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August 26, 1998

MEMORANDUM

TO: USAID/Caucasus, Frederick Machmer, Director

FROM: RIG/Budapest, James R. Bonnell

SUBJECT: Audit of the Quality of Results Reported for the Republic of Georgia in USAID/Caucasus' Results Review and Resource Request (R4) Report Prepared in 1997 (Report No. B-1 14-98-005-P)

This is the final report on the subject audit. We considered USAID/Caucasus' comments on the draft report and include them as Appendix II to this report.

The audit report contains one recommendation and, based on USAID/Caucasus' comments on the draft report, we consider that a management decision has been made with respect to the recommendation. A request for a determination that final action has been taken can be submitted to M/MPI in the spring of 1999 after the Mission's R4 has been prepared.

I appreciate the courtesies and cooperation extended by USAID/Caucasus staff during the audit.

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**Background**

Passage of the Government Performance and Results Act of 1993 (Results Act), among other things, was intended 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, 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 the Agency's ability

to measure and report reliable program performance information. Examples of these audit reports include: <sup>1</sup>

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

In light of the problems reported, we were concerned these conditions may be pervasive throughout the Agency and decided to perform this Agency-wide audit 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 the performance indicators (subject of a future audit), but rather to determine if the performance results reported in the R4s by operating units were objectively verifiable, supported, accurate, complete, and validated.

USAID/Caucasus has its main office in Armenia with a smaller field office in Georgia. USAID/Caucasus has responsibility for USAID operations in Armenia, Georgia and Azerbaijan.

USAID/Caucasus' last R4 for the Republic of Georgia was approved by USAID/Washington in September 1997, and includes 12 indicators for which performance results (or baseline data) were reported for fiscal year 1996. As of September 30, 1997, a total of \$52.2 million and \$27.4 million had been obligated and expended, respectively, for USAID's programs in the Republic of Georgia.

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## **Audit Objective**

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

**Did USAID/Caucasus report results data in its Results Review and Resource Request prepared in 1997 for the Republic of Georgia, which were objectively verifiable, supported, accurate, complete and validated?**

Appendix I describes the audit's scope and methodology.

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

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## Audit Findings

### **Did USAID/Caucasus Report Results Data in its Results Review and Resource Request Prepared in 1997 for the Republic of Georgia, Which Were Objectively Verifiable, Supported, Accurate, Complete, and Validated?**

USAID/Caucasus did not report results data which were objectively verifiable, supported, accurate, complete, and/or validated.

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 are properly recorded and accounted for to permit preparation of reliable and complete performance information. (See Appendix IV for further discussion of relevant laws and regulations as well as related USAID policies and procedures.)

For the purpose of this audit, our definitions are as follows:

- *Objectively Verifiable*—The indicator is objective and the results have to be objectively verifiable. This means the indicator has no ambiguity about what is being measured. That is, there is general agreement over interpretation of the results. The indicator 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.
- *Supported*—This means that there was adequate documentation that supports the reported result. The support should be relevant, competent, and sufficient (as noted in the General Accounting Office'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 to vaccinate children 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. The result would also not be considered accurate if supporting documents show that the result was achieved prior to January 1, 1996. (Note: Since we only reviewed results in the "performance data tables" for "1996", the result would not be considered accurate if supporting documents showed the result was achieved in 1992.)
- *Complete*—This means the result includes all data against what was anticipated to be measured for the indicator and is 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. Results would also be incomplete if 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. We considered the source reliable if it came from an independent source such as the World Bank, United Nations (UN.), independent evaluators, or an independent Demographic and Health Survey. If the data came from a contractor involved with the program or 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. (We fully recognize that under the Government Performance and Results Act USAID must validate its outside sources including the World Bank, U.N., etc., but for the purposes of this audit, we are not reviewing USAID's determination of validity of these independent sources. We plan to test USAID's validation process for external information, like the U.N., at a later time in another audit.)

As shown in Appendix III, our audit found problems<sup>2</sup> with all 12 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:

- Results for three indicators were not objectively verifiable. Two of these indicators included “key economic policies related to export market access and expansion enacted” and “key laws regulating commercial activities developed.” The indicators themselves and narrative in the R4 are open to interpretation on which policies or laws would be counted toward satisfying the indicator. Additionally, a Mission official acknowledged that at least two of the laws reported in the R4 as being passed in 1996 were actually not passed and that five of the eight key economic policies reported as enacted in 1996 were actually enacted in 1995.

The third indicator that was not objectively verifiable was “value of commercial loans to enterprises” to be measured by the value of credit extended to non-state enterprises by the commercial banking sector. It is not clear whether the indicator should be measuring total credit extended during the year or the total loan balances at the end of the year. Also subject to interpretation is whether or not the reported results should include unpaid interest on overdue loans. The reported result was the loan balance at the end of the year to include unpaid and overdue interest.

- Results for four indicators were not supported. In three cases, the data source was a letter – requested by the Mission – from the president of the National Bank of Georgia (NBG) that provided several statistics on Georgia’s financial sector. The data offered in the letter are of

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<sup>2</sup> 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.

questionable accuracy. For example, a Mission employee, apparently after telephoning the NBG for corrected data, had lined out the reported dollar value of domestic and foreign inter-bank payments (\$527,662,683 million) in the letter and wrote in “\$1.5 11 billion” along with the notation "TBD" or “to be determined”. The R4 reported the result to be \$ 1.5 billion.

Source documentation for a fourth indicator did not support the reported results. This indicator was “fiscal balance as a percent of [gross domestic product] GDP”. The reported amount of -3.5 percent was apparently based on a calculation derived from three different amounts. We found that one amount was an estimate for nine months, one amount was unsupported, and one of the underlying sub-calculations was incorrect.

- Results for three indicators were not accurate. In each case, the supporting documentation available at the Mission supported a result other than that reported in the R4. For example, the reported result for one indicator – foreign direct investment – was \$40 million although supporting International Monetary Fund (IMF) documentation showed only \$25 million. Mission officials could not explain the source of the reported \$40 million figure. A second indicator was “financial sector assets as a percent of GDP” to be measured by a financial intermediation index set at 100 in 1995. Although the reported result for 1996 was the index reaching 146.7, the actual result, according to calculations done by Mission personnel during our review, was a decrease to approximately 94. The source of the reported result of 146.7 could not be explained. Results for the third indicator – tax revenue as a percent of GDP – were correctly reported as 7.3 percent in the R4 on file at the Mission but incorrectly and inexplicably shown as 6.8 percent in a similar but different version of the R4 used by the Bureau for Europe and the New Independent States (EN1 Bureau).
- Results for two indicators were not complete. One of these incomplete results was for the indicator “value of exports and non-factor services”. The R4 reported \$400 million supported by documentation from the IMF, but this amount was incomplete as it did not include non-factor services. Mission officials stated the indicator should have been changed accordingly.

The other incomplete result was for the indicator “private sector share of employment.” The tabular supporting documentation published by the European Union showed 50.7 percent but added an annotation concerning the Government of Georgia source statistics “The register appears to be very incomplete ...”. Mission officials agreed that the R4 results for this indicator should similarly have been annotated as incomplete.

- Results for three indicators were not validated. As discussed above (results for indicators not supported), the data source for these indicator results was a letter from the president of the National Bank of Georgia (NBG). Analysis of this unpublished data showed it to be of questionable accuracy. No one in USAID/Caucasus had assessed the reliability of the NBG's data collection system or the data contained in the letter. The remaining indicator results were, for the most part, derived from published IMF, World Bank and European Union statistics and reports. Three indicators were determined to be not objectively verifiable and therefore we did not attempt to determine the reliability of the data source.

The above problems existed because USAID/Caucasus 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/Caucasus:

- Did not ensure all of its indicators were objective as prescribed by ADS section E203.5.5.
- Did not, in four cases, maintain documentation to support reported results as prescribed by ADS E203.5.5.<sup>3</sup>
- Did not always assess data quality as part of the process of establishing performance indicators and choosing data collection sources and methods as prescribed by ADS E203.5.5.

USAID/Caucasus officials cited several explanations for the problems. Mission officials pointed out, for example, that the R4 for the Republic of Georgia was only a modified R4 in part because the overall development strategy for the Caucasus region had not been fully developed and is still not approved. Problems with objective indicators cannot be fully addressed until a strategy has been approved. Because of the Mission's continued inadequate staffing and the lack of experience and expertise in preparing an R4, the EN1 Bureau provided personnel to help the Mission pull together three R4s (Armenia, Georgia, and Azerbaijan) in three weeks. USAID/Caucasus officials acknowledged that preparation of the R4 in this manner did not allow for sufficient time to verify the accuracy of data obtained – generally by telephone or e-mail – from USAID/Caucasus/Georgia. Officials also stressed that obtaining accurate performance and economic data from the Government of Georgia and others would continue to be a problem for the next few years creating difficulties in producing an R4. Officials stated that more attention would be given to ensure that supporting documentation is obtained and maintained for results reported in future R4s.<sup>4</sup>

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 reporting on performance also impair

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<sup>3</sup> 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.

<sup>4</sup> We recognize 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 Agency and operating unit performance monitoring and evaluation systems. These policies and procedures also stipulate that each regional bureau (e.g., the Bureau for Europe and the New Independent States) should (1) provide oversight and support to its operating units in developing their strategic plans for measuring program performance; (2) supporting its operating units in achieving approved objectives, and reviewing and reporting annually those units' performance in achieving their objectives; and (3) managing 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 Agency-wide audit.

USAID/Caucasus' and USAID management's ability to measure progress in achieving USAID's program objectives for the Republic of Georgia and to use performance information in budget allocation decisions. The problems also impair the Agency's ability to comply with laws and regulations.

**Recommendation No. 1: We recommend that USAID/Caucasus:**

- 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 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.**

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**Management Comments and Our Evaluation**

USAID/Caucasus generally agreed with our audit findings and recommendation. In commenting on our report (see Appendix II for the Mission's comments), the Mission provided further details on the difficulties it faced in preparing its 1996 R4, pointing out that the standards used by the OIG for evaluating performance data will likely be difficult to fully attain in Georgia's transition environment. The Mission noted that it will need to continue to depend on data reported from Government agencies and related institutions in an environment where statistical data are notoriously weak. According to the Mission, these weaknesses may impede its ability to address data quality concerns without having to incur unreasonable costs or face the choice of not using appropriate indicators.

The Mission also commented that this fall it will begin the preparation of a new strategic plan for Georgia and that indicators supporting the strategic plan will be developed in close conformity to the requirements for measuring and reporting on program performance as outlined in the ADS 200 Series. According to the Mission, the new strategy will be developed in compliance with GPRA requirements. The Mission, therefore, considered our audit recommendations appropriate and timely.

Based on USAID/Caucasus' comments we consider that a management decision has been made with respect to Recommendation No. 1.

## SCOPE AND METHODOLOGY

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### Scope

We audited USAID/Caucasus' 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/Caucasus from May 12 through May 22, 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 for 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.

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### Methodology

This audit is part of an Agency-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.

To accomplish the audit objective, we interviewed officials from USAID/Caucasus and reviewed the documents which supported the reported results. Where problems were found, we verified to the extent practical, the causes of the problems including additional interviews with Mission personnel.

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 objective, respectively.

## **Appendix II**

Comments on the draft audit report provided by USAID/Caucasus



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
MISSION FOR THE CAUCASUS

MEMORANDUM

TO: RIG/Budapest, Tames R. Bonnell  
FROM: USAID/Caucasus, Frederick Machmer, Director *Frederick E. Machmer, J.*  
SUBJECT: Audit of the Quality of Results Reported for the Republic of Georgia in  
USAID/Caucasus' Results Review and Resource Request (R4) Report Prepared  
in 1997 (Report No. B-114-98-xxx-P)  
DATE: August 7, 1998

Thank you for the opportunity to comment on the draft "Audit of the Quality of Results Reported for the Republic of Georgia in USAID/Caucasus' Results Review and Resource Request (R4) Report Prepared in 1997 (Report No. 5-114-98-xxx-P)." Mission comments and a delineation of the steps we have taken and plan to take in the future to improve results reporting are contained in this memorandum. It is my understand& that the management representation letter requested in your June 30, 1998 memorandum has already been sent to you by former USAID/Caucasus Mission Director Geraldine Donnelly.

On behalf of the Mission I wish to extend our appreciation for the high degree of professionalism demonstrated by the RIG/A/Budapest team.

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Background to the **Preparation of the FY 1999 Georgia R4**

As noted in the audit report, the FY 1999 Georgia R4 and the R4s for Armenia and Azerbaijan were prepared in less than one month with the assistance of TDY help provided by the ENI Bureau. With the consent of the Bureau, this truncated preparation schedule necessitated the production of documents that did not fully comply with the Agency's FY 1999 R4 guidance. Specifically, the mission did not report performance data for the majority of the strategic objectives and intermediate results discussed in the narratives of the R4s. The audit report correctly points out that inadequate staffing and the lack of experience and expertise in preparing an R4 coupled with unapproved strategic plans were factors influencing the content of these documents. Indeed, the recent reorganization of the mission has been one of the steps taken to reduce the overwhelming management burden and lack of staff that have been instrumental in limiting the ability of USAID/Caucasus to fully comply with the requirements of the Government Performance and Results Act (GPRA) of 1993.

Although the mission made strenuous efforts to develop an adequate performance monitoring system in 1996, when the Georgia strategic plan was submitted, insufficient staff made it difficult to fully implement the steps required to establish performance monitoring mechanisms for its strategic objectives. Where this shortcoming was less evident coincided with the results identified for the economic restructuring strategic objectives. As a consequence, the only results

reported in the R4, which were supported by performance data, attempted to describe progress in the economic restructuring program area.

#### Results Reported in the FY 1999 Georgia R4

Although the results reported for the economic restructuring strategic objectives were supported by performance data, a number of problems were associated with these data from the outset. For example, the indicators were closely matched with those developed for Armenia. While this made sense at the time because of the similarities in objectives and results expected from USAID's economic restructuring activities in both countries, indicator selection was also driven in part by the constrained ability of the regional technical staff, headquartered in Armenia, to adequately focus on performance measurement in the Georgia context. In hindsight, the limited attention given to the selection of economic indicators, as well as to data quality and availability issues in the Georgian transition environment, is likely to have contributed to a number of the problems noted in the audit report. Furthermore, the failure of mission staff to devote sufficient staff time to performance measurement, or to contract with external resources for assistance in this regard, was also undoubtedly a contributing factor to audited results that were inappropriately defined, incomplete, or inaccurate.

Despite these shortcomings, it should be noted that the standards invoked by the IG for evaluating the performance data reported in the Georgia R4 are likely to be difficult to fully attain in the Georgian transition context. We will need to continue to depend on data reported from Government agencies and related institutions in an environment where statistical data are notoriously weak. This fact may impede our ability to address data quality concerns without having to incur unreasonable costs or face the choice of not using appropriate indicators. Furthermore, if we are to provide timely data for performance measurement we cannot always wait on reports from international institutions, which in the main also depend on the indigenous institutions for the data they report.

#### Performance Measurement at USAID/Caucasus Since the FY 1999 Georgia R4

In 1996, USAID/Caucasus began the process of establishing a viable monitoring system. For this relatively new mission, operating in a Bureau (ENI) where a strategic framework had only been recently developed, it has proved to be an evolving process. Since the preparation of the FY 1999 Georgia R4, the mission has taken steps to improve the quality of its results reporting. First, and most important, a concerted effort was begun to recruit new staff, both USDF and PSC, to relieve the heavy management burden that has impeded the ability of strategic objective team members to focus on performance measurement. At the beginning of FY 1998, a PSC specialist in monitoring, assessment, and evaluation was hired to assume a leadership role in addressing performance measurement issues. Activity-level monitoring and reporting has been strengthened as a prelude to creating a viable results reporting system. Portfolio reviews, which were conducted in spring 1998 prior to the FY 2000 R4 submission, informed mission management of a number of areas where existing results frameworks need to be revised.

The FY 2000 Georgia R4 was an improvement on the FY 1999 R4 in terms of its closer adherence to the Agency's R4 guidance. For the first time, the R4 reported quantitative results or at least included baseline data for strategic objectives other than those in the economic restructuring area. Greater focus was given to the quality of the results reported and supporting documentation.

In the fall, the mission will begin the preparation of a new strategic plan for Georgia. TDY assistance will be utilized in all phases of plan preparation. In particular, the mission will utilize ENI Bureau and contractor expertise to help it develop new results frameworks and re-examine its existing portfolio of performance indicators. Indicators supporting the strategic plan will be developed in close conformity to the requirements for measuring and reporting on program performance as outlined in the ADS 200 Series. The new strategy will be developed in compliance with GPRA requirements. Accordingly, the IG's audit recommendations are appropriate and timely.

**Analysis of USAID/Caucasus' 1996 Indicators and Results for Georgia  
(as reflected in its R4 prepared in 1997)<sup>5</sup>**

Indicator	Objectively Verifiable?	Supported?	Accurate?	Complete?	Validated?	Explanation of problem, if any, except for not validated
Fiscal balance as a percent of gross domestic product (GDP). (1)	Yes	No			Yes	Mission unable to explain how results were calculated from data
Tax revenue as a percent of GDP. (2)	Yes	Yes	No		Yes	Source documentation shows 7.3% instead of the reported 6.8%
Private sector share of employment. (3)	Yes	Yes	Unknown	No	Yes	Supporting documentation states the data "appears to be very incomplete"
Foreign direct investment. (4)	Yes	Yes	No		Yes	Source documentation shows \$25 million instead of the reported \$40 million
Value of commercial loans to enterprises. (5)	No					Indicator is not clear on what is being measured -- loans extended or loan balances
Value of exports and non-factor services. (6)	Yes	Yes	Unknown	No	Yes	Reported results do not include non-factor services
Key laws regulating commercial activities developed. (7)	No					The "key laws" are not specified or identifiable
Key economic policies related to export market access and expansion enacted. (8)	No					Indicator is imprecise on economic policies to be enacted
Financial sector assets as a percent of GDP. (9)	Yes	Yes	No		Yes	The financial intermediation index reported as 146.7 instead of 94

<sup>5</sup> 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.

Indicator	Objectively Verifiable?	Supported?	Accurate?	Complete?	Validated?	Explanation of problem, if any, except for not validated
Spread between deposit and borrowing rates. (10)	Yes	No			No	Data source has never been validated and contains data of questionable accuracy
Volume of inter-bank payments. (11)	Yes	No			No	Same as number 10 above
Proportion of banks in compliance with National Bank of Georgia prudential regulations. (12)	Yes	No			No	Same as number 10 above
Total Answered "No"	3	4	3	2	3	

**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**

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 621 A), 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 the Agency and to Congress that relates Agency 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 203.5.1 a) 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 the Agency 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 they need to make results-based resource allocations among operating units and report on the Agency'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.