

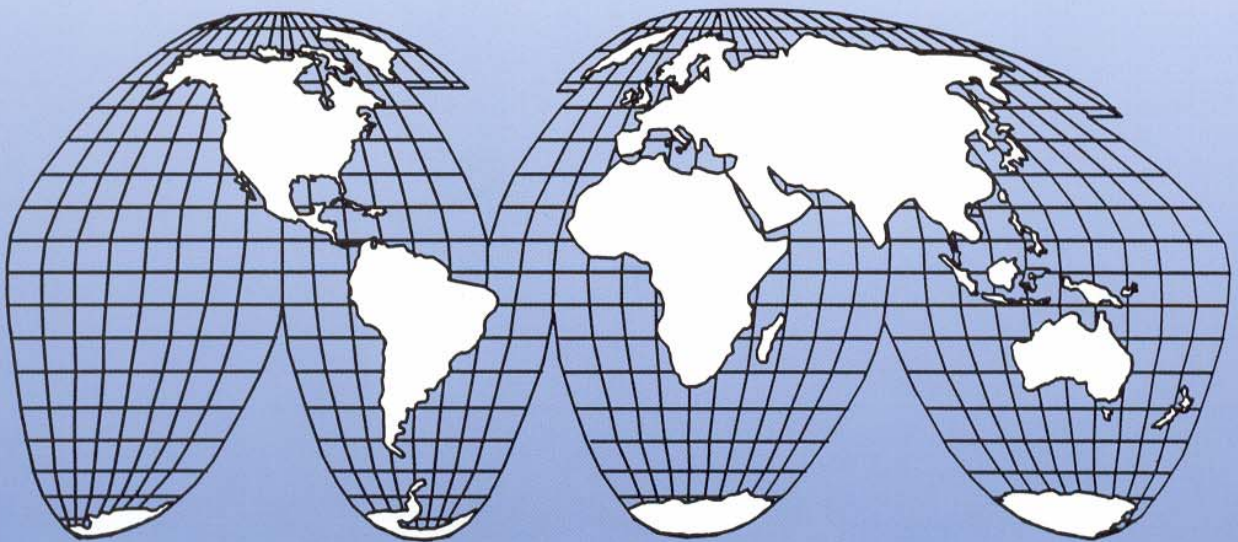
USAID

OFFICE OF INSPECTOR GENERAL

Follow-up Audit of Recommendations Made for the USAID/Colombia-Financed Alternative Development Program

Audit Report No. 1-514-04-002-P

November 12, 2003



San Salvador, El Salvador

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November 12, 2003

MEMORANDUM

FOR: USAID/Colombia Director, J. Michael Deal

FROM: Regional Inspector General/San Salvador, Steven H. Bernstein

SUBJECT: Follow-up Audit¹ of Recommendations Made for the USAID/Colombia-Financed Alternative Development Program (Report No. 1-514-04-002-P)

This memorandum is our report on the subject audit.

Your comments on the draft report were considered in preparing this report. They are included for your reference in Appendix II.

The report includes one recommendation. Since USAID/Colombia has taken final action on the recommendation, the recommendation is closed on issuance of this report.

Once again, thank you for the cooperation and courtesy extended to my staff throughout the audit.

¹ This audit follows-up "Audit of the USAID/Colombia-Financed Coca Alternative Development Program Under the Plan Colombia Supplemental Appropriation (Report No. 1-514-02-005-P)"

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Summary of Results

As part of its fiscal year 2003 audit plan, the Regional Inspector General/San Salvador performed an audit to determine whether USAID/Colombia implemented Recommendation Nos. 1 and 2 from Audit Report No. 1-514-02-005-P dated January 16, 2002, and to determine whether the Mission was obligating funds under its Alternative Development Program for authorized purposes (page 6).

USAID/Colombia implemented Recommendation Nos. 1 and 2 from Audit Report No. 1-514-02-005-P dated January 16, 2002. Output targets were defined in the Mission's performance monitoring plan, included in the agreement between the Government of Colombia and USAID, and attributed to program implementers. As of September 2003, these targets were consistent (page 7). Indicator definitions were consistent and timeframes were sufficiently clear and specific to determine how and by when outputs would be met (page 8).

Although not directly related to the Mission's performance on implementing the recommendations, one of the indicators being used to measure program outputs was susceptible to overstatement (page 8). A recommendation was made to remedy the situation by reporting disaggregated data (page 9).

In answer to the second objective, the audit found that USAID/Colombia was obligating funds under its Alternative Development Program for authorized purposes (page 9).

USAID/Colombia agreed with the reported finding and has committed to disaggregate information reported on families benefited. The Mission has taken final action on the recommendation, and the recommendation is closed on issuance of this report (page 15).

Background

Alternative development has been pursued in Colombia along with eradication and interdiction activities in an effort to reduce the production of poppy and coca. By promoting crop substitution and crop quality improvement and also by providing social infrastructure (roads, bridges, potable water, and health facilities), alternative development activities aim to entice communities to abandon illicit crop production. The premise behind alternative development is that it creates legal sources of employment and income for rural families who would otherwise grow illicit crops for their livelihood.

As of June 2003, 12 organizations were involved in implementing USAID's alternative development activities. The implementers included non-governmental organizations such as Chemonics and Associates in Rural Development as well as governmental organizations such as the U.S. Army Corps of Engineers and the U.S. Department of State.

In January 2002, the Regional Inspector General/San Salvador published a report titled “Audit of the USAID/Colombia-Financed Coca Alternative Development Program Under the Plan Colombia Supplemental Appropriation – Audit Report No. 1-514-02-005-P.” The audit reported that in 2002 the alternative development program was not on schedule to achieve planned results, that planned program outputs were inconsistent between entities involved in the program, and that some planned outputs were not documented. The report included recommendations that:

1. USAID/Colombia amend its performance monitoring plan to agree with the planned outputs contained in its contract with Chemonics and its agreement with the Government of Colombia.
2. USAID/Colombia review Chemonics’ annual workplan and sub-agreements to ensure that all documents use the same definitions and timeframes and are sufficiently clear and specific to determine how and by when outputs will be achieved.

This audit was a follow-up on the implementation of the recommendations from the January 2002 report.

At the time of the audit in January 2002, alternative development activities were being funded by the “Plan Colombia” supplemental appropriation. Since then, additional funds have been appropriated by the U.S. Congress, under the Andean Counterdrug Initiative. For this audit, both funding sources were considered. Total obligations under the Mission’s alternative development program as of June 30, 2003, were \$119.5 million.

Audit Objectives

As part of its fiscal year 2003 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following questions:

- Has USAID/Colombia implemented Recommendation Nos. 1 and 2 from Audit Report No. 1-514-02-005-P dated January 16, 2002?
- Was USAID/Colombia obligating funds under its Alternative Development Program for authorized purposes?

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

Audit Findings**Has USAID/Colombia implemented Recommendation Nos. 1 and 2 from Audit Report No. 1-514-02-005-P dated January 16, 2002?**

USAID/Colombia implemented Recommendation Nos. 1 and 2 from Audit Report No. 1-514-02-005-P dated January 16, 2002. However, although not directly related to the Mission's performance on implementing the recommendations, one of the indicators being used to measure program outputs was susceptible to overstatement.

Recommendation No. 1 from Audit Report No. 1-514-02-005-P stated:

We recommend that USAID/Colombia amend its performance monitoring plan to agree with the planned outputs contained in its contract with Chemonics and its agreement with the Government of Colombia.

According to that report, the output targets used by USAID/Colombia in its performance monitoring plan were different from the targets included in agreements with the Government of Colombia and with USAID's only implementing contractor at the time, Chemonics. Since Chemonics is no longer the only implementer, comparing its target to the target in the performance monitoring plan was not relevant. Instead, the sum of the targets for current implementers was considered.

To implement the recommendation, USAID amended its agreement with the Government of Colombia. As of September 2003, output targets defined in the Mission's performance monitoring plan, included in the agreement between the Government of Colombia and USAID, and attributed to program implementers were consistent.² Output targets were as follows:

| Description | Planned Output |
|--|-----------------------|
| Licit crops supported through alternative development activities | 65,042 hectares |
| Families benefited from alternative development activities | 80,000 families |
| Social and productive infrastructure projects | 610 projects |

² Targets were identical between USAID's performance monitoring plan and the agreement with the Government of Colombia. The sum of the targets attributed to USAID/Colombia's implementers either exceeded (for hectares of licit crops supported and for the number of social and productive infrastructure projects) or were within 5 percent (for number of families benefited) of the total performance monitoring plan target values.

Recommendation No. 2 from Audit Report No. 1-514-02-005-P stated:

We recommend that USAID/Colombia review Chemonics' annual work plan and sub-agreements to ensure that all documents use the same definitions and timeframes and are sufficiently clear and specific as to determine how and by when outputs will be achieved.

For the implementers and sub-recipients tested, output target definitions were consistent with USAID's performance monitoring plan. Indicator definitions and/or scopes of work for the entities engaged in alternative development activities described activities consistent with USAID/Colombia's output definitions. The scopes of work in sub-grantee or sub-contractor agreements with USAID/Colombia's implementers were also consistent with the Mission's indicator definitions.

Timeframes were sufficiently clear and specific to determine how and by when outputs will be achieved. To support the time-phased output targets presented in USAID/Colombia's performance monitoring plan, the Mission prepared a detailed projection that disaggregated output targets by indicator and by implementing entity. In the case of fiscal year 2003, the projections were further refined to provide targets for each quarter.

Based on values reported through June 2003 and based on the detailed projection prepared by the Mission, reported results indicated that the alternative development program was on schedule to meet or exceed planned output targets. However, because of security concerns which prohibited travel to implementation areas, the values reported by implementing parties were not verified. Nonetheless, the monitoring and evaluation programs of three implementers were reviewed and provided reasonable assurance that reliable values were being reported by USAID/Colombia. The three implementers reviewed were responsible for the current output targets for 77 percent of the families benefited, 47 percent of the licit hectares supported, and 98 percent of the infrastructure projects.

**Output Indicator Susceptible
to Overstatement**

During the course of our analysis, we noted that the 80,000 target for number of families benefited by alternative development activities was susceptible to being overstated.

USAID's target for the number of families benefited by alternative development activities was an aggregation of several sub-indicators, including the number of families that have access to improved basic services and the number of families

benefiting from licit productive activities in coca and poppy areas. These activities were targeted to benefit roughly 40,000 and 30,000 families, respectively.

The susceptibility to overstate families arose from the methods used by the Mission to count the families for each sub-indicator. Families benefiting from licit productive activities were individually counted by specifically identifying families who participate with USAID partners in alternative development crop activities. Families benefiting from improved basic services were estimated based on population figures for the areas where infrastructure projects were completed. Overstatement would result when projects are completed in communities with families participating in alternative development programs.³ According to alternative development team leaders, the areas being covered by the infrastructure and the alternative development crop activities were essentially identical.

USAID's Automatic Directives System 203.3.5.1.a defined validity in data quality as data that "clearly and adequately represent the intended result." Overstated data does not meet the validity standard. More importantly, individuals relying on data reported by the Mission could conclude that alternative development activities were impacting greater numbers of families than was actually the case.

Recommendation No. 1: We recommend that USAID/Colombia disaggregate the values reported for families benefiting from access to improved basic services and for families benefiting from licit productive activities when reporting the number of families benefited through alternative development activities.

Was USAID/Colombia obligating funds under its Alternative Development Program for authorized purposes?

USAID/Colombia was obligating funds under its Alternative Development Program for authorized purposes.

The "Plan Colombia" supplemental appropriation stated that funds were made available for "alternative development and other economic activities." The Andean Counterdrug Initiative appropriation only stated that funds were "to be used for economic and social programs." Neither appropriation provided explicit definitions of what purposes were authorized for alternative development.

³ It should be noted that the Mission maintains disaggregated targets for the number of families benefited. The susceptibility for overstatement becomes an issue for reporting to USAID/Washington when families benefited through infrastructure projects are combined with families participating in alternative development activities.

USAID/Colombia's strategic plan provided clarity to how "alternative development" and "economic and social programs" would be defined, as follows:

1. Activities to assist farmers and their families to develop licit sources of income and employment.
2. Activities to provide improved social conditions to entice rural families to participate in licit activities.

Separate from the requirements of the appropriations legislation mentioned above, other laws and regulations restrict USAID/Colombia's assistance activities. Under the alternative development program, the Mission was not pursuing activities in the following restricted areas:

1. Working in agricultural products that would compete with similar U.S. grown products or establish a surplus of commodity on the world market.
2. Providing assistance in agriculture, forestry, and livestock that would be environmentally damaging.
3. Providing assistance for family planning, military purposes, lobbying, or police and prisons.
4. Purchasing commodities or other inputs from non-U.S. or non-Colombian suppliers.
5. Contracting with non-U.S. firms for construction and engineering.

Activities described in the scopes of work or other project descriptions were consistent with USAID/Colombia's strategic plan. Activities described in the scopes of work were judged to not be restricted, except in the instances where the USAID/Colombia Mission Director waived source and origin requirements for some procurements and waived the restriction against projects growing African Palm, which competes with U.S. soybeans for producing vegetable oil.

No expenditures for unauthorized purposes were noted in testing transactions.

**Management
Comments
and Our
Evaluation**

USAID/Colombia agreed with the reported finding and has committed to disaggregate information reported on families benefited. The Mission has taken final action on the recommendation, and the recommendation is closed on issuance of this report.

Scope and Methodology**Scope**

The Regional Inspector General/San Salvador conducted this audit in accordance with generally accepted government auditing standards.

In planning and performing the audit, we assessed the effectiveness of USAID/Colombia's management controls related to ensuring the following:

- Consistency of planned outputs amongst the entities involved in implementing alternative development activities.
- Consistency of definitions and clarity of how and by when outputs will be achieved.
- Validity in accordance with laws and regulations of alternative development activities.

The management controls identified included a detailed description of performance indicators in the Mission's performance monitoring plan, an updated strategic plan, a current assistance checklist, and a procedure incorporating reviews of invoices by cognizant technical officers.

The alternative development program was being implemented by 12 organizations. We conducted the audit at USAID/Colombia and at the offices of three implementing partners – Chemonics, Pan American Development Foundation, and Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA). Audit fieldwork was conducted from September 8, 2003 through September 22, 2003.

Methodology

To determine whether output targets were consistent between USAID/Colombia and the Government of Colombia, we reviewed amendments to the strategic objective grant agreement between the two parties and USAID/Colombia's performance monitoring plan.

To determine whether output targets were consistent between USAID/Colombia and its implementing partners, to determine whether output definitions and timeframes were sufficiently clear, and to determine whether the Mission was obligating funds for authorized activities; we reviewed the Mission's performance monitoring plan and implementers' scopes of work and work plans. We judgmentally selected implementers for review based on awarded value of their agreement with the Mission. Coverage included 7 of 12 implementing partners for approximately 93 percent of the awarded contract value. We also reviewed

scopes of work for 19 of 76 implementer sub-recipients to determine if sub-recipient outputs supported the total output target for the implementer.

In addition to reviewing implementers' scopes of work and work plans as mentioned above, we also visited the offices of three implementing partners. Implementers were chosen for visits based on the value of their agreements and whether the implementer had started reporting outputs to USAID/Colombia. The three sites we visited accounted for approximately 56 percent of the awarded value. At those offices, we reviewed monitoring and evaluation plans and randomly sampled 30 transactions from each of their general ledgers. Transactions were evaluated to determine whether they were consistent with the "Plan Colombia" supplemental appropriation, with the Andean Counterdrug Initiative appropriation, and with the definition of "alternative development" as implemented by the Mission. We also considered whether the transactions represented activities restricted by other laws and regulations, as follows:

1. Working in agricultural products that would compete with similar U.S. grown products or establish a surplus of commodity on the world market.
2. Providing assistance in agriculture, forestry, and livestock that would be environmentally damaging.
3. Providing assistance for family planning, military purposes, lobbying, or police and prisons.
4. Purchasing commodities or other inputs from non-U.S. or non-Colombian suppliers.
5. Contracting with non-U.S. firms for construction and engineering.

To determine the significance of our findings, we judged that for a positive opinion the following criteria would be met:

- Output targets between USAID/Colombia and the Government of Colombia would be identical and between the Mission and implementers would be within 5 percent.
- Definitions of outputs would be consistent between USAID and its implementers.
- Statements of work and accounting transactions would be related to alternative development and would not be unauthorized activities (i.e., military assistance, police support, or family planning).

For a qualified opinion, we judged that the following would apply:

- Output targets between USAID/Colombia and the Government of Colombia would be identical and between the Mission and implementers would be within 15 percent.
- Definitions of outputs would be consistent between USAID and its implementers.
- Statements of work and accounting transactions would be for allowable foreign assistance activities but would not be considered related to alternative development. Activities would not be prohibited by regulation.

For a negative opinion, we judged that the following criteria would be met:

- Output targets between USAID/Colombia and the Government of Colombia would not be identical and between the Mission and implementers would not be within 15 percent.
- Definitions of outputs would not be consistent between USAID and its implementers.
- Statements of work and accounting transactions would not be considered related to alternative development and would be considered related to unauthorized activities (i.e., military assistance, police support, or family planning).

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**Management
Comments**

MEMORANDUM

November 6, 2003

TO: Steven H. Bernstein, Regional Inspector General
FROM: Michael Deal, Mission Director
SUBJECT: RIG Recommendation, Report No. 1-514-04-00X-P

In its October 2003 report, the RIG made the following recommendation to USAID/Colombia to avoid overstating accomplishments:

“We recommend that USAID/Colombia disaggregate the values reported for families benefiting from access to improved basic services and for families benefiting from licit productive activities when reporting the number of families benefited through alternative development activities.”

The Mission agrees to disaggregate information reported on “families benefited.” USAID currently internally disaggregates “families benefited” by separating 1) those substituting illicit products for licit ones and/or those maintaining/improving already established licit crops; 2) those participating in the construction and/or maintenance of social infrastructure projects as well as those that have gained access to improved social infrastructure services (only the municipal population in which a particular project is completed is counted); 3) those participating in forest and environmental management activities; and 4) artisans receiving assistance under the alternative development program.

The Mission agrees to now report on each of the above stated categories separately, as well as the overall cumulative figure. USAID/Colombia believes this will be an effective way of reflecting the overall impact of our program on Colombian families.

Thank for the courtesy and cooperation extended to the Mission by your staff during the audit field work.