



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/CAMBODIA'S SUPPORTING FORESTS AND BIODIVERSITY PROJECT

AUDIT REPORT NO. 5-442-16-002-P
APRIL 15, 2016

MANILA, PHILIPPINES



Office of Inspector General

April 15, 2016

MEMORANDUM

TO: USAID/Cambodia Mission Director, Rebecca Black

FROM: Regional Inspector General/Manila, Matthew Rathgeber /s/

SUBJECT: Audit of USAID/Cambodia's Supporting Forests and Biodiversity Project
(Report No. 5-442-16-002-P)

This memorandum transmits our final report on the subject audit.

The report contains seven recommendations to help the mission address issues identified in the audit.

In commenting on the draft report, your office agreed with six recommendations. Having evaluated the comments, we acknowledge your management decisions on all recommendations and final action on Recommendations 1, 2, 5, 6, and 7. We disagree with the decision on Recommendation 6. For Recommendations 3 and 4, please provide the necessary documentation to obtain final action to the Audit Performance and Compliance Division in the Office of Chief Financial Officer.

Thank you and your staff for the cooperation and assistance extended to us during this audit.

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Abbreviations

The following abbreviations appear in this report:

AOR	agreement officer’s representative
EPL	Eastern Plains Landscape
PLL	Prey Lang Landscape
REDD+	Reduced Emissions from Deforestation and Forest Degradation and Enhancing Forest Carbon Stocks
RIG	Regional Inspector General
WCS	Wildlife Conservation Society
WWF	World Wildlife Fund

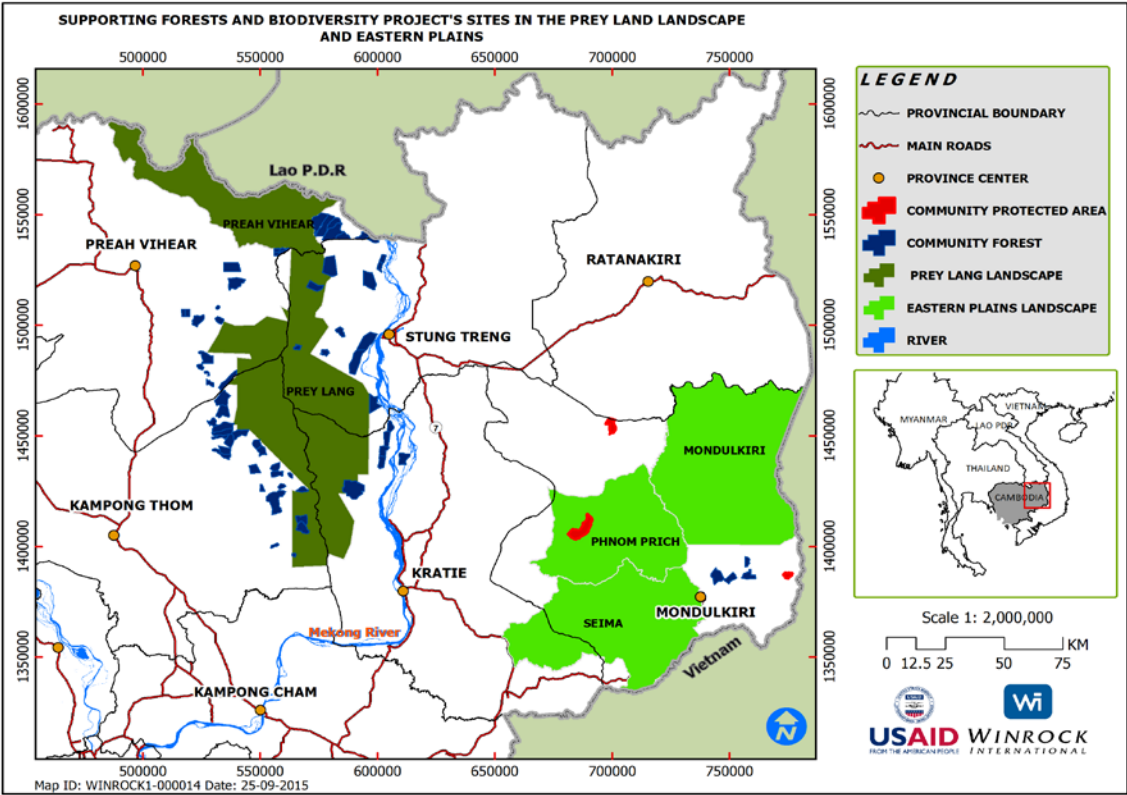
SUMMARY OF RESULTS

Poor citizens subsidizing their incomes with illegal logging and concessionaires clearing forestland for agriculture have made deforestation a major problem in Cambodia.¹ To address it, in November 2012, USAID/Cambodia awarded a 4-year, \$19.8 million cooperative agreement to Winrock International Institute for Agriculture Development (Winrock), a U.S.-based nonprofit, to implement the Supporting Forests and Biodiversity Project.²

The project has three objectives:

1. Make government and other natural resource managers more effective at managing forests sustainably and conserving biodiversity.
2. Improve dialogue on forest management and economic development.
3. Increase equitable economic benefits from the sustainable management of forests.

The goal of the project is to improve conservation and governance to mitigate climate change and conserve biodiversity. The project focuses in two areas with critical biodiversity: the Prey Lang Landscape (PLL) and the Eastern Plains Landscape (EPL), shaded in the map below.



Source: Winrock.

¹ A concessionaire is a party with a permit from the owner of a forest (in this case the government) allowing the extraction and marketing of timber from a specified tract of land for a set period.

² In June 2015, the mission amended the cooperative agreement to increase the estimated amount to \$21 million. As of June 30, 2015, the project had obligated \$16.4 million and disbursed \$10.7 million.

The government has not granted PLL a protection status but has designated three protected areas or protected forests in EPL, giving them the highest level of legal protection for sustainable forest management.

Winrock leads a consortium whose partners have worked in EPL for more than a decade. They include the Wildlife Conservation Society (WCS), which works at Seima Protection Forest and Preah Vihear Protected Forests; and World Wildlife Fund Inc. (WWF), which works in Mondulkiri Protected Forest and Phnom Prich Wildlife Sanctuary. Another partner, the Center for People and Forests, provides technical training to community forest groups and members of protected areas, as well as to provincial government organizations in PLL. The consortium works with the Forestry Administration (under the Ministry of Agriculture, Forestry and Fisheries) and with the General Department for Administration of Nature Conservation and Protection (under the Ministry of Environment).

The Regional Inspector General (RIG)/Manila conducted this audit to determine if USAID/Cambodia's Supporting Forests and Biodiversity Project was achieving its main objective, to strengthen Cambodian capacity and institutions to sustain and protect forests and biodiversity. Although the project strengthened Cambodian capacity and institutions, it lacked government commitment to sustain some activities that protect forests and biodiversity.

Examples of the project's achievements under each objective follow.

Enhance government management. The project gave Forestry Administration officials the skills to support and legalize community forests. It also helped several indigenous communities protect and sustain their forest boundaries even though formal agreements had not been signed with and title transfer fees had not been paid to the Forestry Administration. The project also trained and provided monitoring tools to government forest rangers and nearby communities that made them more effective in detecting illegal logging and confiscating timber like that shown below.



This is timber that rangers confiscated in Mondulkiri Protected Forest. (Photo by RIG/Manila, August 2015)

Improve dialogue. The project facilitated dialogue aimed at preventing land encroachment into the forests by concessionaires. For example, in 2014, the project facilitated the formation of a task force to stop encroachment in the Pu Krouch community forest in Mondulkiri Province. Dialogue facilitated by the project among officials from the Forest Administration, provincial authorities, a concessionaire, and community forest members halted the encroachment (shown below) in Pu Krouch community forest. The concessionaire agreed to compensate the community forest with earnings from the rubber trees already planted on 18 hectares of the encroached land; however, community forest members did not get a signed compensation agreement.



This post in Mondulkiri Province marks a boundary of the community forest that a concessionaire illegally encroached on. Immediately behind the post are rubber trees planted illegally. (Photo by RIG/Manila, August 2015)

Increase equitable economic benefits. The project-supported Ibis Rice Initiative gave forest communities the tools, training, and marketing support to produce and sell organic rice, which commands a higher price than regular rice. In return for training and technical assistance, members of participating communities signed an agreement not to log their forests or harm wildlife.

Despite these contributions, the project lacks the government's buy-in to protect forests and biodiversity adequately. After the project started, the government issued new concessions in the protected forests in EPL; the Ministry of Agriculture, Forestry and Fisheries, has not accepted the plan to sell EPL carbon credits; and PLL has not yet achieved official protected status. The project's collaboration with government counterparts under the ministries was influential. For example, the Forestry Administration resisted further concessions and succeeded in reducing their size by approximately one half; yet the Forestry Administration lacks staff and resources to enforce laws on land encroachment and influencing political change at a higher level is beyond the manageable interest of the project.

The audit disclosed these additional problems:

- The Prey Lang Landscape forest lacks protection, making sustainability questionable (page 6).
- The project did not find new buyers for nontimber forest products (page 7). Members of participating communities said they sell their products to the same dealers as in previous years, with no increase in profits.
- Some reported results were not supported or reliable (page 7). Data lacked support, and project staff did not use methods laid out in the performance monitoring and evaluation plan to report results.
- The project had not reached a required revenue-sharing agreement (page 9). Even if the project finds a buyer for the carbon credits generated through participation in the United Nations program known as Reduced Emissions for Deforestation and Forest Degradation and Enhancing Forest Carbon Stocks (REDD+),³ it might not reach a revenue-sharing agreement with the government.

In addition, the agreement officer's representative (AOR) did not keep complete award files (page 11). Files lacked hard copies of approval documents.

To address these problems, we recommend that USAID/Cambodia:

1. Work with Winrock to advocate governmental approval of a measure protecting the core forest in Prey Lang Landscape (page 6).
2. Work with Winrock to implement a plan to find buyers for nontimber forest products in Prey Lang Landscape so producers get fair prices (page 7).
3. Work with Winrock to revise its data collection methods for income-generating activities to count only participants that reside in the communities supported by the project (page 9).
4. Work with Winrock to align the performance monitoring and evaluation plan with the performance indicator definitions, data collection methodology, and intended results in the reference sheets for performance indicators (page 9).
5. Implement a plan to comply with the mission order on performance monitoring, which requires AORs to verify data during site visits and document the results (page 9).
6. Advocate with the Cambodian Government's adoption of a revenue-sharing agreement for the Seima Protection Forest demonstration site (page 10).
7. Implement a plan for AORs to conduct and document periodic physical inspections of all award files to ensure compliance with AORs' designation letters (page 11).

³ REDD+ assigns value to the carbon stored in forests (carbon credits), giving developing countries an incentive to fight deforestation and pursue development using sustainable energy. REDD+ gives credit for conservation and sustainable forest management. Individuals, companies, and governments can buy and sell carbon credits in the international market, helping reduce greenhouse gases.

Detailed findings follow. Appendix I contains information on the scope and methodology. Our evaluation of management comments begins on page 12, and the full text of management comments, without attachments, is in Appendix II.

AUDIT FINDINGS

Prey Lang Landscape Forest Lacks Protection, Making Sustainability Questionable

According to the agreement, one of the important tasks the project must complete is to create a new protected forest in the core zone within PLL. Under Cambodian law, that would require a subdecree signed by the Prime Minister granting the core forest in PLL protected status. With protected status, law enforcement authorities can take legal action against those involved in illegal land encroachment and illegal logging.

However, protection for the core forest in PLL remains out of reach. In 2011, the Forest Administration prepared a draft subdecree to designate the core forest area as protected. At that time, the Forestry Administration identified 600,000 hectares⁴ of core forest to protect; however, after recent consultation with local authorities and communities, the Forest Administration reduced the boundary to about 400,000 hectares. The exact boundary remains unclear, and until it has been defined, the subdecree remains on hold. A Forestry Administration official explained that obtaining high-level government approval was out of the control of the Forestry Administration. In July 2015, a Forestry Administration official told Winrock that his office could not guarantee the government would approve the subdecree by 2016.

Mission officials acknowledged they did not do enough to advocate with stakeholders concerned for the conservation of Prey Lang, involving a wider base of expertise and support. Greater advocacy to approve the subdecree would avoid a single NGO-led conservation effort and allow greater influence over national and international diplomacy for the protection of Prey Lang.

Even so, lack of consensus on the boundary of the core forest prevented the Forestry Administration from moving the measure forward for the Prime Minister's consideration, and the reason was funding. Because consulting to define the boundary would entail traveling and expenses, an official from the Forestry Administration asked Winrock for direct budgetary support of \$50,000. Instead, Winrock offered to reimburse the Forestry Administration for travel costs for staff working on demarcation. At the time of fieldwork, the Forestry Administration did not accept Winrock's offer.

Without official government protection of the PLL core area, some of Cambodia's largest remaining areas of at least 400,000 hectares of forest are at risk of deforestation. Development around the forest has now accelerated, leading to increased encroachment, settlement, logging, and hunting. Therefore, we make the following recommendation.

Recommendation 1. *We recommend that USAID/Cambodia work with Winrock International Institute for Agriculture Development to implement a plan advocating governmental approval of the subdecree protecting the core forest in Prey Lang Landscape.*

⁴ One hectare is equivalent to 10,000 square meters or 2.47 acres.

Project Did Not Find New Buyers for Nontimber Forest Products

According to the agreement, the project was to increase economic benefits by helping small enterprises find new buyers for their nontimber forest products.

However, members of two communities participating in the project's PLL livelihood activities said the project did not find new buyers in PLL. One community collected resin and another collected resin and honey. Both had difficulty reaching markets, having to cover long distances on poor roads. Community members said that when no links to new markets materialized, they sold their products to the same intermediaries as in previous years. Without competitors, these intermediaries offered the same, lower-than-market prices for the raw products. Winrock staff agreed that the project in PLL must provide links to new markets.

The project did not find new buyers because a partner misunderstood its role. The lead partner, WWF, did not establish an office or permanent staff in the region since its staff saw their role as advisory and did not envisage implementing activities. Realizing the problem, in June 2015, Winrock took over all livelihood activities in PLL.

Without increasing economic benefits to the forest communities, the project might not reach the 15,000 people it planned to engage in income-generating activities, small enterprise opportunities might not be achieved, and incentives for the residents to protect their forests from rampant logging and land conversion would be diminished. Therefore, we make the following recommendation.

***Recommendation 2.** We recommend that USAID/Cambodia work with Winrock International Institute for Agriculture Development to implement a plan to find buyers for nontimber forest products in Prey Lang Landscape so producers get fair prices.*

Some Reported Results Were Not Supported or Reliable

USAID guidance, project documents, and a mission order emphasize monitoring performance using accurate data.

- Automated Directives System 203.3.11.1, "Data Quality Standards," states that data for performance monitoring should be valid (clearly and adequately represent the intended result) and reliable (reflect stable and consistent data collection processes and analysis methods over time).
- The project's performance monitoring and evaluation plan includes reference sheets that tell how to collect and report data under each indicator.
- USAID/Cambodia's mission order on performance monitoring requires AORs to verify data during site visits and check the partner's understanding of a selected indicator, its data collection methodology, and its documentation.

However, after nearly 3 years, the project's data were neither valid nor reliable. Five of 16 indicators tested lacked support, and project staff used methods other than those laid out in the plan to collect and report results data.

The following table shows some of the inconsistencies between the numbers Winrock reported to USAID and the documentation. The paragraphs after the table explain the inconsistencies for each indicator shown.

Results for Selected Performance Indicators as of June 30, 2015

Indicator	End-of-Project Target	Reported Result	Audited Result
Number of hectares of biological significance and natural resources under improved natural resource management	900,000 hectares	919,730 hectares	Could not be determined
Number of greenhouse gas emissions in metric tons of carbon dioxide equivalent (CO ₂ e) reduced, sequestered, or avoided*	1.5 million metric tons	224,044 metric tons	213,964 metric tons
Number of land titles and agreements approved (includes community forests, community protected areas, community-based production forests, community conservation forests, and indigenous land titles)	35	38	10
Number of sustainable forestry and biodiversity management plans developed	20	9	5
Number of people participating in income-generating activities	15,000	4,923	Could not be determined

Source: Winrock.

*Reported annually, the result shown was for the year ending September 30, 2014.

- Area of land under improved natural resource management.** The reference sheet states that the project should use a geographic information system or a global positioning system to calculate areas of land on which improved natural resource management practices are applied. Further, the project should monitor and verify the extent to which the improved practices are being applied. Instead, Winrock reported the entire size of the protected forests and community forests the project supports. Winrock officials indicated they initially planned to follow the monitoring plan, but mission officials advised them to report the entire size of the protected and community forests because the project provided assistance to these areas and should take credit for improving natural resource management. Thus, the project reported data that exceeded the end-of-project target after just 2½ years of implementation, although the project did not monitor, assess, or verify improved natural resource management.
- Reduction in greenhouse gas emissions.** Winrock overstated results by 10,080 metric tons by including 11 community forests where work to reduce emissions had been under way for only 4 months and could not have taken effect.

- **Land titles approved.** Instead of counting the number of titles under each land agreement approved by the government, as the reference sheet instructed, Winrock counted various steps completed in the approval process.
- **Sustainable management plans developed.** Four of nine items tested were not management plans, but annual work plans for two conservation areas, a biodiversity study, and a timber-harvesting plan.
- **Participation in income-generating activities.** According to the reference sheet, the indicator reports all members of targeted communities who participate in the project's income-generating activities. However, the reported data included participants from communities not targeted by the project. According to a Winrock official, the project also assisted people from other communities. Whereas the database used to record participants reported 3,327 residing in PLL, the audit team identified only 1,088 who came from 23 communities, some not targeted by the project. We could not reconcile the numbers because the data were not reliable.

These inconsistencies occurred for several reasons. One was that Winrock did not consistently align methods to collect and report data with the indicator definitions listed in the monitoring plan. Another was that Winrock did not follow the approved data collection methodology. A final one was that the mission did not verify data during site visits, as required in the 2014 mission order, because the mission had not yet begun implementing it.

As a result, the mission does not have accurate information to assess the project's effectiveness and make informed decisions about continued programming. Moreover, since the mission reported to Washington the results for one of the five indicators tested, stakeholders may have been misled. Therefore, we recommend the following.

Recommendation 3. *We recommend that USAID/Cambodia work with Winrock International Institute for Agriculture Development to revise its data collection methods for income-generating activities to count only participants that reside in the communities supported by the project.*

Recommendation 4. *We recommend that USAID/Cambodia work with Winrock International Institute for Agriculture Development to align the performance monitoring and evaluation plan with the performance indicator definitions, data collection methodology, and intended results in the reference sheets for performance indicators.*

Recommendation 5. *We recommend that USAID/Cambodia implement a plan to comply with the mission order on performance monitoring, which requires agreement officer's representatives to verify data during site visits and document the results.*

Project Had Not Reached a Required Revenue-Sharing Agreement

The project was to establish an agreement for sharing the revenue generated by Cambodia's participation in REDD+. Participation involved providing a REDD+ demonstration site in EPL's Seima Protection Forest. As the leader of project support for the demonstration site, WCS was taking all the steps necessary to reach an agreement:

- Certifying the forest carbon credits that were expected to be available for sale during fiscal year 2016.
- Devising a transparent method for disbursing revenue among communities. WCS said a system had been developed and discussed in detail after several technical reviews.
- Holding discussions with the government and Forestry Administration officials to finalize the revenue-sharing plan. WCS had established a working group.

Yet if the past is any guide, even if the project finds a buyer for the carbon credits, it may not reach a revenue-sharing agreement with the government. In 2013, the Cambodian Government supported another REDD+ pilot site in Oddar Meanchey community forest implemented by another U.S.-based company. The Oddar Meanchey pilot identified a potential buyer for the forest carbon credits, but because the government did not agree with the revenue-sharing agreement, no carbon credits were sold, and the communities did not sustain their forest protection. That experience has overtones for the present situation. Regardless, the AOR relayed to the audit team that a senior forestry administration official publicly said the Cambodian Government would not share revenue directly with communities since the REDD+ site is located on government land. Instead, the official indicated, the government would provide assistance in developing the communities.

The mission did not effectively advocate to the Cambodian Government for a revenue-sharing agreement to ensure that the flow of funds to communities would be equitable, efficient, and transparent. Mission officials could have engaged in high-level meetings with members of the Cambodian Government to advocate for the revenue sharing agreement.

Without a revenue-sharing agreement, there is little incentive for sustainable biodiversity and improved forest management. The Seima Protection Forest REDD+ demonstration site has high community value. The area designated to generate REDD credits is used by 20 small, remote villages with high poverty. Resource declines and land loss to outside groups threaten the villagers' livelihoods. Besides agriculture, communities depend on the forests for economic and cultural reasons. Therefore, we recommend the following.

Recommendation 6. *We recommend that USAID/Cambodia work with Winrock International Institute for Agriculture Development to implement an advocacy plan with the Cambodian Government for the adoption of a revenue-sharing agreement for the Seima Protection Forest demonstration site.*

OTHER MATTER

Agreement Officer's Representative Did Not Keep Complete Award Files

The AOR designation letter formally holds the AOR responsible for establishing and maintaining adequate work files. Specifically, the designation letter requires that signed approval documents and any others that are part of the official award file be maintained in hard copy.

Contrary to the designation letter, the AOR did not keep complete award files. The files did not include official award files in hard copies. For example, the hard-copy files lacked approvals for work plans, key personnel, small grants, and the performance monitoring and evaluation plan. In addition, they lacked site visit reports. In lieu of those, the AOR provided electronic copies of approved documentation and site visit reports, except work plans for fiscal years 2013 and 2015. An approved copy of the 2015 work plan was available only from Winrock, which had e-mails from the previous AOR.

The AOR indicated that he could not locate some approval documents because the previous AOR had them. The mission did not have procedures to ensure the retention and safeguarding of AOR official award files when personnel rotate.

These files are the primary tools for carrying out AOR duties and responsibilities. Adequate project documentation enables an AOR to manage the agreement properly and allows successor AORs to take over. Key documentation was not available to ensure the AOR approved work plans on time. The mission needs to ensure that critical work files are established and maintained so that the same problem does not affect other projects. To that end, we make the following recommendation.

Recommendation 7. *We recommend that USAID/Cambodia implement a plan to conduct and document periodic physical inspections of all award files to ensure compliance with the requirements in designation letters.*

EVALUATION OF MANAGEMENT COMMENTS

In responding to the draft report, USAID/Cambodia officials agreed with six of the seven recommendations. We acknowledge USAID/Cambodia's management decisions on all the recommendations and final action on Recommendations 1, 2, 5, 6, and 7; however, we disagree with USAID/Cambodia's management decision on Recommendation 6. The mission recommended revising one sentence in a finding, but we consider the original language accurate and have not changed it

Recommendation 1. USAID/Cambodia officials agreed and decided to work with Winrock to implement a plan advocating governmental approval of the subdecree protecting the core forest in PLL. The mission, in coordination with project stakeholders, created a work plan and a timeline for completing all requirements to protect PLL. Mission officials began meeting regularly with senior Forestry Administration officials to assess progress. As of January 2016, three of four provincial authorities had agreed to the subdecree. Having reviewed documentation received on February 18, 2016, we acknowledge the mission's management decision and final action.

Recommendation 2. USAID/Cambodia officials agreed and decided to work with Winrock on a plan to find buyers for nontimber forest products in PLL so that producers get fair prices. Winrock identified alternative buyers for nontimber forest products in PLL and continues to look for additional buyers with the advice of the mission. In addition, the project provided additional technical assistance to improve production, thus justifying higher market price for products. Having reviewed the documentation we received on February 18, 2016, we acknowledge the mission's management decision and final action.

Recommendation 3. USAID/Cambodia officials agreed that Winrock must be more clear and accurate in identifying communities assisted through income-generating activities. The mission decided to work with Winrock to revise processes for reporting types of beneficiaries in the project database. The mission will update the performance monitoring and evaluation plan to represent more accurately project communities assisted through income-generating activities. It set a target date for completion of May 31, 2016. We acknowledge the mission's management decision.

Recommendation 4. USAID/Cambodia officials agreed and decided to work with Winrock to modify the performance monitoring and evaluation plan so that it aligns better with indicator definitions, data collection methodology, and indicator reference sheets. Officials set a target date of May 31, 2016, to modify the performance monitoring and evaluation plan. We acknowledge the mission's management decision.

Recommendation 5. USAID/Cambodia officials agreed and decided to update the site visit report template, provide training to staff who use it, and issue a mission notice to verify data during site visits. The mission completed these actions on January 28, 2016. Having reviewed the documentation received on February 18, 2016, we acknowledge the mission's management decision and final action.

Recommendation 6. USAID/Cambodia officials disagreed because of a development after our fieldwork. In November 2015, WCS successfully negotiated a revenue-sharing agreement with the Cambodian Government. The agreement is one of many legal documents required to sell carbon credits, the complete package of which was submitted for the Prime Minister's approval.

We acknowledge the mission's management decision and final action, but we disagree with the decision to take no action. Even though the revenue-sharing agreement was negotiated between WCS and the legal department of the Ministry of Agriculture, Forestry and Fisheries, the Prime Minister had not yet approved it. The mission needs a plan of action to complete the process to achieve final Cambodian Government approval of the agreement and to establish a target date for completion.

Recommendation 7. USAID/Cambodia officials agreed and decided to conduct physical inspections of award files, develop checklists to review compliance with the requirements in the designation letters, and issue a mission notice to introduce the checklists and a schedule of physical inspections for maintaining adequate award files. According to the documentation we received on February 18, 2016, they did so. We acknowledge the mission's management decision and final action.

SCOPE AND METHODOLOGY

Scope

RIG/Manila conducted this audit in accordance with generally accepted government auditing standards. They require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether USAID/Cambodia's Supporting Forests and Biodiversity Project was achieving its main objective, to strengthen Cambodian capacity and institutions to sustain and protect forests and biodiversity. As of June 30, 2015, USAID/Cambodia had obligated \$16.4 million and disbursed about \$10.7 million.

As the lead implementer, Winrock was managing the project in partnership with WCS, WWF, the Center for People and Forests, and several local partners. The audit covered selected activities carried out under the three objectives from start-up in November 2012 through June 30, 2015. The audit team performed work in Phnom Penh, EPL, and PLL.

In planning and performing the audit, the audit team assessed significant controls that USAID/Cambodia used to monitor project activities: site visit reports, portfolio reviews, a limited financial review report, a midterm evaluation, the cooperative agreement and modifications, and the performance monitoring and evaluation plan. The audit assessed the mission's policies and procedures for monitoring Winrock's progress in achieving the objectives listed in the cooperative agreement and for verifying that activities funded by USAID conform to the terms and conditions of the agreement. In addition to the significant controls, the audit team reviewed Winrock's quarterly and annual progress reports, as well as the annual work plans and financial data.

We conducted audit fieldwork from July 28 to August 27, 2015, at USAID/Cambodia in Phnom Penh and at Winrock and its partners' offices in Phnom Penh. We visited four provinces in EPL and PLL to observe project activities. The team also met with government officials to get their perceptions of the project. Additionally, the team examined the mission's fiscal year 2015 annual self-assessment of management controls—which the mission is required to perform to comply with the Federal Managers' Financial Integrity Act—to check whether the assessment cited any relevant weaknesses.

Methodology

In assessing the progress of the activities carried out under the cooperative agreement, the audit team reviewed Winrock's quarterly and annual progress reports from the start of the project through June 2015. We interviewed mission officials, Winrock and partners' staff, and government officials. Finally, the audit team reviewed USAID/Cambodia's November 2013 data quality assessments of Winrock.

Through interviews, documentation reviews, and data analysis, the audit team obtained an understanding of (1) what the project's main goals were, (2) how the mission and Winrock monitored the project, (3) how the mission checked the quality of the data reported, and

(4) whether the mission, Winrock, and partners were aware of any allegations of fraud or other potential illegal acts or noncompliance with laws and regulations.

To conduct site visits, the audit team judgmentally selected 17 of 69 communities⁵ where Winrock and the others implemented activities in Cambodia. The sample selection was based on the sites' location, the number of activities implemented at each one, the significance of activities to the overall project's objective, and the diversity of their activities. During the site visits, the audit team interviewed project field staff to learn about the project's activities, accomplishments, and challenges and to assess the impact of the interventions on the three objectives. We solicited feedback on activities from interviewees including community leaders, volunteers, and mothers receiving assistance from the project.

We judgmentally selected 5 of 16 performance indicators for testing. We judgmentally selected reported data to maximize coverage of the project's results. To verify the figures, we traced reported results to documentation maintained by Winrock. In doing so, we relied extensively on computer-processed data in Excel spreadsheets and databases maintained by Winrock in Phnom Penh. The results of data tests showed an error rate that casts doubt on their validity. However, because we reviewed these data along with other available evidence, we believe the opinions, conclusions, and recommendations in the report are valid.

Since we judgmentally selected the sites and the indicators, the results and conclusions related to the analysis were limited to the items and areas tested and cannot be projected to the entire population. We believe our substantive testing was sufficient to support the audit's findings.

⁵ Communities include community forests, community protected areas, and indigenous community land.

MANAGEMENT COMMENTS



USAID | CAMBODIA
FROM THE AMERICAN PEOPLE

February 18, 2016

MEMORANDUM

TO: Matthew Rathgeber
Regional Inspector General/Manila

FROM: Rebecca Black /s/
Mission Director, USAID/Cambodia

SUBJECT: Audit of USAID/Cambodia's Supporting Forests and Biodiversity Project
(Report No. 5-442-16-XXX-P)

REFERENCE: Draft Audit Report No. 5-442-16-XXX-P of January 14, 2016

The Mission would like to thank the Regional Inspector General (RIG)/Manila for its support and assistance during the performance audit of USAID/Cambodia's Supporting Forests and Biodiversity (SFB) Project. In response to the referenced draft audit report No. 5-442-16-XXX-P, we are hereby providing our responses to the seven audit recommendations issued by the RIG.

Recommendation 1: We recommend that USAID/Cambodia work with Winrock International Institute for Agriculture Development to implement a plan advocating governmental approval of the subdecree protecting the core forest in Prey Lang Landscape.

USAID/Cambodia's Response/Action Plan

The Mission does not agree with the RIG's interpretation of the contract agreement, however, the Mission does agree with the recommendation. Specifically, the report states, "According to the agreement, one of the important tasks the project must complete is to create a new protected forest in the core zone within PLL." However, neither the USAID-Winrock Cooperative Agreement which includes the revised technical proposal, the SFB Performance Monitoring and Evaluation Plan, nor the approved annual work plans explicitly state that the SFB project is responsible for the creation of a new protection forest in the core zone within the Prey Lang Landscape. The SFB Year 4 Work Plan does state, "The [SFB Management] team will be working closely with the Forestry Administration to support the development of the Prey Lang Protection Forest Sub-decree. The team will develop a detailed work plan in cooperation with our government counterparts which clearly states goals, time scale and responsibilities for actions. This work plan will be closely monitored to make certain actions are addressed in a

timely manner, to ensure the completion of this document during year 4.” The Mission believes that SFB is successfully implementing this action as stipulated in the work plan. The SFB management team has identified other legal classifications and processes for conserving the forests of Prey Lang. These classifications have been identified through SFB’s ongoing consultations with local and provincial level authorities who have demonstrated their commitment to conserving the forest. This is in line with the goals and objectives stipulated in the award and technical proposal, i.e. “The SFB Project’s goal is to improve conservation and governance of the Eastern Plains and Prey Lang landscapes to mitigate climate change and conserve biodiversity... In Prey Lang, it will target approximately 500,000 ha where conservation designations are hotly debated. Emphasis will be on improving participation of communities in forest management decisions. Capacity-building for community members and officials of sub-national authorities will cut across all project elements through three inter-linked objectives.”

The Mission does acknowledge the usefulness of Mission involvement in advocating for the protection of Cambodia’s forests. Therefore, the Mission has begun implementing a plan for the approval of the subdecree. The Cambodian government requires a series of actions, each with its own approval process, in order to draft, finalize and submit for approval a sub-decree (law). In addition to various scientific requirements such as certified land demarcation, the government is also required to consult with potentially impacted communities as well as seek approval from provincial-level authorities before a subdecree can be submitted for final approval. To that end, the Mission, SFB, and senior technical counterparts at the Forestry Administration (FA) created a work plan and associated timeline for completing all requirements. This work plan complements the significant efforts already completed by the FA and the project while also identifying specific areas where the U.S. government may appropriately engage. The Mission has been meeting regularly with senior officials of the FA to assess progress against the work plan. As of January 22, 2016, the FA had completed nearly 80 percent of the community consultations. It should also be noted that the FA conducted all but two consultations using FA funds, not U.S. government funds. Additionally, three of the four provincial authorities have agreed to the subdecree. The fourth provincial governor is newly elected and meetings have already been scheduled with him and his technical team.

Based on the actions described above, the Mission deems that appropriate actions have been taken to address the recommendation and therefore requests closure of the recommendation upon issuance of the final report.

Recommendation 2: We recommend that USAID/Cambodia work with Winrock International Institute for Agriculture Development to implement a plan to find buyers for nontimber forest products in Prey Lang Landscape so producers get fair prices.

USAID/Cambodia’s Response/Action Plan

The Mission agrees with the recommendation, and a plan is being implemented to find buyers of non-timber forest products. Since mid-2015, Winrock International had been identifying alternative buyers for non-timber forest products in the Prey Lang Landscape and is continuing to do so with the advice of USAID/Cambodia and other development partners working in livelihoods development. However, identifying buyers is only one component of increasing incomes and acquiring fair market price. Many of the goods produced in these remote communities are of relatively low quality and, therefore, may not earn a higher market price. Also, given the distance from the communities to the markets, transportation costs consume a

large percentage of any profit margin. Therefore, as part of Winrock's plan to identify buyers for non-timber forest products, they have provided necessary technical assistance to improve production, harvesting, and post-harvest handling techniques. This assistance helps communities understand and meet market demand, thereby justifying the higher market price for their products. Winrock also expanded their assistance to include bamboo harvesting in addition to resin and honey. This has broadened the pool of potential buyers, traders and markets to access. Lastly, Winrock has begun working with communities to establish agricultural cooperatives. Under Cambodian law, cooperatives are exempt from various fees that lower net profit. Additionally, cooperative status tends to lower overall production costs and incentivizes buyers by providing a larger number of products of a standardized quality.

Based on the actions described above, the Mission deems that appropriate actions have been taken to address the recommendation and therefore requests closure of the recommendation upon issuance of the final report.

Recommendation 3: We recommend that USAID/Cambodia work with Winrock International Institute for Agriculture Development to revise its data collection methods for income-generating activities to count only participants that reside in the communities supported by the project.

USAID/Cambodia's Response/Action Plan

The Mission agrees with the recommendation that Winrock must more clearly and accurately specify the communities assisted through income-generating activities. The Mission Monitoring and Evaluation (M&E) officers worked with Winrock International to revise processes for reporting types of beneficiaries into the project database. The revised process requires specifying the community forest as well as village of activity participants. As some activities affect a community forest comprised of several villages, specifying the target beneficiary, e.g. community forest or individuals in a village, is expected to more accurately represent project progress. Also, as stated under Recommendation 4, the Mission and Winrock will review the Performance Monitoring and Evaluation Plan and will revise the language so as to ensure alignment of results and targets.

The target completion date for this recommendation is May 31, 2016.

Recommendation 4: We recommend that USAID/Cambodia work with Winrock International Institute for Agriculture Development to align the performance monitoring and evaluation plan with the performance indicator definitions, data collection methodology, and intended results in the reference sheets for performance indicators.

USAID/Cambodia's Response/Action Plan

USAID/Cambodia agrees with the recommendation. The Mission will work with Winrock International to modify the language of selected performance indicator definitions as well as language in the data collection methodology section of the Performance Monitoring and Evaluation Plan (PMEP) in order to more clearly demonstrate alignment between the PMEP and the indicator definitions, data collection methodology, and indicator reference sheets.

In particular, USAID/Cambodia has accepted Winrock's proposal to clarify the performance indicator definition of "target communities" for the income-generating activities indicator by adding "Target communities will be defined as residents of any of the five provinces within the EPL and PLL landscapes." Additionally, the language in the data collection method section for indicator G2, community forest hectares under improved management, will be modified to eliminate language about delineating areas for pilot demonstration projects. Language will be added to clarify that since actions in Community Forests, Community Protected Areas, and protected areas under government management improve management of the whole area, the calculation is based on existing boundaries.

The target completion date for this recommendation is May 31, 2016.

Recommendation 5: We recommend that USAID/Cambodia implement a plan to comply with the mission order on performance monitoring, which requires agreement officer's representatives to verify data during site visits and document the results.

USAID/Cambodia's Response/Action Plan

The Mission agrees with the recommendation and corrective actions have been taken to address this finding. The Mission updated the Site Visit Report template to include a section on "Indicator Spot Check" so that Activity Managers and Agreement/Contracting Officer Representatives (A/CORs) select one indicator (or more) and verify data every time they conduct a site visit. An email was sent to Mission staff on October 21, 2015 highlighting this revision. The Program Office also discussed this update with all Mission staff in December 2015 and reminded Activity Managers and A/CORs of their responsibility to verify data during site visits. In addition, a Mission Notice on 'Verifying Data during Site Visits' was issued on January 28, 2016. The Mission's M&E Working Group will include this topic in the February 2016 Monthly A/COR Refresher Training.

Based on the actions described above, the Mission deems that appropriate actions have been taken to address the recommendation and therefore requests closure of the recommendation upon issuance of the final report.

Recommendation 6: We recommend that USAID/Cambodia work with Winrock International Institute for Agriculture Development to implement an advocacy plan with the Cambodian Government for the adoption of a revenue-sharing agreement for the Seima Protection Forest demonstration site.

USAID/Cambodia's Response/Action Plan

The Mission does not agree with this finding and recommendation. As stated in the report, Wildlife Conservation Society (WCS) was taking all the steps necessary to reach an agreement, and in November 2015, WCS successfully negotiated an agreement with the Royal Government of Cambodia; the agreement is currently with the Prime Minister for final approval. The agreement is one component of a portfolio of legal documents required to sell carbon credit on the international market. The documents, including the agreement, have been reviewed and finalized by the legal department of the Ministry of Agriculture, Forestry and Fisheries (MAFF). MAFF has submitted all of the documents to the Prime Minister for final approval. Additionally, international buyers have already expressed interest due in large part to the revenue sharing and distribution model created by the Cambodian government and the project's Reduced

Emissions for Deforestation and Forest Degradation and Enhancing Forest Carbon Stocks (REDD+) team, led by WCS.

The Revenue Sharing Agreement was negotiated based on international best practices and included lessons learned from the Oddar Meanchey program mentioned in the Audit Report. The percentage allocated for community development in the agreement exceeds percentages generally allowed under other agreements around the world. It also utilizes Cambodia's local governance processes for commune and district level development by providing funds directly to the local communities already identified through the commune development plans. Additionally, the area of forest dedicated to the REDD+ program and thereby attributable for sale of carbon credits is Cambodian government land. Therefore, funds acquired from the sale could be used strictly for government needs; however, the agreement stipulates that 50 percent of all revenue will be distributed to the local communities with only 10 percent allocated to the government (for reinvestment into the National Forest Fund or other REDD+ initiatives). (The remaining 40 percent is allocated to standard transaction costs, operational costs, and enhanced carbon protection activities co-managed by WCS and the Cambodian government.) Lastly, the Cambodian government did not include community forests or indigenous land in the area designated for carbon credit. With community and indigenous land falling outside of the REDD+ program, the communities within Seima are free to utilize their land as they deem appropriate and are not subject to international REDD+ regulations. This distribution model, which allocates 50 percent of the revenue to communities while also allowing them to freely manage their land, is in keeping with Cambodia's overall approach of supporting community forests and indigenous land titling.

Because WCS had been effectively working with the government prior to the audit fieldwork and has successfully reached an agreement with the counterpart ministry, which submitted it to the Prime Minister for final approval, we kindly request that this audit finding and recommendation be removed from the final report. However, should RIG/Manila keep the recommendation in the report, the Mission requests closure of the recommendation upon issuance of the final report based on the actions described above.

Recommendation 7: We recommend that USAID/Cambodia implement a plan to conduct and document periodic physical inspections of all award files to ensure compliance with the requirements in designation letters.

USAID/Cambodia's Response/Action Plan

The Mission agrees with the recommendation. The Mission follows the Federal regulations and Agency policies applicable to the retention and safeguarding of A/COR official award files. To address the recommendation, the USAID/Cambodia Office of Acquisition & Assistance (OAA) developed checklists to review A/COR compliance with the requirements in the designation letters, which includes maintaining an adequate award file. A Mission Notice was issued to introduce the checklists and the schedule of compliance reviews for the calendar year 2016; annual schedules for the future years will be developed by the OAA in October-November each year. OAA has already begun implementation of the physical inspections, with the first inspection being completed on February 4, 2015.

Based on the actions described above, the Mission deems that appropriate actions have been taken to address the recommendation and therefore requests closure of the recommendation upon issuance of the final report.

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