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National Security and
International Affairs Division

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April 30, 1996

The Honorable David Pryor
Ranking Minority Member
Subcommittee on Post Office
and Civil Service
Committee on Governmental Affairs
United States Senate

Dear Senator Pryor:

This is in response to your request for certain information concerning the American Institute for Free Labor Development (AIFLD), one of four AFL-CIO regional institutes that support trade unions and workers' rights throughout the world.¹ More specifically, we are providing information on (1) the source and amount of AIFLD revenues; (2) AIFLD's internal controls and financial oversight of its projects by the U.S. Agency for International Development (USAID); and (3) USAID evaluations of AIFLD programs, including what they indicate about the effectiveness of the programs and USAID's management of them and what USAID's and AIFLD's responses were to the evaluations.

RESULTS IN BRIEF

For fiscal years 1980 through 1994, AIFLD received about \$215 million, of which USAID provided about 87 percent, the National Endowment for Democracy (NED) provided about 10 percent, the private sector provided about 2 percent and the U.S. Information Agency provided the remainder. (See enc. 1.)

¹The other three regional institutes are the Asian American Free Labor Institute, African American Labor Center, and Free Trade Union Institute.

Reviews over the past 5 years by a public accounting firm, USAID's Office of Inspector General, and USAID's Office of Procurement have not identified any significant problems with AIFLD's internal controls. (See enc. 2.)

USAID contracted for at least four external evaluations of AIFLD programs from 1991 through 1995 and conducted one in-house. These evaluations generally indicated that AIFLD provided important support to democracy movements during the 1980s but that AIFLD needed to change the programs to reflect post-Cold War political conditions. They typically raised concerns about USAID and/or AIFLD management of AIFLD projects. USAID and AIFLD responded to the evaluations' programmatic concerns by attempting to refocus AIFLD's projects, and USAID recently took steps to improve its management of AIFLD projects. (See enc. 3.)

SCOPE AND METHODOLOGY

The information provided in this report was primarily collected during two of our ongoing assignments--one dealing with U.S.-funded democracy programs and the other dealing with U.S. election assistance to Haiti. During these assignments we interviewed and obtained documents from AIFLD, USAID, and NED officials in Washington, D.C., and interviewed officials from AIFLD, USAID, and the State Department in Panama, Nicaragua, and Haiti.

AGENCY COMMENTS

We obtained oral comments from AIFLD and USAID on a draft of this report and have incorporated their technical comments and other suggestions where appropriate.

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We are sending copies of this correspondence to the Executive Director of AIFLD and the Administrator of USAID. We will also provide copies to others upon request.

B-271633

If you have any questions, please call me at (202) 512-4128.

Sincerely yours,

A handwritten signature in cursive script that reads "Jess T. Ford".

Jess T. Ford, Associate Director
International Relations and Trade Issues

Enclosures - 3

REVENUES OF THE AMERICAN INSTITUTE FOR FREE LABOR DEVELOPMENT

The American Institute for Free Labor Development (AIFLD) receives funds from four sources: the U.S. Agency for International Development (USAID); the U.S. Information Agency (USIA); the National Endowment for Democracy (NED) through an annual grant from USIA; and private sources, including AFL-CIO contributions. From fiscal years 1980 through 1994, AIFLD revenues totaled about \$215 million. About 98 percent of this amount (\$210.2 million) came from the U.S. government--\$187.7 million from USAID, \$21.1 million from NED's USIA grant, and \$1.4 million in direct grants from USIA or other government sources. AIFLD also received about \$4.9 million from private sources, including the AFL-CIO, during that period. (See table 1.1.)

Table 1.1: AIFLD Revenue, By Funding Source (1980 through 1994)

Dollars in millions

Year	USAID	USIA/ NED ^a	Other ^b	Subtotal U.S. Funds	Private Funding ^c	Total
1980	\$ 9.44			\$ 9.44	\$ 0.41	\$ 9.85
1981	10.65			10.65	0.43	11.08
1982	9.84			9.84	0.36	10.20
1983	11.01		\$0.11	11.12	0.27	11.39
1984	12.90	\$0.81	0.26	13.97	0.30	14.27
1985	12.34	4.37	0.12	16.83	0.21	17.04
1986	12.44	4.08	0.13	16.65	0.34	16.99
1987	13.15	2.08	0.13	15.36	0.38	15.74
1988	13.66	1.39	0.10	15.15	0.44	15.59
1989	14.41	1.89	0.15	16.45	0.33	16.78
1990	14.35	1.68	0.18	16.21	0.29	16.50
1991	14.94	1.39	0.15	16.48	0.31	16.79
1992	14.25	1.00	0.03	15.28	0.26	15.54
1993	13.78	1.12		14.90	0.26	15.16
1994	10.58	1.24	0.03	11.85	0.29	12.14
Total	\$187.74	\$21.05	\$1.39	\$210.18	\$4.88	\$215.06

Source: Compiled from AIFLD annual financial statements.

^aNED was established in 1983.

^bFrom fiscal years 1989 through 1994, USIA was the identified source of other grants from the U.S. government.

^cIncludes revenues from the AFL-CIO and other sources.

During the 1980s, AIFLD operated throughout Latin America, primarily with USAID funds. In fiscal years 1993 and 1994, AIFLD operated in 20 countries using USAID and NED funds. In 19 of these countries, AIFLD projects were funded by USAID's centrally administered regional grant and/or through grants that were managed in-country by USAID missions. AIFLD used NED funds for a project directed toward Cuba. AIFLD also used NED funds in 10 other countries where it was spending USAID funds. Table 1.2 shows the locations of AIFLD activities funded by USAID and NED.

Table 1.2: Location of AIFLD's USAID-funded and NED-funded Activities
(1993 and 1994)

Country	USAID-funded	NED-funded
Argentina	X	
Bolivia	X	
Brazil	X	X
Chile	X	X ^a
Colombia	X	
Costa Rica	X	
Cuba		X
Dominican Republic	X ^b	X ^c
Ecuador	X	
El Salvador	X	X ^c
Guatemala	X	X ^c
Haiti	X ^b	X
Honduras	X	X ^c
Mexico	X ^d	X ^e
Nicaragua	X ^b	
Panama	X	X ^c
Paraguay	X	X
Peru	X	
Uruguay	X	
Venezuela	X	
Regional	X ^f	X

Source: Compiled from USAID program documents and NED annual reports.

^aAIFLD used NED funds for Chile in 1993 only.

^bAIFLD's USAID-funded programs in Haiti, Nicaragua, and El Salvador were funded by mission grants, rather than the regional grant. AIFLD's USAID funds in the Dominican Republic consist of both regional and mission grants.

^cAIFLD's NED-funded activities in the Dominican Republic, El Salvador, Guatemala, Honduras, and Panama were funded out of the regional program.

^dMexico was added to the USAID regional grant in 1994. (Using USAID funds, AIFLD had maintained an office in Mexico during the 1980s for liaison with the Inter-American Regional Organization of Workers, the International Confederation of Free Trade Union's regional organization known by its Spanish acronym OIRT.)

^eAIFLD used NED funds for Mexico in fiscal year 1994 only.

^fUSAID regional funds include support for the Caribbean Congress of Labour, regional union-to-union training programs, and programs at the George Meany Center for Labor Studies in Silver Spring, Maryland.

The current USAID regional grant--\$36.6 million² from August 1993 through June 1998--covers AIFLD activities in 16 countries. AIFLD also operated in Haiti, Nicaragua, El Salvador, and the Dominican Republic³ under grants from the respective USAID missions. According to a USAID official, the annual amount of AIFLD's regional grant from USAID declined from \$6 million in fiscal year 1995 to about \$4.5 million in fiscal year 1996, which represents a decreasing trend in USAID funding of the AIFLD regional grant consistent with congressional funding reductions for the agency for the last 2 years.

In response to decreasing funds, USAID is encouraging the AFL-CIO to consolidate its regional institutes into a new single global institute and to set strategic objectives globally and within specific regions. According to an AIFLD official, the AFL-CIO has set in motion plans to consolidate its regional institutes. According to a USAID official, this consolidation is scheduled to take effect around January 1, 1997, and will conform to

²According to an AIFLD official, a grant amendment is pending to reduce the grant amount based on funding cuts.

³AIFLD used funds from the regional grant and a mission grant in the Dominican Republic.

USAID's own efforts to improve oversight of labor programs as well as to manage and allocate resources in line with agency priorities.

AIFLD has received both NED and USAID funds since NED started funding projects in fiscal year 1984. During the mid- and late-1980s, when NED provided most of its support to AIFLD (\$14.6 million out of \$21 million), NED grants supplemented AIFLD's USAID-funded activities in or directed toward various countries, including Chile, Nicaragua, and Mexico. According to a 1993 USAID evaluation, the potential for some overlap and duplication existed because NED and USAID funded similar AIFLD projects but did not coordinate or share information about them. According to a USAID official, in 1995 USAID looked at this issue and found that AFL-CIO regional institutes, including AIFLD, generally used NED funds as "seed money" to start projects that were subsequently completed with USAID funds; thus, USAID believes there is no duplication between NED and USAID grants.

AIFLD INTERNAL CONTROLS AND FINANCIAL OVERSIGHT BY USAID

As part of AIFLD's annual financial audit, a public accounting firm considers AIFLD's internal control system for administering federal award programs. According to the audit reports, the objectives of an internal control structure used in administering these federal programs are to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition, (2) transactions are executed in accordance with management's authorization and recorded properly, and (3) the programs are managed in compliance with applicable laws and regulations.

AIFLD's financial statement audit reports from 1989 through 1994 indicated that the auditing firm obtained an understanding of AIFLD's internal control structure and performed tests of controls. In each instance, the reports stated that the firm's tests were less in scope than would be necessary to render an opinion on internal control structure policies and procedures. Accordingly, the firm did not express an opinion; however, the audits disclosed no condition that the firm believed to be a material weakness in AIFLD's internal control structure for administering federal award programs.

The USAID Office of Inspector General (IG) reviews AIFLD's annual audit reports, and it did a quality control review of the working papers supporting AIFLD's 1992 audit report. The quality control review found that the auditors used due professional care in conducting the audit and that the report was prepared in accordance with the requirements of the Office of Management and Budget and USAID. According to an IG official, (1) the IG has not done any separate financial audits of AIFLD and (2) due to resource constraints, the IG does financial audits only at the request of USAID missions that have identified a problem with a grantee or a project.

USAID's Office of Procurement is responsible for following up on any findings and recommendations in AIFLD's annual audit reports. According to a USAID procurement official, over the past 5 years the Office of Procurement found no significant problems with AIFLD's internal controls.

USAID EVALUATIONS OF AIFLD GRANTS

Since 1991, USAID has contracted for at least four external evaluations of AIFLD activities, two evaluations of AIFLD's regional grant activities in 1991 and 1993 and two separate evaluations of mission grants in Nicaragua (April 1995) and Haiti (August 1995).⁴ In addition, the USAID Center for Democracy and Governance recently evaluated AIFLD's follow-on project in Nicaragua.

1991 AND 1993 EVALUATIONS OF AIFLD REGIONAL GRANT

The 1991 and 1993 evaluations of AIFLD's regional grant activities concluded that AIFLD's programs were supportive of U.S. foreign policy interests and provided important support for democracy movements throughout Latin America. For example, the 1993 evaluation indicated that with funds from USAID and NED and with the Department of State's support, AIFLD had helped shape the campaign for the "No" vote in the Chilean plebiscite of 1988. The evaluation said that the concerted effort on the part of labor and opposition political parties, supported by AIFLD, resulted in the rejection of an authoritarian regime and set the stage for elections in 1990.

The evaluations, however, indicated that (1) AIFLD should expand its activities to include all democratically oriented trade unions, rather than focus on AIFLD's traditional trade union partners from the Cold War era, and (2) USAID should do more to take advantage of labor's potential for furthering U.S. interests in the Latin America and Caribbean region, particularly in fostering economic growth and strengthening democracy.

According to a USAID official, the AFL-CIO has set new priorities for AIFLD that go beyond AIFLD's traditional program. In February 1995, the AFL-CIO sent a "Labor and USAID Strategy Document" to USAID that explained its new priorities. These priorities include (1) giving workers a voice in changing economies; (2) implementing internationally recognized worker rights; (3) mobilizing trade union support for necessary economic reform; and (4) involving trade unions in resolving environmental issues, primarily at specific work sites.

⁴Democratic Initiatives Performance Monitoring Study for the Latin America and Caribbean Bureau, Management Systems International, January 1991; LAC Labor Strategy and Development AIFLD Evaluation, Development Associates, Inc., April 1993; Evaluation of Strengthening Democratic Institutions (SDI) USAID/Nicaragua, Management Systems International, April 1995; and USAID Mission to Haiti: Evaluation of Cooperative Agreement No. 521-0236-A-00-1105-00 of the American Institute for Free Labor Development (AIFLD), Thunder and Associates, Inc., August 1995.

According to the 1993 evaluation, the State Department, both headquarters and embassies, had much closer contact with AIFLD than did USAID in monitoring the regional grant. USAID missions did not monitor AIFLD's country projects because they viewed the AIFLD program as "political" rather than "developmental" and because they did not consider the program part of their mission portfolio. Further, according to the evaluation, USAID/Washington did not have the country-by-country expertise to monitor the grant effectively. U.S. embassy labor attaches and labor officers used AIFLD programs for reporting on labor activities; although they generally ensured that the programs met U.S. foreign policy objectives, they did not closely monitor them. According to a USAID official, this management system was a remnant of AIFLD's running what was essentially a political program for 30 years.

USAID used portions of the 1993 evaluation in designing the Latin America and Caribbean democracy action plan in May 1993 and, according to a USAID official, in taking steps to improve its management of the regional AIFLD grant by designating a headquarters regional staff person as full-time project officer and obtaining the services of a labor advisor on loan from the Department of Labor. Further, after the transfer of three labor regional grants to the USAID Global Bureau in June 1994, USAID established the position of senior labor advisor and assigned a full-time project officer to oversee the grants. However, according to a USAID official, USAID missions still do not have monitoring responsibility over AIFLD's regional grant because the grant is administered by USAID/Washington. According to this official, USAID/Washington would like to increase mission involvement in and management responsibility for AIFLD projects by reducing the amount of AIFLD's regional grant and funding most projects through mission grants.

NICARAGUA EVALUATION

The April 1995 evaluation of AIFLD's activities in Nicaragua indicated that by supporting democratic trade unions prior to 1991, AIFLD made important contributions to Nicaragua's initial movement toward democracy. The evaluation stated, however, that AIFLD's project from 1992 through April 1995 had not met its main objective of establishing a democratic central labor body, primarily due to internal political problems among the various democratic trade unions.

The evaluation also stated that AIFLD should expand and redirect its program in response to changes occurring in the Nicaraguan labor movement, specifically signs of cooperation among Sandinista and traditionally democratic trade unions. It acknowledged, however, that by the end of the grant AIFLD had expanded its programs beyond its traditional union partners. The evaluation recommended that AIFLD refine and

refocus its education activities and, as a way of helping depolarize Nicaraguan society, expand them to include all trade unions.

EVALUATION OF NICARAGUA FOLLOW-ON PROJECT

An official from the USAID Democracy and Governance Center recently evaluated AIFLD's follow-on project in Nicaragua that was implemented under a 1-year cooperative agreement. In accordance with recommendations from the 1995 evaluation, the follow-on project continued AIFLD's education activities and offered them to all trade unionists, including young Sandinista trade unionists. According to the USAID official who evaluated the project, the project was successful in that it offered nonpolitical, strictly technical training for all trade unionists and focused on the role of trade unions in a democratic society. Based on this evaluation, the mission decided to continue the program under a new 1-year cooperative agreement with AIFLD.

HAITI EVALUATION

In August 1995, USAID commissioned an evaluation of AIFLD's program in Haiti. The evaluation stated that AIFLD's assistance had been invaluable in keeping the Haitian labor movement alive during the years of President Jean Bertrand Aristide's exile. It also stated that AIFLD had played a significant role in registering voters for the June 1995 election but could not verify AIFLD's claim to have registered 800,000 voters or other stated accomplishments because they were not documented. The evaluation concluded that AIFLD's management of the Haiti program lacked adequate planning, monitoring, reporting, and accounting systems and that USAID money very likely could have been spent more effectively.

The evaluation recommended that AIFLD (1) adopt short-, medium-, and long-term plans, including a work plan, to improve program management and the flow of financial and programmatic information; and (2) focus its program in the short-term on supporting civic education and documenting AIFLD-assisted trade union accomplishments. AIFLD, conceding that the program could have been better managed, improved the flow of financial and programmatic information to USAID and developed a work plan.

As a result of the evaluation and USAID funding constraints, USAID decided to reduce AIFLD's budget for the December 1995 presidential elections and more narrowly focus the program on civic education. USAID officials believe the resulting program was more successful and had a positive effect on the overall election outcome. USAID, however, did not grant AIFLD any further funding for activities after the election because it had decided to channel all funds for its Haiti democracy program through two

nongovernmental organizations that would make grants to other nongovernmental organizations. According to a USAID official, USAID encouraged AIFLD to apply for a grant through one of these organizations; an AIFLD official told us that AIFLD did so in early April 1996.

AIFLD officials told us that they vigorously disagreed with the findings in the evaluation, stating that the program was inadequately monitored by USAID officials with little knowledge of labor affairs. They also said that USAID officials and the evaluation understated the program's accomplishments, including the establishment of the Trade Union Election Commission, labor's involvement in the Tripartite Commission that discusses privatization and other issues, and the registration of 800,000 voters during the spring of 1995. AIFLD officials also believe that USAID's decision to limit funding and allocate funding for short periods of time reduced the program's effectiveness. AIFLD closed its office and ceased operations in Haiti on March 31, 1996. If AIFLD receives a new grant, it will reopen its office in Haiti.

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