

**Audit of USAID/Guatemala-Financed Agriculture
Activities Under the Central America and the
Caribbean Emergency Disaster Recovery Fund**

Audit Report No. 1-520-01-010-P

August 16, 2001

San Salvador, El Salvador



U.S. Agency for
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

August 16, 2001

MEMORANDUM

FOR: USAID/Guatemala Director, George Carner

FROM: RIG/San Salvador, Timothy E. Cox

SUBJECT: Audit of USAID/Guatemala-Financed Agriculture Activities
Under the Central America and the Caribbean Emergency
Disaster Recovery Fund (Report No. 1-520-01-010-P)

This memorandum is our report on the subject audit. In finalizing the report, we considered your comments on the draft report. Your comments are included in their entirety in Appendix II.

This report contains two recommendations for your action. For the first recommendation, a management decision has been reached and final action can be recorded when supporting documentation for actions taken is submitted. Please coordinate final action with the Office of Management Planning and Innovation (M/MPI/MIC).

For the second recommendation, no management decision has been reached. We request that you provide us written notice within 30 days of any additional information related to the actions planned or taken to implement this recommendation.

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

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Summary of Results

As part of its fiscal year 2001 audit plan, the Regional Inspector General/San Salvador performed this audit to determine whether USAID/Guatemala's agriculture activities were on schedule to achieve planned outputs and whether it has implemented an adequate monitoring system for its agriculture activities (see page 5).

For those items tested, three of the five agriculture activities audited were on schedule to achieve planned outputs. We were unable to determine if the remaining two activities were on schedule to achieve planned outputs because we were not able to verify reported accomplishments. Therefore, we recommend that USAID/Guatemala obtain and verify cumulative outputs for these two activities (see pages 5 through 7).

We also found that USAID/Guatemala had not implemented an adequate monitoring system for its agriculture activities because it was not consistently monitoring outputs. Therefore, we recommend that USAID/Guatemala provide its activity managers training for managing and monitoring assistance agreements (see pages 7 through 9).

In its comments to the draft audit report, USAID/Guatemala stated that the report helped ensure more effective implementation of the program and that the mission had already taken action to address both recommendations. For the first recommendation, a management decision was reached. For the second recommendation, however, USAID/Guatemala stated that performance monitoring training was held, but did not mention training for managing assistance agreements. Hence, no management decision has been reached (see page 10).

Background

In October 1998, Hurricane Mitch, one of the most destructive storms ever to affect Central America, swept across Guatemala. In Guatemala, the storm killed approximately 300 people and forced the evacuation of 107,000. The hurricane devastated the agriculture sector, destroying 225,000 acres of basic grains, coffee, vegetables and bananas, resulting in an estimated \$280 million in foregone exports and revenues. In addition, over 50 major and 2,000 minor irrigation systems were damaged.

In May 1999, Congress passed the Emergency Supplemental Appropriations Act, creating the Central America and the Caribbean Emergency Disaster Recovery Fund, which provided a total of \$621 million in reconstruction assistance for countries hit by Hurricanes Mitch and Georges and for Colombia for earthquake damages. Guatemala received \$25 million of this \$621 million.

To use the funding provided by Congress, USAID/Guatemala designed a Special Objective entitled *Rural Economy Recovers from Mitch and is Less Vulnerable to Disasters*. The second intermediate result under this objective relates to agriculture activities. This audit covered three sub-intermediate results: 1) *Small Scale Irrigation System and Land Rehabilitation*, 2) *Polochic Watershed Management*, and 3) *Seed Recovery and Multiplication*. To achieve these sub-intermediate results, USAID/Guatemala has entered into several agreements. The following chart lists the five agriculture activities audited, the implementing organizations, and obligations and accrued expenditures as of March 31, 2001, according to USAID/Guatemala's records.¹

Name	Description of Activities	Obligations 3/31/01 (unaudited)	Accrued Expenditures 3/31/01 (unaudited)
National Coffee Association (ANACAFE)	Rehabilitation of coffee plants and processing facilities.	\$2,412,290	\$2,392,108
CARE	Reforestation and natural resource management.	6,000,000	2,587,306
Catholic Relief Services (CRS)	Reforestation and natural resource management.	2,500,000	2,000,000
International Center for Agricultural Development Pre-Investment (CIPREDA) and U.S. Army Corps of Engineers	Rehabilitation of flood control and irrigation infrastructure.	3,681,714	1,558,131
Institute of Science and Agricultural Technology (ICTA)	Seed production and distribution.	1,000,000	624,424
		\$15,594,004	\$9,161,969

¹ We did not audit a \$350,000 agriculture activity with the Tropical Agricultural Center for Research and Education because of the small amount of resources provided to this activity.

Audit Objectives

As part of its fiscal year 2001 audit plan, the Regional Inspector General/San Salvador performed the audit to answer the following questions:

- Are USAID/Guatemala's agriculture activities on schedule to achieve planned outputs?
- Has USAID/Guatemala implemented an adequate monitoring system for its agriculture activities?

The audit scope and methodology is presented in Appendix I.

Audit Findings**Are USAID/Guatemala's agriculture activities on schedule to achieve planned outputs?**

For those items tested, three of the five agriculture activities audited were on schedule to achieve planned outputs. We were unable to determine if the two remaining activities were on schedule to achieve planned outputs because the implementing organizations did not report complete information on their accomplishments.

For activities being implemented by ANACAFE, CARE, and the U.S. Army Corps of Engineers/CIPREDA, we concluded that, for those items tested, activities were on schedule to achieve planned outputs.

More specifically, ANACAFE is to rehabilitate coffee plants and processing facilities. As of February 2001, 69 percent of the time available under ANACAFE's agreement with USAID/Guatemala had passed. Since the percentage of completion of both planned outputs exceeded the percentage of time passed under the agreement, we concluded that the activity was on schedule. A detailed list of planned outputs and actual results, as of February 2001, are included as Table 1 in Appendix III.

Second, under a cooperative agreement with USAID, CARE is to promote reforestation and natural resource management. As of December 31, 2000, 62 percent of the time available to complete these activities had passed. Since 90 percent of the outputs were at least 62 percent complete, we concluded that the activity was on schedule. A detailed list of planned outputs and actual results, as of December 2000, are included as Table 2 in Appendix III.

Third, through an agreement with the Government of Guatemala, USAID is funding the construction and/or reconstruction of nine infrastructure

activities in the Hurricane Mitch-affected watersheds. As of April 2001, all but one of the eight activities approved by USAID/Guatemala were on schedule. The eighth activity, which was carried out on behalf of CARE, was delayed about 12 weeks because it took longer than expected for CARE to contract with CIPREDA and for CIPREDA to obtain the necessary licenses to begin construction. However, because this activity represents a relatively small part of the total activities carried out by CIPREDA, and because the reasons for delays had already been addressed by CIPREDA, we concluded that CIPREDA's activities as a whole were on schedule to achieve planned outputs. A comparison of CIPREDA's planned and actual outputs is presented as Table 3 in Appendix III.

Two Implementing Organizations Did Not Report Complete Information

The cooperative agreements with CRS and ICTA included planned outputs to be achieved by these organizations. However, the information reported by these organizations could not be used to assess progress toward achieving planned outputs because the reported information was incomplete. We believe that these reporting problems were due to administrative weaknesses within the implementing organizations and were also due to the fact that USAID/Guatemala was not consistently monitoring planned and actual outputs. As a result, USAID/Guatemala, CRS, and ICTA did not have the information they needed to make sure that planned outputs would be achieved on time.

Catholic Relief Services – Through a cooperative agreement with USAID, CRS is to restore, on a more sustainable basis, natural resource-based food security of small-farm families. CRS is to produce seven outputs dealing with watershed management, reforestation, and improved farming practices. Individual activities are being implemented by four local organizations under sub-agreements with CRS.

The information reported by CRS could not be used to assess progress toward achieving planned outputs because CRS did not report cumulative progress as required by the terms of its cooperative agreement with USAID/Guatemala. At the end of our audit, CRS provided us with a cumulative progress report that CRS developed by analyzing reports submitted by its sub-grantees. However, it was too late for us to verify the information contained in the report. Furthermore, CRS officials indicated that the information in the report was not always reliable: for example, the report stated that five watershed plans were developed but, according to CRS officials, none had in fact been developed.

Institute of Science and Agricultural Technology – Under an agreement between USAID and the Government of Guatemala (acting through ICTA, which is a component of the Ministry of Agriculture), USAID is funding seed production and distribution for corn, beans, rice, potatoes, and sesame seeds. According to ICTA’s approved workplan, the activity has several planned outputs dealing with seed production, distribution, and training.

The information reported by ICTA could not be used to assess progress toward achieving planned outputs because ICTA’s reports did not address several of the planned outputs contained in its approved workplan, such as seed distribution, production of certified seed, and training in seed production.

While we did not ascertain the specific causes of the reporting problems discussed above, it appears to us that the problems were due to administrative weaknesses within the implementing organizations and were also due to the fact that USAID/Guatemala was not consistently monitoring planned and actual outputs.

As a result of these reporting problems, USAID/Guatemala and the implementing organizations did not have the information they needed to make sure that planned outputs would be achieved on time.

Recommendation No. 1: We recommend that USAID/Guatemala obtain and verify the cumulative outputs achieved by Catholic Relief Services and the Institute of Science and Agricultural Technology.

Has USAID/Guatemala implemented an adequate monitoring system for its agriculture activities?

USAID/Guatemala has not implemented an adequate monitoring system for its agriculture activities.

For one of the five activities audited – specifically, the activity implemented by CIPREDA/U.S. Army Corps of Engineers – we found that USAID/Guatemala has implemented an adequate monitoring system. For the infrastructure activities carried out by CIPREDA/U.S. Army Corps of Engineers, USAID/Guatemala was performing site visits and reviewing progress reports to ensure that planned outputs were being achieved. It was also adhering to the monitoring arrangements provided for in individual project implementation letters and FAR agreements, such as authorizing payment to CIPREDA only after the U.S. Army Corps of Engineers certified that projects were completed in conformity with agreed-upon technical specifications.

However, for the remaining four activities, USAID/Guatemala had not implemented an adequate monitoring system, as discussed in the following section.

USAID/Guatemala Did Not Consistently Monitor Outputs

Mission monitoring requirements are established in USAID's Automated Directives System (ADS) as well as in the cooperative agreements. However, for the four activities carried out by ANACAFE, CARE, CRS, and ICTA, USAID/Guatemala was not consistently monitoring outputs or providing the approvals contemplated by the substantial involvement understandings in its cooperative agreements. These monitoring weaknesses occurred because Mission officials were not fully aware of their monitoring responsibilities. As a result, as discussed above (pages 6 and 7), for two of these organizations, USAID/Guatemala had no reliable information on the degree to which the organizations were achieving planned outputs.

Section 202.3.4 of the ADS states that a major task of mission staff generally includes monitoring the quality and timeliness of outputs produced by implementing organizations. Early action in responding to problems is critical to the process of managing for results. While the means of monitoring outputs are left up to missions to decide, two techniques that have been successfully used by many missions are (1) reviewing progress reports provided by implementing organizations and (2) performing site visits to observe first hand the activities being undertaken by implementing organizations.

USAID/Guatemala visited activities carried out by all four implementing organizations and that all four implementing organizations had submitted progress reports. However, Mission officials were not performing site visits or reviewing progress reports with the objective of monitoring outputs. USAID/Guatemala officials raised a similar issue in its annual evaluation of its system of management controls, dated October 2000. This evaluation suggested that Mission staff meet more regularly with implementing organizations to review progress towards established results and pay more attention to lower-level indicators on a more regular basis.²

Another monitoring issue deals with the substantial involvement understandings included in cooperative agreements. In the cooperative agreements between USAID/Guatemala and three grantees (ANACAFE, CARE and CRS), a section entitled "Substantial Involvement Understandings" provided that USAID/Guatemala would approve in

² Lower-level indicators include outputs.

writing the grantees' annual workplans, monitoring and evaluation plans, and any sub-awards entered into by them to achieve any aspects of their programs.³ Annual workplans describe the implementing organizations' approaches and activities, as well as expected outputs, results, and benchmarks for the year. Monitoring and evaluation plans include annual and life-of-project indicators and benchmarks for measuring the accomplishment of results. These plans also describe data collection sources and methodologies as well as the definitions of each result indicator.

We did not find any evidence that USAID/Guatemala had approved workplans for ANACAFE, CARE, or CRS. In addition, USAID/Guatemala had not approved any of the monitoring and evaluation plans for these organizations. Finally, while USAID/Guatemala had approved the sub-awards made by CARE and ANACAFE, it had not approved sub-awards made by CRS.

Interviews with USAID/Guatemala managers indicated that they were uncertain about their specific monitoring roles and responsibilities. For example, some Mission officials understood that oral approvals were sufficient for workplans and monitoring and evaluation plans, even when written approvals were explicitly required by the cooperative agreements. In addition, the Mission's contracting officer stated that the definition of sub-awards had been a point of confusion and discussion in the past. Finally, the USAID/Guatemala's annual evaluation of its management controls made mention of turnover within the Mission and suggested that training for contract technical officers (that is, activity managers) would be appropriate. We concluded that training on monitoring responsibilities and techniques would be helpful in better ensuring that that USAID/Guatemala complies with its monitoring responsibilities.

The monitoring weaknesses left USAID/Guatemala without information that it needed to help ensure that planned outputs would be achieved on time. We believe that Mission monitoring weaknesses were at least partially responsible for the problems discussed above on pages 6 and 7 of this report.

Recommendation No. 2: We recommend that USAID/Guatemala provide its activity managers training on monitoring responsibilities and techniques.

³ CARE's agreement did not specifically state "in writing;" however, we believe that, even in this case, putting approvals in writing is desirable to avoid any misunderstanding or uncertainty later on concerning what approvals have been given.

**Management
Comments and
Our Evaluation**

In its comments to the draft audit report, USAID/Guatemala stated that the report helped ensure more effective implementation of the program and that the mission had already taken action to address both recommendations. For the first recommendation, a management decision was reached.

For the second recommendation, USAID/Guatemala stated that some of its staff attended a performance monitoring course and then trained others in the mission. However, this performance monitoring course was geared toward developing results frameworks and performance indicators. It did not provide training on the management of assistance agreements, such as roles and responsibilities of activity managers in monitoring progress. Therefore, the training course did not directly address the types of monitoring problems discussed in this audit report. Hence, no management decision has been reached. In order to reach a management decision on this recommendation, USAID/Guatemala needs to develop a firm plan of action for providing its staff with training on managing assistance agreements, such as the USAID training course entitled “Acquisition and Assistance for Cognizant Technical Officers”.

USAID/Guatemala’s comments on the draft report are included in their entirety in Appendix II.

Scope and Methodology

Scope

We audited USAID/Guatemala-financed agriculture activities in accordance with generally accepted government auditing standards. Total obligations and accrued expenditures at March 31, 2001, totaled \$15.6 million and \$9.2 million, respectively. We did not audit a \$350,000 agriculture activity with the Tropical Agricultural Center for Research and Education because of the small amount of resources provided to this activity.

We conducted the audit at USAID/Guatemala, the offices of several implementing organizations, and several sites throughout Guatemala. We conducted the audit from March 19, 2001 through April 26, 2001 and covered the period from July 22, 1999 (the inception of the first of the audited activities) through April 26, 2001.

The audit focused on whether the agriculture activities were on schedule to achieve their planned outputs and whether USAID/Guatemala had implemented an adequate monitoring system. We assessed the Mission's management controls related to monitoring and reporting on the agriculture activities. Specifically, we assessed controls for approving workplans, monitoring and evaluation plans, and sub-awards; reviewing progress reports; performing site visits; obtaining financial audits when required; and reporting outputs.

Methodology

To answer the audit objectives, we reviewed documentation at USAID/Guatemala, which included project design documents and implementing agreements between parties. These documents provided the activities' planned outputs and funding. In addition, we reviewed implementing organizations' and their sub-recipient's progress reports and workplans.

To answer the first audit objective, we interviewed responsible officials at USAID/Guatemala and the implementing entities. In addition, we reviewed relevant documentation obtained from these organizations. We confirmed the actual progress by performing site visits to 34 of the 527 activity locations (selected randomly) shown in the following table.

Implementing Organization	Total Number of Sites	Number of Sites Visited
ANACAFE	56	4
CARE	305	13
CRS	129	11

CIPREDA/U.S. Army Corps of Engineers	8	4
ICTA	29	2

Because the sample sizes were small, we limited our conclusions to those items tested.

Since most activities did not have time-phased work plans that showed what outputs were expected to be completed at the time of our audit, we had to develop other criteria for determining whether the activities were on schedule. Therefore, we allocated life-of-activity output targets on a straight-line basis over the life of each activity. We considered that an activity was on schedule if at least 90 percent of the outputs had achieved a percentage of completion at least equal to the percentage of time passed since inception of the activity. This threshold reflected our judgments about the level of performance that is practical and attainable under the audited activities.

For the infrastructure activities implemented by CIPREDA/U.S. Army Corps of Engineers, we used CIPREDA's time-phased workplan to determine whether or not individual infrastructure activities were on schedule. Where individual activities were delayed, we assessed the significance of the activity in relation to the total, the magnitude of the delays, the reasons for the delays, and the corrective actions taken by CIPREDA to determine whether a significant implementation problem existed.

To answer the second audit objective, we first determined what monitoring mechanisms were established in the implementing agreements, then identified other monitoring methods that we considered best management practices: specifically, performing site visits and reviewing progress reports. We then interviewed USAID/Guatemala officials and reviewed implementing agreements. We also reviewed USAID/Guatemala files, performed site visits, and interviewed implementing organizations, their sub-recipients, and beneficiaries, to assess whether established monitoring mechanisms were being followed.

**Management
Comments**

UNITED STATES GOVERNMENT

Memorandum

UNCLASSIFIED

DATE: August 14, 2001

TO: Mr. Timothy E. Cox, RIG/SS

REPLY TO

ATTN OF: George Carner, USAID/G-CAP DIR

SUBJECT: Audit of USAID/Guatemala -Financed Agriculture Activities Under the Central America and the Caribbean Emergency Disaster Recovery Fund (Report No. 1-520-01 -OOX-P).

We are in basic agreement with the two recommendations contained in the subject draft audit report.

Regarding recommendation No. 1 relating to incomplete information from two implementing organizations, we have already obtained and verified the cumulative outputs in the field for ICTA and CRS. We will submit all relevant documentation for RIG review to close out this recommendation as soon as the audit report is put in final.

Regarding recommendation No. 2 relating to inadequate Mission monitoring of agricultural activities, we are taking steps to implement monitoring systems and to train our staff in monitoring techniques. First, the Income SO team, which manages the agricultural activities under the Hurricane Mitch Rehabilitation program as well as other DA, ESF, and PL480 Title II financed activities, conducted a review of all the cooperative agreements that it manages to ensure that partners were in full compliance with the reporting and subagreement approval requirements of each agreement. Clear delegation of authority for monitoring was also provided to each activity manager

Second, the Mission sent 8 employees to El Salvador in June 2001 to attend a week long Performance Monitoring course. Upon their return, the 8 employees conducted abbreviated training sessions for an additional 27 Mission employees on what they learned in the course in El Salvador. The Mission training committee also plans on

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conducting the Performance Monitoring course at Post during FY02. We will ensure that activity managers from all Mission SO teams participate in this course. The intent is that all Mission activity managers will have received training in this important area.

The Mission appreciates the high quality effort RIG staff put into this audit. The audit recommendations helped ensure a more effective field implementation of a high priority and time sensitive program.

Planned and Actual Outputs

ANACAFE

Description of Outputs	Life-of-Project Targets	Actual Results as of February 2001	Percentage Achieved
Hectares of coffee rehabilitated.	1,600	2,021	126%
Coffee processing facilities constructed or rehabilitated.	24	19	79%

Table 1

CARE (continues on the following two pages)

Description of Outputs	Life-of-Project Targets	Actual Results as of December 2000	Percentage Achieved
Hectares reforested.	669	712	106%
Trees planted.	712,750	805,550	113%
Incentive payments to farmers to reforest land.	\$370,000	\$150,846	41%
Families receiving incentive payments.	2,851	2,778	97%
Extension agents trained in forest management.	73	67	92%
Voluntary community promoters trained in forest management.	540	615	114%
School teachers trained	267	210	79%
Extension agents trained in forest fire prevention.	73	71	97%
Voluntary community promoters trained in forest fire prevention.	540	615	114%
Mayors trained in the promotion of environmental laws.	270	445	165%
Coffee, macadamia, cocoa, citrus, and pepper plants distributed.	1,424,300	1,757,397	123%

Planned and Actual Outputs

Description of Outputs	Life-of-Project Targets	Actual Results as of December 2000	Percentage Achieved
Families receiving coffee, macadamia, cocoa, citrus, and pepper plants.	5,680	5,870	103%
Pounds of horticultural seeds distributed.	400	343	86%
Families receiving horticultural seeds.	1,440	1,225	85%
Extension agents trained in diversification of production.	42	54	129%
Voluntary community promoters trained in diversification of production.	536	770	144%
Inter-cropping tree species distributed.	35,100	67,698	193%
Families receiving inter-cropping tree species.	2,700	2,655	98%
Extension agents trained in agroforestry.	42	52	124%
Voluntary community promoters trained in agroforestry.	536	740	138%
Trees provided for soil conservation purposes.	201,000	157,000	78%
Families receiving trees for soil conservation purposes.	1,340	1,168	87%
Extension agents trained in soil conservation.	42	54	129%
Voluntary community promoters trained in soil conservation.	536	770	144%
Extension agents trained in seed and plant techniques.	42	54	129%
Voluntary community promoters trained in seed and plant techniques.	536	742	138%
Pounds of organic chicken manure distributed.	130,000	645,000	496%

Planned and Actual Outputs

Description of Outputs	Life-of-Project Targets	Actual Results as of December 2000	Percentage Achieved
Families receiving organic chicken manure.	1,400	1,440	103%
Small scale irrigation systems rehabilitated.	3	0	0%
Families receiving household renewable energy technologies.	800	348	44%

Table 2

CIPREDA and the U.S. Army Corps of Engineers

Description of Outputs	Actual Results as of April 2001	On Schedule?
Santa Lucía irrigation rehabilitation (\$609,400 budgeted).	Completed.	Yes.
La Playa highway protection (five dikes) (\$450,000 budgeted).	Completed.	Yes.
Quiriquá flood protection (\$132,558 budgeted).	Completed.	Yes.
El Rancho-Jícaro irrigation canal, site 1 (\$78,730 budgeted).	Completed.	Yes.
El Rancho-Jícaro irrigation canal, site 2 (\$37,293 budgeted).	Completed.	Yes.
El Jícaro land reclamation (\$93,824 budgeted).	Being approved by USAID/Guatemala.	NA
Cabañas irrigation system (\$1,034,400 budgeted).	Under construction.	Yes.
Cahaboncito flood protection (\$471,000 budgeted).	In contracting phase.	Yes.
La Tinta dikes and barriers (\$300,000 budgeted).	Under construction.	No.

Table 3