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## OFFICE OF INSPECTOR GENERAL

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# AUDIT OF USAID/GUATEMALA'S ECONOMIC GROWTH PROGRAM

AUDIT REPORT NO.1-520-07-011-P  
AUGUST 24, 2007

SAN SALVADOR, EL SALVADOR



**USAID**  
FROM THE AMERICAN PEOPLE  
*Office of Inspector General*

August 24, 2007

**MEMORANDUM**

**TO:** USAID/Guatemala Director, Wayne R. Nilsestuen

**FROM:** Regional Inspector General/San Salvador, Timothy E. Cox /s/

**SUBJECT:** Audit of USAID/Guatemala's Economic Growth Program (Report No. 1-520-07-011-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 five recommendations for your action. The information provided in the Mission's response to the draft report indicates that final action has been taken for Recommendation Nos. 2, 3, and 4, and that management decisions have been made for Recommendation Nos. 1 and 5. Determination of final action for Recommendation Nos. 1 and 5 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

As part of its fiscal year 2007 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following questions (page 5):

- Did USAID/Guatemala's economic growth activities achieve planned results?
- Did USAID/Guatemala's reporting on its economic growth activities provide stakeholders with complete and accurate information on the progress of the activities and the results achieved?

With respect to the first question, for the items tested, USAID/Guatemala's economic growth activities achieved planned results by providing technical assistance to the Government of Guatemala (GOG) in support of its economic development plan, helping to generate sales revenues, create jobs, promote tourism, and support sustainable development of natural resources. Despite these accomplishments, we noted two areas where opportunities existed to improve program management. Specifically, targets need to be determined and set for some implementing partners' performance indicators and counterpart contributions by one implementing partner need to be reported as required. (See pages 5-9.)

With respect to the second question, for the items tested, USAID/Guatemala's reporting on its economic growth activities did not provide stakeholders with complete and accurate information on the results achieved from its activities. More needs to be done to strengthen the data collection methodology and to verify the quality of the data reported by USAID's partners. (See pages 10-12.)

This report contains five recommendations for USAID/Guatemala:

- Require two implementing partners to develop appropriate indicators and targets and report their progress toward achieving the targets on a quarterly basis (see page 8).
- Work with one implementing partner to collect and report on third party contributions on a quarterly basis (see page 9).
- Provide supervision of data quality assessments to reasonably ensure that they are performed with due diligence (see page 12).
- Provide supervision to Cognizant Technical Officers to ensure that they periodically sample and review their implementing partners' data for completeness, accuracy, and consistency (see page 12).
- Include precise indicator definitions in its Performance Management Plan and document all assumptions and data collection methodologies (see page 12).

USAID/Guatemala agreed with the findings and recommendations in our draft audit report and has already completed the necessary actions for three of the five recommendations. For example, the Mission developed a specific form to be used by

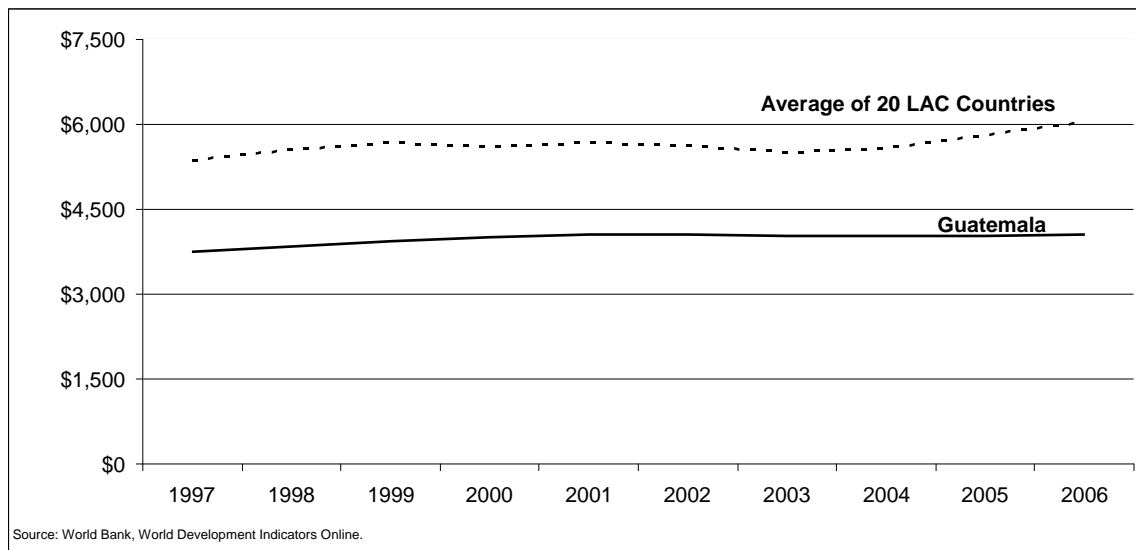
Cognizant Technical Officers during site visits to assess the quality of partner data and has included the requirement to periodically sample and review partners' data in Cognizant Technical Officers' work objectives. In addition, the Mission has specific plans to address the other two recommendations in the report. (See page 13 and Appendix II.)

# BACKGROUND

Ten years have passed since Guatemala signed the Peace Accords in December 1996 that ended a 36-year civil war, but Guatemala still faces important challenges to building a more just, equitable, and prosperous society. Guatemala suffers from the region's lowest public spending in social services and lowest tax revenues (less than 10 percent of gross domestic product) from which to support this spending. In addition, Guatemala has the second-worst income distribution of any country in Latin America, with more than 56 percent of Guatemalans living in poverty and 17 percent living on less than one dollar a day.

The chart below shows that real per capita GDP growth has lagged GDP growth for Latin America and the Caribbean as a whole. For example, during the five years ending in 2006, real GDP grew 6.9 percent in the region, but just 0.3 percent in Guatemala. In effect, living standards have not improved much in five years.

**Figure 1. Per Capita GDP, Purchasing Power Parity Method, Constant 2000 Dollars for Guatemala and 20 Latin American and Caribbean Countries with Populations over 3 Million.**



Soon after assuming power in January 2004, the Berger Administration issued its strategy for economic reactivation, “*Vamos Guatemala*,” which is part of the government’s 2004-2008 plan. “*Vamos Guatemala*” incorporates the broad goals of the 1996 Peace Accords, and includes activities to achieve participatory socio-economic development and social inclusion, sustained economic growth, and improved government fiscal performance to increase government expenditures in health, education, security, and infrastructure.

“*Vamos Guatemala*” began with three components: “*GuateSolidaria*,” to support participatory development and social harmony; “*GuateCrece*,” to support sustained acceleration in economic growth rate; and “*GuateCompite*,” to support the private

sector's capacity to meet and surpass international standards of quality and competition. All three were developed within a context of macroeconomic stability, improved administration, and personal security. More recently, the Government of Guatemala added two more components to "Vamos Guatemala:" "GuateVerde," to support environmentally sustainable growth, and "GuateInvierte," to support increased investment especially in the rural economy. The "GuateCrece" component of the strategy encourages increased public investment, increased private investment, and public-private alliances in key economic sectors, especially housing, infrastructure, tourism, finance, and forest products.

Recently, the U.S.-Central America Free Trade Agreement, commonly known as CAFTA entered into force between Guatemala and the United States on July 1, 2006. CAFTA eliminates customs tariffs on as many categories of goods as possible; opens services sectors; and creates clear and readily enforceable rules in areas such as investment, government procurement, intellectual property protection, customs procedures, electronic commerce, the use of sanitary and phyto-sanitary measures to protect public health, and resolution of business disputes.

The Government of Guatemala's national competitiveness agency (PRONACOM) is USAID's principal collaborator and works with USAID to identify priorities, design and coordinate activities, and oversee implementation. USAID/Guatemala's economic freedom strategic objective includes activities to support improved laws, policies, and regulations that promote trade and investment; more competitive, market-oriented private enterprises; and broader access to financial markets and services. These activities are meant to allow Guatemala to take advantage of regional and global market opportunities in sustainable tourism, high-value agricultural and specialty coffee exports, and certified forest products.

The following table shows cumulative obligations and expenditures as of September 30, 2006 for USAID/Guatemala's economic growth strategic objective by intermediate result, and by contractor and grantee.

**Table 1. Strategic Objective, Intermediate Results, and Contractors and Grantees (Financial Information as of September 30, 2006 – Unaudited)**

Description	Obligations (US\$)	Cumulative Expenditures (US\$)
Strategic Objective No. 2: Economic Freedom: Open, Diversified, Expanding Economies (\$17.5M)		
<i>Intermediate Result No. 1: Laws, Policies, and Regulations that Promote Trade and Investment</i>		
Academy for Educational Development	250,000	250,000
Development Alternatives International	200,000	198,584
International Resources Group	499,997	499,997
Abt Associates	1,528,932	590,976
Inter-American Institute on Cooperation on Agriculture	470,000	400,887
Universidad Rafael Landivar	64,388	64,388
<i>Intermediate Result No. 2: More Competitive Market-Oriented Private Enterprises</i>		

Chemonics	749,964	749,964
Counterpart International	1,330,000	1,052,233
Gremial de Exportadores (AGEXPORT)	2,185,140	1,691,332
Michigan State University	300,000	300,000
Camara de Industria de Guatemala	35,625	35,625
Rainforest Alliance	450,000	107,867
Technoserve	499,593	450,000
Fundación Agil	527,500	133,340
ANACAFE	527,500	47,737
Wildlife Conservation Society	76,000	15,389
Ingeniería y Representaciones, S.A.	33,477	0
Planeta en Linea	17,327	0
Other	26,494	18,843
U.S. Department of the Interior	200,000	200,000
<i>Intermediate Result No. 3: Broader Access to Financial Markets and Services</i>		
Development Credit Authority program - Banrural	400,000	0
<i>Crosscutting Programs</i>		
Research Triangle Institute	83,000	223
PriceWaterhouseCoopers	49,612	49,612
KPMG	100,000	0
Wingerts Consulting	69,931	69,931
Other	15,158	14,885
	\$10,689,638	\$6,941,813

This table does not include field support, Hurricane Stan emergency relief, and other funding that was not part of the audit scope.

## 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/Guatemala's economic growth activities achieve planned results?
- Did USAID/Guatemala's reporting on its economic growth activities provide stakeholders with complete and accurate information on the progress of the activities and the results achieved?

Appendix I contains a discussion of the audit's scope and methodology.



# AUDIT FINDINGS

## Did USAID/Guatemala’s economic growth activities achieve planned results?

For the items tested, USAID/Guatemala’s economic growth activities achieved planned results by providing technical assistance to the Government of Guatemala (GOG) in support of its economic development plan, helping to generate sales revenues, create jobs, promote tourism, and support sustainable development of natural resources. However, there were two program management areas that could be strengthened: (1) setting annual performance targets for implementing partners and (2) ensuring that counterpart contributions are reported as required.

We reviewed 8 out of the 16 performance indicators listed in the Mission’s Performance Management Plan (PMP),<sup>1</sup> as shown below:

**Table 2. Eight Economic Growth Program Indicators and Their Corresponding Targets and Results for FYs 2005 and 2006**

Performance Indicator	Target for FY 2005	Actual for FY 2005	Target for FY 2006	Actual for FY 2006
Growth Competitiveness Index Ranking (lower percentage is better)	76%	81%	75%	60%
Composition of Exports by Key Products (key products as a percentage of total exports)	15%	17.4%	15.4%	18.2%
Laws, Policies, and Regulations Assisted	n/a	n/a	9	9
Trade Policy Rating (Index of Economic Freedom) (lower is better)	3.0	3.0	3.0	2.5
Cumulative Sales Value of Goods and Services as a Result of USAID Programs (\$ thousands)	15,000	16,286	35,000	30,489 <sup>2</sup>
Cumulative Number of Jobs Created as a Result of USAID Programs	5,000	11,019	17,000	19,974
Revenue Generated from Tourism (\$M)	837	868 (CY basis)	905	973.5 (FY basis)
Number of Days to Start a Business (lower is better)	39	39	35	30

<sup>1</sup> We chose the eight indicators as a representative sample of the most important indicators across the various intermediate results under the Strategic Objective within the scope of the audit.

<sup>2</sup> The Mission reported a value of \$33,878,000, but audit adjustments to correct data errors (see pages 9-11) bring the reported value down to \$30,489,000. Since we did not review 100 percent of the reported information, the correct amount is not known.

In FY 2006, seven of eight performance targets were met. The target for “cumulative sales value of goods and services as a result of USAID programs” was not met: the target was \$35 million in cumulative sales, the Mission reported \$33.9 million in sales, and audit adjustments brought this figure down to \$30 million. Issues concerning the accuracy of reported results are discussed in the section beginning on page 10.

As shown in Table 2 above, the Mission has achieved successes in several program areas, including providing technical assistance to the GOG, increasing employment, and increasing revenues from exports and tourism. Examples of other achievements reported by USAID/Guatemala follow:

- **Laws, Policies and Regulations that Promote Trade and Investment** – In addition to the technical assistance provided at the request of the GOG to a number of government departments and agencies, USAID has trained 200 new customs officials and provided training to rural area inhabitants and businesses on opportunities available as a result of the Central America Free Trade Agreement (CAFTA).
- **More Competitive, Market-Oriented Private Enterprises** – USAID focused on three areas to strengthen economic opportunities, particularly for rural small- and medium-size enterprises (SMEs): agriculture and agribusiness, forestry, and tourism. In these areas, USAID/Guatemala has, among other things, helped to create 20 sustainable community forestry concessions that produce certified wood while continuing to protect forests, supported economic strengthening in rural areas through technical assistance that promotes tourism through sustainable use of cultural and natural resources, and increased linkages between producers and buyers through trade fairs.
- **Broader Access to Financial Markets and Services** – USAID has trained participating financial institutions to better understand how to work with SMEs and to better understand the importance of SMEs in fostering economic growth in Guatemala.

We noted two areas where opportunities exist to improve program management. More specifically, implementing partners should have annual performance targets set in order to manage activity progress and implementing partners should report counterpart contributions as required. These areas are discussed in the following sections.

## **USAID Partners Lacked Annual Performance Targets and Did Not Report Results Quarterly**

Summary: Automated Directives System (ADS) guidance states that, in order to monitor the quality and timeliness of outputs produced by implementing partners, outputs should be specific. Additionally, implementing partners' awards required that a performance management plan be developed with specific targets and regular quarterly reporting on the activities' progress. However, two partner's plans did not include annual targets for all indicators and results were not reported regularly. Mission staff believed that having "life of activity" targets was sufficient to manage the programs' progress. As a result, ADS requirements were not complied with and neither the awards nor the partners' work plans could be used to compare planned and actual outputs. Without annual targets set that build to achieve the overall program goals, the Mission would have a difficult time

making “midcourse corrections” to the program on the basis of current performance.

ADS 200.3.2.1 states that intended results need to be explicit in order to manage for results. ADS 202.3.6 requires implementing partners’ outputs to be specific in order for USAID to monitor the quality and timeliness of outputs and it states that outputs are critical to achieving results. All five of the economic growth program awards we reviewed required the implementing partners to have performance management plans with results reported to USAID on a quarterly basis.

Of five partner awards reviewed, we found that two partners, AgExport and AnaCafe, have not established annual performance indicators and targets that measure the progress of their activities as required. While AgExport did develop a performance management plan that included 45 performance indicators in its FY 2005 work plan, it did not have a performance management plan for Phase II of its program activities that started in April 2006. Additionally, AnaCafe prepared a performance management plan that listed 12 indicators to measure achievements in 2007, the first full year of implementation. However, of the 12 indicators in the plan, 6 did not have targets established, 2 were not easily measurable because they lacked clear definitions, and 2 measured national-level results instead of results that were attributable to USAID-financed activities. Moreover, while preliminary targets for two key indicators, sales and jobs created, were listed, they contained only end-of-program targets and did not include any annual targets to measure progress towards the overall program goals.

Finally, although the partners were required to report quarterly on their progress in meeting targets, USAID/Guatemala only required them to submit performance results once a year. Therefore, the partners’ performance targets and actual results were not systematically reported in their quarterly progress reports.

Mission staff believed that having overall “life of activity” or “end of program” targets and results reporting on an annual basis was sufficient for program management purposes. However, without annual targets and regular reporting on the progress towards reaching those targets by partners, the Mission cannot be sure that acceptable progress is being made in reaching the overall goals of the program and does not have an opportunity to make “midcourse corrections.”

As a result, ADS requirements were not complied with and neither the awards nor the partners’ work plans could be used to compare planned and actual outputs. Without timely progress reports of achievements obtained, Mission staff cannot determine appropriate adjustments to the program and activity focus to ensure the successful achievement of the program’s goals.

*Recommendation No. 1: We recommend that USAID/Guatemala require AnaCafe and AgExport to a) develop performance management plans that contain appropriate indicators that are attributable to USAID activities along with reasonable annual targets for each, and b) report on the key program indicators on a quarterly basis.*

## **Implementing Partner Needs to Report on Counterpart Contributions**

Summary: Although one partner's award specifically required quarterly reporting on counterpart contributions from the partner and from third parties, the partner was unable to account for contributions from third parties. The partner's activity coordinator and the financial administrator were simply unaware of the need to track and report on these amounts. Without tracking and reporting on all counterpart contributions to the program, USAID/Guatemala cannot be certain that planned contributions are actually provided and, therefore, runs a risk that activities may not achieve planned objectives.

On June 8, 2006, USAID entered into a \$2.5 million cooperative agreement with AnaCafe to provide support for a program in Competitive Enterprises. As part of the agreement, AnaCafe was required to expend at least \$2.06 million as a cost-sharing contribution and an additional \$565,536 was required to be generated from third party investments to the program. The award required AnaCafe to report on these counterpart contributions on a quarterly basis in the progress reports that it submits to USAID/Guatemala. Specifically, the award stated that "quarterly progress reports shall report on recipient's compliance with meeting leverage resources" (i.e., contributions from third parties). ADS 303.2.f states that the Cognizant Technical Officer (CTO) is responsible for monitoring the partner's financial reports to ensure that they are making progress toward meeting cost-sharing requirements.

A review of the partner's quarterly progress reports showed no indication of reporting on these counterpart contributions. When questioned about the lack of reporting, the implementing partner's staff was unaware of the requirement to track and report on third-party contributions. Although they were aware of the cost sharing (matching) funds requirement, they were unable to provide records of their current contribution level and were not sure that their accounting system could determine such an amount. Mission staff mistakenly believed that the partner was fully aware of its duty to track and report on counterpart contributions.

Without regular reporting on the cost-sharing contributions from others, USAID managers do not know the amount of contributions or whether the partner is realizing their portion of the costs that support the program. Without this knowledge, USAID cannot be assured that the appropriate amount of funds are being spent by other parties to leverage program activities and runs a risk that shortfalls in contributions could adversely affect achievement of program outcomes.

On the last day of our visit, AnaCafe did provide its cost sharing contributions to USAID. However, it has not provided any information regarding the \$565,536 in planned contributions from third parties.

*Recommendation No. 2: We recommend that USAID/Guatemala work with its partner, AnaCafe, to develop a reporting format to report quarterly on third party contributions.*

**Did USAID/Guatemala's reporting on its economic growth activities provide stakeholders with complete and accurate information on the progress of the activities and the results achieved?**

For the items tested, USAID/Guatemala's reporting on its economic growth activities did not provide stakeholders with complete and accurate information on the results achieved from its activities. In addition, more needs to be done to verify the quality of data reported by USAID. These issues are discussed in the following section.

## **Key Reported Results Were Inaccurate or Unsupported**

Summary: According to ADS guidance, performance data should be accurate and reliable, and the Mission should take steps to ensure that submitted data are adequately supported and documented. However, two of the main performance indicators reported by the Mission in its annual reporting, Sales of Goods and Services and Jobs Created, contained a number of errors in the calculation of results. The Mission's reported result for cumulative sales in FY 2006 was overstated by 14 percent. Reported information on jobs created was largely unsupported. The Mission and the partners also made some inconsistent and unsupported assumptions in order to calculate results for these two indicators. These reporting errors occurred for a number of reasons including weak data quality assessments, inconsistent and unsupported assumptions, lack of verification of the performance data by Mission staff, and a lack of written data collection methodology to ensure consistent and accurate data reporting among the various partners and over time. Consequently, the Mission lacked accurate information on which to base program management decisions.

USAID provides its operating units with a great deal of guidance on managing for results. Among this guidance is ADS 203.3.5.2, which states that the purpose of a data quality assessment is to ensure that the Operating Unit and SO Teams are aware of the strengths and weaknesses of the data and of the extent to which the data integrity can be trusted to influence management decisions. The ADS also states that when Operating Units conduct data quality assessments of data from secondary sources (including implementing partners, government counterparts, and international agencies), the Operating Unit should focus the data quality assessment on the apparent accuracy and consistency of the data and these assessments should be documented in the program files. According to TIPS 12 (supplemental guidance referenced by the ADS), USAID Cognizant Technical Officers (CTOs) are charged with the responsibility of ensuring that data reported by implementing partners are accurate. TIPS 12 also states that objective indicators have clear operational definitions that are independent of the person conducting the measurement – that is, different individuals would collect data for an objective indicator using the same indicator definition. The guidance further states that “clear and comprehensive definitions help ensure a reasonable level of objectivity and comparability over time.”

Two of the main performance indicators reported by the Mission in its annual reporting, Sales of Goods and Services and Jobs Created, contained a number of errors in the calculation of results. We also found some inconsistent and unsupported assumptions made by the Mission and the partners in order to calculate results for these two indicators. The following are examples of data quality and reporting issues that affected the results reported for these two indicators:

- AgExport reported \$3.7 million in sales generated by eight alliances organized in 2004 that were included in the calculation of sales for both FY 2005 and 2006.

These sales should have only been included in FY 2005, which resulted in the sales indicator being over-reported by almost 11 percent in FY 2006.

- Part of the sales earned by AgExport's 20 supply chain alliances from 2005 were reported in FY 2006, but should have been reported in FY 2005 when the sales were actually generated. Similarly, gross sales from AgExport's trade fairs used to calculate the portion attributable to USAID-financed activities in FY 2006 included sales from trade shows held in FY 2005.
- The Mission credited Counterpart International with \$355,000 in sales for FY 2006. This amount corresponds to the previous award for the period from October 2005 to April 2006. The Mission should have reported sales of \$65,000 which were derived from the new award during the period from May to September 2006, but were not included in the reported amount.
- The Mission credited Agil with \$892,500 in sales for FY 2006 when actually these sales were earned in FY 2007. Instead, the Mission should have reported \$1,124,894 in sales, which pertained to the fourth quarter of FY 2006.
- The Mission made the unsupported assumption that 25 percent of the total sales and jobs created from AgExport trade fairs were attributable to USAID interventions. As a result, AgExport's trade fairs accounted for almost half of all cumulative jobs created and half of all cumulative sales reported for FY 2006.
- Agil, one of four partners reporting on job creation, overreported the number of jobs created in FY 2006 because it used the wrong time period. The reported results included 443 jobs created when the actual figure was only 120.
- The methodologies used to report jobs created were inconsistent and included unsupported assumptions. One Mission document states that the number of jobs created is based on 240 work days per year, another is based on 250 work days per year, and yet another is based on 260 work days per year.
- AgExport had no support for its reported jobs figures from the trade fairs and the alliances, which together accounted for 86 percent of the jobs reported in FY 2006.
- Some results were based on questionable figures that the Mission did not verify. For example, one survey of trade fair participants in Guatemala during March 2006 indicated that the fair had generated \$13 million in sales and 6,500 jobs. This appears to be an unreasonable figure because it would mean that for every \$2,000 in sales generated, one full-time job was created.

These problems occurred because Mission staff relied on their implementing partners to report data and ensure data quality, and did not recognize the importance of independently verifying data quality. Although the Mission had performed data quality assessments for the sales and jobs indicators, they were inadequate and should be readdressed and strengthened. For example, the data quality assessments for these two indicators state that the data will not be gathered from surveys and, therefore, there can be no sampling error. However, data on sales generated and jobs created through commercial shows and trade fairs are in fact based on surveys.

Thorough and complete data quality assessments and periodic verification ensure consistent and reliable data are being collected for management decision making purposes as well as for reporting purposes. Without such assurances, program managers may themselves report erroneous information to stakeholders or may make decisions based on erroneous information.

*Recommendation No. 3: We recommend that USAID/Guatemala develop procedures for supervising data quality assessments to provide reasonable assurance that they are performed with sufficient due diligence.*

*Recommendation No. 4: We recommend that USAID/Guatemala put procedures in place to provide supervision to its Cognizant Technical Officers to ensure that they periodically sample and review their implementing partners' data for completeness, accuracy, and consistency.*

*Recommendation No. 5: We recommend that USAID/Guatemala a) include precise definitions for indicators in its Performance Management Plan, and b) document all assumptions and methodologies for indicator data collection, analysis, and reporting to ensure consistent methodologies amongst partners.*

# EVALUATION OF MANAGEMENT COMMENTS

USAID/Guatemala agreed with the findings and recommendations in our draft audit report and has already completed the necessary actions for three of the five recommendations. In response to Recommendation No. 2, the Mission has developed a new reporting format for AnaCafe and AnaCafe has resubmitted its reports for the three previous quarters which now include the status of funds leveraged from third-party investments. In response to Recommendation Nos. 3 and 4, the Mission developed a specific form to be used by Cognizant Technical Officers (CTOs) during site visits to assess the quality of partner data and has included the requirement to periodically sample and review partners' data in CTOs' work objectives. Thus, final action on Recommendation Nos. 2, 3, and 4 has been taken. In addition, the Mission has specific plans to address Recommendation Nos. 1 and 5. 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. The purpose of the audit was to determine whether activities under USAID/Guatemala's economic growth activities achieved planned results and whether reporting provided stakeholders with complete and accurate information on the progress of the activities and the results achieved.

In planning and performing the audit, we assessed the Mission's controls related to its economic growth activities. The management controls identified included the Performance Management Plan (PMP), the Mission's Annual Report, the Mission's data quality assessments, the Mission's annual self-assessment of management controls as required by the Federal Managers' Financial Integrity Act of 1982, reports on Cognizant Technical Officer (CTO) field visits, program progress reports, and day-to-day interaction between Mission staff and program implementers.

The audit covered the Mission's second strategic objective, Economic Freedom: Open, Diversified Expanding Economies. The audit was conducted in Guatemala from March 20, 2007 to April 20, 2007. The audit focused on the period from October 1, 2004 through September 30, 2006.

The scope of the audit included partners that were funded with at least \$500,000. The audited sample represented \$6.1 million of the \$10.7 million obligation total (57 percent) and \$3.5 million of the \$6.9 million cumulative expenditures total (51 percent) as of September 30, 2006 for the activities audited.

## Methodology

To answer the audit objectives, we met with CTOs and implementing partners. We reviewed relevant documentation produced by USAID/Guatemala such as award documents, Mission correspondence, worksheets for measuring results, Mission Performance Management Plan, Annual Reports, and field visit reports. We also reviewed documentation prepared by implementing partners such as annual work plans and quarterly progress reports.

We chose to sample 5 of the 20 key implementing partners with ongoing operations. The sample was judgmentally selected in order to represent the largest awards within each intermediate result in order to provide sufficient coverage of the program. In order to test whether targets were met, we reviewed 8 of the 16 indicators that were reported in the Mission's Performance Management Plan and Annual Report. The indicators tested were selected on the basis of the importance of the indicator in reporting performance and to sufficiently cover the intermediate results that were included in the scope of the audit. We excluded from the sample environmental and development credit authority activities because of the size of the programs and previous audit work.

In order to determine whether accurate information was reported, we compared results obtained from tests and interviews with the results presented in the Mission's Performance Management Plan, the Congressional Budget Justification, and the Annual Report. We specifically verified reported accomplishments by doing the following:

- We reviewed Mission performance monitoring documentation to compare reported results with supporting figures contained in the Mission's files.
- For context indicators and national-level indicators, we compared the Mission's reported results with source organizations' reported results and data to ensure accuracy of reporting by the Mission.
- For the key activity performance indicators, we interviewed Mission and/or implementing partner personnel and reviewed documentation to determine how results were collected for these indicators. Limited testing performed to determine the accuracy of results reported consisted of the following:
  - For the agricultural and coffee activities, we reviewed the implementing partners' supporting records and compared the reported performance figures for increased sales and jobs with the correct reporting period and the records kept by the USAID CTO.
  - For the performance indicator for number of technical assistance with laws, policies, and regulations provided by the Mission's contractor, we compared the list of activities from the Mission's performance monitoring support documents with the partner's files to ensure the validity of the activities.
  - For the tourism revenue indicator, we reviewed the partners' documentation and traced the figures to the Mission's indicator consolidation document to verify accuracy and performance periods.

In judging the significance of variances between reported accomplishments and supporting documentation, we considered variances of 5 percent or more to be significant and reportable.

# MANAGEMENT COMMENTS

Date: July 25, 2007  
To: Tim Cox, RIG/A/San Salvador  
From: Richard W. Layton, USAID/Guatemala Acting Director  
Subject: Draft Audit Report No. 1-520-07-XXX-P

## **Background**

As part of its fiscal year 2007 audit plan, the Regional Inspector General/San Salvador performed the audit of USAID/Guatemala's Economic Growth Program. The draft audit report dated May 21, 2007 includes five audit recommendations. This memorandum documents actions taken and to be taken by the Mission to implement all the recommendations:

## **II Management Decisions and Action Taken to Address Draft Audit Recommendations**

### ***Recommendation No. 1:***

***We recommend that USAID/Guatemala require ANACAFE and AGEXPORT to a) develop performance monitoring plans that contain appropriate indicators that are attributable to USAID activities along with reasonable annual targets for each, and b) report on the key program indicators on a quarterly basis.***

### **Action taken and to be taken to properly address this recommendation:**

A) USAID/Guatemala has required ANACAFE and AGEXPORT to submit Performance Monitoring Plans (PMPs) that contain appropriate indicators and meet established criteria. Both partners have already submitted their draft PMPs for CTO review and approval (see Annex A).

B) The CTO is taking advantage of every meeting to ensure that both partners appropriately report quarterly on progress towards the achievements of agreed upon indicators. The first report containing this information will be for the quarter ending September 2007. We will request closure of this recommendation once PMPs for both institutions are approved and quarterly reports are received meeting the requirements outlined in section "b" of the audit recommendation.

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We expect above actions be completed by October 2007, at which time we will request closure of the recommendation.

**Recommendation No. 2:**

***We recommend that USAID/Guatemala work with its partner, AnaCafe, to report quarterly on the status of the requirement to collect \$565,536 from third party investments***

**Action taken to properly address this recommendation:**

USAID/Guatemala has developed a new reporting format for ANACAFE's use in reporting (quarterly) the status of funds leveraged from third party investments. After testing the form and as reflected in Annex B to this memorandum, on July 16, 2007, ANACAFE resubmitted its reports for the quarter ending December 2006, March 2007, and June 2007 including the required information.

**Recommendation No. 3:**

***We recommend that USAID/Guatemala develop procedures for supervising data quality assessments to provide reasonable assurance that they are performed with sufficient due diligence.***

**Action taken to properly address this recommendation:**

The SO2 team developed a specific form that responds to the need for assessing the quality of data being provided by partners on key indicators. The form and instructions requiring its use in conjunction with Mission Order 2.15 "Site Visits" are attached as Annex C to this memorandum.

**Recommendation No. 4:**

***We recommend that USAID/Guatemala put procedures in place to provide supervision to its Cognizant Technical Officers to ensure that they periodically sample and review their implementing partners' data for completeness, accuracy, and consistency.***

**Action taken to properly address this recommendation:**

The SO2 Team leader has provided supervision and guidance to its Cognizant Technical Officers (CTO's) to periodically sample and review implementing partners' data by including this requirement as a work objective for the current rating period (See Annex D).

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Procedures in place require:

- a) CTOs properly plan for and report on results of field and partner headquarters visits.
- b) CTO's consistently monitor and document their reviews of key indicator data in approved PMP's
- c) SO-2 team leader hold weekly meetings with CTOs on their monitoring/oversight of assigned partner activities.
- d) On a quarterly basis CTO's with the support of FMO financial analysis backstops assess/review the accuracy, consistency, and completeness of partner reported information. Assessment/review effort and results will be properly documented and any resulting recommendations discussed and resolved with the appropriate responsible party (ies).

**Recommendation No. 5:**

***We recommend that USAID/Guatemala a) include precise definitions for indicators in its Performance Management Plan, and b) document all assumptions and methodologies for indicator data collection, analysis, and reporting to ensure consistent methodologies amongst partners over time.***

**Actions to be taken by USAID/Guatemala to properly address this recommendation:**

- a) Include a precise definition for indicators in the SO-2 PMP and ensure that partners understand and apply such definitions.
- b) SO2 PMP include a description of the assumptions and methodologies used for indicator data collection, analysis and reporting.
- c) Share section "a" and "b" information with partners to ensure consistency in understanding and in report content.

We expect the above actions be completed by September 2007, at which time we will request closure of this audit recommendation.

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III. Action Requested

Based on the above, USAID/Guatemala request:

A. RIG/SS concurrence with the Mission's management decisions on all five draft audit recommendations, and

B. Closure of recommendations 2, 3, and 4 upon issuance of the final report.

We thank RIG/SS for its professionalism in the performance of this audit and for the opportunity to comment on the final draft audit report resulting from its efforts.

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