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National Security and
International Affairs Division

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September 18, 1998

The Honorable Jesse A. Helms
Chairman, Committee on Foreign Relations
United States Senate

The Honorable Benjamin A. Gilman
Chairman, Committee on International Relations
House of Representatives

Subject: Review of Management Issues at the African Development Foundation

The African Development Foundation (ADF) was established in 1980 as a government corporation to support local self-help initiatives for the poor in Africa. It gets most of its funding from congressional appropriations, receiving \$14 million in appropriations in fiscal year 1998. In 1995, we issued a report that identified management weaknesses at ADF.¹ This letter responds to your request that we assess management improvements that ADF has made since our 1995 report and discuss the development of its operating budget. It also provides information on ADF's development of strategic plans and performance measures and ADF's role in relation to other U.S. foreign assistance activities in Africa.

BACKGROUND

Among the concerns we raised in our 1995 report were (1) ADF had a large percentage of high-graded positions; (2) budget and cost data reported to the Office of Management and Budget (OMB) were unreliable or not useful; (3) ADF did not meet the financial reporting and audit requirements of the Chief Financial Officers Act;² (4) ADF's management structure was inefficient due to

¹Foreign Assistance: African Development Foundation's Overhead Costs Can Be Reduced (GAO/NSIAD-95-79, June 2, 1995).

²Public Law 101-576.

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duplicative functions and confused lines of authority; and (5) ADF's overhead rate was high relative to the Inter-American Foundation (IAF), an organization with a similar mandate that operates in Latin America.

RESULTS IN BRIEF

Since our 1995 report, ADF has taken a number of actions to better its personnel and financial management systems and to improve its structure. Although its overhead rate increased in 1996 and 1997 because its program funding declined more rapidly than operating costs, its operating costs have diminished substantially. ADF officials report that its operating budget is established based on amounts needed to meet its performance goals and objectives. It is primarily composed of administrative costs at headquarters. In addition, although they could be improved, ADF has developed strategic and performance plans to comply with the requirements of the 1993 Government Performance and Results Act (Results Act).³ Finally, ADF has increased its efforts to collaborate with U.S. foreign assistance agencies and other organizations that provide development assistance to Africa.

ACTIONS TAKEN IN RESPONSE TO PRIOR GAO REPORT

ADF has taken the following actions to respond to the management issues we raised in our 1995 report:

Position Reviews

In response to concerns raised in our 1995 report, ADF commissioned two position classification and grade structure reviews. Both were performed by independent classifiers. The first review, conducted in September 1995, analyzed 17 positions and resulted in one General Schedule (GS)-15 position downgrade to GS-14. In addition, several staff were assigned to new positions. The second review, conducted in January 1998, analyzed six positions for which job descriptions had been rewritten. A change in the responsibilities associated with one position resulted from this review.

Budget and Cost Data Presentations

In response to concerns raised in our 1995 report about ADF's budget submissions to OMB that their formats were inconsistent and did not sufficiently explain costs, ADF began a more disciplined approach to developing its budget submissions. ADF included more comprehensive explanations of

³Public Law 103-62.

costs and developed consistent cost categories in consultation with OMB. For example, ADF used the basic object class structure prescribed by "OMB Circular No. A-11"⁴ as a basis for coding and capturing data on the various types of expenses that ADF incurred (for example, employee benefits, travel, or supplies). It also provided greater detail to explain how costs were categorized and the differences between budget projections and actual expenditures. OMB officials we interviewed said that ADF's budget presentation had improved and they were satisfied with the level of detail provided. In addition, ADF recently implemented an accounting system that will make it easier for ADF to develop budget and cost data.

Financial Reports and Audits

Since we reported in 1995, ADF has taken steps to comply with the requirements of the Chief Financial Officers Act. This act requires government corporations, such as ADF, to prepare an annual report to Congress that includes financial statements, an auditor's report on the statements, and an assessment of internal controls. In addition, it requires a budget reconciliation report that links the actual amounts that are submitted in the President's budget with program and operating expenses in agency accounting records and financial reports.

In addition, ADF drafted financial statements for fiscal years 1996 and 1997, including identification of key controls associated with several significant financial management and accounting functions. These are currently being audited by an independent accounting firm, which is also charged with validating ADF's new accounting system. ADF officials said that they plan to develop a budget reconciliation report that links their financial statements to the President's budget. ADF's new accounting system became operational in 1998.

Structure

ADF carried out reorganizations in 1996 and in 1997 to streamline and improve operations. According to ADF officials, the first reorganization, in January 1996, was initially planned to restructure and downsize ADF to lower overhead and enhance efficiency. ADF eliminated one office, consolidated two divisions within another office, and shifted day-to-day program and operations responsibilities to the Vice President to allow the President to focus on broader management issues. In response to a 32 percent reduction in its fiscal year

⁴Preparation and Submission of Budget Estimates, OMB Circular No. A-11 (Washington, D.C.: OMB, July 1, 1998). This publication provides guidance to government agencies and government sponsored enterprises regarding development and presentation of annual budgets.

1996 appropriation, ADF also reduced the number of its staff positions at headquarters from 54 to 30 and eliminated most contract support positions. ADF also reduced the number of countries in which it operates from 22 to 14.

The second reorganization, in December 1997, was undertaken in conjunction with the implementation of a new strategic plan. ADF integrated research and evaluation functions relating to program operations into the office responsible for program operations. A new office was formed to implement certain provisions of the Results Act in addition to carrying out existing responsibilities for information dissemination and public and congressional affairs. To maintain the independence of the budget and finance office from program operations, the budget and finance office was moved out of the Vice President's purview because of his responsibilities for program operations. Instead, it now reports directly to the President. In addition, two new offices were created to report to the Vice President: one has responsibility for establishing Internet capabilities, considered by ADF officials as an important opportunity to reduce travel and communication costs, and the other office is responsible for leveraging private resources and promoting trade and investment opportunities for grassroots enterprises.

Overhead Rate

In response to a large budget reduction in 1996, ADF significantly reduced the size and scope of its activities (see table 1). However, it reduced program expenditures more rapidly than operating costs, causing its overhead rate to increase to 36 percent in fiscal year 1996. ADF's overhead rate rose to 42 percent in fiscal year 1997 because ADF reduced program expenditures by an additional 33 percent in that fiscal year compared to a 13 percent reduction in operating costs. In fiscal year 1998, ADF's budget will increase to \$18.8 million, reflecting funds carried forward from fiscal year 1997. ADF expects its 1998 overhead rate to decline to 20 percent.

Table 1: ADF's Operating Expenses, Program Expenses, and Overhead Rates, Fiscal Years 1995-98

Dollars in millions

Fiscal year	1995	1996	1997	1998 (est.)
Operating expenses	\$4,580	\$3,926	\$3,415	\$3,780
Program expenses	12,292	7,080	4,706	15,062
Total budget	\$16,872	\$11,006	\$8,120	\$18,842
Overhead rate	27%	36%	42%	20%

Note: All data are in terms of obligations made in that year. Numbers may not add to total shown due to rounding.

Source: ADF.

We compared ADF's overhead rates to those of IAF for the same period and found that IAF's overhead rates were between 21 and 25 percent. ADF officials said that IAF's larger budget⁵ allows it to take advantage of economies of scale that reduce its operating expenses and pointed out that in fiscal year 1998 when its budget will be higher, ADF projects that its overhead rate will be lower than IAF's (ADF projects a 20-percent overhead rate compared with IAF's projected overhead of 23 percent). In addition, ADF officials noted that some operating costs, such as travel and communications, are more expensive for Africa than for regions of the world covered by IAF—Latin America and the Caribbean.

DEVELOPMENT OF ADF'S OPERATING BUDGET

According to ADF officials, ADF establishes its operating budget for the next fiscal year based on the amounts needed to meet its performance goals and objectives. Congress, in its appropriations for ADF, has not limited ADF as to the amount it can allocate for operating expenses, but ADF prepares its operating budget in accordance with guidance from OMB. ADF's operating expenses are primarily composed of administrative costs at headquarters and, as we pointed out in 1995, do not include salaries and administrative expenses of field offices. While OMB and ADF have debated the merits of including all field expenses in the program budget, OMB resolved the issue in 1994 by

⁵IAF's budget averaged about \$29 million between fiscal years 1995 and 1998.

requiring ADF to prepare a separate line item within the program budget for in-country support costs. ADF officials maintain that in-country support costs are an integral part of development funding and are not overhead. They also point out that IAF accounts for in-country support costs in the same way.

ADF'S STRATEGIC PLAN AND ANNUAL PERFORMANCE PLAN

ADF has developed a strategic planning process to comply with the Results Act. In 1997, ADF submitted to OMB a strategic plan for fiscal years 1997-2002 and in 1998, ADF submitted a performance plan for fiscal year 1999. At the end of fiscal year 1999, ADF will be required to submit a program performance report that assesses how well it performed relative to its performance plan. GAO guidance on assessing strategic and performance plans⁶ notes that goals should be consistent with an organization's mandate and that indicators established to measure progress toward reaching the goals should be specific and measurable. ADF's strategic plan is consistent with its mandate. ADF's strategic goals include (1) enhancing U.S. assistance and strengthening U.S. relations with Africa; (2) advancing broad-based, sustainable development and empowerment of the poor in Africa; and (3) expanding use of community-based, participatory development policies and practices.

However, ADF's performance indicators are not always specific or measurable. For example, one performance goal is to improve knowledge about effective participation models and strategies. ADF does not specify its target population, its target level of performance, or its method of measuring progress toward achieving this goal. OMB officials noted that ADF's strategic planning documents were good but have advised ADF that it needs to further refine its performance indicators.

To develop its performance plan and subsequent report, ADF establishes goals and indicators for each of its projects. ADF officials said that to improve ADF's ability to measure performance, it has begun to develop project-level goals and indicators that focus more on impact than output. For example, instead of measuring how many microenterprise loans are disbursed, ADF will also measure how many jobs are created. Officials also noted that ADF had hired evaluation officers in each country office and that it plans to hold a workshop for them in October 1998 to discuss performance measurement issues and preparation of ADF's fiscal year 1998 program performance report.

⁶Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review (GAO/GGD-10.1.16, May 1997); and The Results Act: An Evaluator's Guide to Assessing Agency Annual Performance Plans (GAO/GGD-10.1.20, Apr. 1998).

ADF'S ROLE IN RELATION TO OTHER FOREIGN ASSISTANCE ACTIVITIES

ADF's role in Africa is to provide direct support to development projects initiated by community groups and individuals at the grassroots level. The U.S. Agency for International Development (USAID), on the other hand, primarily provides assistance in conjunction with national government programs, initiated by USAID mission and host government officials. ADF officials have taken a number of steps to increase coordination with USAID and other organizations that provide development assistance to Africa.

Grassroots Assistance

Officials from USAID, the State Department, and the Peace Corps commented that ADF provides grassroots-level assistance that cannot easily be duplicated by other foreign assistance agencies or private voluntary organizations. They mentioned several capabilities that highlighted ADF's particular role in development assistance: (1) ADF responds directly to community requests for assistance and empowers participants to run their own projects, (2) ADF builds capacity in community groups by teaching them how to develop proposals and get projects started, and (3) ADF pilots grassroots development models that larger development agencies can learn from or expand upon.

ADF is currently operating in five countries where USAID has decided to close missions, including Botswana, Cameroon, Cape Verde, Lesotho, and Niger. USAID closed its missions in Botswana, Cape Verde, and Lesotho primarily because of budgetary reductions. USAID closed its mission in Niger after the overthrow of the government because of a requirement in its appropriations legislation⁷ that USAID discontinue assistance activities under such circumstances. In Cameroon, USAID closed its mission because it determined that Cameroon was "not a good partner" due to concerns about its poor progress toward democracy and because of budget reductions. According to ADF officials, its programs in those countries provide important benefits at the community level, so they did not discontinue their activities. USAID officials agreed that, despite USAID's departure, development assistance needs in those countries are significant and that ADF's continued presence is warranted.

Increased Collaboration

ADF officials said that they have increased efforts to collaborate with U.S. foreign assistance agencies at headquarters and in the field. USAID and State

⁷Foreign Operations, Export Financing, and Related Programs Appropriations Act for fiscal year 1998 (P.L. 105-118, sec. 508). Section 537 of this act exempts ADF from this provision.

Department officials noted that ADF had made significant efforts to include them in its strategic planning process at headquarters and the country level. Headquarters collaboration occurs primarily through USAID and State Department representatives who sit on ADF's Board of Directors. In-country collaboration occurs through consultation between agencies on their country strategic plans and project activities and informal referral of grant seekers among ADF, USAID, the Peace Corps, and the Ambassadors' Special Self-Help Program⁸ designated specifically for Africa. In addition, USAID and ADF have collaborated on and cofunded some activities. For example, in Guinea, ADF and USAID are cofunding a project focused on microenterprise development and participatory rural infrastructure development.

AGENCY COMMENTS

We discussed the contents of this letter with ADF officials and have included their views where appropriate in the text.

SCOPE AND METHODOLOGY

To identify actions ADF took in response to the recommendations and other issues we raised in our 1995 report, we interviewed ADF officials and staff responsible for the areas we reviewed. In addition, we examined the findings of the two independent position reviews commissioned by ADF; examined ADF's budget presentations for fiscal years 1995 to 1999 and interviewed OMB officials responsible for reviewing ADF's budget submissions; reviewed documents associated with ADF's new accounting system and financial statements for fiscal years 1996 and 1997; examined organization charts regarding its reorganization and efforts to streamline its structure; examined documents detailing operating expenses for fiscal years 1995-1998 for ADF and IAF; and interviewed IAF officials.

To gather information on ADF's strategic planning process, we obtained ADF's strategic and annual performance plans⁹ and interviewed ADF officials responsible for developing the plans. We compared the plans to OMB guidance¹⁰ on implementing the Results Act and GAO guidance developed to

⁸In fiscal year 1998, USAID provided \$3.5 million to embassies throughout Africa to support small development projects through this program.

⁹ADF's strategic plan covers fiscal years 1997-2002, and the performance plan is for fiscal year 1999.

¹⁰Preparation and Submission of Strategic Plans and Annual Performance Plans.

review other agencies' plans. In addition, we interviewed OMB officials regarding their opinions on the quality of ADF's strategic planning documents.

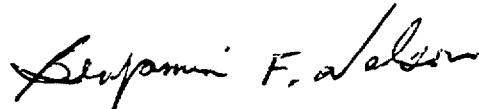
To gather information on ADF's role in relation to other foreign assistance activities, we interviewed officials at USAID; the State Department; the Congressional Research Service; the Peace Corps; the International Fund for Agricultural Development; and several private voluntary organizations, including InterAction, the Foundation for International Community Assistance, and Catholic Relief Services.

Our work did not include verification or testing of the information provided by ADF.

We conducted our work in Washington, D.C., between April and August 1998 in accordance with generally accepted government auditing standards.

We are sending copies of this report to interested congressional Committees, the Secretary of State, the Administrator of USAID, and the Director of OMB. Copies will be made available to others on request.

Please contact me at (202) 512-4128 if you or your staff have any questions concerning this letter. Major contributors to this letter were Lynne Holloway, Maria Cruz, Norman Thorpe, and Ann Baker.



Benjamin F. Nelson, Director
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