OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/COLOMBIA'S ALTERNATIVE DEVELOPMENT PROGRAM

AUDIT REPORT NO.1-514-07-009-P
May 30, 2007

SAN SALVADOR, EL SALVADOR

Office of Inspector General

May 30, 2007

MEMORANDUM

TO: USAID/Colombia Director, Liliana Ayalde
USAID/Colombia Contracting Officer, Sunil Xavier

FROM: Acting Regional Inspector General/San Salvador, Darren Roman /s/

SUBJECT: Audit of USAID/Colombia's Alternative Development Program (Report No. 1-514-07-009-P)

This memorandum is our report on the subject audit. In finalizing the report, we carefully considered your comments on the draft report and we have included the Mission's comments in their entirety in Appendix II.

The report includes ten recommendations for your action. Based on the information provided in the Mission's response to the draft report, management decisions for the recommendations can be recorded when the Mission has developed a firm plan of action, with timeframes, for implementing the recommendations. Determination of final action for the report recommendations will be made by the Audit Performance and Compliance Division (M/CFO/APC) upon completion of the actions planned by the Mission.

I appreciate the cooperation and courtesy extended to my staff throughout the audit.

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SUMMARY OF RESULTS

Alternative development plays a critical role in the counter-narcotics strategy being pursued by the U.S. Government and the Government of Colombia. Alternative development programs are intended to improve social and economic conditions in illicit crop producing areas, thereby enabling small producers to voluntarily abandon illicit crop production. USAID/Colombia's alternative development program is carried out under conditions of great insecurity. Armed guerilla and paramilitary groups control many of the areas where the alternative development program is active, and limited physical security continues to be the most significant obstacle to successful and timely implementation of the program. (See page 3).

As part of its fiscal year 2007 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following questions:

- Did USAID/Colombia's Alternative Development Program activities achieve planned results?

- Did USAID/Colombia use performance-based contracting methods to the maximum extent possible in accordance with FAR Part 37.102?

With respect to the first question above, USAID/Colombia's alternative development program activities achieved planned results for all four of its main indicators in calendar year 2005. In 2006, the program achieved results related to infrastructure projects and job creation but fell short of targets for licit crops and the number of families that benefited from alternative development activities. (See page 6.) The audit also identified opportunities to improve program performance by speeding implementation of program activities, developing guidance on the amounts that can be spent on cultivation of licit crops, formalizing the arrangements for verifying voluntary eradication, developing guidance on the types of infrastructure projects that can be financed, developing cost sharing requirements, periodically reviewing the accuracy of information provided by partners, and making the performance targets in the Mission's Performance Monitoring Plan, contracts, and work plans more consistent with one another. (See pages 7 to 16.)

With respect to the second question above, USAID/Colombia did not use performance-based contracting methods to the maximum extent possible in accordance with FAR Part 37.102. Instead, the Mission was using conventional "cost plus" contracts. (See page 16.)

In addition, one other matter came to our attention during the course of the audit: the Mission did not comply with forward funding requirements and exceeded its limit by $18 million as of September 30, 2006. (See page 17.)

The report contains 10 recommendations for USAID/Colombia as follows:

- Improve timeliness of project implementation for productive projects (see page 8).

- Establish guidelines for the amounts that the contractor can spend to support the production of licit crops (see page 9).

- Execute a verification agreement with the Government of Colombia, which the Mission relies on to verify coca eradication before assistance is provided (see page 10).

- Establish clear boundaries on the types of social infrastructure projects that can be provided (see page 12).

- Establish guidelines on the amounts that can be spent in individual communities (see page 12).

- Establish guidelines on cost sharing requirements to make the program sustainable (see page 13).

- Conduct periodic reviews of reported results to ensure that results reported by partners are accurate (see page 14).

- Ensure that performance indicators and targets are consistent among program documents (see page 16).

- Move toward performance-based contracting to better ensure that results are achieved (see page 17).

- Reprogram excess obligations to activities that are more urgent by entering into additional commitments and/or reallocating funds among the sub-commitments/sub-obligations (see page 18).

BACKGROUND

The U.S. Government made a large commitment to fighting drug production throughout the Andean Region with the inauguration of Plan Colombia, or the Andean Counterdrug Initiative, in 2000. Plan Colombia was a $4 billion, six-year plan (2000-2005), to reduce drug crop cultivation and improve human rights and the rule of law.

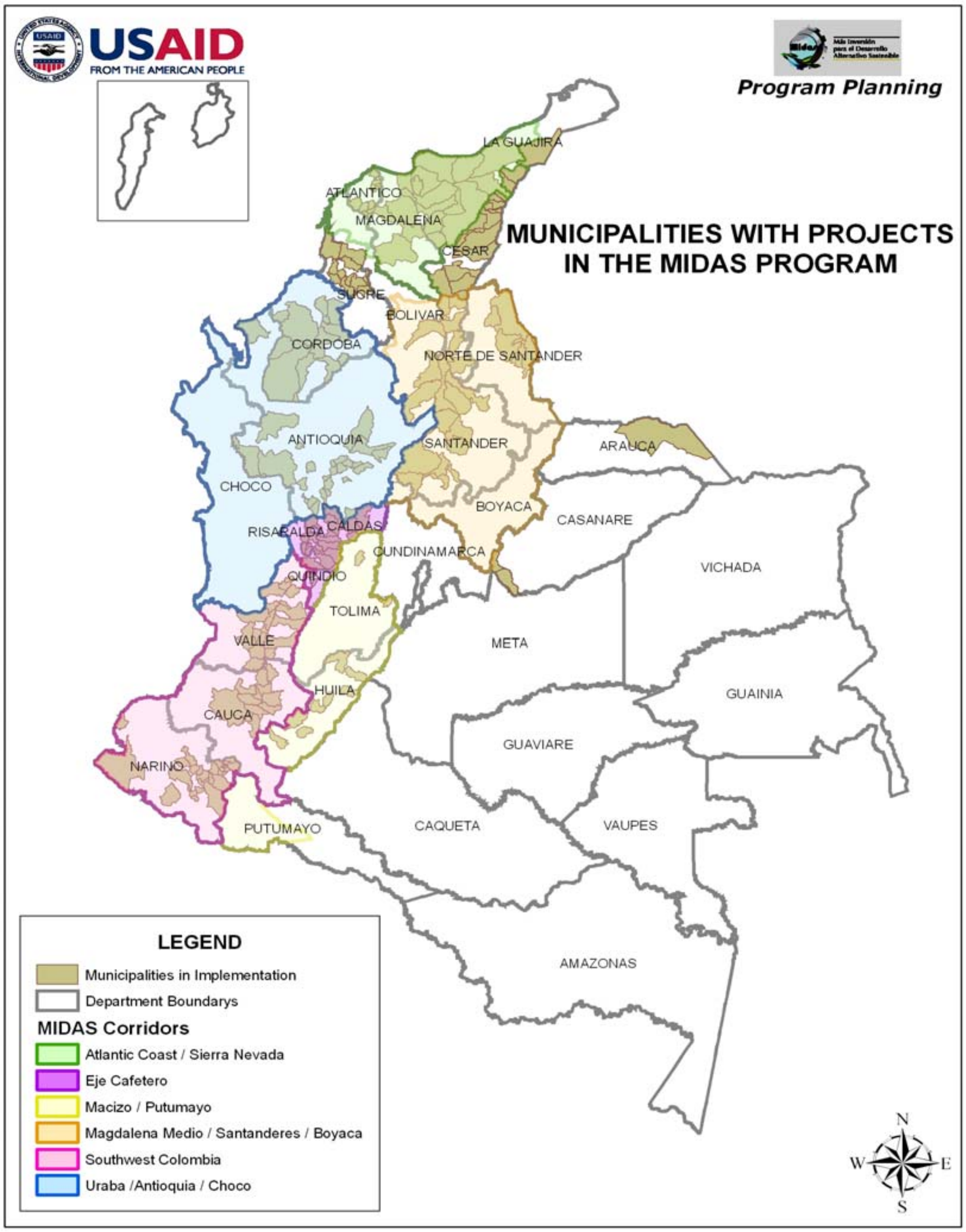
Within the counter-narcotics strategy of Plan Colombia, alternative development plays a critical role. Alternative development is defined as a process designed to improve social and economic conditions in illicit crop producing areas, thereby enabling small producers to voluntarily abandon illicit crop production. It promotes growth and stability of a legal economy based on a regional approach to sustainable production and marketing of agricultural, forestry, and fishery products compatible with sound environmental management. USAID/Colombia's alternative development program is carried out under conditions of great insecurity. Armed guerilla and paramilitary groups control many of the areas where the alternative development program is active, and limited physical security continues to be the most significant obstacle to successful and timely implementation of the program. USAID/Colombia has carried out its alternative development program primarily through three contracts.

The Colombia Alternative Development program, valued at $97.3 million, operated between May 2001 and May 2006 and was implemented by Chemonics International Inc. The program had two phases: the first focused primarily on eradication of illicit crops and establishment of licit activities, and the second involved developing agro-industry value chains designed to create a more sustainable regional economy.

In 2004, the Mission concluded that the widespread presence of this first contract was not sustainable in the long-term. The Mission revised its strategy for greater cohesion, geographic concentration, sustainability, and long-term impact by working in fewer, but strategically more significant areas, of the country to develop and strengthen social capital, state presence, and economic opportunities. USAID/Colombia's revised strategy for fiscal years 2006 through 2008 embraces a more systematic and targeted approach that emphasizes prevention rather then a strategy utilizing the presence of illicit crops as the sole criterion for defining the program's geographic focus. In limiting the geographic focus and selecting regions for intervention, the mission identified areas of the country that (1) currently are under coca/poppy cultivation or that are vulnerable to illicit crop production; (2) have significant economic potential; (3) have sufficient local and national political will; and (4) have a high incidence of violence. USAID/Colombia believes that its programs in alternative development, democracy, and humanitarian assistance can and will be sustainable if activities are more heavily focused in areas of the country with these characteristics. As a result, USAID selected a total of 6 corridors covering approximately one third of the country, as illustrated in the map on page 4.

In October 2005, USAID awarded Associates in Rural Development a five-year contract, totaling $190 million, to implement the Areas for Municipal-Level Alternative Development Program (ADAM). ADAM is a coordinated set of activities and investments to create sustainable alternative development opportunities, improve local governance, and help reestablish the presence of the State in rural areas threatened by violence and internal conflict related to the cultivation and processing of illicit crops. The foundation of an ADAM Municipal Initiative is the productive activity that provides competitive economic alternatives (both on-farm and off-farm activities) to illicit crops. The ADAM strategy is based on the premise that the key to sustainable economic development is the creation of strong, effective linkages among the governmental institutions, markets, and local producers (who, importantly, are also citizens and community leaders). In this sense, ADAM aims to promote strategic linkages between the state, markets, and producers. This contract is planned to end in October 2010.

Map 1: Alternative Development Program Geographic Coverage



Source: USAID/Colombia

In December 2005, USAID/Colombia awarded Associates in Rural Development another five-year contract, totaling $160 million, to implement the Additional Investment for Sustainable Alternative Development Program (MIDAS). MIDAS stimulates and supports the development of sustainable businesses (agribusiness, forestry, and small/medium business) that generate significant new sources of licit income for producers and others involved in or have vulnerabilities to be involved in drug-related activities. MIDAS is designed to react to private initiative by summoning private investors to submit alternative development project proposals, selecting those that show viable figures and sound business foundations, and offering a percentage of the total investment through non-refundable grants intended mostly, to pay for training expenses and technological improvements. MIDAS only funds a small percentage of selected projects, leaving most of the financial effort to the actual investors, banking institutions, government and other interested parties. This contract is planned to end in December 2010.

ADAM and MIDAS provide assistance to communities that are coca-free. USAID works closely with *Acción Social*, the Government of Colombia's counter-narcotics agency, which is primarily responsible for verifying coca-free areas and ensuring continual compliance with the Government of Colombia's zero coca policy.

AUDIT OBJECTIVES

As part of its fiscal year 2007 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following questions:

- Did USAID/Colombia's Alternative Development Program activities achieve planned results?

- Did USAID/Colombia use performance-based contracting methods to the maximum extent possible in accordance with FAR Part 37.102?

Appendix I contains a discussion of the audit's scope and methodology, including a limitation on the scope of the audit.

AUDIT FINDINGS

Did USAID/Colombia's Alternative Development Program activities achieve planned results?

USAID/Colombia's alternative development program activities achieved planned results for all four of its main results indicators in calendar year 2005. In 2006, the program achieved results related to infrastructure projects and job creation but fell short of targets for licit crops and the number of families that benefited from alternative development activities.

The following table shows the information on planned and actual results as of December 31, 2005 and December 31, 2006.

Table 1: Planned vs. Actual Results

Main Indicators	Calendar Year Ending December 31, 2005		Calendar Year Ending December 31, 2006	
	Target	Actual	Target	Actual
Number of families benefiting from alternative development activities	21,000	21,563 (103%)	15,000	12,326 (83%)
Hectares of licit crops supported	19,270	28,271 (147%)	29,000	16,774 (58%)
Number of full time equivalent jobs created	Indicator added in 2006	Indicator added in 2006	36,250	37,240 (103%)
Number of social and productive infrastructure projects	40	46 (115%)	20	85 (425%)
Hectares of illicit crops eradicated	100	676 (676%)	Indicator dropped after 2005	Indicator dropped after 2005

There were several reasons why planned results related to licit crops and families benefiting from alternative development activities were not met in 2006. This was the first year of implementation of two new contracts and ARD spent more time than expected on start-up activities, designing a strategy, and organizing its administrative and technical teams. Also, ARD moved into office space that USAID had warned was unapproved. Several weeks later ARD had to terminate its lease and move into a new building. The disruption caused by the move affected ARD's program activities. In addition, ARD had staffing problems such as the resignation of its Chief of Party. A new Chief of Party arrived in October 2006, just two months before the end of the reporting period. In addition, a lengthy subcontracting process, a delay in finalizing a standard agreement to be signed with communities participating in the program, and difficulty in identifying communities in Putumayo that were coca free all contributed to not meeting results in 2006.

The following sections of the audit report discuss further why results were not met and also address opportunities to improve program implementation and achievement of program objectives.

Implementation of Projects Was Slow

Summary: Delivering assistance timely is a key to success. However, implementation of ADAM and MIDAS has been slow. Under the MIDAS project, the average time from receiving proposals from grantees or sub-contractors to the beginning of project implementation was 16 months.[1] Under the ADAM project, the average time from signing agreements with municipalities to implementation was 6 months. Slow implementation of program activities occurred because of startup problems associated with the new contracts with ARD. As a result, some planned program results were not met for calendar year 2006.

Delivering assistance timely is a key to success. However, implementation of MIDAS and ADAM has been slow. Under the MIDAS project, the average time from receiving proposals from grantees or sub-contractors to implementation was 16 months. Under the ADAM project, the average time from signing agreements with municipalities to implementation was 6 months.

The business development model for MIDAS began with receiving proposals from potential grantees or sub-contractors who respond to requests for business plans. Once the proposals were submitted, the MIDAS team screened, reviewed, assessed, and developed the project for the grantee or sub-contractor. Once that process was completed, the grant or sub-contract was signed and implementation began shortly after. The average time the project took to sign grant agreements from the time the proposals were received was 13 months. The average time the project took to implement the activities (actual planting of crops) from the time the grants or sub-contracts were signed was 3 months. Therefore, the entire process took on average 16 months before implementation began.

Under the ADAM project, agreements between the Government of Colombia and the municipalities and communities were signed before actual planting began. Since the ADAM project was just underway, we reviewed all seven active projects that were being implemented or were still awaiting review at the end of our audit. The average time from signing agreements with municipalities to implementation (or to the end of our audit, for those projects still awaiting review) was 6 months.

Slow implementation was because of start-up problems associated with the new contracts with ARD. Also, a delay in finalizing agreements with the Government of Colombia caused a delay in implementation because actual planting of crops could not be done until agreements with communities were signed. As a result, the mission only

[1] We reviewed documentation for all 33 projects under the Colombia Agribusiness Partnership Program (CAPP) previously implemented by Chemonics and currently inherited by ARD under the MIDAS project. No other projects were underway at the time of our audit.

achieved 58 percent of the targeted hectares of licit crops supported and 83 percent of the targeted number of families benefiting from alternative development activities in calendar year 2006.

Recommendation No. 1: We recommend that USAID/Colombia require Associates in Rural Development to develop an action plan to shorten the time it takes for implementation to begin.

Cost Guidelines for Licit Crops Are Needed

Summary: According to *Acción Social* officials, the average investment for one hectare of licit crops (average includes all crops such as cacao, palm, coffee, etc.) financed by the Government of Colombia is $2,130. However, the average cost per hectare of licit crops financed under USAID/Colombia's alternative development program was $4,178, with costs per hectare ranging from $1,268 to $59,101. The Mission focused on other priorities such as speeding implementation of the large contracts that were signed in 2005 and so did not establish cost guidelines for licit crop activities. Without establishing guidelines on how much to spend in each community, the program cannot ensure that sufficient funds will be available to meet program goals or that costs are commensurate with the results achieved. Also, without monitoring the efficiencies of the program, the Mission would not be able to determine the effectiveness and efficiencies of the program and of its contractors.

According to *Acción Social* (the Government of Colombia's agency responsible for alternative development) officials, the average investment for one hectare of licit crop (average includes crops such as cacao, palm, coffee, etc.) is $2,130.[2] However, the average cost per hectare under USAID's Colombia's alternative development program was $4,178, with costs per hectare ranging from $1,268 to $59,101. Table 2 lists the investment per hectare for the projects we reviewed.[3]

Table 2: Investments per Hectare of Licit Crops

Department	Municipalities	Amount Invested	Hectares of Licit Crops	Investment per Hectare
Huila	La Plata, Nataga, Algeciras, Teruel, Palermo, Tello, Baraya, Colombia.	$282,681	223	$1,268

[2] The mix and geographic location of crops financed by the Government of Colombia may not be the same as those financed by USAID. However, the comparison is indicative of at least a potential problem since the USAID average cost is almost twice the Government of Colombia's cost.

[3] We reviewed a total of 10 projects under the Colombia Alternative Development (CAD) project, implemented by Chemonics, which were completed in calendar years 2005 and 2006. Some of these projects were inherited by Associates in Rural Development when it was awarded the ADAM and MIDAS contracts. We did not review any current projects under ADAM or MIDAS because implementation is still underway.

Department	Municipalities	Amount Invested	Hectares of Licit Crops	Investment per Hectare
Caqueta	Municipios de San Jose de Fragua, Albania, Curillo, Solita, Valparaiso, y Solano	$4,059,733	1,866	$2,175
Putumayo	Mocoa, Orito, Pto Asis, Pto Caicedo, Valle del Guamuez y villa Garzon	$1,627,334	271	$6,005
Putumayo	Villagarzón	$338,694	54	$6,272
Cauca	Patía, Balboa	$3,105,081	214	$14,510
Putumayo	Villagarzón	$395,244	26	$15,202
Putumayo	Valle del Guamuez y San Miguel	$438,782	20	$21,939
Putumayo	Villagarzón y Puerto Caicedo	$445,997	19	$23,474
Putumayo	Mocoa y Pto Guzmán	$452,095	14	$32,293
Cauca	Patía	$177,304	3	$59,101

The Mission had not focused on establishing cost guidelines. Without establishing guidelines on how much to spend in each community, the program cannot reasonably ensure that sufficient funds will be available to meet program goals or that costs are commensurate with the results achieved. Standards on how much to spend per hectare of a licit crop should be established to ensure that implementing partners' costs are comparable in similar circumstances.

Recommendation No. 2: We recommend that USAID/Colombia establish guidelines on investment per hectare of licit crop and ensure that the implementing partners adhere to those standards by notifying them in writing or by modifying their contracts.

Verification Arrangements Should Be Formalized

Summary: The Mission has recognized the need to obtain a formal verification agreement with *Acción Social* for USAID's alternative development activities, since the success of the alternative development program is dependent on ensuring that the program beneficiaries have no illicit crops. However, the program did not have a formal agreement with *Acción Social* to regularly follow up with program beneficiaries to ensure that they comply with the policy. This occurred because USAID previously was relying mainly on assisted municipalities and organizations to monitor their own residents and members. Without formal monitoring, there is a high risk that some beneficiaries will not abide by the zero illicit crops policy.

The Colombian Government has a "zero illicit crops" policy in that beneficiaries of Plan Colombia assistance are to be free of illicit crops. As part of Plan Colombia, USAID/Colombia's alternative development program has adopted the same policy. The Mission has recognized the need to obtain a formal verification agreement with *Acción Social* for USAID's alternative development activities.

Although *Acción Social* has implemented a verification program for its own alternative development program (called the *familias bosques* program), it has not implemented a verification program for USAID's alternative development program. Instead, USAID's alternative development program principally relied on municipal and local governments and organizations receiving direct assistance to monitor themselves and their individual residents/members.

At the time of the audit fieldwork, the Mission was working with *Acción Social* to develop verification protocols similar to those of the *familias bosques* program. *Acción Social's* plan is to initially go into the area to verify that there is no coca, and then to periodically go back to verify compliance.

The Mission needs to enter into a firm verification agreement and plan that spells out procedures and schedules for pre-verification and post-verification. The agreement should also specify requirements for reporting on the results of the verifications, and steps to be taken if illicit crops are found.

Without a formal verification program with the Government of Colombia, there is no assurance that *Acción Social* will cover the areas in which USAID is working. In addition, there is a high risk that some beneficiaries will not comply with the zero illicit crop policy. This could give current and future beneficiaries the impression that the program is not serious about ensuring compliance with the no illicit crop policy. In fact, there have been recent reports that some beneficiaries are not complying with the policy (nine families in Tulmalco were reported to have coca in the areas that were claimed to be coca free).

> *Recommendation No. 3: We recommend that USAID/Colombia enter into a formal verification agreement and plan with Acción Social that specifically addresses (1) the areas in which USAID is working and includes a schedule of verification to be carried out by Acción Social and reported to USAID, and (2) actions to be taken if coca is found.*

Guidelines Needed for Social Infrastructure Projects

Summary: The program's strategic objective is to expand economic and social alternatives to illicit crop production. However, the program financed some infrastructure projects that met recreational and/or aesthetic needs but did not contribute to the program goal of developing licit economic activities. The program financed the construction of recreational/sports facilities and made improvements to mayoral offices totaling $511,540. In addition, the program did not establish cost guidelines or limits for social infrastructure projects and financed projects that ranged from $638 to $2.4 million. The program did not establish clear boundaries on the types of infrastructure projects that contributed to the program goal of generating licit economic activities and did not establish limits or standards on how much to spend in a community. As a result, program funds were used for purposes that did not meet basic community needs or contribute to sustainable development activities and economic growth. Also, not limiting the benefits or establishing standards for how much to invest per community may limit the program's efficiency and ultimately its effectiveness, since there is a risk that fewer resources will be available to pursue program objectives.

Large differences in the amounts spent in individual communities may also contribute to perceptions of favoritism or unfairness.

The program's strategic objective is to expand economic and social alternatives to illicit crop production. The program helps municipalities and communities develop basic social and productive infrastructure to meet community needs. Specifically, these projects are to (1) help provide needed infrastructure; (2) help establish a strengthened state presence at the local level; and (3) help resolve basic local problems and stimulate economic growth. USAID/Colombia typically finances basic infrastructure projects such as schools, health centers, potable water and sanitation facilities, electric connections, etc., for communities or groups within communities who participate in the program.

However, the program also financed some infrastructure projects that met recreational and/or aesthetic needs but did not contribute to the program goal of developing licit economic activities. As shown below, the program financed the construction of recreational/sports facilities and made improvements to mayoral offices totaling $511,540.

Table 3: Projects Financed by USAID That Do Not Contribute to Licit Economic Activities

Type of Project	Number of Projects	Total Amount
Recreational/Sports Facility	18	$419,805
Mayoral Offices	5	$91,735
Total	*23*	*$511,540*

The program did not establish clear boundaries on the types of infrastructure works that contributed to the program goal of generating licit economic activities. As a result, the program spent $511,540 for purposes that did not meet basic community needs or contribute to sustainable development activities or economic growth.

In addition, the Mission did not establish guidelines for how much could be spent in a single community or group within a community and financed projects that ranged from $638 to $2,369,621. The Mission plans to provide assistance to approximately 100 municipalities under its alternative development project. To ensure that funds will be available to all planned municipalities, the Mission should establish cost guidelines on social infrastructure projects in each community. Below is a table of the investments made by USAID for the 686 projects we reviewed:[4]

Table 4: Size of Infrastructure Investments Financed by USAID

Range of Investments	Number of Projects

[4] We reviewed documentation pertaining to all 686 projects implemented by Chemonics, U.S. Army Corps of Engineers, and ARD (including projects that are planned but not yet implemented by ARD).

Range of Investments	Number of Projects
$100,000 and below	643
$100,001 to $500,000	37
$500,001 and above	6
Total	*686*

The Mission did not establish standards or limits on its social infrastructure projects because the Mission was focused on other priorities such as implementing the program. Not limiting the benefits or establishing standards for how much to invest per community limits the program's efficiency and ultimately its effectiveness, since there is a higher risk that fewer resources will be available to pursue program objectives. It may also contribute to perceptions of favoritism or unfairness among municipalities.

Recommendation No. 4: We recommend that USAID/Colombia (a) establish clear boundaries on the types of infrastructure works that contribute to economic growth or meet community basic needs and therefore would be permissible under the program and (b) provide this guidance to its implementing partners.

Recommendation No. 5: We recommend that USAID/Colombia establish limits or standards on the amounts that can be invested in each community for social infrastructure projects.

Cost Sharing Requirements Varied Widely Among Projects

Summary: The Mission considers cost sharing to be of great importance to the program's sustainability. However, cost sharing contributions made by the Government of Colombia or local entities varied from 0 percent to 89 percent. This occurred because the program did not establish minimum or standard contribution requirements for the communities. The contributions made by the communities varied among communities, depending on the negotiations that took place between the contractor and community leaders. Without establishing limits or standards on how much a community should contribute, the program could leave impressions of favoritism towards certain farmers. Also, it could result in a lack of sustainability or commitment in those communities that contribute little or nothing.

The Mission considers cost sharing to be of great importance to the program's sustainability. However, cost sharing contributions varied considerably as shown in Table 5 below.

Table 5: Cost Sharing Contributions

Percentage of Total Cost	Number of Projects
0	302
1-50	292
51-89	92
Total Projects	*686*

This wide variation occurred because the program did not establish minimum or standard contribution requirements from the communities. The contributions made by the communities varied from one community to the other depending on the negotiations that took place between the contractor negotiators and community leaders.

Without standards for cost sharing contributions, perceptions of favoritism may result. Also, a lack of cost sharing could result in a lack of sustainability or commitment in those communities that contributed little or nothing.

Recommendation No. 6: We recommend that USAID/Colombia establish guidelines on cost sharing requirements.

Periodic Reviews of Reported Data Should be Performed

Summary: USAID guidance suggests that periodic data quality reviews be completed to ensure completeness, accuracy, and consistency. Additionally, an independent data quality assessment performed in 2005 recommended that the Mission establish a system to periodically verify results reported by its partners. However, the Mission has not periodically reviewed the quality of data reported by partners because the Mission had other priorities such as focusing on the start-up of the large contracts with ARD. As a result of not performing periodic quality reviews of the data collected from partners, reported results may be inaccurate. Additionally, decision makers who rely on the performance data reported to them could make incorrect conclusions on the progress of the activities and make incorrect decisions as to how to utilize their limited resources most effectively.

USAID's Automated Directives System (ADS) 203.3.5.2 states that the Operating Unit and the Strategic Objective Team should be aware of the strengths and weaknesses of their data and to what extent the data can be trusted to influence management decisions. Additionally, USAID's *Performance Management Toolkit* supplementary guidance document states that the goal to assessing data from implementing partners and secondary sources is to be aware of the data strengths and weaknesses and the extent to which data can be trusted when making management decisions and reporting. It also states that a practical approach to planning data quality assessments includes an initial data quality assessment and periodic quality reviews for completeness, accuracy, and consistency.

Additionally, an independent data quality assessment performed in 2005 found some data quality problems related to some of the main indicators used under the alternative development program and recommended that the Mission establish a system to periodically verify results reported by its partners. For example, some problems identified by the independent data assessment included the following:

- The partners did not have common criteria or definitions to report on hectares of illicit crops manually eradicated.

- Regarding the indicator on number of infrastructure projects completed, partners used different criteria to report on infrastructure projects. For some partners, the number of infrastructure projects was counted based on purchase orders. However, this caused double counting of projects completed when the projects were executed in several stages and, therefore, generated several purchase orders. In addition, some partners reported projects completed when the third payment was made, and others reported them as completed when 80 percent of the work was done.

- There was a possibility of double counting the “number of families benefiting from alternative development activities” when a family benefited from two different programs executed by different partners and/or not counting beneficiaries from social infrastructure projects. In addition, it was not clear what methods and sources were used to determine the number of families who benefited from an infrastructure project.

The Mission has not periodically reviewed the quality of data reported by partners because the Mission had other priorities such as focusing on the start up of the large contracts with ARD.

Data quality assessments and periodic verifications help ensure that consistent and reliable data is being collected for management decision making purposes as well as for reporting purposes. With data quality assurances, decision makers may avoid making wrong conclusions regarding the performance of their programs.

Recommendation No. 7: We recommend that USAID/Colombia develop and implement a system to help ensure that the existing requirement in ADS 203 which requires its Alternative Development Office to periodically sample and verify its implementing partners’ data for completeness, accuracy, and consistency is met.

Performance Targets Were Inconsistent

Summary: According to guidance in USAID’s Automated Directives System (ADS), performance indicators and targets must be established so that program performance can be measured. Performance monitoring plans (PMPs) should be regularly updated with new performance information to track and monitor results achieved or not achieved as planned. However, the performance targets established for USAID/Colombia’s alternative program activities were inconsistently described in different program documents. For example, the implementing partner’s contracts and work plans did not require reporting on the same indicators or targets, and the PMP targets have not been established for program years 2005 through 2010. USAID/Colombia focused on rapidly scaling up alternative development activities and did not devote sufficient effort to ensuring that program performance targets were expressed consistently. Inconsistencies in the performance targets reduce their usefulness and make it difficult to assess progress under the program.

According to USAID’s Automated Directives System (ADS) 203, performance indicators and targets must be established so that program performance can be measured. Performance management plans should be regularly updated with new performance information to track and monitor results achieved or not achieved as planned. Beyond what is specifically stated in the ADS, it is obviously important to the success of any program that program performance indicators and targets be unambiguous and expressed consistently.

However, the performance targets established for USAID/Colombia's alternative development program activities were expressed inconsistently in contracts and work plans. Under the ADAM project, ARD's contract did not have an indicator for sales of licit production and did not have targets for the indicator number of social and productive infrastructure projects, even though they were required to report on these indicators in the work plans and progress reports. Also, ARD was required to report on the number of full time equivalent jobs in the work plans and progress reports, and had established targets for this indicator in the work plans and progress reports, but these targets were not formally established in the contract.

Under the MIDAS project, the indicators and targets were also not consistent between ARD's contract and its work plan or progress reports. For the performance indicator, "sales of licit production," there were no targets established in the contract and it did not even appear in the work plan or progress reports.

In addition, the Mission's PMP does not include any indicators or targets for program years 2006 through 2010.

The following table summarizes the inconsistencies among program documents:

Table 6: Performance Targets for Life of Project (LOP) 2006 through 2010

PMP Performance Indicators	PMP Targets	ADAM LOP Targets		MIDAS LOP Targets	
		Target in ARD Contract	Target in ARD Work Plan/ Progress Reports	Target in ARD Contract	Target in ARD Work Plan
Number of families benefiting from alternative development activities	Not included	49,978	51,633	441,600	624,607
Hectares of licit crops supported	Not included	156,365	156,952	463,750	217,257
Number of full time equivalent jobs created	Not included	Not included	70,521	177,000	277,784
Sales of licit production	Not included	Not included	$342 Million	Not included	Not included
Number of social and productive infrastructure projects	Not included	Not included	376	16	12

USAID/Colombia focused on rapidly scaling up alternative development activities and did not devote sufficient effort to ensuring that program performance targets were expressed consistently. Inconsistencies in the performance targets reduce their usefulness and make it difficult to assess progress under the program.

Recommendation No. 8: We recommend that USAID/Colombia (a) ensure that performance indicators and their corresponding targets are developed annually and are consistent among the various program documents; and (b) modify implementing partner contracts to reflect the same indicators and corresponding targets.

Did USAID/Colombia use performance-based contracting methods to the maximum extent possible in accordance with FAR Part 37.102?

USAID/Colombia did not use performance-based contracting methods to the maximum extent possible in accordance with FAR Part 37.102. The following section discusses this issue.

Performance-Based Contracting Should Be Used

Summary: According to FAR Subpart 37.102, performance-based contracting is the preferred method for acquiring services and must be used to the maximum extent practicable. However, the two main contracts under the alternative development program, ADAM and MIDAS, totaling $350 million, were not performance-based type contracts. According to USAID/Colombia's Contracting Officer, although performance-based contracting is the preferred method of contracting, it is not commonly used by USAID missions and the Mission argued that the existing contracts were a variation of performance-based contracting. Without performance incentives/penalties built into the contracts, there is a high level of risk that program objectives will not be met.

According to FAR Subpart 37.102, performance-based contracting is the preferred method for acquiring services and must be used to the maximum extent practicable. FAR Subpart 37.601 defines performance-based contracting as "a method intended to ensure that required performance quality levels are achieved and that total payment is related to the degree that services performed or outcomes achieved meet contract standards. Performance-based contracts or task orders (1) describe the requirements in terms of results rather than the methods of performance of the work; (2) use measurable performance standards (i.e. in terms of quality, timeliness, quantity) and quality assurance surveillance plans; (3) specify procedures for reductions of fee or for reductions to the price of fixed-priced contract when services are not performed or do not meet contract requirements; and (4) include performance incentives where appropriate."

However, the two main contracts under the alternative development program, ADAM and MIDAS, totaling $350 million, were not performance-based type contracts. The work plans included a description of desired performance, including performance indicators and targets; however, all payments were based solely on level of effort rather than performance.

According to USAID/Colombia's Contracting Officer, although performance-based contracting is a preferred method of contracting, it is not commonly used by USAID missions. The Mission argued that the current method used is a "hybrid" performance-based contract because the contracts and the work plans have indicators and targets. We disagree with this characterization; since there were no incentives or penalties related to results, the Mission was simply using conventional “cost plus” contracts.

The Mission recognizes the need to move towards a performance based contracting method in light of the fact that the prime contractor, ARD, did not meet its planned results for 2006 under ADAM and MIDAS. The Mission needs to move toward providing the contractor with incentives for meeting targets and penalties or reductions in fee for not meeting targets. Without performance incentives/penalties built into the contracts, there is a high level of risk that program objectives will not be met.

Recommendation No. 9: We recommend that USAID/Colombia amend its contracts with Associates in Rural Development to include more performance-based elements such as adding incentives for meeting goals, structuring payment based on performance, and specifying penalties or reductions in fee for not meeting results.

Other Matter

One other matter came to our attention during the course of the audit that requires corrective action by USAID/Colombia. Specifically, obligations to the alternative development strategic objective agreement did not comply with USAID forward funding requirements.

Mission Should Comply with Forward Funding Guidelines

Summary: USAID policy states that missions should not forward fund obligations for more than 12 months beyond the end of the fiscal year in which the obligations take place. However, based on expected expenditures for 2007, the Mission exceeded this requirement for its alternative development strategic objective agreement by at least $65 million as of September 30, 2006. This occurred because of delays in program implementation and overly optimistic expenditure projections. As a result, funds that could have been used to fund more pressing needs elsewhere remain idle. USAID/Colombia should reprogram excess obligations totaling $18,018,502 to activities that are more urgent.

ADS Section 602.3.2 states that program managers must not forward fund obligations for more than 12 months beyond the end of the fiscal year in which the obligations take place. Since most obligations occur in the last half of the fiscal year, the upper limit of pipelines normally is not expected to exceed 18 months of anticipated expenditures. The upper limit is obtained by adding 12 months to the number of months remaining in the fiscal year after the obligation is made.

However, the Mission exceeded these guidelines for its alternative development SOAG as of September 30, 2006 by at least $65 million. This included $47 million that was obligated from fiscal years 1996 through 2005 but not expended as of September 30, 2006, plus $18,018,502 million in additional obligations during FY 2006 that the Mission does not expect to be able to spend during FY 2007.

The main reason for excess obligations was overly optimistic expenditure projections combined with implementation delays. For example, the expenditures for the MIDAS and ADAM contracts were less than expected because of delays in entering into sub-agreements. In addition, unneeded obligations under some agreements that have ended have not yet been reprogrammed and so could not be used.

Therefore, funds that could have been used by USAID to fund activities during the current fiscal year remain idle.

Recommendation No. 10: We recommend that USAID/Colombia reprogram excess obligations totaling $18,018,502 to activities that are more urgent by entering into additional commitments and/or reallocating funds among the sub-commitments/sub-obligations.

EVALUATION OF MANAGEMENT COMMENTS

USAID/Colombia generally agreed with the findings and recommendations in our draft audit report. The Mission plans to implement Recommendation Nos. 1 through 8 and a management decision can be reached on these recommendations when USAID/Colombia provides target dates for implementing the recommendations.

For Recommendation No. 9 on including more performance-based elements to the contracts with Associates in Rural Development, the Mission has agreed to do the following: (1) reduce the five-year contracts to three-year contracts with two one year options to extend, (2) prepare performance evaluations on the contractor to motivate performance, and (3) modify the contracts to firm-fixed price on some deliverables. Although these actions help the Mission move towards performance-based contracting, we will consider that a management decision has been reached for this recommendation when the Mission provides additional information and target dates for the following: (1) additional information on its plans for firm-fixed price on some deliverables, and (2) plan to reduce the contractor's fixed fee if the contractor does not meet its targets.

For Recommendation No. 10 on reprogramming excess obligations totaling $18,018,502, the Mission stated that although it agrees with the spirit of the recommendation, newly-developed forecasts of the partners' show that all funds on hand and to be received in FY 2007 and FY 2008 will be needed to fund the operations of the related partners. Thus, no funds are to be reprogrammed at this time. While we acknowledge the Mission's comments, the comments do not address how the Mission will comply with the Agency's forward funding guidelines to not forward fund obligations for more than 12 months beyond the end of the fiscal year in which the obligation takes place. Therefore, a management decision will be reached for Recommendation No. 10 when USAID/Colombia has developed a firm plan of action on reprogramming the excess obligations.

Mission comments in their entirety are presented in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/San Salvador conducted this audit in accordance with generally accepted government auditing standards. Fieldwork for this audit was performed in Colombia from January 30, 2007 to March 6, 2007.

As part of its fiscal year 2007 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following questions: (1) Did USAID/Colombia's Alternative Development Program activities achieve planned results? and (2) Did USAID/Colombia use performance-based contracting methods to the maximum extent possible in accordance with FAR Part 37.102?

The audit was subject to a scope limitation in that security conditions in the areas covered by the program did not permit us to perform site visits to observe program activities or interview beneficiaries.

In planning and performing the audit, we reviewed and assessed the effectiveness of USAID/Colombia management controls related to the Alternative Development Program. The significant USAID/Colombia controls identified included preparing a performance monitoring plan, reviewing contractor performance and financial reports, conducting site visits, and maintaining regular contact with the contractor.

The audit primarily covered the alternative development activities implemented by USAID/Colombia's prime contractors for the period from January 1, 2005 through December 31, 2006. The first main contract, implemented from May 2001 through May 2006, was managed by Chemonics International Inc. for $97.3 million. As of December 31, 2006, $96.4 million had been expended on the contract. The second main contract (for ADAM activities), signed in October 2005, is being implemented by Associates in Rural Development for a total of $190 million for five years. As of December 31, 2006, $20 million had been obligated and $13 million had been expended on the contract. The third main contract (for MIDAS activities), signed in December 2005, is also being implemented by Associates in Rural Development for a total of $160 million for five years. As of December 31, 2006, $24.2 million had been obligated and $10.5 million had been expended on the contract.

Methodology

To answer the first question, we traced results reported by the Mission to quarterly reports submitted by the implementing partners. We reviewed USAID/Colombia's performance monitoring plan, strategic plan, primary contracts, work plans, and progress reports. We interviewed the contracting officer, alternative development monitoring and evaluation specialist, and other alternative development program team members. We also interviewed officials from Associates in Rural Development, Chemonics International Inc., United Nations, Government of Colombia's *Acción Social*, and the State Department's Narcotics Affairs Section.

In addition, we analyzed all 686 social infrastructure projects to determine the nature of the project, amount of the project, and cost sharing contributions made by the Government of Colombia and other local entities for each project. We reviewed all 10 projects from the Colombia Alternative Development (CAD) project implemented by Chemonics that were completed in calendar years 2005 and 2006. We reviewed all 33 projects under MIDAS which had been inherited from the Colombia Agribusiness Partnership Program (CAPP) and all 7 active projects under ADAM to determine when implementation began. We also reviewed the targets established for the main indicators to determine consistency among program documents.

To answer the second question, we interviewed the contracting officer and other mission officials. We reviewed the requirements set forth in FAR Part 37.102 and compared them to the two main contracts, ADAM and MIDAS, implemented by Associates in Rural Development to determine compliance.

MANAGEMENT COMMENTS

<u>MEMORANDUM</u> May 8, 2007

To: Tim Cox, USAID Regional Inspector General, San Salvador

From: Liliana Ayalde, USAID/Colombia Mission Director

Subject: Audit of USAID/Colombia's Alternative Development Program (RIG Report No. 1-514-07-00X-P): Mission Response to Audit Report Recommendations

<u>Background:</u>
The subject audit was conducted by Regional Inspector General (RIG) personnel in February 2007. The Mission wishes to thank the RIG team for the cooperation and effort made during the audit. This report represents the first full portfolio-wide audit that had been performed on the program during either of the Plan Colombia phases since 2000. Its findings are critically important to continued successful implementation of alternative development initiatives in this important U.S. foreign policy country and in continuing to enhance the excellent relationship with the Government of Colombia. As expressed during the initial meeting with the audit team in Bogotá, USAID/Colombia sees this audit as an opportunity to learn from past experiences, to validate or modify current portfolio reform efforts, and generally to enhance the program's effectiveness during the coming years.

<u>Mission Response:</u>
Overall, it is the Mission's opinion that the audit team's recommendations are sound and the team displayed an sufficient understanding of implementation challenges associated with operating in Colombia, the portfolio's implementation background, and current policies and procedures, all of which are necessary in providing helpful recommendations for improvement. The Mission would like to note formally that at the time of the audit, the alternative development team was already in the midst of minor implementation changes and broader reviews of strategic direction. The Mission is pleased that the audit team, through its findings, validated many of the ongoing efforts to improve program implementation already being undertaken by the Mission.

By way of responding to each recommendation, the following list of responses corresponds to the ten (10) audit findings made in the subject report:

<u>Recommendation No. 1</u>:
Audit Recommendation: We recommend that USAID/Colombia require Associates in Rural Development to develop an action plan to shorten the time it takes for implementation to begin.
Mission Response: The Audit Recommendation is confirmed by the Mission. The Management Decision has been made to have Mission staff work with the contractor, Associates in Rural Development (ARD), to develop and issue an updated project development and implementation manual for existing and future activities. This plan will focus on the appropriate processes and timelines associated with project development so as to reduce the amount of time required to initiate activities in the field. The new manual will be included as part of the Project/Grants Manual of the two flagship implementers.

<u>Recommendation No. 2:</u>
Audit Recommendation: We recommend that USAID/Colombia establish guidelines on investment per hectare of licit crops and ensure that the implementing partners adhere to those standards.
Mission Response: The Audit Recommendation is confirmed by the Mission. A Management Decision has been made to establish written Mission guidelines to establish a range for investment amounts per hectare of licit crops. This written guidance will be communicated to our partners and included in their project/grants manuals.

Recommendation No. 3:
Audit Recommendation: We recommend that USAID/Colombia enter into a formal verification agreement and plan with Acción Social that specifically addresses the areas in which USAID is working and includes a schedule of verification to be carried out by Acción Social and reported to USAID.
Mission Response: The Audit Recommendation is confirmed by the Mission. A Management Decision has been made to negotiate, sign, and implement a formal verification protocol agreement with Acción Social and/or other branches of the Government of Colombia. This agreement will address roles and responsibilities, geographic coverage, guidelines and procedures governing the verification work, and introduce a mechanism for creating and updating fluid verification schedules for all projects.

Recommendation No. 4:
Audit Recommendation: We recommend that USAID/Colombia (a) establish clear boundaries on the types of infrastructure works that contribute to economic growth or meet community basic needs and therefore would be permissible under the program and (b) provide this guidance to its implementing partners.
Mission Response: The Audit Recommendation is confirmed by the Mission. A Management Decision has been made to create and disseminate guidance on the appropriate types of infrastructure works to be carried out in communities through incorporation in the project/grants manuals of our partners.

Recommendation No. 5:
Audit Recommendation: We recommend that USAID/Colombia establish limits or standards on the amounts that can be invested in each community on social infrastructure projects.
Mission Response: The Audit Recommendation is confirmed by the Mission. A Management Decision has been made to establish written guidelines and limits on the amounts that can be invested in each community on social infrastructure projects. This guidance will be added to the Project/Grants manuals of our partners. However, Mission Management will reserve the right to waive these limits, because Mission flexibility in determining the correct level of investment in each community is paramount to meeting the overall Agency objectives within these activities.

Recommendation No. 6:
Audit Recommendation: We recommend USAID/Colombia establish guidelines on cost sharing requirements.
Mission Response: The Audit Recommendation is confirmed by the Mission. A Management Decision has been made to develop and disseminate cost sharing and contribution guidelines for USAID activities. This guidance will follow the Agency-wide policies for cost sharing and host country contribution.

Recommendation No. 7:
Audit Recommendation: We recommend that USAID/Colombia require its Alternative Development Office to periodically sample and verify its implementing partners' data for completeness, accuracy, and consistency.
Mission Response: The Audit Recommendation is confirmed by the Mission. A Management Decision has been made to utilize the Agency and Mission Data Quality Assessment procedures to establish standardized written sampling procedures for verification of implementing partners' data. Sampling exercises will be carried out and the results reported on a regular basis, following the written guidance established for this sampling and verification effort.

Recommendation No. 8:
Audit Recommendation: We recommend that USAID/Colombia (a) ensure that performance indicators and their corresponding targets are developed consistently among the various program documents; and (b) modify implementing partner contracts to reflect the same indicators and targets.
Mission Response: The Audit Recommendation is confirmed by the Mission. A Management Decision has been made to modify the written guidance for performance indicators and their corresponding targets to ensure that they are consistent throughout the Mission Program and to ensure that this guidance is incorporated into partners' contracts, grants, and other agreements in a consistent and comprehensive manner.

<u>Recommendation No. 9:</u>
Audit Recommendation: We recommend that USAID/Colombia amend its contracts with ARD to include more performance-based elements such as adding incentives for meeting goals, structuring payment based on performance, or specify penalties or reductions in fee for not meeting results.
Mission Response: The Audit Recommendation is confirmed by the Mission. However, it should be noted that the FAR does not allow for contractor penalties other than liquidated damages. This is difficult to prove and could involve litigation. We could, however, reduce the contractor's fixed fee if they do not meet their targets. The amount of an equitable fee reduction would be negotiable. A Management Decision has been made to incorporate the following incentives into the ARD contracts:

1) Use of unilateral options to motivate performance: If ARD does not improve performance, we will not exercise the options. ADAM and MIDAS were just modified from five year contracts to three year contracts with two one-year options to extend. Past Performance Evaluations: We are currently preparing Contractor Performance Reports (CPRs) for year one of MIDAS and ADAM. These CPRs are important to motivate performance because they are in a central database accessible by any USAID Mission.
2) When applicable, we will modify MIDAS and ADAM to firm-fix-price some deliverables. Generally, anything that can be accurately priced out will be firm-fixed-priced.

In future instruments, we will consider the following strategies to motivate performance of new contractors:

1) Use of modular strategies: Rather than awarding mega contracts for a long term fixed period, we could award contracts in "segments", making greater use of option periods. Future business would be dependent on successful contract performance. The downside of this approach is the increased workload on USAID staff due to more frequent procurement actions due to shorter award periods.
2) Award multiple award IQCs: The IQC holders would have to compete for each task order issued. Again, future task orders would depend on good performance.

<u>Recommendation No. 10:</u>
Audit Recommendation: We recommend that USAID/Colombia reprogram excess obligations totaling $18,018,502 to activities that are more urgent by entering into additional commitments and/or reallocating funds among the sub-commitments/sub-obligations.
Mission Response: Although the Mission fully agrees with the spirit of this Audit Recommendation and the need to avoid excess forward funding, newly-developed forecasts of the partners' expenditure burn rates show that all funds on hand and to be received in FY 2007 and FY 2008 for this project will be needed in order to fund the operations of the related partners. Thus, no funds are to be re-programmed at this time. If needed, the Mission can provide data to the RIG to support this decision. We request that this audit recommendation be closed upon issuance of the audit report.

<u>Conclusion:</u>
Again, the Mission wishes to thank the RIG personnel for their contribution to Mission operations and goals in connection with this audit. Upon issuance of the final Audit Report, the Mission will complete the Management Decisions as stated above and will endeavor to close each of the Audit Recommendations as early as possible.

Please do not hesitate to contact the Mission if you have any questions or concerns about the audit or this response memo. We look forward to receiving the final audit report.

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