



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/HONDURAS'S ACCESO PROJECT

AUDIT REPORT NO. 1-522-15-003-P
JANUARY 26, 2015 [Revised]

SAN SALVADOR, EL SALVADOR



Office of Inspector General

January 26, 2015

MEMORANDUM

TO: USAID/Honduras Mission Director, James Watson
FROM: Regional Inspector General/San Salvador, Van Nguyen /s/
SUBJECT: Audit of USAID/Honduras's ACCESO Project (Report No. 1-522-15-003-P)
[Revised]

This memorandum transmits our final report on the subject audit. In finalizing the audit report, we considered your comments on the draft and included them in their entirety in Appendix II. The original audit report has been revised to provide additional clarifications on some matters. These revisions do not affect the report's recommendations or the mission's management decisions.

This report includes eight recommendations to help improve USAID/Honduras's implementation of its ACCESO project. The mission agreed with all eight recommendations. Based on comments from the mission, management decisions have been reached on all recommendations.

Please provide the Audit Performance and Compliance Division in the USAID Office of the Chief Financial Officer with the necessary documentation to achieve final action on all recommendations.

I want to thank you and your staff for the cooperation and assistance extended to us during this audit.

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SUMMARY OF RESULTS

Feed the Future (FTF) is a federal program designed to “improve food security through increasing incomes and reducing undernutrition among the world’s poorest, especially women and girls.” Since its creation in 2010, FTF has worked in 19 countries, 1 of which is Honduras. More than half of the Central American country’s 8.4 million people live in poverty, according to *The World Factbook*.

To implement FTF’s initial investment in Honduras, on March 18, 2011, USAID/Honduras awarded Fintrac Inc. a 4-year, \$40.6 million contract to implement the ACCESO project.¹ As of March 31, 2014, cumulative obligations and expenditures totaled \$33 million and \$27 million, respectively. The goal of the project is to move “rural Honduran households out of extreme poverty and undernutrition by improving their incomes.”² To achieve this, the award stated that ACCESO would focus on six main components:

- Technical assistance and training to enhance the poorest households’ capacity in production, management, and marketing skills.
- Market access focusing on developing linkages of farmers to market opportunities.
- Rural financial services through existing rural financial intermediaries, village banks, commercial banks, and other services and input providers.
- Assistance in eliminating policy barriers that are impeding rural households’ access to market opportunities.
- Nutrition prevention to enhance the capacity of rural households to improve utilization and consumption of food.
- Sound environmental and natural resource management.

The purpose of this audit was to determine whether USAID/Honduras’s ACCESO project is achieving its goal of moving rural Honduran households out of extreme poverty and undernutrition by improving their incomes.

The audit found that ACCESO had not made significant progress and is unlikely to meet the goal by the end of the project. As of September 30, 2013, it had moved only 1,630 households of the targeted 18,000 out of extreme poverty.³ This lack of progress resulted primarily from not collecting baseline data on time, a severe decline in coffee production and prices, and implementation delays (page 4).

¹ ACCESO is Spanish for “access.” In this case, it refers to providing rural households access to economic opportunities and improved practices for health and nutrition. The project is also known as the Food Security and Agricultural Diversification Program.

² The Honduran Government defines “extreme poverty” as living on less than \$1.81 per day, per person and “poverty” as \$2.43 per day, per person.

³ The data for this specific outcome indicator are collected once a year; the most recent results were reported as of September 30, 2013.

How much undernutrition affects growth of children younger than 5 in targeted communities will be determined when another contractor completes the FTF impact evaluation for USAID/Honduras.

Despite ACCESO's limited progress in achieving its outcome targets, the audit found that the project is on track to meet its targets for 17 of the 25 output indicators used to measure progress in the six components. For example, through March 31, 2014,⁴ 18,862 farmers applied new agricultural technical assistance methods they learned under the project, and 46 public-private partnerships were formed.

The audit team found two other problems.

- The project did not report on key activities (page 6).
- The project did not prepare a formal security plan (page 7).

In another matter, the audit found that Fintrac's performance was not reflected accurately in its evaluation (page 9).

To improve project management, we recommend that USAID/Honduras:

1. Implement a plan to complete the baseline survey and collect relevant data before follow-on FTF projects start or require the implementer to collect data during the first 6 months of the project to establish achievable and realistic targets and document their decision (page 6).
2. Review and evaluate Fintrac's work plans to determine whether to adjust indicator targets and the contractor's fixed fee, and document its justifications (page 6).
3. Implement a plan of action for acquiring permanent license plates for all vehicles before the follow-on awards start (page 6).
4. Assess and document whether to implement additional indicators and targets to measure the project's impact on increasing beneficiaries' incomes and assets as part of the follow-on awards for FTF, and implement if appropriate (page 7).
5. Incorporate into the follow-on awards a procedure to assess the project's effectiveness in building the capacity of local nongovernment organizations (NGOs) (page 7).
6. Evaluate and document whether to include the leveraging⁵ of private sector funds as a requirement, and develop an indicator and target to measure the project's success in achieving this requirement as part of its follow-on awards (page 7).
7. Incorporate into its follow-on awards for FTF projects the requirement that the implementers submit a security plan and budget for security-related personnel and equipment to USAID for review and approval (page 8).

⁴ Output indicator data are collected quarterly except for health indicators, which are collected annually.

⁵ According to USAID's Acquisition and Assistance Policy Directive 04-16, "Leveraging refers to a portion of a project or program costs not borne by the Federal Government."

8. Provide full context of the contractor's performance, specifically on the outcome indicators, in the remainder of its ratings (page 9).

Detailed findings appear in the following section. The scope and methodology are described in Appendix I. Management comments are included in their entirety in Appendix II, and our evaluation of management comments is on page 10.

AUDIT FINDINGS

Project Was Not on Track to Meet Its Outcome Targets

Automated Directives System (ADS) 201.3.11 emphasizes the importance of appropriate design for projects to achieve intended results. It states, “Sound strategic planning, undertaken in coordination with national development priorities and needs,” clarify “what development results should be achieved.”

According to the award, Fintrac’s main outcome target for the ACCESO project was to move 18,000 rural Honduran households above the extreme poverty line⁶ by increasing their incomes. The contractor’s other outcome targets were to:

- Move 30,000 rural households above the poverty line.
- Generate \$74 million in net profits for beneficiaries.
- Create 10,425 permanent jobs in assisted communities.

However, after 2.5 years of implementation and \$22.6 million spent, the project moved only 2,236 of the 30,000 (7 percent) households above the poverty line and 1,630 of the 18,000 (9 percent) households above the extreme poverty line.

Furthermore, the project created only 2,575 of the 10,425 (25 percent) intended permanent jobs in the communities and did not generate any net profits for beneficiaries. In fact, the beneficiaries’ income decreased by \$6.94 million.⁷

The lack of progress toward achieving these outcome targets (income, jobs, and sales) occurred for several reasons.

Mission did not collect baseline data when it was supposed to. According to ADS 203.3.4.3, collecting baseline data should start at the beginning of a project. If the data are not available, “The project design team will need to define a plan to ensure that baseline data will be collected as soon as possible.” Once the data are established, project officials should reconsider indicator targets to be sure they are realistic.

USAID/Honduras did not collect the baseline data on time. As a result, it designed the project using out-of-date information (a 1994 agriculture census and a 2001 national census) and set unrealistic targets for ACCESO’s outcome indicators.

Mission officials said these problems happened because when ACCESO started, FTF indicators had not been developed fully by USAID/Bureau for Food Security, which is responsible for overall monitoring and progress of FTF programs around the world. They acknowledged having some initial discussions with Fintrac about changing the targets after more recent data from the baseline came back a year after the project began, showing that the target population was

⁶ While the World Bank defines those living on \$1.25 or less per day as living in extreme poverty, the Honduran Government adjusted this amount to \$1.81.

⁷ Coffee prices were 50 percent less in the project’s third year than they were when the initial target was set.

significantly poorer than expected. However, no changes were made, the officials said, because they felt they should hold Fintrac to the originally agreed-upon targets as they were made using the best data available.

Now in ACCESO's final year, FINTRAC has asked the mission to change the targets to about a third of what they were. Because payment of the fixed fee is tied to the targets, the contractor in essence would be able to get the full amount despite not meeting the originally agreed-upon targets.

Decline in coffee production and prices. In 2012 and 2013 a fungus called "roya" or coffee rust devastated Honduran coffee bushes,⁸ reducing their yields significantly. The blight hit the extreme poor, as they were less able to afford pesticides that mitigate roya's impact.

According to the mission, the Honduran Coffee Institute estimated that 45 percent of growers in the areas targeted by the project were affected by the coffee rust. This had a severe impact on incomes for about 17,000 ACCESO coffee growers (who comprise more than half of the total number of the project's target households). Moreover, many of these growers and their families were no longer employed by other growers and could not contribute to the household income. Coffee prices fell from about \$2 per pound to \$1 during ACCESO's third year, resulting in less income than many coffee growers expected.

Implementation delays. Fintrac found that it takes about 1 to 3 years to see results from applying new agricultural techniques. Fintrac officials said they missed the opportunity to work with growers in the first year on new techniques to grow crops because the fieldwork began when the agricultural season had already started and farmers had already planted their crops.

Furthermore, a change in the type of contract USAID used to fund the project contributed to the delays. Originally USAID/Honduras was supposed to award a 5-year contract directly to Fintrac in January 2011. However, mission officials said because of budgetary reasons, the best funding mechanism available to them at the time was to issue the funds using a 4-year task order from the Agency's headquarters in March 2011.

As a result, Fintrac had 4 years instead of 5 to implement the project. To avoid similar problems in the future, mission officials said they plan to use a different mechanism for awarding the follow-on FTF projects.

Furthermore, it takes several years for coffee bushes to reproduce after recovering from the roya blight.

Lack of permanent license plates for vehicles. The Honduran Government did not issue permanent license plates for project vehicles, but rather only temporary plates that had to be frequently renewed. Government officials blamed this on a shortage of plates and trouble making new ones. According to Fintrac, having to renew the temporary plates every 2 to 3 months for 159 vehicles costs each technician about 2 weeks of work a year, which adds up to 3.9 percent less time spent working with farmers toward the project's goals.

The situations described above contributed to the project's inability to meet the outcome targets. As a result, thousands of rural farmers remain below the extreme poverty and poverty

⁸ Roya attacks the leaves on coffee bushes and cuts off the amount of nutrients the plants need to produce berries and survive.

thresholds. To help the mission avoid these problems in the new project, we propose the following recommendations.

Recommendation 1. We recommend that USAID/Honduras implement a plan to complete the baseline survey and collect relevant data before follow-on Feed the Future projects start or require the implementer to collect data during the first 6 months of the project to establish realistic targets and document their decision.

Recommendation 2. We recommend that USAID/Honduras review and evaluate Fintrac Inc.'s work plans to determine whether to adjust indicator targets and or the fixed fee, and document its justifications.

Recommendation 3. We recommend that USAID/Honduras implement a plan of action for acquiring permanent license plates for all vehicles before the follow-on projects start.

Project Did Not Report On Key Activities

ADS 203.3.2 states that “performance indicators are the basis for observing progress and measuring actual results compared to expected results.” USAID TIPS No. 6, “Performance Monitoring and Evaluation,” defines performance indicators as measures that describe how well a project is achieving its objectives. They state “what to measure to determine whether the objective has been achieved.” Performance indicators define the data to be collected to measure progress, allowing results achieved to be compared to those planned.

Although ACCESO established a number of performance indicators to track certain outcomes, it did not establish indicators for the following key activities.

Household income increases. While ACCESO has outcome indicators that track the number of households that have moved above the extreme poverty and poverty thresholds, it does not report household income increases for those who did not meet the thresholds. For example, the project reported that 1,630 households moved above the extreme poverty threshold and 2,236 households above the poverty threshold, but it did not report that 5,605 households increased their incomes because they didn’t increase enough to cross either threshold. Any increase in household income is an important measure of ACCESO’s achievements.

Assets acquired by beneficiaries. Farmers have made significant improvements to their homes such as adding stoves, cement floors, sinks, running water, and extra rooms to improve their overall health. The improvements added value to their homes. Likewise, when a farmer adds an irrigation system to his farm, he increases the value of the land.

Capacity-building activities. The contract required Fintrac to work with and facilitate in the development of local NGOs, stating that, “As much of the on-the-ground, community-level implementation as possible shall be implemented through such local partners under a framework of expected results established and managed by the Contractor.”

Although Fintrac was required to work with local NGOs that lacked capacity in accounting and reporting, the contractor’s efforts to help them develop their expertise in these areas were not evaluated or measured because it was not required in the contract. Fintrac officials said they spent 74 days training local NGOs on administrative matters related to working on a USAID

project and provided constant on-the-job training. Yet they did not report any of these things. In addition, the mission does not currently have a way to determine whether Fintrac will achieve this expected result.

Leveraged funds from public-private partnerships. According to the contract, Fintrac “shall play a facilitating role to develop sustainable relationships between farmers and private sector in business related alliances and Corporate Social Responsibility activities.”

While there is an indicator that tracks all public-private partnerships, the amount of private-sector funds leveraged was not calculated. As of March 31, 2014, the project established 46 private-public partnerships, on schedule to achieve its target of 50 partnerships before the project ends. While these partnerships have helped more than 30,000 rural farmers sell their crops and become more competitive, the total amount of funds leveraged is unknown.

USAID/Honduras officials said they did not require the contractor to report these activities since the focus was on outcome indicators that dealt with moving rural households out of poverty. And while the activities were required in the contract, the officials said they did not assign indicators to them because they didn’t want to have too many indicators.

However, these key activities are important, and reporting them demonstrates progress toward moving households out of poverty and extreme poverty. Without important data, the mission cannot see whether ACCESO is making any progress.

Therefore, we make the following recommendations.

Recommendation 4. *We recommend that USAID/Honduras assess and document whether to implement additional indicators and targets to measure the project’s impact on increasing beneficiaries’ incomes and assets as part of the follow-on awards for Feed the Future and implement if appropriate.*

Recommendation 5. *We recommend that USAID/Honduras incorporate into the follow-on awards a procedure to assess the project’s effectiveness in building the capacity of local nongovernment organizations.*

Recommendation 6. *We recommend that USAID/Honduras evaluate and document whether to include the leveraging of private-sector funds as a requirement, and develop an indicator and target to measure the project’s success in achieving this requirement as part of its follow-on awards.*

Project Did Not Prepare Formal Security Plan

According to the operational security supplement to ADS 303, “When implementing any USAID award, the implementing partner bears the ultimate responsibility for ensuring adequate steps are taken to safeguard the security and safety of its personnel, and any USAID funded equipment/property/vehicles.” Furthermore, the supplement states, “To achieve an adequate level of security, implementing partners must see security as a top priority. It must be an integral component of project design and project management.”

According to the U.S. Department of State’s Bureau of Diplomatic Security, Honduras has the

highest murder rate in the world and is considered a critically high-risk country for crime and violence. Yet ACCESO's staff did not prepare a security plan. Such a plan should include a budget, demonstrating that security is a top priority.

Fintrac staff said motorcycles and laptops were stolen, and some ACCESO employees had been physically threatened. The project stopped working in some communities due to security concerns. Officials from Fintrac and USAID/Honduras said that, for the most part, the project works in relatively safer areas, and a security plan was not required by USAID. However, given the volatile state of the country, the fact that FTF is a presidential initiative, the number of people working on it, and future FTF activities, USAID/Honduras should budget for security prevention measures and incorporate this into its projects.

USAID/Honduras expects to implement projects in high-risk areas. Therefore, all future activities should have a security plan and budget that takes into consideration the volatile environments in which contractors work. Therefore, we make the following recommendation.

Recommendation 7. *We recommend that USAID/Honduras incorporate into its follow-on awards for Feed the Future projects the requirement that implementers submit a security plan and budget for security-related personnel and equipment to USAID for review and approval.*

OTHER MATTER

Fintrac's Performance Was Not Reflected Accurately in Its Evaluation

According to USAID's "Policy Guide for Assessment and Use of Contractor Performance and Integrity Information," contractors "utilize the completed past performance reports in order to secure new contracts, by including reference to specific reports in their offers." Accordingly, USAID must ensure that the reports contain accurate ratings of a contractor's performance. The guide also notes, "Past performance reports are a tool for use by the [contracting officer] and the [contracting officer's representative] in order to incentivize contractors to provide USAID with superior products and services."

In addition, Section 6.1.3.3 of the guide emphasizes the importance of these ratings.

It is essential for the evaluation report to include clear, relevant, and substantive information that accurately depicts the contractor's performance. The evaluation must be based on objective facts supported by performance data. The report must include a clear, non-technical description of the principal purpose of the contract. The narrative must be robust and must clearly and definitively support the correlating rating . . . Include examples demonstrating a contractor's performance for ratings of other than satisfactory.

Fintrac received positive ratings for its first 2 years of work on the contract ("Very Good" and "Satisfactory") in the areas of "Schedule" and "Quality of Service" even though it missed certain outcome targets for increasing household income. As discussed earlier in the report, it is unlikely that Fintrac will meet its expected outcome targets. Yet the current draft rating states, "The Contractor has continued delivering high quality products and services during the rating period and has met all contractual requirements."

Mission officials said they gave Fintrac this rating because they were satisfied with its work despite the setbacks that were out of its control. However, we find the rating misleading as it suggests Fintrac has been able to accomplish all of its expected outcome results, when in reality it is missing outcome indicators by about 90 percent and is unlikely to achieve all of its contractual targets in the remaining 10 months.

Because contractor performance ratings have a major impact on future awards, they must reflect the contractor's actual performance. Ratings that are inflated or that do not portray the contractor's work accurately are misrepresentative and affect the mission's ability to select qualified contractors.

Recommendation 8. We recommend that USAID/Honduras provide full context of Fintrac Inc.'s performance, specifically on the outcome indicators, in the remainder of its ratings.

EVALUATION OF MANAGEMENT COMMENTS

USAID/Honduras agreed with all eight recommendations. Based on comments from the mission, management decisions have been reached on all recommendations. Our detailed evaluation of management comments follows.

While USAID/Honduras agreed with all the recommendations, they took issue with the wording of some of the findings. We considered their comments and made changes as necessary. However, it is important to note that fieldwork for the audit was conducted in May 2014, yet the mission did not provide comments to us until December 2014. During that time, new indicator data, such as those for health, were reported that were not available at the time of the audit.

Recommendation 1. The mission has scheduled baseline data collections for upcoming FTF projects in March 2015. They have also included a requirement in all FTF activities' requests for proposals that baselines be collected during the first 6 months of implementation or by October 2015, (whichever date comes first). We acknowledge the mission's management decision on this recommendation.

Recommendation 2. The mission is in the process of reviewing and evaluating Fintrac's targets. They plan to have a justification made and documented by February 27, 2015. We acknowledge the mission's management decision on this recommendation.

Recommendation 3. The mission is in the process of securing license plates from the Honduran Government in advance of all new FTF awards. The plan is under way and will be documented by January 30, 2015. We acknowledge the mission's management decision on this recommendation.

Recommendation 4. The mission has decided to continue tracking income for all upcoming FTF activities and is in the process of determining (with other stakeholders) whether to track the value of assets. An indicator for tracking assets' value was submitted as part of the mission's new country development strategy, and it was also included in the new FTF activities' requests for proposals. The mission expects to complete this by April 30, 2015. We acknowledge the mission's management decision on this recommendation.

Recommendation 5. The mission has concurred with the importance of building the capacity of local NGOs and will continue to incorporate this into upcoming FTF activities' requests for proposals. An indicator for tracking the effectiveness of local capacity building will also be included in all upcoming FTF activities. The mission expects to complete this by June 30, 2015. We acknowledge the mission's management decision on this recommendation.

Recommendation 6. In the upcoming FTF activities' requests for proposals, the mission has included indicators and targets for tracking private sector leveraging. The mission expects to complete this by February 28, 2015. We acknowledge the mission's management decision on this recommendation.

Recommendation 7. The mission will ask the winners of follow-on awards to submit a security plan and budget. The mission expects to complete this by October 31, 2015. We acknowledge the mission's management decision on this recommendation.

Recommendation 8. The mission will provide full context of the contractor's performance, especially in relation to proposed outcome targets, when writing all future contractor performance ratings. We acknowledge the mission's management decision on this recommendation.

SCOPE AND METHODOLOGY

Scope

We conducted this audit in accordance with generally accepted government auditing standards. Those standards 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 that the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether USAID/Honduras's ACCESO project is achieving its main goal of moving rural Honduran households out of extreme poverty and undernutrition by improving their incomes.

In planning and performing the audit, the audit team assessed significant management controls the mission used to manage the project and make sure it provided adequate oversight. The team reviewed USAID/Honduras's operational plan report; fiscal year 2013 annual self-assessment of management controls (which the mission is required to perform to comply with the Federal Managers' Financial Integrity Act); environmental compliance, award and modification requirements; and the project's performance monitoring plan and gender strategy.

On March 18, 2011, USAID/Honduras signed a \$40.6 million contract with Fintrac that ends on February 27, 2015, to implement the ACCESO project. As of March 31, 2014, cumulative obligations and expenditures totaled \$33 million and \$27 million, respectively. The disbursed amount represents the amount tested during this performance audit.

The audit covered the first 3 years of the project. We reviewed applicable laws and regulations as well as USAID policies and procedures pertaining to ACCESO, including ADS 200, 202, 203, 205, 253, 300, 303, 320, and 540, and supplemental guidance. For evidence, the audit relied on the award; interviews with employees of USAID/Honduras, Fintrac, and its subpartners, local government officials, and beneficiaries; and review of documentation maintained at the mission and at Fintrac's office in La Lima. The audit team conducted fieldwork from May 5 through May 23, 2014, and conducted site visits in all six departments where activities were being implemented under the project from May 11 through May 21, 2014.

Methodology

To answer the audit objective, we conducted interviews and site visits. We evaluated the mission's management and oversight of the project, the performance of the implementing partner, and the effectiveness of activities. We met with officials from USAID/Honduras and the project's prime and subpartners. We also interviewed beneficiaries and officials from the Honduran Government.

Through these interviews and the review of project documentation, the audit team obtained an understanding of (1) the project's goals, (2) how performance indicators, targets, and baseline data were established to measure progress, (3) how the mission verifies the quality of the data that Fintrac reported, (4) how the mission monitors project activities, and (5) whether the mission is aware of any allegations of fraud or other potential illegal acts or noncompliance with laws, regulations, and agreement terms.

In addition, we performed the following audit tests:

- Reviewed and tested the performance indicators, targets, and baselines to determine their appropriateness.
- Reviewed and tested the procedures the mission established to monitor and confirm the accuracy of the project's reported results.
- Documented and tested compliance with award requirements for sustainability, gender analysis, human trafficking, branding and marking, performance-based payment of the fixed fee, and environmental compliance.

To verify the status of activities completed, we examined documentation maintained at Fintrac's office in La Lima that supported the reported results. In addition, we visited all 6 departments the project is working in and judgmentally selected 31 of 2,740 communities in 130 municipalities to visit (site visits covered 1.1 percent of the communities). Twenty-four of the site visits were directly related to agricultural production activities, 7 to micro, small, and medium-sized enterprises, and 5 to nutrition. The project works with 30,896 poor and extremely poor beneficiaries; our site visits covered 475 beneficiaries or 1.5 percent. We also visited 9 of the 509 micro, small, and medium-sized enterprises the project is working with or 1.8 percent. We conducted these field visits to validate reported results to the extent possible. Because the testing and site selections were based on judgmental samples, 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.

MANAGEMENT COMMENTS



USAID | HONDURAS

MEMORANDUM

DATE: December 18, 2014

TO: Regional Inspector General/San Salvador, Van Nguyen

FROM: James Watson, Mission Director /s/

SUBJECT: Management Response to Draft Audit of USAID/Honduras's ACCESO Project

Thank you for the draft audit report. USAID/Honduras agrees with the recommendations from Office of Inspector General's "Audit of USAID/Honduras's ACCESO Project." As you will see from Attachment 1 to this memo, USAID/Honduras is procuring our follow-on activities to ACCESO with these recommendations in mind. However, USAID/Honduras is not in agreement with some findings. RIG and USAID/Honduras had a constructive exchange via DVC on June 19th where recommendations were discussed; however, major findings were not well addressed during the DVC. USAID/Honduras requests that the following findings be revised before the subject draft report is published.

1. The heading, "The Project Did Not Prepare a Security Plan," and subsequent statements such as, "neither Fintrac nor the Mission took additional steps to address them [security incidents and deteriorating situation]" are not accurate. During implementation, ACCESO and the Mission took several actions: 1. Procedures for reporting and analysis of security incidents were established with the RSO and followed; 2. ACCESO has withdrawn from areas where crime or violent incidents put staff and USG property at risk; 3. All vehicles now have GPS installed and can be monitored at any time; 4. Twelve female staff members from ACCESO also took the USAID organized Security Awareness for Everyone three day intensive course that covers first aid, personal defense and safe driving. RSO determined that security incidents to date are isolated. RSO informed the audit team that only minor incidents were occurring as a result of the steps taken by Fintrac and the Mission. The aforementioned major finding heading and relevant finding narrative should be removed or revised to accurately reflect the steps taken.

2. The first finding states, "*Project Was Not on Track to Meet its Outcome Targets.*" While on track to meet outputs and lower level outcomes, the contractor was not on track to meet the highest-level outcome targets for income, jobs and sales. The audit sites that coffee rust and a precipitous drop in global coffee prices were the drivers of lower than

anticipated income, jobs and sales results.¹ A heading such as the “Project was not on track to meet highest-level income, such as income, jobs and sales targets” would be more accurate, as the ACCESO activity has met or exceeded other lower level outcome targets. USAID/Honduras encourages the RIG to review and reflect on the FY 2014 annual report for ACCESO as this report demonstrates progress toward higher-level income and nutrition targets.

3. The audit states “ACCESO employees will not know whether the project had any impact on under-nutrition,” and that “FTF defines under-nutrition as the prevalence of stunted children.” The FTF definition of under nutrition is, “The outcome of insufficient food intake, inadequate care and infectious diseases. It includes being underweight for one’s age, too short for one’s age (stunting), dangerously thin for one’s height (wasting), and deficient in vitamin and minerals (micronutrient deficiencies).²” ACCESO tracks the number of children not growing adequately on a monthly basis. ACCESO employees do indeed know the levels of under-nutrition and this is reported quarterly. This statement should be removed. The latest annual report from ACCESO reports a decrease in the prevalence of under-nutrition by 56 percent in target communities, far exceeding the target of 20 percent. This finding should be removed.
4. The follow on – and related – finding is the contractor’s *“Performance Was Not Reflected Accurately in its Evaluation.”* The document stated that the contractor “received positive ratings for its first two years of work (“Very Good” and “Satisfactory”) in the areas of “Schedule” and “Quality of Service” even though it missed certain outcome targets for increasing household income. “It is unlikely that the contractor will meet its expected outcome targets... we find the rating misleading as it suggests Fintrac has been able to accomplish all of its expected outcome results, when in reality, it is missing its outcome indicators by about 90 percent and is unlikely to achieve all of its contractual targets in the remaining 10 months.” The audit implies the rating was inflated.

Most of the output and lower level outcome targets were on track during the first two years of implementation, however, the expected pace to meet higher level targets for jobs, sales, and income, is slower than anticipated. The audit states the main cause: the plunge of coffee prices and the epidemic of leaf rust which reduced yields. These events – low prices and leaf rust – are beyond the control of the Contractor. Hence, the major finding *“Performance Was Not Reflected Accurately in its Evaluation”* should be revised to “USAID/Honduras should provide greater justification and context for its performance ratings.”

5. Another follow-on finding: the lack of progress resulted from not collecting baseline data on time, and *“implementation delays.”* Baseline data was collected – and is continuing to be collected on a rolling basis, as beneficiaries are enrolled. USAID/Honduras contracted for a third party FTF baseline for the whole zone of influence – which is a best practice

¹ More than 50 percent of our farmers produce coffee. Coffee yields and prices dropped respectively by just over 30 percent resulting in a loss of revenue for our beneficiaries from our baseline in 2012, which was a bumper year for coffee. The coffee crisis was a shock to our farmers and Honduras, equivalent to a natural disaster.

² See http://feedthefuture.gov/sites/default/files/resource/files/FTF_Guide.pdf,

adopted by FTF. The second baseline was late and took place ten months after the activity was awarded. Statements in the audit about the baseline should be clearer about which baseline was late, the link between baseline collection the impact on high level outcome performance.

Regarding “implementation delays,” the delay was: “In the first year, Fintrac missed the opportunity to work with growers on new techniques to grow crops because the fieldwork began when the agricultural season had already started and farmers had already planted their crops. This happened because the Mission awarded the project as a task order because it was the best mechanism available at the time.” No link was established between the contracting mechanism and missing the agriculture season. This statement should be removed.

USAID/Honduras requests that the RIG take into consideration these facts and circumstances before publishing the audit to provide a more accurate report.

Attachment 1: USAID/Honduras's Response to Audit Recommendations

Audit Recommendation	Mission Response	Progress So Far	Completion Date
1-Implement a plan to complete the baseline survey and collect relevant data before follow-on FTF projects start, or require the implementer to collect data during the first 6 months of the project in order to establish achievable and realistic targets (page 5).	Agree.	Third party baseline for ZOI was completed in 2012, and is scheduled to be updated in March 2015. RFPs issued for follow on activities require that baseline data be collected during the first six months of implementation.	October 30, 2015 – or six months after award of new follow on activities – whichever date comes first.
2- Review and evaluate Fintrac's work plans to determine whether to adjust indicator targets and the contractor's fixed fee, and document the justifications (page 6)	Agree.	Fintrac's targets are being reviewed and evaluated by the COR and CO.	Justification will be made and documented before February 27, 2015.
3-Implement a plan of action for acquiring license plates for all vehicles and motorcycles before the follow-on awards begins (page 6)	Agree.	EXO, EG, and the US Embassy are working to secure license plates from the Government of Honduras in advance of new awards.	Plan is being implemented. Plan will be documented by January 30, 2015.
4-Assess and document whether to develop additional indicators and targets to measure the project's impact on increasing beneficiaries' incomes and assets as part of the follow-on awards for FTF, and implement if appropriate (page 7).	Agree. Follow on awards will track income. USAID will make a determination as to whether to track assets in consultation with Feed the Future in Washington and with new implementing partners.	Income will be tracked, just as it is tracked in ACCESO. An indicator for assets value was also included in the revised CDCS. This is included in the two follow on RFPs.	April 30, 2015

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5-Incorporate into the follow-on awards a procedure to assess the project's effectiveness in building the capacity of local nongovernment organizations (NGOs) (page 7)	Agree.	The importance of building local capacity was articulated in new RFPs. Local organizations and NGOs will be engaged in implementation.	June 30, 2015, USAID will include an indicator to measure the effectiveness of local capacity building in FTF follow on awards.
6-Evaluate and document whether to include the leveraging of private sector funds as a requirement, and develop an indicator and target to measure the project's success in achieving this requirement as part of its follow-on awards (page 7).	Agree.	Leveraging was included in both follow on RFPs.	February 28, 2015. Awards will be made with indicators and targets for private sector leveraging.
7- Incorporate into its follow-on awards for FTF projects the requirement that the implementers submit a security plan and budget for security-related personnel and equipment to USAID for review (page 8).	Agree.		October 31, 2015. USAID will ask the winners of follow on award to submit a security plan and budget.
8- Provide full context of the contractor's performance, specifically on the outcome indicators, for the remainder of its ratings (page 9).	Agree.		April 30, 2014. The full context of the contractor's performance, particularly toward the outcome targets, will be fully explained, as will the performance ratings for the follow on awards.

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