators and changed procedures.

Of the seven indicators found to be not objectively verifiable, the Mission stated that three were deleted from its portfolio and the other four were revised. Of the eight indicators found not supported, the Mission stated that four were dropped, the definition for another was clarified, and better data collection systems were established for others. Regarding accuracy, the Mission stated that four of the seven performance indicators for which inaccurate results were reported in the 1997 R4 were dropped. To further address the accuracy issue, the Mission stated that procedures have been implemented to verify the receipt of written reports before entering data in the R4 "Performance Data Tables."

Concerning validation, the Mission stated "We are also concerned about the degree of testing the auditors feel is necessary to rely on NGO partner data, especially US NGOs." The Mission commented that it did not have the human or financial resources to carry out any sort of methodical evaluation of its data sources. Rather, the Mission stated that it carries out verification of the reasonableness of data through site visits, discussions with and review of partners' records, and spot checks by Controller staff. The Mission added that, on the assumption that its partners have the know-how and staff, it is forced to rely on their judgement when it comes to satisfying the requirements of ADS E203.5.5. Finally, the Mission stated it is requesting additional guidance on this issue from USAID/Washington in light of a recent General Notice from the Administrator in which he expresses concern over missions' over-intrusiveness with its partners in implementation and results reporting.

In response to the Mission's comments about the relevance of the audit, we would like to point out that this audit was one of 18 audits on the quality of R4 data throughout USAID, which were designed to give the USAID Administrator and others an accurate assessment of USAID's performance in implementing the ADS performance measurement requirements at a particular point in time. We would also like to point out that our report does acknowledge, on page 8, the positive changes USAID/Ecuador made to its performance indicators in its spring 1997 strategic plan.

Based on steps USAID/Ecuador has already taken to ensure that the performance indicators in its R4 prepared in 1999 are objectively verifiable, and steps the Mission has already taken or plans to take to ensure that the performance data in its R4 prepared in 1999 are supported,

accurate, complete, and validated, we concur with USAID/Ecuador's management decision for parts 1.1 and 1.2 of the recommendation.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Ecuador's internal management controls for ensuring that it reported objectively verifiable, supported, accurate, complete and validated performance results data in its Results Review and Resource Request (R4) report (See pages 3 and 4 of this report for definitions). We audited only the results (including baseline data) reported for 1996 in the R4 prepared in 1997. The audit was performed in accordance with generally accepted government auditing standards and was conducted at USAID/Ecuador from April 27, 1998 through May 27, 1998.

We limited our work on the validity and reliability of data to the results for only (1) the performance indicators identified in the "performance data tables" in the R4 prepared in 1997, and (2) the actual results for which such data was shown for 1996. Therefore, if no actual results for an indicator were shown for 1996, we did not assess the validity and reliability of the results for that indicator. We did not review results reported in the narrative portion of the R4.

We did not attempt to determine if the baseline data for a prior year and the results reported for 1996 were consistent and based on comparable data.

Methodology

This audit is part of an USAID-wide audit. The Office of Inspector General's Performance Audits Division in Washington, D.C. is the lead office. Operating units were selected using a random sample based on assistance from statisticians from the Department of Defense's Office of Inspector General. For USAID/Ecuador, the sample of 25 of the 37 performance indicators for which a result was reported in the 1997 R4 was selected randomly also with the assistance of the statisticians from the Department of Defense's Office of Inspector General.

To accomplish the audit objective, we interviewed officials from USAID/Ecuador and its contractors and grantees. We also reviewed the documents which supported the reported results. Where problems were found, we verified to the extent practical, the causes of the problems. This

included additional interviews with Mission personnel, and reviews of additional documentation from the Mission and its contractors and grantees.

To avoid duplicating the problems related to the reported results (e.g. a reported result could be both not supported and not accurate), we classified indicator results as having only one problem according to the following hierarchy: not objectively verifiable, not supported, not accurate, and not complete. We did, however, classify results as not validated (if applicable) in addition to another problem because we believe that the requirement for operating units to assess the quality of data sources was a distinct function and potentially related to each of the types of problems included in the hierarchy. We did not assess whether a result was validated if the result was not objectively verifiable.

If the results reported for the indicators were found to be objectively verifiable, supported, accurate, complete and validated: (a) 95 percent or more of the time, (b) 80 to 94 percent of the time, or (c) less than 80 percent of the time, we would provide a positive, qualified, or negative answer to the audit question, respectively.

UNITED STATES GOVERNMENT
memorandum

DATE: August 27, 1998

FROM: USAID/Ecuador Director, *J. de la Haza*
Hilda M. Arellano

SUBJ: Response to the Draft Audit of Quality of Results Reported
in USAID/Ecuador's Results Review and Resource Request (R4)
Report Prepared in 1997 (Report No. 1-518-98-00X-P)

TO: RIG/A/San Salvador, Timothy E. Cox

In the Spring of 1998, the auditors selected twenty-five FY 1996 indicators from the R4 presented in the Spring of 1997. However, of those indicators, fourteen had already been deleted the previous year, before the data was collected for FY 1997 performance. The conceptual basis of an additional eight remained in use, but these were reworded and/or alternate data sources were identified. As a result, of the twenty-five indicators reviewed by the auditors, only three remain in use under the current Strategic Plan, developed in the Spring of 1997.

The indicators reviewed by the auditors had been developed over two years previously in October 1995-January 1996. During the intervening period, (1) the Mission's portfolio of SOs and SpOs was adjusted in response to directives from USAID/W and (2) in those goal areas where the portfolio continued in more or less the same directions, Mission staff itself refined the results and indicators, based on experience and further understanding of data availability. The Mission's experience with its indicators is in line with the overall Agency's, as expressed in the draft Performance Monitoring and Evaluation TIPS "Quality Standards for Performance Measurement" of July 1998:

"USAID's standards for performance measurement are evolving, and will continue to evolve, along with our collective experience and knowledge about how best to measure development progress. These standards will also evolve because performance measurement is not yet an exact science, and because we must continually balance the cost of obtaining data against the uses of that data as well as the alternative uses to which limited resources could be put."

While the Mission agrees with the detail findings of the draft audit and appreciates the constructive attitude of the auditors

in developing their findings, we question their relevance in view of the changed indicators and changed procedures adopted in the meantime. In summary, Mission has no major problems with the findings on "objectively verifiable," "supported," "accurate," or "complete." However, the Mission would have found the audit to be far more useful if (1) the auditors had reviewed our current portfolio and our active indicators (particularly with respect to being objectively verifiable) and (2) Mission had been informed of the basis on which the program was to be judged (i.e., supported, accurate, and complete) at the time the data collection actually took place in the Fall of 1996.

Since the Mission's Strategic Planning process during the Spring of 1997 resulted in a major overhaul of its indicators, Mission requests that Recommendation 1.1 "We recommend that USAID/Ecuador ensure its performance indicators in the R4 prepared in 1999 are objective and clearly defined regarding what specific results are to be measured" be closed upon issuance.

In response to the first part of Recommendation 1.2 "We recommend that USAID/Ecuador ensure that the performance data identified in its R4 prepared in 1999 are supported, accurate, complete...", the Mission feels confident that it can take steps to ensure that the performance data identified in its R4 prepared in 1999 are supported, accurate, and complete.

The issue of validation remains open. With its extremely limited OE and Program funds, Mission does not have the resources to carry out validations of survey and partner data for which we have reasonable assurances that they are reasonably accurate. We have agreements with CARE, for example, which has an established reputation and credibility. We cannot devote scarce resources validating such indicators, when they are needed to generate program results.

We are also concerned about the degree of testing the auditors feel is necessary to rely on our NGO partner data, especially US NGOs. These testing requirements contradict the General Notice from the Administrator in which he expresses concern for missions' over-intrusiveness with our partners in implementation and results reports. Mission is requesting USAID/W guidance on standards for validation and assistance in defining criteria and procedures for assessing data quality.

Therefore, in satisfaction of Recommendation 1.2 "We recommend that USAID/Ecuador ensure that the performance data identified in its R4 prepared in 1999 are ... validated; or fully disclose in the R4 any data limitations and their implications for assessing the measurement and achievement of performance targets for each performance indicator, and a time frame for resolving the problems," Mission will review its indicators based on guidance from USAID/W. We will document any data limitations and their

implications for assessing the measurement and achievement of performance targets for each performance indicator in the relevant section of its Performance Monitoring Plan; where appropriate, suitable reference will be made in the "Comment" section of the Performance Data Tables of the R4 prepared in 1999.

Further comment on the details of the draft audit report are provided below. (The #s refer to the indicator sequence number used in the draft audit report.)

Objectively Verifiable - Of the seven indicators that were found to be not objectively verifiable, three have been deleted, as follows:

(#3) "Process indicator."

(12) "An increased level of confidence in the judicial system by three key groups of customers (judges and court workers, lawyers and other users of the system, and the general public)."

(#14) "An enhanced perception of the need for judicial reform by the general public."

The remaining four were revised as follows as part of the Spring 1997 Strategic planning process:

(#18) "A unit within the GOE's OCG with adequately trained staff to effectively detect and take actions to deter corruption practices." → "Special 'anti-corruption' unit created in Prosecutor General's Office." (Ambiguity associated with the words 'adequately' and 'effectively' has been removed.)

(#21) "Biodiversity research utilized for planning and decisions." → "Number of USAID funded studies which create or alter key policies and NRM plans." (Definition of planned actions is identified in the Performance Monitoring Plan.)

(#23) "Community participation in management of selected protected areas." → "Increased number of hectares under legal title outside of selected protected areas."

(#25) "Proper urban and industrial pollution management increased; cleaner industrial operations implemented." → "Number of industrial plants implementing cleaner production technologies in their production process." (Cleaner technology is defined in "Comment" section of indicator box.)

While updating its Performance Monitoring Plan last Spring, Mission specifically reviewed its existing portfolio of indicators with a view to identifying ambiguities and/or unclear definitions. Where necessary, additional information was incorporated into the relevant sections of the Performance Monitoring Plan.

Supported - For the eight indicators that were not supported, the following four had already been deleted as part of the Spring 1997 Strategic Planning process:

Mission had found that the data for (#13) "Reduction in pre-trial detention time" and (#15) "Reduction in average case-processing time" were not readily available, and given the shift in portfolio emphasis away from court administration, it did not make sense to invest time and effort in developing those data sources.

(#6) "Number of final customers" was also deleted at the IR level because of the need to rely on community level estimates and the fact that a better measurement of impact already existed in the form of another indicator.

(#7) "Total Fertility Rate (TFR)," although an important national demographic trend to monitor, was determined to be outside of the manageable interest of the Mission.

Of the remaining three indicators, Mission had identified a lack of consistency and clarity in the definition of (#10) "Women and children (1-5) using improved or expanded MCH services." This has been changed to "Number of visits by women and Children (0-5) using improved or expanded MCH services" thereby eliminating the problem of differing age groups. Given that the activities are carried out at a number of different sites with different partners, by necessity the results must be derived from a variety of sources. And although the majority of activities are with NGOs that provide actual data, the Mission is forced to rely on estimates from the MOH sites. However, given the importance of following the activities at the MOH sites, Mission feels it must continue with this less than perfect data site. A note will be added to the "Comments" section of the Performance Data Table to indicate such.

The data collection systems for the following two indicators were just being established at the time the data was collected for FY 1996. Since that time, both partners have refined and upgraded their systems for tracking service delivery. CEPAM's data collection is based on the computerized Comisaria GOE data base. CIDES has established manual registers at each of the clinics. In addition, although the indicators are basically the same, the wording has been adjusted slightly to ensure clarity.

(#16) "Number of disadvantaged persons assisted by selected NGOs in accessing judicial legal services at selected sites." ⇒ "Number of Comisaria cases attended per year."

(#17) "Number of disadvantaged persons assisted by selected NGO in accessing extrajudicial legal services at selected sites." ⇒ "Number of active ADR and legal services cases handled per year."

The final indicator selected for review by the auditors in this category of "accuracy" was also reworded, but basically remains the same:

(#19) "National parks, reserves, and adjacent buffer zones under sustainable land use/natural resource management plans." ⇒ "Hectares of land in selected protected areas and their buffer zones under implemented NRM plans."

However, it is significant in that it is more representative of the type of problem Mission staff encountered in trying to satisfy the auditors' requests for information. Having reported on accomplishments for decades through a collaborative, partnership relationship with grantees and recipients, Mission did not realize that the ground rules had changed and that new rules were in place: that the documentation requirements were more akin to the vouchers and receipts of a financial audit than the documents previously required by a program review. Mission had the understanding that, in those cases where the indicator data were being collected by partners, the files of the partners were the appropriate location for records regarding the details of indicator tracking. Therefore, raw data and the working files documenting calculations were not part of our official files.

In order to satisfy RIG requirements, Mission has no problem with requesting that grantees and recipients maintain these files and/or provide copies of supporting documents to USAID as evidence of reported accomplishments. However, in line with the Administrator's directive in the General Notice of 7/28/98 on establishing productive, collaborative relationships with partners, Mission is requesting additional guidance from USAID/W on exactly what constitutes "supported" in this context.

Accuracy - Two of the seven indicators identified by the draft audit as being inaccurate were dropped as part of the Strategic Plan process for that very reason:

(#1) "World Bank statistics (LSMS)" was dropped because of the shift in the Mission portfolio, the difficulty in obtaining the data on a timely basis, and ensuring the continuity of the reporting system from year to year. In this particular case, the discrepancy arose because the USAID reporting period required the data prior to completion

of analysis by INEC, and the figure of 35% was based on the methodology for the previous year, which excluded certain parts of rural Ecuador.

(#20) "User fees collected from users of national parks" was dropped because of the difficulty in collecting the data, the lack of definition of the methodology, and the identification of better means of measuring progress.

Two other indicators were also dropped because it was determined that other existing indicators provided a better measurement of program impact.

(#5) "Increase the total yearly volume of credit to microentrepreneurs."

(#11) "MOH [Ministry of Health] health areas with operational quality improvement (QI) programs."

The other three indicators have been retained by the Mission.

(#4) "Increase in the number of microentrepreneur borrowers by year."

(#8) "Couple Years of Protection (CYP) provided by APROFE and CEMOPLAF."

(#9) "Percentage of cost recovery of the two main family planning NGOs, APROFE and CEMOPLAF."

However, the Mission does concur with the draft audit that steps need to be taken to ensure the accuracy of the data reported. Mission has in the past relied on verbal/telephone transmittal of results data in order to meet submission deadlines. Given the unacceptable frequency of faulty data and/or transcription errors resulting from this practice, SOTLs have been instructed to verify receipt of written reports in the future, prior to entering the data in the Performance Data Tables.

Validated - According to the draft audit, "If the data came from a contractor involved with the program or from the host country government, the data would only be considered from a reliable source if USAID or an independent entity had performed an assessment of the data and/or system for generating the data and found the data or system to be reliable."

Mission carries out verification of the "reasonableness" of the data through site visits, RPM discussions with partners, review of partner records at headquarters, and in particular cases where it is appropriate such as institutional strengthening, spot checks by CONT staff. However, Mission does not currently have the human resources, or the financial resources to contract the

human resources, necessary to carry out any sort of methodical validation of its data sources, other than the steps described above. With OE induced downsizing, USAID/Ecuador staff are already feeling the pinch of having to take on additional responsibilities.

Our PVO/NGO partners (which implement the majority of our portfolio) hire the experts that are necessary for designing and implementing methodologies for data collection. On the assumption that our partners are the ones with the know-how and the staff, we are forced to rely on their judgement when it comes to satisfying the requirements to: (1) assess data quality as part of the process of establishing performance indicators and choosing data collection sources and methods; (2) critically assess the performance data at regular intervals to ensure the data are of reasonable quality and accurately reflect performance; and (3) reassess data quality as is necessary but at intervals of no greater than three years as prescribed by ADS E203.5.5.

In line with the Administrator's message of 7/28/98 on relationships with partners, Mission is requesting additional guidance from USAID/W on this matter, particularly with respect to specific steps and criteria to apply.

Objectively Verifiable, Supported, Accurate, Complete, AND Validated - Of the three FY 1996 indicators that passed the audit test in all categories, all three are being dropped because, although the data were good, the indicators were not useful. It was determined that all three were either inappropriate or irrelevant as measurements of the impact of the Mission's activities.

(#2) "Increases in the ratios of non-traditional exports to GDP."

(#22) "Andean condor preserved and protected."

(#24) "National Environmental Fund (NEF) established and endowed."

CLEARANCE - Response to the Draft Audit of Quality of Results
Reported in USAID/Ecuador's Results Review and Resource Request
(R4) Report Prepared in 1997 (Report No. 1-518-98-00X-P)

ANRO, M. Zuquilanda/F. Maldonado (SO 1/SpO 1) (draft)
GDO, K. Farr (SO 2) (draft)
SDO, S. Taylor (SO 3/SpO 3) (draft)
CONT, M. Lewis (draft)
CONT, N. Pineda (draft)

(Drafted:SDO, B. Cypser:F:\SDO\BEC\AUDIT.RSP:8/18/98)

Analysis of USAID/Ecuador's 1996 Indicators and Results
(as reflected in its R4 prepared in 1997)⁵

Indicator	Objectively Verifiable?	Supported?	Accurate?	Complete?	Validated?	Explanation of problem, if any, except for not validated
1. World Bank statistics (LSMS).	Yes	Yes	No		Yes	Reported result was a 35 percent poverty rate and documented result was a poverty rate of 37.6 percent for a variance of 7.4 percent.
2. Increases in the ratios of non-traditional exports to GDP.	Yes	Yes	Yes	Yes	Yes	No problems found.
3. Process indicator.	No					There was no specific description of what was to be measured and reported.
4. Increase in the number of microentrepreneur borrowers by year.	Yes	Yes	No		No	Reported result was 2,466 borrowers and documented result was 2,261 borrowers for a variance of 8.3 percent.

⁵ To avoid duplicating the problems related to the reported results (e.g., a reported result could be both not supported and not accurate), we classified indicator results as having only one problem according to the following hierarchy: not objectively verifiable, not supported, not accurate, and not complete. We did, however, classify results as not validated (if applicable) in addition to another problem because we believe that the requirement for operating units to assess the quality of data sources was a distinct function and potentially related to each of the type of problems included in the hierarchy. We did not assess whether a result was validated if the result was not objectively verifiable.

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Indicator	Objectively Verifiable?	Supported?	Accurate?	Complete?	Validated?	Explanation of problem, if any, except for not validated
5. Increase the total yearly volume of credit to microentrepreneurs.	Yes	Yes	No		No	Reported result was a credit volume of \$2.0 million and documented result was a credit volume of \$2.3 million for a variance of 15.0 percent.
6. Number of final customers.	Yes	No			Yes	50 percent (15,600) of the reported result of 30,400 customers was an estimate rather than actual customers.
7. Total Fertility Rate (TFR).	Yes	No			No	The reported result was an estimated TFR for 1996 rather than an actual result for 1996.
8. Couple Years of Protection (CYP) provided by APROFE and CEMOPLAF.	Yes	Yes	No		No	Reported result was 447,270 CYPs and documented result was 411,641 CYPs for a variance of 8.0 percent.
9. Percentage of cost recovery of the two main family planning NGOs, APROFE and CEMOPLAF.	Yes	Yes	No		Yes	Reported result was a combined 70 percent cost recovery and documented result was a combined 67.8 cost recovery for a variance of 3.1 percent.

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Indicator	Objectively Verifiable?	Supported?	Accurate?	Complete?	Validated?	Explanation of problem, if any, except for not validated
10. Women and children (1-5) using improved or expanded MCH services.	Yes	No			No	The reported results were estimates of the women and children serviced rather than the actual number of women and children serviced.
11. MOH [Ministry of Health] health areas with operational quality improvement (QI) programs.	Yes	Yes	No		No	Reported result was 14 and documented result was 11 for a variance of 21.4 percent.
12. An increased level of confidence in the judicial system by three key groups of customers (judges and court workers, lawyers and other users of the system, and the general public).	No					No criteria for objectively measuring "an increased level of confidence."
13. Reduction in pre-trial detention time.	Yes	No			No	Reported result had no supporting documentation.
14. An enhanced perception of the need for judicial reform by the general public.	No					No definition of nor criteria for objectively measuring "an enhanced perception."
15. Reduction in average case-processing time.	Yes	No			No	Reported result had no supporting documentation.
16. Number of disadvantaged persons assisted by selected NGOs in accessing judicial legal services at selected sites.	Yes	No			No	Some data based on estimates.

Indicator	Objectively Verifiable?	Supported?	Accurate?	Complete?	Validated?	Explanation of problem, if any, except for not validated
17. Number of disadvantaged persons assisted by selected NGO in accessing extrajudicial legal services at selected sites.	Yes	No			No	The reported result was an estimate of the number of people serviced.
18. A unit within the GOE's OCG with adequately trained staff to effectively detect and take actions to deter corruption practices.	No					No definition of or criteria for objectively measuring "adequately" trained or "effectively" detect.
19. National parks, reserves, and adjacent buffer zones under sustainable land use/natural resource management plans.	Yes	No			No	Some data had no supporting documentation or was estimated.
20. User fees collected from users of national parks.	Yes	Yes	No		No	Reported result was \$2.7 million and documented result was \$3.9 million for a variance of 44.4 percent.
21. Biodiversity research utilized for planning and decisions.	No					No definition of or criteria for objectively measuring various components of the indicator and/or unit of measure.
22. Andean condor preserved and protected.	Yes	Yes	Yes	Yes	Yes	No problems found.
23. Community participation in management of selected protected areas.	No					No definition of or criteria for objectively measuring various components of the indicator and/or unit of measure.

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Indicator	Objectively Verifiable?	Supported?	Accurate?	Complete?	Validated?	Explanation of problem, if any, except for not validated
24. National Environmental Fund (NEF) established and endowed.	Yes	Yes	Yes	Yes	Yes	No problems found.
25. Proper urban and industrial pollution management increased; cleaner industrial operations implemented.	No					No definition of or criteria for objectively measuring components of the indicator and/or unit of measure.
Number of No Answers	7	8	7	0	12	

**Federal Laws and Regulations, and USAID Guidance
Relevant to Measuring Program Performance**

There are numerous federal laws and regulations requiring USAID (and other federal agencies) to develop and implement internal management controls to measure and report on program performance. Discussed below are examples of those requirements as well as related USAID policies and procedures.

Laws and Regulations

The Chief Financial Officers Act of 1990 requires management internal controls which provide for (1) complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management; and (2) the systematic measurement of performance.

Standards for Internal Controls in the Federal Government, issued by the U.S. General Accounting Office in 1983, requires systems of internal controls that ensure that all transactions and other significant events are to be clearly documented, and that the documentation be readily available for examination.

OMB Circular No. A-123 (dated June 21, 1995), which is the executive branch's implementing policy for compliance with the Federal Managers' Financial Integrity Act of 1982, requires agencies to have management internal controls to ensure that (1) programs achieve their intended results; and (2) reliable and timely information is obtained, maintained, reported and used for decision making.

OMB Bulletin 93-06 (dated January 8, 1993) requires agencies to have internal control systems to provide reasonable assurance that support for reported performance results are properly recorded and accounted for to permit preparation of reliable and complete performance information.

The Foreign Assistance Act (Section 621A), as amended in 1968, requires USAID to develop and implement a management system that provides for comparing actual results of programs and projects with those anticipated when they were undertaken. The system should provide information to USAID and to Congress that relates USAID resources, expenditures, and budget projections to program objectives and results in order to assist in the evaluation of program performance.

USAID Policies and Procedures

The most recent USAID system, known as the Automated Directives System for Managing for Results (ADS 200 Series), for measuring and reporting on program performance was initiated in October 1995. This new system requires (Section 203.5.1a) that operating units establish

performance monitoring systems to regularly collect and analyze data which will enable them to track performance and objectively report on the progress in achieving strategic objectives and intermediate results. The system also requires (Sections 203.5.5, 203.5.5e, E203.5.5 and 203.5.9a) operating units to:

- establish objective performance indicators (with related baseline data and targets) to measure progress in achieving program objectives;
- critically assess the performance data at regular intervals to ensure that reported performance data are of reasonable quality and accurately reflect performance; and
- prepare an annual Results Review and Resource Request (R4) report which must include performance information on progress in achieving its program objectives for the immediate past fiscal year.

TIPS No. 6 "Selecting Performance Indicators," which is supplemental guidance to the ADS, defines *objective* as:

An objective indicator has no ambiguity about what is being measured. That is, there is general agreement over interpretation of the results. It is both unidimensional and operationally precise. To be *unidimensional* means that it measures only one phenomenon at a time. . . . *Operational precision* means no ambiguity over what kind of data would be collected for an indicator. For example, while *number of successful export firms* is ambiguous, something like *number of export firms experiencing an annual increase in revenues of at least 5 percent* is operationally precise.

TIPS No. 7 "Preparing a Performance Monitoring Plan," which is also supplemental guidance to the ADS, stipulates that each performance indicator needs a detailed definition. The definition should be detailed enough to ensure that different people at different times, given the task of collecting data for a given indicator, would collect identical types of data. The definition should be precise about all technical elements of the indicator statement. For example, the TIPS states:

As an illustration, consider the indicator *number of small enterprises receiving loans from the private banking system*. How are small enterprises defined—all enterprises with 20 or fewer employees, or 50 or 100? What types of institutions are considered part of the private banking sector—credit unions, government-private sector joint-venture financial institutions?

ADS Section E203.5.5 also requires operating units to (1) assess data quality as part of the process of establishing performance indicators and choosing data collection sources and methods; (2) collect results data for each performance indicator on a regular basis; and (3) reassess data quality as is necessary but at intervals of no greater than three years. These policies and

procedures also state that if data for a performance indicator prove to be unavailable or too costly to collect, the indicator may need to be changed.

In addition, ADS Section 203.5.8c states that USAID will conduct a review of performance on an annual basis which will include analyzing operating units' performance and "shall focus on the immediate past fiscal year," but may also review performance for prior years.

USAID guidance issued in January 1997 for preparing the R4s stated that the goal of the guidance was to generate R4s which ensure that USAID/Washington management has the information it needs to make results-based resource allocations among operating units and report on USAID's achievements. The guidance also stated that the most effective R4s are those that (1) assess performance over the life of objectives, with an emphasis on the past year, using established indicators, baseline data and targets; and (2) state explicitly whether and how much progress or results surpassed, met or fell short of expectations. The guidance stated that the results should cover actual performance through fiscal year 1996.
