



OFFICE OF INSPECTOR GENERAL
U.S. Agency for International Development

USAID Needs Better Monitoring and Focus To Promote and Sustain Economic Integration Under Its APEC Contract

REPORT 5-486-17-001-P
JUNE 13, 2017

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MEMORANDUM

DATE: June 13, 2017

TO: USAID/Regional Development Mission for Asia Mission Director,
Beth Paige

FROM: Regional Inspector General/Manila, Matthew Rathgeber /s/

SUBJECT: USAID NEEDS BETTER MONITORING AND FOCUS TO PROMOTE
AND SUSTAIN ECONOMIC INTEGRATION UNDER ITS APEC
CONTRACT (5-486-17-001-P)

This memorandum transmits our final report on the audit of the Asia-Pacific Economic Cooperation (APEC) Technical Assistance To Advance Regional Integration Project. Our audit objectives were to determine whether (1) the project was achieving its planned results to support regional economic integration within APEC and increase APEC's institutional capacity and (2) USAID/Regional Development Mission for Asia planned and managed the financial aspects of the project in accordance with Agency policies and procedures. In finalizing the report, we considered your comments on the draft and included them in their entirety, excluding attachments, in appendix C.

The report contains eight recommendations to improve USAID's processes. After reviewing information you provided in response to the draft report, we acknowledge your management decisions on all eight recommendations and final action on six. We disagree with the decision on recommendation 7. Please provide evidence of final action on the open recommendations to the Audit Performance and Compliance Division.

Thank you and your staff for the assistance extended to us during this effort.

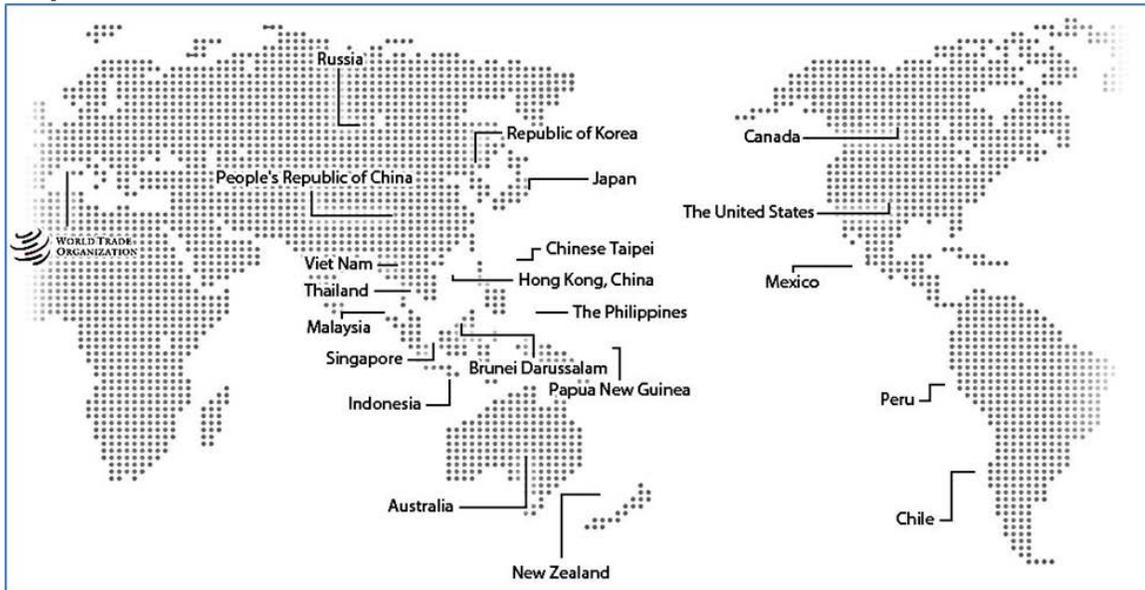
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INTRODUCTION

Established in 1989, the Asia-Pacific Economic Cooperation (APEC) is a regional forum that works to promote growth and accelerate economic integration. In 2015, APEC's 21 members (shown in the map below) accounted for 40 percent of the world's population and nearly 60 percent of global gross domestic product and international trade. According to U.S. Government officials, involvement in this region is important to the United States' economic growth and competitiveness, and supporting APEC allows the advancement of key policy objectives and values, addresses challenges in the region, and promotes sustainable and equitable economic growth.

Map of APEC Member Economies



Source: APEC.

USAID, through its Regional Development Mission for Asia (USAID/RDMA) and with funding support from the Department of State, has a longstanding relationship with APEC, supporting both the APEC Secretariat—charged with providing operational and project management support—and those APEC developing members that are eligible for U.S. foreign assistance.¹

In September 2013, with the Department of State's Bureau of East Asian and Pacific Affairs, USAID launched the APEC Technical Assistance To Advance Regional Integration Project (ATAARI), designed to eliminate impediments that slow regional economic integration. State coordinates U.S. participation in APEC, and USAID collaborates with State in coordinating activities under ATAARI that involve other U.S.

¹ According to a project document, APEC developing members include Chile, China, Indonesia, Malaysia, Mexico, Papua New Guinea, Peru, Philippines, Russia, Thailand, and Vietnam (three of these developing members were not eligible for U.S. foreign assistance). The remaining eight developing members (subsequently referred to in this report as eligible members) were eligible for U.S. assistance. Eligibility may change over time.

Government agencies such as the U.S. Trade Representative. Staff from a number of U.S. Government agencies serve as U.S. delegates to APEC working groups.

To implement ATAARI, USAID/RDMA awarded a \$27 million, 5-year contract to Nathan Associates Inc. (Nathan). The project began in November 2013.

The Office of Inspector General conducted this audit to determine whether (1) ATAARI was achieving its planned results to support regional economic integration within APEC and increase APEC's institutional capacity and (2) USAID/RDMA planned and managed the financial aspects of the project in accordance with Agency policies and procedures.

To conduct our work, we interviewed USAID/RDMA officials, APEC Secretariat staff, representatives of select U.S. Government agencies that participate in project activities, and contractor staff. We also assessed the mission's policies and procedures for managing financial aspects for the project; reviewed the contractor's progress reports, annual work plans, and financial data; analyzed the project's monitoring and evaluation activities; and tested performance indicators. In addition, we surveyed U.S. Government agencies and APEC member beneficiaries. We conducted our work in accordance with generally accepted government auditing standards. Appendix A presents our scope and methodology.

SUMMARY

Since 2013, ATAARI has achieved some notable accomplishments. However, USAID did not adequately monitor the project's reported results or maintain a consistent focus on achieving and sustaining its long-term goals. Unreliable performance data limited the mission's ability to determine if the project was on track to strengthen both the APEC Secretariat and eligible members and advance regional economic integration. Data on all six indicators tested had problems: either they lacked support or their support was gathered using methods other than those called for in project documents. Contributing to the problems, the document that lays out how the contractor should collect and report data remained in flux for 20 months. Further, the overly broad focus—the project was designed to be flexible to address a range of U.S. Government-wide priorities and to advocate U.S. interests to APEC—detracted from achieving and sustaining project goals.

USAID's ability to effectively manage financial aspects of ATAARI was hampered by the lack of an interagency agreement with State and ambiguous language in the ATAARI contract. Despite ongoing State funding of APEC-related projects, the mission managed ATAARI for years without an interagency agreement. Until 2016, an interagency agreement was not seen as a priority for either USAID/Washington or State. Without an agreement, the two agencies did not outline the policies and procedures governing when and how the mission would be reimbursed for providing services to another agency. In June 2016, State and the mission signed an interagency agreement. Further, while the contract language states that project funds should not be used to assist

members that are ineligible for U.S. foreign assistance, the language was ambiguous as to whether these ineligible members should pay something for technical reports funded by the project that benefited all members. Because of this ambiguity, the contractor used project funds to produce technical reports that benefited ineligible members without asking them to share in the cost.

We made eight recommendations to improve management of ATAARI.

BACKGROUND

ATAARI's goals are to “strengthen the capacity of the APEC Secretariat and APEC’s foreign-assistance-eligible [members] to advance regional economic integration.” The project provides technical expertise, training workshops, and technical reports on policy areas of interest to APEC, including trade and investment liberalization, business facilitation, and economic and technical cooperation.

The ATAARI contract has two components to help achieve the project’s goal:

1. Supporting regional economic integration by strengthening the capacity of members to improve and align domestic policies and regulations; promote human security from risks such as disease, terrorism, disasters, and drugs; promote economic growth while addressing barriers to trade and investment; and increase the capacity of members hosting APEC events to provide the logistical, policy, and leadership needed to advance APEC’s goals.
2. Increasing APEC’s institutional capacity for long-term strategic planning and providing support for its program work. The project aims to strengthen institutional capacity through direct technical support to the Secretariat to improve business operations, project management, and information technology and, consequently, improve its ability to provide administrative support to APEC’s agenda.

ATAARI followed another USAID project that ended in 2013, the APEC Technical Assistance and Training Facility Project. Nathan was the prime contractor on it as well. For ATAARI, Nathan has developed annual work plans from proposals received from a range of U.S. Government agencies, such as State, the U.S. Trade Representative, and the Department of Commerce. Annual work plans were demand driven, with activities designed to respond to proposals submitted by U.S. Government agencies to the contracting officer’s representative (COR) for approval. To measure progress, the project developed a monitoring and evaluation plan with 11 performance indicators, such as the percentage of participants in project workshops who went on to apply trade and investment practices.

The ATAARI contract—managed by USAID, but funded by State—is consistent with the Foreign Assistance Act of 1961, which allows State to use USAID’s services to help

perform functions.² USAID guidance further outlines the policies and procedures that govern when and how USAID may be paid to make its services and facilities available to other Federal agencies.³ This includes written arrangements allowing USAID to be reimbursed for services provided to other agencies.

USAID DID NOT ADEQUATELY MONITOR REPORTED RESULTS OR FOCUS ON ACHIEVING AND SUSTAINING PROJECT'S LONG-TERM GOALS

Since beginning in 2013, ATAARI has achieved reforms related to members' supply chain management and ease of doing business. However, because of insufficient USAID monitoring, the project's reported results were not valid or reliable, impeding the Agency's ability to evaluate its impact. Further, while a key project element was to strengthen the capacity of the APEC Secretariat and eligible APEC members to advance regional economic integration, several activities did not focus on achieving sustainable results in either of these areas. In particular, while the contract required that 20 percent of the project's resources be used early in the project to strengthen the APEC Secretariat's operations, the contractor had implemented few activities.

PROJECT HAS MADE SOME PROGRESS ON SUPPLY CHAIN AND REGULATORY REFORMS

ATAARI had some achievements related to advancing regional economic integration for eligible members—specifically, improving supply chain performance and the ease of doing business. For example, technical assistance from the project has improved Peru's supply chain performance by facilitating customs clearances prior to arrival. In responding to OIG's survey questionnaire, a beneficiary from Peru said clearance of shipments had improved and that ATAARI played an important role in informing these legislative changes.

The project also made some progress under its regulatory reform activities. It organized workshops designed to advance the ease of doing business. Members set out to achieve an APEC-wide target of 25 percent improvement by 2015 in five areas.⁴ However, while one official believed APEC members were close to achieving this target, an assessment had not been conducted to determine actual achievement. ATAARI was working to finalize the second phase of an ease-of-doing-business action plan for 2016-2018 in coordination with APEC's economic committee.

² Section 632 (b) of the Foreign Assistance Act of 1961 (P.L. 87–195), "Allocation and Reimbursement Among Agencies," allows "any officer of the United States Government carrying out functions under this Act [to] utilize the services . . . and facilities of, or procure commodities . . . from, any agency of the United States Government." See 22 U.S.C. § 2392(b).

³ USAID Automated Directives System, Chapter 306, "Interagency Agreements," 2015.

⁴ The five areas are (1) starting a business, (2) getting credit, (3) enforcing contracts, (4) trading across borders, and (5) reforming regulations for construction permits.

INADEQUATE USAID MONITORING HAS RESULTED IN UNRELIABLE DATA AND REPORTING ON PROJECT'S IMPACT

USAID guidance and project documents emphasize monitoring performance using accurate and reliable data and stress the importance performing data quality assessments to ensure performance data are credible and can be used to inform decision making.⁵ Yet USAID did not approve the project's monitoring and evaluation plan, which includes performance indicators and explains how to collect data on them, until May 2015—20 months after the start of the project. The contractor did not submit the first draft of the plan until May 2014, and there was substantial back-and-forth between the mission and the contractor prior to approval.

According to the COR, delays occurred because the contractor missed deadlines and submitted drafts that did not meet mission standards. Once the monitoring and evaluation plan was finalized, the contractor did not always follow the data collection method spelled out in the document. Further, the mission did not take steps to ensure that the contractor either followed the method or revised the plan as needed. While the plan includes reference sheets specifying how to collect and report data under each indicator, the project's data were neither valid nor reliable. The mission needs to improve its data monitoring and revise the monitoring and evaluation plan to make sure the contractor uses the best data collection methods.

We tested data on 6 of the 11 project indicators. Data for all six indicators either lacked adequate support or had support showing that staff used collection methods other than those in the plan—in some cases because of challenges with collecting data. The following examples illustrate inconsistencies in data collection and the unreliable documentation of the numbers reported to USAID. Appendix B shows detailed results on indicators tested.

- **Incomplete, invalid data.** The contractor did not collect or report data on four indicators related to participant trainings. A substantial number of training activities conducted through April 2015 were excluded from indicators because they lacked pre- and post-training surveys required by the monitoring and evaluation plan (which was approved after April 2015). Participants' feedback was also excluded because of low response rates to surveys designed to solicit it. For example, the contractor excluded data on all 34 training activities conducted through April 2015. Further, the contractor omitted data on two activities with 71 participants because contractor staff misplaced the attendance sheets, thus losing participant contact information.
- **Unreliable data.** Results on an indicator measuring hours of training were overstated by 48 percent because the contractor included all participants, whether or not they completed the entire course. We found that, of the 956 participants

⁵ Automated Directives System (ADS), 203.3.11, "Data Quality," stated that valid data clearly and adequately represent the intended result, while reliable data reflect stable, consistent data collection processes and analysis. A data quality assessment entails a detailed examination of data and a review of the systems and approaches for collecting them. Effective September 7, 2016, USAID replaced ADS chapter 203 with revised chapters 200 and 201. However, ADS 203 was in effect during fieldwork.

given full credit by the project for the 15 activities tested, only 609 completed the entire training. As a result, the project reported 12,954 hours versus the audited total of 6,735 hours of training, an overstatement of 48 percent. Contractor staff attributed this problem to trouble using sign-in sheets; staff found it difficult to ensure participants signed in each day and participants complained that the requirement was burdensome.

The mission's first and only data quality assessment, conducted in August 2015, was not comprehensive. It covered just 4 of the plan's 11 indicators. Further, it was conducted shortly after the monitoring and evaluation plan was finalized, when the contractor had limited data available.

Failure to ensure adequate support or use approved methods means that the mission does not have accurate information to evaluate the project's impact and make informed decisions about continued programming.

PROJECT LACKED A CONSISTENT FOCUS ON BUILDING LONG-TERM ECONOMIC AND OPERATIONAL CAPACITY AND ENSURING SUSTAINABILITY

Agency guidance stated that, generally, "project outcomes are expected to be sustainable, meaning they continue or evolve under their own momentum or actions, without continued donor intervention."⁶ Consistent with this guidance, the two key goals of ATAARI were to strengthen the capacity of eligible APEC members to advance regional economic integration, along with the operational capacity of the APEC Secretariat. However, USAID allowed the contractor to implement several activities that did not focus on these goals or were not sustainable.

USAID Funded Some Project Activities That Were Not Aimed at Supporting Regional Economic Integration

USAID's COR approved activity proposals not focused on strengthening the eligible members targeted by ATAARI. Because the mission designed the contract to be flexible but did not implement processes to ensure focus, some activities implemented were aligned with APEC priorities but not clearly linked to achieving ATAARI's goals. Further, while activities had indirect links to trade and investment and allowed for sharing of information in these areas, they may not be sustainable without the contractor's continued coordination and financial support. To determine the benefits and sustainability of implemented activities, we solicited feedback through a survey questionnaire of beneficiaries from eligible members that received assistance from the project. Based on the results of our survey of 15 beneficiaries, 67 percent indicated that they did not know, or it was too soon to tell, if project activities would be sustainable without further support from ATAARI.

We also analyzed proposals for 18 of 92 activities (international travel workshops and technical reports) funded by ATAARI and found that 6 proposals did not address how

⁶ ADS 201.3.16.3(c), "Sustainability Analysis (Mandatory)." This chapter, dated October 1, 2015, was in effect during the audit but was removed in a subsequent revision.

the interventions would benefit or strengthen eligible members. In addition, the project funded 11 workshops aimed at bringing together participants to share information on issues important to APEC's work, move an initiative forward, or discuss opportunities for capacity building. However, it was not clear how some of these activities would benefit eligible members. Further, the contractor did not include these activities in the outcome indicators since these activities could not be measured to determine if they were contributing to the overall goal of ATAARI. For example, in February 2014, the project organized a meeting on business facilitation to assist a broader discussion among the delegates on future initiatives in this area, but it was not clear how the activity would benefit eligible members. ATAARI spent more than \$289,000 on these 11 workshops.

While the contract allowed the contractor to pay travel costs and support meetings and workshops, continuing these types of activities beyond the project period is questionable without continued financial support. The mission wrote the contract to spend funds for travel supporting U.S. priorities and to help build the capacity of eligible members to host APEC's annual summits. However, these were short-term activities, requiring both funding and coordination. For example, the contractor provided logistical support for workshops and paid travel expenses for eligible members to attend APEC-wide events. We tested 10 of 68 activities (workshops involving international travel) and found their average duration was 2 days, and ATAARI paid travel costs ranging from \$700 to \$8,100 per participant. The project spent approximately \$1.5 million for these activities.

The project also supported and designed activities to build the capacity of eligible members to understand and meet their responsibilities as future hosts of APEC's annual summit. The project worked with Philippines, Peru, Vietnam, and Papua New Guinea, the APEC host members for 2015 to 2018, at a cost of approximately \$378,000. However, these activities were not directly captured in the performance indicators, limiting USAID's ability to determine their long-term benefit.⁷ While supporting eligible members hosting the APEC annual summit may have led to more effective meetings, this support may have little long-term impact for all APEC members.

Several factors led to the lack of focus on ATAARI goals and sustainability. First, the contractor did not develop the overall project work plan as required in the contract. This plan should have outlined activities to be implemented over 5 years and linked activities to the project's goals. Despite constant follow-up by the COR, the contractor did not submit the plan because of competing priorities.

In addition, the mission did not establish adequate procedures for CORs to follow in approving proposed activities. Of the 92 activities undertaken by ATAARI within the first 26 months, all but 3 were proposed by other U.S. Government agencies, in many

⁷ The project had two indicators that disaggregated information on host-country participants. However, one of these indicators captured information only on workshops and trainings, while the other was limited to the participants' application of trade and investment liberalization practices learned through the project.

cases, without technical guidance from the COR. The COR attributed some activities' lack of focus on strengthening eligible members to the proposals coming from U.S. Government agency staff who were not development experts. However, despite this, the COR was not involved in developing proposals and did not notice that many approved proposals did not include specific language on benefits to eligible members.

According to an official from another U.S. Government agency involved in project activities, the types of activities supported under ATAARI may not be sustainable for eligible members with limited resources beyond the end of the project. Mission officials noted that activities that provided logistical support for workshops and paid travel expenses were not typical USAID development approaches, and questioned whether USAID was the appropriate organization to implement this project.

Project Provided Few Capacity-Building Activities To Improve APEC's Secretariat

The contract required that 20 percent of the project's resources be applied to strengthening the APEC Secretariat operations. It further stipulated that activities in this component were to be phased out by October 31, 2016—36 months into the project—indicating the importance of undertaking activities under this component early in the project.

Despite these requirements, in the first 26 months the contractor implemented minimal activities to strengthen the capacity of the APEC Secretariat. As of December 30, 2015, the project had devoted less than \$100,000 of the \$3.09 million total project expenditures—less than 3 percent of the total—to the APEC Secretariat's capacity-building activities. The contractor implemented only four activities during that time: a seminar related to developing APEC's strategic plan, training on information technology, a technical study on realignment of the Secretariat's finances, and annual retreats for the Secretariat staff.

Limited activities to build capacity occurred for several reasons. According to the project leader, while developing the annual work plans for the first 3 years, the contractor held meetings with Secretariat staff to determine what activities ATAARI should implement. During those meetings, APEC Secretariat staff did not ask for additional capacity-building activities or support. In addition, the deputy project leader said that staffing at the Secretariat was limited; hence, the contractor needed to ensure that it was not overwhelming the staff with programs and trainings. However, an APEC senior official told us he was unaware that more assistance could have been provided. When he learned that more assistance was available, he said APEC would have asked for help to improve human resources development and information technology.

Further, the project's monitoring and evaluation plan did not include any dedicated indicators to measure the direct impact of capacity-building activities for the APEC Secretariat. As a result, there was a lack of accountability for implementing activities and tracking results under this component. Without performance indicators to measure

capacity-building efforts, neither the mission nor the stakeholders have a clear picture of what improvements or interventions the APEC Secretariat needs to build its capacity.

USAID DID NOT REQUIRE AN INTERAGENCY AGREEMENT AND AWARDED A CONTRACT WITH AMBIGUOUS LANGUAGE, LIMITING ITS ABILITY TO EFFECTIVELY MANAGE THE PROJECT'S FINANCIAL ASPECTS

While USAID/RDMA has received funding to work on APEC-related activities including ATAARI from State since 2008, no interagency agreement was signed until recently. The lack of an interagency agreement created vulnerabilities in managing the project. Further, the contract language USAID approved was ambiguous as to whether project funds could be used for technical reports provided to APEC members that are not considered eligible for U.S. Government assistance. As a result, ATAARI used project funds for technical reports and did not require ineligible members to share the costs.

USAID/RDMA PROVIDED SERVICES TO STATE FOR YEARS WITHOUT AN INTERAGENCY AGREEMENT

Office of Management and Budget procurement policy requires that assisted acquisitions be supported by an interagency agreement.⁸ This kind of agreement establishes the general terms and conditions that govern the relationship between the requesting agency—in this case State—and the servicing agency—USAID. Further, USAID guidance stipulates when and how missions may be reimbursed for service provision to other agencies.⁹

Contrary to the guidance, since 2008 USAID/RDMA has awarded two contracts to work on APEC activities using State funding without a signed interagency agreement that clearly delineates each agency's roles and responsibilities. Besides ATAARI—funded by State—the mission has two others cofunded by State. USAID/RDMA also did not establish how State would reimburse them for the cost of managing the project.

We identified multiple vulnerabilities associated with managing the project's financial aspects for years without an interagency agreement:

- State did not record authorized funding commitments, priorities, and programming decisions in formal signed documents. For example, when State authorized the transfer of project funds to the mission, there were no records of decisions made on budgets and flow of funds. Rather, decisions were documented through emails or were ad hoc verbal communications not documented at all. There was no jointly agreed-to written strategic plan guiding projects that were managed by the mission

⁸ Office of Management and Budget procurement policy, "Improving the Management and Use of Interagency Acquisitions," June 6, 2008.

⁹ ADS Chapter 306, "Interagency Agreements," 2015.

using State funds, making it challenging for USAID/RDMA to track funding activities for the project and available funding levels. These practices are in contrast to the Government Accountability Office's "Standards for Internal Control in the Federal Government," which calls for management to design control activities to mitigate risks, including documenting transactions and significant events so that documentation is readily available for review, and to clearly document the internal control responsibilities of the organization.¹⁰

- According to USAID/RDMA officials, the mission was not involved in the negotiations between USAID/Washington and State to determine the project's funding level. The lack of mission involvement made it challenging for the mission to plan interventions, illustrative budgets, the obligation of funds, and the delineation of roles and responsibilities.

Until 2016, neither USAID nor State considered the lack of an interagency agreement a problem. For example, a State official we interviewed said an interagency agreement was not necessary because the same funding practices had been used for the last 8 years with no concerns. In August 2015, the mission initiated discussions with USAID's Asia Bureau in Washington to seek assistance in convincing State to establish an interagency agreement that would (1) define the procedures under which State would reimburse USAID/RDMA for managing ATAARI and (2) clearly define the roles and responsibilities, giving USAID/RDMA control over implementation and management. In June 2016, State and the mission finally signed an interagency agreement for the project. Our review of the agreement found that it included key elements, such as roles and responsibilities for USAID and State, and established sound financial aspects to authorize the transfer and reimbursement of funds.

PROJECT FUNDS BENEFITTED INELIGIBLE MEMBERS BECAUSE OF AMBIGUOUS CONTRACT LANGUAGE

According to the contract, project funds should be used to assist APEC members that are eligible for U.S. foreign assistance. However, the language in USAID's contract for ATAARI was ambiguous on paying for technical reports. Funds used for activities should reflect the portion of the costs attributed to the eligible members that benefit; if ineligible APEC members benefit, the portion of costs attributable to them should be paid by APEC or other donors, rather than supported by ATAARI.

Because of the contract language ambiguity on sharing of costs, the contractor shared the costs of workshops among eligible and ineligible members, but not those of technical reports. We examined 8 of 24 technical reports completed in the first 26 months of the project and found that the contractor charged 100 percent of the costs to the project although the reports benefited both eligible and ineligible APEC members.

In some cases, the contractor provided workshops and prepared related technical reports on the same subjects, but only shared the costs of the workshops. For example,

¹⁰ Principle 10.03 of the Standards. GAO-14-704G, September 2014.

for two workshops held in 2015—“Women’s Entrepreneurship in APEC Initiative” and “Policies Affecting Trade in Health Care Products”—the contractor prepared related technical reports. While the costs for the workshops were shared by participating ineligible members, the costs for the technical reports were not.

According to the project leader, this practice began under ATAARI’s predecessor project. ATAARI expended \$182,000 of \$1,147,000 on the technical reports without assessing ineligible members a fee, which could have gone toward other project needs.

CONCLUSION

USAID/RDMA has a longstanding relationship with APEC, dating back as far as 2008 with ATAARI’s predecessor project. ATAARI was designed to build the capacity of both eligible members and the APEC Secretariat. However, the project has suffered from lack of focus and from implementation of activities that, by nature, cannot be sustained by either APEC or the eligible members they targeted. Further, poor data, the lack of an interagency agreement with State, and ambiguous contract language create vulnerabilities for USAID/RDMA in terms of both project management and oversight. Without efforts to address these issues, the long-term impact of ATAARI is unclear. ATAARI also points to lessons learned for USAID to follow should it manage any follow-on APEC projects, including having an interagency agreement in place with State.

RECOMMENDATIONS

To improve data quality and address focus and sustainability concerns, we recommend that USAID/RDMA:

1. Conduct a comprehensive data quality assessment of project data to verify that they meet data quality standards.
2. After the data quality assessment, review and revise the project’s monitoring and evaluation plan with the contractor, and implement controls to enforce the plan’s use.
3. Implement procedures for the contracting officer’s representative to follow to confirm, prior to approval, that activity proposals from other U.S. Government agencies clearly relate to project goals.
4. Assess the focus of all project activities in the current work plan, and direct the contractor to revise the plan as necessary so that activities advance project goals.
5. Require the contractor to implement an overall project work plan that includes activities focused on achieving the project goals.

6. Require the contractor to conduct an assessment of the capacity of the Asia-Pacific Economic Cooperation Secretariat, use the results and input from the Secretariat to formulate capacity-building activities that can be completed in the time remaining, and modify the contract as necessary.
7. Require the contractor to revise the project's monitoring and evaluation plan to include indicators for the additional capacity-building activities for the Asia-Pacific Economic Cooperation Secretariat.

To improve planning and management of the project's financial aspects, we recommend that USAID/RDMA:

8. Review the contract language and revise as appropriate to clarify whether technical reports should be funded entirely by the project.

OIG RESPONSE TO AGENCY COMMENTS

We provided USAID with our draft report on April 11, 2017, and on May 15, 2017, received its response, which is included as appendix C. The Agency agreed with recommendations 1, 2, 3, 4, 5, 6, and 8 and disagreed with recommendation 7; however, it made management decisions on all of them and took final action on recommendations 3, 4, 5, 6, 7, and 8. In addition, we revised selected content based on USAID's technical comments.

While we acknowledge management's decision and final action on recommendation 7, we disagree with USAID's decision not to improve its monitoring and evaluation plan by adding indicators measuring the impact of activities to build the Secretariat's capacity. USAID noted that one output indicator counts APEC policies and procedures improved; however, as we noted in our finding, this measure does not directly indicate what the contractor did in the way of capacity building. Having modified the contract to extend Secretariat capacity-building activities for the full 5 years of the project, USAID has an opportunity to measure the impact of additional capacity building.

APPENDIX A. SCOPE AND METHODOLOGY

We conducted our work from February 8, 2016, through April 11, 2017, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The purpose of this audit was to determine whether (1) USAID/RDMA's APEC Technical Assistance To Advance Regional Integration Project was achieving its planned results to support regional economic integration within APEC and increase APEC's institutional capacity and (2) USAID/RDMA planned and managed the financial aspects of the project in accordance with Agency policies and procedures.

The period of performance under the contract is from November 1, 2013, to October 31, 2018. As of March 30, 2016, the mission had obligated approximately \$12 million and expended \$9 million. The audit covered selected project activities from start-up in November 2013 through December 30, 2015. The audit team performed fieldwork in Manila, Philippines; Bangkok, Thailand; Singapore; and the Washington, DC, metro area.

In planning and performing the audit, the audit team assessed significant controls that USAID/RDMA used to monitor project activities: site visit reports, portfolio reviews, a data quality assessment, the contract and modifications, and the monitoring and evaluation plan. The audit assessed the mission's policies and procedures for managing financial aspects of the project. In addition to the significant controls, the audit team reviewed the contractor's quarterly and annual progress reports, as well as the annual work plans and financial data.

During fieldwork, the audit team met with officials at USAID/RDMA in Bangkok; the APEC Secretariat in Singapore; select U.S. Government agency officials in the Washington, DC, metro area, representing State, the U.S. Trade Representative, and the Department of Commerce; and the contractor's monitoring and evaluation team, also in the Washington, DC, metro area. In Manila, we met ATAARI beneficiaries from the Philippine Government Department of Energy and the Department of Trade and Industry to get their feedback on the project. We also solicited feedback on the benefits and sustainability of project activities through a survey questionnaire to U.S. Government agency officials and eligible APEC members' beneficiaries. In addition, the team examined the mission's fiscal year 2015 annual self-assessment of management controls—which the mission is required to perform to comply with the Federal Managers' Financial Integrity Act—to check whether the assessment cited any relevant weaknesses.

In assessing the progress of the activities carried out under the contract, the audit team reviewed the contractor's quarterly and annual progress reports from the start of the

project through December 2015. We interviewed mission officials, Nathan staff, APEC Secretariat staff, and government officials. Finally, the audit team reviewed USAID/RDMA's August 2015 data quality assessment of the project.

Through interviews, documentation reviews, and data analysis, the audit team learned (1) what the project's main goals were, (2) how the mission and the contractor monitored the project, (3) how the mission checked the quality of the data reported, and (4) whether the mission, contractor, and stakeholders were aware of any allegations of fraud or other potential illegal acts.

To obtain information from participants, we conducted interviews with U.S. Government agency officials during fieldwork, and judgmentally selected 9 of 23 who had proposed initiatives implemented by the project. The sample selection was based on the different agencies promoting APEC priorities, the project area, the type of activity that related to the objective of the project, and the location. During fieldwork, the audit team interviewed staff from the APEC Secretariat to learn about the project's activities, accomplishments, and challenges and to assess the impact of the interventions on the project's objectives. To determine the benefits and sustainability of implemented activities, we solicited feedback through a survey questionnaire to U.S. Government agencies and beneficiaries from eligible members receiving assistance from the project. The survey recipients were judgmentally selected from 10 of 91 activities representing approximately 11 percent of the total activities. The sample selection was based on high dollar amount of activity costs and the project area. We received responses for 17 of 36 questionnaires emailed, representing a 47 percent response rate.

We judgmentally selected 6 of 11 performance indicators for testing. This selection included all four of the project's outcome indicators, and two of seven output indicators. These output indicators were selected because they were representative of project activities that increased members' capacity and focused on strengthening regional integration. To verify the accuracy of the figures, we traced reported results to documentation maintained by the contractor. In doing so, we relied extensively on computer-processed data in Excel spreadsheets and databases maintained by the contractor in Arlington, VA. The results of data tests showed that data for all six indicators were collected using methodologies inconsistent with those prescribed in the approved monitoring and evaluation plan—casting doubt on their validity and reliability. However, because we reviewed these data along with other available evidence, we believe the opinions, conclusions, and recommendations in the report are valid. Since we judgmentally selected the indicators, the results and conclusions related to the analysis were limited to the items tested and cannot be projected to all indicators. We believe our substantive testing was sufficient to support the audit's findings.

APPENDIX B. REVIEW RESULTS FOR SELECTED PERFORMANCE INDICATORS AS OF DECEMBER 1, 2015

Indicator	Review Results
Outcome 1: Percentage of workshop or training participants who state that their capacity has increased as a result of ATAARI training/workshops.	Unreliable. Data collection did not include a substantial number of trainings and participants; hence, data collection is not consistent with the monitoring and evaluation plan. Only 7 of 68 trainings conducted were reported, and only 134 of 403 training participants completed both pre- and post-training questionnaires for the 7 reported trainings.
Outcome 2: Percentage of participants in U.S.-funded APEC capacity-building activities responding that they applied trade and investment liberalization practices.	Unreliable. Only 23 of 32 trainings conducted had follow-up surveys a year after training as required in the monitoring and evaluation plan. Surveys of some participants were not conducted because the contractor misplaced the attendance sign-in sheets for two trainings. Other trainings were excluded from follow-up surveys because they were meetings (not trainings) or the project had no substantive responsibility for them; however, this was not articulated in the monitoring and evaluation plan. Of the 23 trainings surveyed, only 14 met the response rate threshold of 25 percent needed to be considered valid for indicator reporting. Further, the project did not design the survey questionnaire to ask whether respondents had received similar training and whether changes in policy or practice were attributable to the project or another source.
Outcome 3: Number of participants in U.S.-funded APEC capacity-building activities responding that changes in laws, regulations, or processes in their home economy were influenced by the trade and investment liberalization practices shared.	Unreliable. Only 15 of 32 trainings conducted had follow-up surveys. The project did not obtain feedback for 90 of 736 (12 percent) of the total number of participants for the 15 trainings surveyed. In addition, the target for this indicator was presented as a percentage instead of an absolute number. Of the 15 trainings surveyed, only 10 met the response rate threshold of 30 percent needed to be considered valid for indicator reporting.
Outcome 4: Percentage of participants in U.S.-funded APEC capacity-building activities responding that changes in laws, regulations, or processes in their home economy were influenced by the trade and investment liberalization practices shared.	Unreliable. The data collected for this indicator are the same as that for Outcome 3. While Outcome 3 reports on the absolute number and Outcome 4 reports on the percentage of participants, both indicators track the same outcome. Further, the target for this indicator was set too low (3 percent); the project achieved 30 percent, which far exceeded the target.
Input 2: Person-hours of training completed in trade- and investment-enabling environment supported by U.S. Government assistance.	Invalid. The audit determined that only 609 participants completed the entire training for the 15 trainings tested of the total 57 trainings conducted, versus the 956 participants given full credit by the project. This resulted in over-reporting by 6,219 person-hours (48 percent) over the reported results data of 12,954 person-hours.

Indicator	Review Results
Custom Indicator 1.1.1: Number of ATAARI fossil fuel subsidy reform recommendations implemented by APEC members.	Unreliable. The project did not use the APEC energy working group summary report, as required under the monitoring and evaluation plan, to determine if recommendations in the Peru fossil fuel subsidy peer review were implemented for indicator reporting.

APPENDIX C. AGENCY COMMENTS



May 12, 2017

MEMORANDUM

TO: Regional Inspector General/Manila, Matthew Rathgeber

FROM: USAID/Regional Development Mission for Asia Mission Director,
Beth Paige /s/
USAID/Asia Bureau Deputy Assistant Administrator, Reed Aeschliman /s/

SUBJECT: Management Response to Recommendations in Draft Report on Audit of Asia-Pacific Economic Cooperation (APEC) Technical Assistance to Advance Regional Integration Project (Report 5-486-17-00X-P).

This memorandum transmits our positions on each of the audit recommendations, plans for corrective actions with target completion dates, and documentation of corrective action taken thus far. USAID/Regional Development Mission for Asia (RDMA) agrees with seven of eight recommendations. The task order was transferred to USAID/Asia Bureau on March 28, 2017, and USAID/Asia Bureau will undertake future corrective actions. Therefore, USAID/Asia Bureau is a joint author of this memorandum. We also wish to bring to the RIG's attention that FY16 funding was cut by 50% and future funding for APEC activities under the task order is uncertain. Our responses are listed below.

Recommendation 1. Conduct a comprehensive data quality assessment of project data to verify that they meet data quality standards.

Actions Planned/Taken: We concur with the recommendation. The Asia Bureau intends to complete a comprehensive data quality assessment (DQA) by June 30, 2017. We believe that the DQA report will provide the evidence needed to close this recommendation.

Recommendation 2. After the data quality assessment, review and revise the project's monitoring and evaluation plan with the contractor, and implement controls to enforce the plan's use.

Actions Planned/Taken: We concur with the recommendation. In June 2016, the mission

approved a revised M&E plan (see Attachment I). This M&E plan modification addressed concerns indicated by the RIG described in the document “Summary of June 2016 revisions to M&E plan” (see Attachment I0).

The Asia Bureau will ensure implementation of the revised M&E plan by conducting the planned DQA discussed in Recommendation 1, expected by June 30, 2017. Any additional issues that arise from the upcoming DQA will be monitored by observing data collection during site visits. Implementation will be documented in the 2017 M&E report due on December 30, 2017, and in the above-mentioned DQA. We believe that the DQA, the 2017 M&E report and the revised M&E plan will provide the evidence needed to close this recommendation.

Recommendation 3. Implement procedures for the contracting officer’s representative to follow to confirm, prior to approval, that activity proposals from other U.S. Government agencies clearly relate to project goals.

Actions Planned/Taken: We concur with the recommendation. The project implemented procedures for the 2016 - 2018 annual work plans to enhance focus on project goals, and to ensure the COR’s continued direction of project activities. As a result of changes to the work plan process, activities from 2016 - 2018 are more focused on the contract’s top-line goal of regional integration than those from 2013-2015. Attachment 3 is a March 25, 2016, document that defines the new US-ATAARI work plan process. USAID no longer considers unsolicited work plans from U.S. Government Agencies. Instead, the new formalized work plan development process outlines a consultative process whereby the COR, in consultation with State/EAP and interagency stakeholders, reviews possible new workstreams for alignment with program objectives and priorities for the year. We suggest that this recommendation be closed on issuance of the final report (see Attachment 3).

Recommendation 4. Assess the focus of all project activities in the current work plan, and direct the contractor to revise the plan as necessary so that activities advance project goals.

Actions Planned/Taken: We concur with the recommendation. The auditor's preliminary recommendations were already incorporated into the current 2017 work plan (see Attachment 2), using the new US-ATAARI work plan process discussed in Recommendation 3 (see Attachment 3). The current 2017 work plan is focused on the contract’s top-line goal of regional integration and all activities clearly benefit developing economies. We suggest that this recommendation be closed on issuance of the final report.

Recommendation 5. Require the contractor to implement an overall project work plan that includes activities focused on achieving the project goals.

Actions Planned/Taken: We understand that this recommendation refers to the project deliverable “life-of-project” work plan and concur with the recommendation. However, in consultation with the Contracting Officer, USAID/RDMA determined that the life-of-project work plan was no longer valuable, and this deliverable was deleted from the contract on August

10, 2016 (see Attachment 7). Given that the contract is approaching its final year, the 2018 annual work plan will function as the overall work plan for the purpose of this recommendation. USAID/RDMA recognizes that the contractor failed to deliver this required work plan prior to contract Modification 5 (see Attachment 6). This failure is referenced in CPARS evaluations. We suggest that this recommendation be closed on issuance of the final report.

Recommendation 6. Require the contractor to conduct an assessment of the capacity of the Asia-Pacific Economic Cooperation Secretariat, use the results and input from the Secretariat to formulate capacity-building activities that can be completed in the time remaining, and modify the contract as necessary.

Actions Planned/Taken: We concur with the recommendation. US-ATAARI conducted an informal assessment of the capacity of the APEC Secretariat in the summer of 2016 (see Attachment 5). The COR and a USAID Program Assistant traveled to Singapore July 6-8 to participate in meetings with Secretariat staff that contributed to US-ATAARI's informal assessment. US-ATAARI also conducted a process-mapping exercise (see Attachment 4) and report to identify processes that needed to be improved. These documents identified activities to meet the Secretariat capacity building objective over the final two years of the contract, and US-ATAARI is carrying out these activities (see Attachment 5). On August 10, 2016, USAID/RDMA modified the contract so that Component 2 Activities, i.e., Secretariat capacity building, are provided for the full five years of the contract (see Section 2c of Attachment 6). We acknowledge that an external assessment of the Secretariat would have been a valuable exercise earlier in the contract, but given that there are only 17 months remaining in the contract, we do not believe an external assessment would be a good investment of resources at this time. The APEC Executive Director has personally expressed appreciation for the increased efforts at Secretariat capacity building since the audit, and we believe we are providing as much support as APEC can absorb. We suggest that this recommendation be closed on issuance of the final report.

Recommendation 7. Require the contractor to revise the project's monitoring and evaluation plan to include indicators for the additional capacity-building activities for Asia-Pacific Economic Cooperation Secretariat.

Actions Planned/Taken: We do not concur with the recommendation because these activities are captured by an existing performance indicator that measures capacity-building activities for Asia-Pacific Economic Cooperation Secretariat.

➤ 6.1.1 Number of APEC policies and procedures improved

Page 44 of the 2015 Annual Performance Management Report (Attachment 8) shows that the contractor collected data for Indicator 6.1.1 Number of APEC policies and procedures improved. The report shows that US-ATAARI achieved its target of four policies or procedures improved. The indicator description and plan for data collection can be found in the Performance Indicator Reference Sheets (see page C-27 of Attachment 1).

Recommendation 8. Review the contract language and revise as appropriate to clarify whether technical reports should be funded entirely by the project.

Actions Planned/Taken: We concur with the recommendation. We have reviewed the contract and concluded that the language is appropriate and clearly allows full funding of technical reports. Section C.6 of the contract, specifically the last sentence, includes, “Other eligible costs: Studies and reports that provide assistance benefits to USG Eligible Economies or APEC as a whole.” This indicates that studies and reports that benefit USG eligible economies **and/or** APEC as a whole are permissible. We suggest that this recommendation be closed on issuance of the final report.

Comments on text of audit report not addressing recommendations

Page 7 of the audit report states that host year activities were not captured in the project’s performance indicators. This is incorrect. Host year activities are captured by the following two indicators:

1. OC1: Percentage of workshop or training participants or TA recipients who state that their capacity has increased as a result (Disaggregated by Secretariat and Host Year support program area)
2. OC2: Percentage of participants in U.S.-funded APEC capacity building activities responding that they applied trade and investment liberalization practices (Disaggregated by Secretariat and Host Year support program area)

Pages 39-40 of the 2015 Annual Performance Management Report (Attachment 8) show that the contractor collected data for indicators OC1 and OC2. FY2015 OC1 results for Host Year Support are 100%, exceeding the target of 80%. OC2 results for Host Year Support are 82%, exceeding the target of 50%. The indicator descriptions and plan for data collection can be found in the Performance Indicator Reference Sheets (see pages C-4 to C-7 of Attachment 1). Note that the disaggregation for this variable is Secretariat and Host Year Support, as this is how the M&E plan categorized program areas. However, all data collected for this figure represents host year support. Secretariat support takes the form of technical assistance (with results measured by Indicator 6.I.1) rather than workshops, thus there are no Secretariat workshop participants to survey for this indicator.

Under Recommendations 3 and 4, we acknowledge the desirability of improved focus on a limited number of project goals and describe actions taken to address this. However, it should be clarified that all US-ATAARI activities, past and present, fall within the scope of the contract and benefit developing economies.

On page 6, the audit report states that “USAID’s COR approved activity proposals not focused on strengthening the eligible members targeted by US-ATAARI.” The text of the contract (and USAID’s common understanding with the State Department) does not require an exclusive

focus on developing economies. Rather, as long as activities benefit developing member economies, any secondary benefits to developed economies are a positive good. On page 8, the audit report misstates the work plan process, declaring that “the COR did not notice that many approved proposals did not include specific language benefiting eligible members.” It was never an expectation or requirement for U.S. Government agencies to include such language. All activities addressed development challenges specified in the contract and benefited developing economies. The proposals are informal documents describing ideas generated by U.S. Government agencies. Therefore, they reflect the expertise of the relevant agencies (transportation, health, etc.). For those proposals which the COR decided were good uses of government resources contributing to objectives described in the contract, the COR incorporated the ideas into the annual work plan.

A separate question is whether focusing on a smaller number of project goals than those outlined in the US-ATAARI contract would achieve better results. While this is a subject of debate among US-ATAARI stakeholders, as indicated under Recommendations 3 and 4, we have implemented work plan processes to achieve this improved focus under the current contract.

Page 10 states that “In June 2016, State and the Mission finally signed an interagency agreement for the project.” That agreement is no longer in force due to the transfer of the project. USAID/Asia Bureau and State/EAP have taken a different approach to satisfying this requirement, signing a memorandum of understanding with State/EAP on March 17, 2017. The MOU provides the framework for USAID to support the US Government’s APEC objectives, with specific reference to each office’s roles and responsibilities in managing the US-ATAARI project. A copy of the MOU is attached.

APPENDIX D. MAJOR CONTRIBUTORS TO THIS REPORT

The following made major contributions to this report: Matthew Rathgeber, regional inspector general; Emily Gardiner, audit manager; Michael Hutchinson, lead auditor; Virgilio Cruz, auditor; Pamela Hamilton, auditor; George Kum, auditor; and Sally Pabello, auditor.