



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/BRAZIL'S ENVIRONMENT PROGRAM

AUDIT REPORT NO. 1-512-09-005-P
JANUARY 22, 2009

SAN SALVADOR, EL SALVADOR



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FROM THE AMERICAN PEOPLE

Office of Inspector General

January 22, 2009

MEMORANDUM

TO: USAID/Brazil Mission Director, Jeffery Bell
USAID/Peru Regional Contracting Officer, Doanh Van

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

SUBJECT: Audit of USAID/Brazil's Environment Program (Report No. 1-512-09-005-P)

This memorandum is our report on the subject audit. In finalizing the report, we carefully considered your comments on the draft report and we have included the mission's comments in their entirety in appendix II.

The report includes 13 recommendations for your action. Based on your comments, a final management decision has been made on recommendation nos. 3, 5, 12, and 13. Management decisions can be recorded for the remaining recommendations when USAID/Brazil and we agree on a firm plan of action, with target dates, for implementing the recommendations. Determination of final action on the recommendations will be made by the Audit Performance and Compliance Division (M/CFO/APC).

I want to express my appreciation for the cooperation and courtesy extended to my staff during the audit.

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SUMMARY OF RESULTS

At almost 4.7 million square kilometers, the Brazilian Amazon is made up of many different ecosystems and vegetation types. Since the 1970s, about 20 percent of the Amazon rainforest has been deforested. According to USAID/Brazil officials, USAID has been active in conservation efforts in the Brazilian Amazon since 1990. From September 1, 2003, to June 30, 2008, cumulative obligations and expenditures have totaled \$27.7 million and \$24.7 million, respectively. This funding has been used to improve sound forest management practices, develop markets for environmental goods and services, and integrate environmentally sound land management techniques into government planning and policies (see pages 4, 5, 7, and 8).

As part of its fiscal year (FY) 2008 annual plan, RIG/San Salvador carried out an audit designed to answer the following questions (see page 6):

- Did USAID/Brazil's environment program achieve planned results and what has been the impact?
- Did USAID/Brazil's reporting on its environment program provide stakeholders with complete and accurate information on the progress of the activities and the results achieved?

We could not determine whether USAID/Brazil's environment program achieved planned results because partners and subpartners did not maintain adequate supporting documentation. The mission based its reported results (i.e., area under improved management, number of individuals trained, and increase in revenue) on information provided by its implementing partners in their annual reports; however, without sufficient supporting documentation, these results could neither be verified nor linked to USAID assistance (see page 7). However, USAID/Brazil's environment program has been working to build the institutional capacity of local nongovernmental organizations (NGOs) focused on conservation efforts through training and networking opportunities. Many of these NGOs have been able to attract additional sources of funding which may help contribute to the organizations' sustainability. USAID financing for one local NGO has contributed to the development of a satellite imaging system to map areas of deforestation in the Amazon. USAID funding also supports training for members of the Brazilian Forest Service (see pages 8 and 9).

In addition, reporting on USAID/Brazil's environment program did not provide stakeholders with complete and accurate information on the progress of the activities and the results achieved. Results reported for the FY 2007 operational plan were unsupported, inaccurate, or tenuously linked to USAID's activities (see page 20).

USAID/Brazil also needs to strengthen controls and procedures relating to (1) lead partner monitoring of subawards (see page 9), (2) cognizant technical officer (CTO) oversight of awards (see page 12), (3) measuring program progress through appropriate indicators (see pages 14 and 16), (4) the award process (see page 18), and (5) use of USAID's Training Results and Information Network (see page 23).

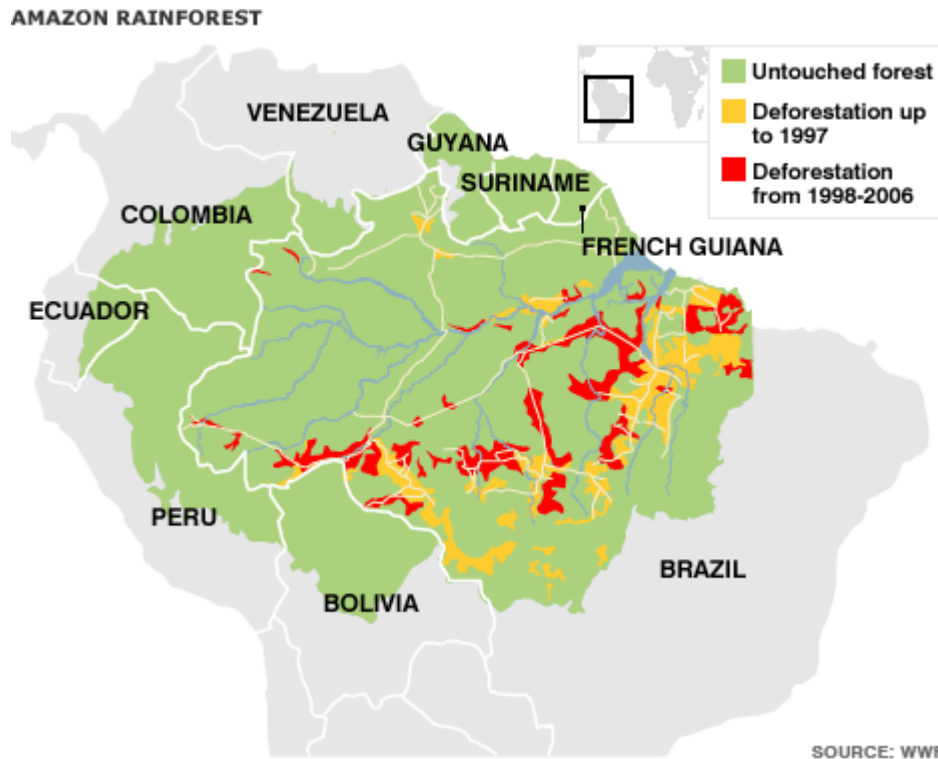
This report recommends that:

- USAID/Brazil obtain evidence that the International Institute of Education of Brazil, the Institute of Environmental Research in the Amazon, and the World Wildlife Fund, Brazil have corrected the monitoring and accountability issues discussed in the report (see page 11).
- USAID/Brazil establish internal controls that will prevent the recurrence of the types of monitoring and accountability issues discussed in the report (see page 11).
- USAID/Brazil remind its partners of the requirement to submit all subawards for CTO approval (see page 11).
- USAID/Brazil require an audit of Instituto Florestal Tropical's reconstructed accounting records for FYs 2005 and 2006 as well as its accounting records for FY 2007 related to USAID funds (see page 11).
- USAID/Brazil send CTOs to attend required training and familiarize them with the roles and responsibilities outlined in the Automated Directives System, CTO designation letter, and award agreements (see page 13).
- USAID/Brazil establish procedures to ensure adequate oversight of its projects (see page 14).
- USAID/Brazil revise its current performance indicators so that they (1) are precisely defined and (2) better reflect the progress of its partners' activities (see page 16).
- USAID/Brazil develop an appropriate performance indicator to measure the economic benefits of the USAID/Brazil environment program or reinstate the previously used indicator "Increase in the volume of revenues from sale of sustainable goods and environmental services benefiting poor, rural communities" (see page 17).
- The agreement officer review the conditions under which the active cooperative agreements managed by the USAID/Brazil environment program office were awarded and determine if the awards should be recompeted under a Request for Application or other mechanism (see page 20).
- The agreement officer and USAID/Brazil establish procedures to ensure that future award processes are not compromised (see page 20).
- USAID/Brazil establish procedures to report results in its annual operating reports that are accurate, complete, supported with adequate documentation, and clearly linked to USAID funding (see page 23).
- USAID/Brazil obtain the necessary training data on its environmental activities from its partners from FY 2004 to the present and input these data into the USAID training network (see page 24).
- USAID/Brazil institute procedures to collect and input training data into the USAID training network quarterly (see page 24).

USAID/Brazil stated that it agrees with most of the recommendations in the report, and it has begun to take corrective actions to address some of the recommendations. Accordingly, final management decisions have been reached on recommendation nos. 3, 5, 12, and 13. Management decisions for the remaining recommendations are pending. An evaluation of management comments is provided after each finding. USAID/Brazil's comments are included in their entirety in appendix II.

BACKGROUND

Brazil holds about one-third of the world's remaining rainforest, including a majority of the Amazon rainforest.¹ The Brazilian Amazon is made up of a mosaic of ecosystems and vegetation types, with the majority under forest cover and the rest composed of savannas. In addition to being home to 16 million people, the Amazon is home to as many as one-third of the world's plant and animal species. The Amazon has at least 60,000 species of plants, 1,000 species of birds, and more than 300 species of mammals.



The Brazilian Amazon rainforest is being threatened by illegal logging, cattle ranching, and agricultural activities. Since the 1970s, about 20 percent of the Amazon rainforest has been cut. Although deforestation rates in the Legal Amazon declined from 2004 to 2006, the rate began to increase sharply during the last 5 months of 2007. A wide range of factors affect deforestation including Government of Brazil (GOB) policies and enforcement, population growth, agricultural commodity prices, fires, and donor and local conservation efforts.

To help protect the Brazilian Amazon rainforest, a host of donors provide support to the GOB, international and local nongovernmental organizations (NGOs), and the local

¹ The Brazilian biome is distinct from the Legal Amazon. The Brazilian Amazon biome delineates the Amazon rainforest and its related ecosystems in Brazil. The Legal Amazon, by contrast, is a politically defined area spanning nine Brazilian states—Acre, Amazonas, Roraima, Amapá, Pará, Rondônia, Mato Grosso, Tocantins and Maranhão—and eight different ecological regions. Estimates of the size of the Amazon region range from 4.2 million km² to 5.1 million km², depending on the source.

population. Major donors include the GOB, the Government of Germany, the European Union, the Organization for Economic Cooperation and Development, and the Moore Foundation.

USAID obligations and expenditures from September 1, 2003 to June 30, 2008, total \$27.7 million and \$24.7 million, respectively. USAID/Brazil's environmental activities for FY 2003 to FY 2008 fit under the strategic objective "Natural Ecosystems Sustained" by improving sound forest management practices, developing markets for environmental goods and services, and integrating environmentally sound landscape mosaics into government planning and policies. Three organizations implemented the USAID/Brazil environment program:

- ALFA (Aliança para a Floresta Amazônica e Mata Atlântica) Consortium – The lead partner, International Institute of Education of Brazil (IEB), was awarded a 5-year \$8.7 million award to work with various local subpartners, including Tropical Forest Institute (IFT), Institute of Forestry and Agricultural Management and Certification (IMAFLOA), Institute of People and the Environment in the Amazon (IMAZON), Institute of Ecological Research (IPE), Group of Research and Extension in Agroforestry Systems of Acre (PESACRE), Institute of Socio-environmental Studies of Southern Bahia (IESB), Institute Bio-Atlantic (IBIO), and others. The program was designed to carry out three main objectives: (1) to develop, implement and scale up sound approaches to forest management, community development and land use planning; (2) to expand and improve forestry practices in the Brazilian Amazon, develop new forest enterprise partnerships and networks that benefit rural poor, and plan and monitor landscapes at various scales both in the Amazon and Atlantic forest regions to provide a sustainable flow of goods and services; and (3) to train a new generation of resource managers, entrepreneurs, and decisionmakers in forest-related issues.
- Green Highways Consortium – The lead partner, Institute of Environmental Research in the Amazon (IPAM), was awarded a 4-year, \$6.8 million agreement to work with various local subpartners, including IFT, the Nature Conservancy (TNC), Amazon Working Group (GTA), and others. The program was designed to promote alliances among sectors of society along the transportation axis by promoting debate, producing tools (e.g., land-use maps, future scenario models, seminars, and development plans), and encouraging participatory planning.
- Southwest Amazon Consortium (Amazoniar) – The lead partner, World Wildlife Fund Brazil (WWF-Brazil), was awarded a 5-year, \$6.9 million agreement to work with various local subpartners, including SOS Amazonia, Center for Amazonian Workers, and others. The program was designed to create an interlinked system of environmental management and sustainable and equitable use of natural resources through (1) fostering sustainable forest-based local development and (2) building the capacity of local society to make policy and manage protected areas within the Southwest Amazon Ecoregion.

In FY 2007, USAID/Brazil revised its environment program strategy to fit into the Agency macro-level objective "Economic growth." The current strategy is to enable groups of local Brazilian NGOs to forge public-private partnerships to incorporate sustainable natural resource management practices into economically productive activities, while at the same time consolidating conservation of protected and productive land.

AUDIT OBJECTIVES

As part of its FY 2008 annual plan, RIG/San Salvador carried out an audit of USAID/Brazil's environment program activities. The audit was designed to answer the following questions.

- Did USAID/Brazil's environment program achieve planned results and what has been the impact?
- Did USAID/Brazil's reporting on its environment program provide stakeholders with complete and accurate information on the progress of the activities and the results achieved?

The audit's scope and methodology are described in appendix I.

AUDIT FINDINGS

Did USAID/Brazil’s environment program achieve planned results and what has been the impact?

The audit team was unable to determine whether USAID/Brazil’s environment program achieved planned results because partners and subpartners did not maintain adequate supporting documentation. The mission reported its achievements based on its partners’ annual reports; however, there is insufficient evidence to substantiate them or link them to USAID assistance.

Table 1 lists the principal performance indicators, along with targets and reported results, for the environment program during FYs 2006 and 2007.² The audit team was unable to verify these reported results because the environment program’s principal partners and subpartners did not maintain supporting documentation to substantiate reported accomplishments or demonstrate links between reported accomplishments and USAID assistance.

Table 1. USAID/Brazil Environment Program Planned and Reported Results³

Indicator	FY 2006 Target	FY 2006 Reported	FY 2006 Verified	FY 2007 Target	FY 2007 Reported	FY 2007 Verified
Strategic Objective (SO) 8 - Increase in area of landscapes with (1) participatory regional planning for conservation and sustainable management, or (2) sustainable management plans (square kilometers) ⁴	144,041	430,701	Unable to verify	94,138	402,754	Unable to verify
SO 8 - Increase in the number of stakeholders trained and/or empowered to participate in the planning	8,268	14,560	Unable to verify	8,049	7,660	Unable to verify

² In FY 2007, the Agency transitioned to the annual operational plan (OP) format for reporting. Because the implementing partners reported results based on the performance indicators and targets from the performance management plan (PMP), the audit team assessed progress based on information from the PMP and not the OP. The OP indicators are similar to the PMP indicators.

³ Planned and reported results for FYs 2006 and 2007 were obtained from the USAID/Brazil environment program’s results tracking tables. Indicators were defined in the FY 2006 PMP, dated February 2006.

⁴ One square kilometer is equal to 100 hectares.

Indicator	FY 2006 Target	FY 2006 Reported	FY 2006 Verified	FY 2007 Target	FY 2007 Reported	FY 2007 Verified
and management for conservation and sustainable use of natural resources						
Intermediate Result (IR) 8.1 - Increase in area under sustainable management plans (square kilometers)	6,554	13,304	Unable to verify	9,400	72,843	Unable to verify
IR 8.2 - Increase in the volume of revenues from sale of sustainable goods and environmental services benefiting poor rural communities (\$000)	\$634	\$188	Unable to verify	\$734	\$83	Unable to verify
IR 8.3 - Increase in area of landscapes with participatory regional planning for conservation and sustainable use of natural resources (square kilometers)	137,487	417,397	Unable to verify	84,738	329,911	Unable to verify

Although the audit team was unable to verify the results of the partners' and subpartners' activities, several program activities have produced positive results. For example, USAID/Brazil has been working to build the institutional capacity of local NGOs focused on conservation efforts in the Amazon region since 1990. Some subpartners reported receiving training in financial accounting systems (although independent audits found serious problems with financial and accounting systems for several subpartners, as mentioned below). USAID has also provided opportunities for education and networking. Additionally, USAID financing to Amazon Institute of People and Environment (IMAZON) has contributed to the development of a satellite imaging system to map areas of deforestation in the Amazon and provide necessary information to enforcement authorities to monitor and investigate illegal logging.

USAID/Brazil has provided funding to Instituto Florestal Tropical (IFT) since 2003.⁵ The director of the Brazilian Forest Service considers IFT to have the country's best forest management training center; he stated that he wants to have all of his staff take courses at IFT's training center.

According to a representative from one lead organization, three individuals who received training under one partner's program are currently helping to develop forest management policy while serving on the Acre State Forest Council.

⁵ IFT became independent from the NGO Fundação Floresta Tropical, a Brazilian subsidiary of the Tropical Forest Foundation in 2002.

One of the program's greatest successes has been helping NGOs to find other donors to finance their operations. Officials from several partners stated that, although USAID funding accounted for nearly 100 percent of their funding several years ago, today USAID funding represents a much smaller proportion.

Representatives from several subawardees stated that USAID's funding has contributed to institutional strengthening of their organizations. USAID helps some organizations to fund administrative costs that are not covered by other donors.

Although the program has had a number of successes, this audit found areas for improvement in program management.

Lead Organizations Not Monitoring Subawardees

Summary: U.S. Government regulations state that recipients are responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award. USAID policies require that subawards be made only to responsible recipients who possess the potential ability to perform successfully under the terms and conditions of a proposed agreement. Nevertheless, the three lead organizations under the original cooperative agreements did not perform adequate monitoring of their subawardees. The prime partners believed that they and their subawardees were all equal partners and did not fully understand their roles as prime organizations under the agreements. As a result, U.S. Government funds were not properly accounted for, and reported results were not substantiated. Because the prime partners are not monitoring subawardees, there is a risk that planned results will not be achieved and that USAID funds may not be used or accounted for properly.

The standard provisions for non-U.S., nongovernmental recipients included in the original cooperative agreements with the International Institute of Education of Brazil (IEB), Institute of Environmental Research in the Amazon (IPAM), and World Wildlife Fund, Brazil (WWF-Brazil) state that foreign organizations that provide USAID resources to other organizations to carry out the USAID program and activities shall be responsible for monitoring their subcontractors or subgrantees. Among other things, the recipient must monitor subgrants and subcontracts to ensure that subrecipients have met audit requirements.

Standard provision "Accounting, Audits, and Records" (2.g) for non-U.S. nongovernmental recipients states that subrecipients that meet a \$300,000 expenditure threshold shall have an annual audit conducted in accordance with "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the USAID Office of Inspector General.

Of the \$20.6 million given to the three lead organizations (IPAM, IEB, and WWF-Brazil) under the original cooperative agreements between FY 2003 and FY 2007, about \$12.4 million was for subawards. However, the prime partners did not perform adequate monitoring of their subawardees. Examples of inadequate monitoring include the following:

- Performance reporting by subawardees was not documented. One partner circulated a document to which each subawardee contributed instead of asking the subawardees to report their activities and results for the year.
- The lead organizations for two of the three cooperative agreements stated that they did no verification of reported results. One lead organization stated that it bases its relationship with its partners on trust and therefore does not verify the data reported to it in the partner annual reports.
- In some cases, lead organizations awarded subcontracts that did not include a scope of work, indicators, expected results, or references to USAID rules and regulations. Furthermore, no subawards were approved by the cognizant technical officer (CTO) as required by the agreements with the lead organizations.
- One lead organization did not ensure that a subrecipient received an annual audit. An audit of the lead organization, IPAM, for the period 2004 to 2006, found that internal controls adopted by IFT (the subrecipient), as well as its operating, administrative, and financial procedures, were not appropriate to account for the funds received. IFT also submitted documentation for the same expenditures to lead organizations under two separate cooperative agreements. Independent audits of IPAM and IEB identified questioned costs of \$1,212,347 attributable to IFT. IFT is reconstructing its accounting records for 2005 and 2006.
- Independent auditors were not able to review the supporting documentation for the expenses incurred by four subawardees of IEB: Institute of Socio-Environmental Studies of Southern Bahia (IESB), Institute of Forestry and Agricultural Management and Certification (IMAFLOA), Institute of Ecological Research (IPE), and Institute Bio-Atlantic (IBIO), for FYs 2005 and 2006. Similarly, under the cooperative agreement awarded to IPAM, independent auditors were not able to review the supporting documentation for expenses incurred by Amazon Working Group (GTA) from FY 2004 to FY 2006. Total unsupported costs for the five subawardees are \$1,462,319.
- Current cooperative agreements require an approved monitoring and evaluation plan for subawardees' activities. At least one of the prime partners does not have an approved monitoring and evaluation plan.

The lead organizations felt that their subawardees were equal partners. At least two lead organizations did not consider it necessary to conduct adequate monitoring of their subawardees. Furthermore, the lead organizations did not fully understand their roles as the prime organizations under the agreements.

As a result of these issues, U.S. Government funds were not properly accounted for, and there was not adequate documentation to support the reported results. USAID/Brazil cannot determine whether or not program objectives are being met. Consequently, USAID management may rely on reported results that are not supported with adequate documentation and may reach incorrect conclusions on the performance of the program. Finally, because these partners have not materially complied with the terms and conditions of the award, and it is questionable whether these partners have the capacity to do so now or in the future, U.S. Government funds continue to be at risk.

Recommendation No 1: We recommend that USAID/Brazil obtain evidence that the International Institute of Education of Brazil (IEB), the Institute of Environmental Research in the Amazon (IPAM), and the World Wildlife Fund Brazil (WWF-Brazil) have corrected the monitoring and accountability issues discussed in this finding.

Recommendation No 2: We recommend that USAID/Brazil establish internal controls that will prevent the recurrence of the types of monitoring and accountability issues discussed in this finding.

Recommendation No 3: We recommend that USAID/Brazil remind its partners of the requirement to submit all subawards for cognizant technical officer approval.

Recommendation No 4: We recommend that USAID/Brazil require an audit of Instituto Florestal Tropical's reconstructed accounting records for fiscal years 2005 and 2006 as well as its accounting records for fiscal year 2007 related to USAID funds.

Evaluation of Management Comments - The mission stated that it agreed with recommendation nos. 1 through 4. Regarding recommendation no. 1, the mission's Environment Program CTO contacted IEB, IPAM, and WWF-Brazil to request that these organizations take action to remedy the issues stated above. IEB, IPAM, and WWF-Brazil are also working on correcting the deficiencies identified by the independent audits. Although USAID/Brazil has detailed the actions pending or taken by its partners to address the accounting deficiencies, the mission has not detailed actions to be taken along with target dates to address the monitoring issues described in the report. Therefore, a management decision is pending.

In responding to recommendation no. 2, the mission stated that it is in the process of conducting a data quality assessment and strengthening its internal control procedures through the provision of training for the new CTO, the addition of new staff members, the provision of training on monitoring and evaluation to the partners, and the reinforcement of guidance to partners on the procedures and requirements of the cooperative agreements. A management decision can be made for this recommendation when the mission provides a target date for the implementation of these actions.

Regarding recommendation no. 3, USAID/Brazil stated that the Environment Team reviewed current cooperative agreements and reminded the awardees by e-mail of the requirement for CTO approval for all subawards. Based on this information, a final management decision has been made on this recommendation.

In responding to recommendation no. 4, USAID/Brazil stated that IFT's financial accounting issues are being addressed under the IPAM and IEB FY 2007 audits. Furthermore, the mission stated that IEB has reviewed IFT's 2003–2007 accounting records and is preparing a report on this reconciliation, as it committed to doing in response to the independent auditor's report. RIG/San Salvador agrees that IFT's FY 2007 accounting records will be covered through the annual audits of IPAM and IEB. However, this action will not consider the reconstructed accounting records for FYs 2005 and 2006, which are being prepared with the assistance of an IEB-contracted consultant.

RIG/San Salvador recommends that the reconstructed records be audited by an independent audit firm. Thus, a management decision is pending.

CTO Oversight Needs to Be Strengthened

Summary: USAID policy outlines numerous responsibilities for CTOs, including monitoring recipients' progress in achieving the program's objectives, verifying timely performance, ensuring compliance with the terms and conditions of the award, and ensuring that required audits of the recipients are performed. However, throughout the duration of the environmental awards, many of these CTO responsibilities were not carried out, owing to a lack of understanding of CTO responsibilities. As a result, few partners have maintained adequate supporting documentation for their activities and reported results, and therefore the program's results cannot be substantiated. Also, because timely audits were not conducted for partners and subpartners, several serious issues regarding accounting, internal controls, and compliance with award provisions were not resolved in a timely manner.

Several USAID policies outline CTO responsibilities:

- Automated Directives System (ADS) Section 303.2.f establishes several monitoring responsibilities of CTOs. These include maintaining contact, including site visits and liaison, with the recipient; reviewing and analyzing reports, verifying timely performance, and monitoring reporting requirements; ensuring compliance with the terms and conditions of awards; carrying out responsibilities noted under the "Substantial Involvement" section of cooperative agreements; monitoring the recipient's financial reports to ensure that the recipient is making progress toward meeting the required cost sharing; evaluating the program's effectiveness at the end of the program and submitting a final report to the agreement officer and activity manager; and performing other duties to ensure the prudent management of assistance funds.
- ADS 303.3.17.b states that site visits are an important part of effective award management, since they allow a more effective review of the project. When the agreement officer or CTO makes a site visit, the agreement officer or CTO must write a brief report and put a copy in the official award file.
- ADS 203.3.5.2 requires that data submitted to USAID/Washington for Government Performance and Results Act reporting purposes or for reporting externally on USAID's performance must have had a data quality assessment at some time within the 3 years before submission.
- The USAID standard CTO designation letter states that CTOs are responsible for monitoring the recipient's progress in achieving the objectives of the program description in the subject award and for verifying that the recipient's activities being funded by USAID under the referenced award conform to the terms and conditions of that award. If the award is for \$300,000 or more to a non-U.S. organization, this requires that the recipient obtain an annual audit.

USAID/Brazil's environment program had only one CTO overseeing the program's cooperative agreements and additional grants. Throughout the duration of the awards, many CTO responsibilities have not been carried out. These include, but are not limited to, a lack of documentation for site visits, a lack of adherence to the substantial involvement clauses in the agreements, a lack of data quality assessments and verification of reported data, and partners and subpartners expending at least \$300,000 in USAID funding not being subjected to an annual audit as required. Specific examples include the following:

- Many site visits were not documented with formal written reports, although, in some cases, informal notes were kept.
- The CTO did not approve recipients' monitoring and evaluation plans, subgrants, or a manual reflecting rules and procedures for management of subgrants. In some cases, lead organizations awarded subcontracts without incorporating USAID standard provisions.
- The FY 2007 operational plan (OP) indicators included new indicators on the number of policies approved and the number of persons receiving economic benefits. Data quality assessments were not completed on these indicators as required.
- The lead organizations for the three cooperative agreements awarded in 2003—IEB, IPAM, and WWF-Brazil—did not have annual audits. Instead, the audits covered 2- or 3-year periods, making it harder to surface accountability issues in a timely fashion and contributing to large amounts of questioned costs.

Some USAID/Brazil officials lack an understanding of CTO responsibilities as designated in the ADS and CTO designation letter. USAID/Brazil officials consider the recipients to be trusted partners and feel that questioning or verifying reported results would undermine the working relationship.

Since there has not been sufficient monitoring of the program's implementing partners and subpartners, few partners have maintained adequate supporting documentation of their activities and reported results. Therefore, the program's results cannot be substantiated. Because timely audits were not conducted for partners and sub-partners, several serious issues regarding accounting, internal control, and compliance with awards were not resolved in a timely manner. For one subpartner, the audit firm questioned the entire amount expended, \$1,212,347, for a 2-year period, because of an inadequate accounting and administration system.

Recommendation No. 5: Due to the imminent departure of the program's sole cognizant technical officer, we recommend that USAID/Brazil send the replacement cognizant technical officers to attend the required training and familiarize themselves with the roles and responsibilities outlined in the Automated Directives System, the cognizant technical officer designation letter, and the award agreements.

Recommendation No. 6: We recommend that USAID/Brazil's environment program establish procedures to ensure adequate oversight of its projects. At a minimum, all travel vouchers should be accompanied by a site visit report, and a site visit checklist should be used that includes verification of reported results.

Evaluation of Management Comments - In responding to recommendation no. 5, USAID/Brazil stated that oversight will be split between two CTOs who have met the CTO certification requirements. Based on this information, a final management decision has been made on this recommendation.

Regarding recommendation no. 6, the USAID/Brazil Mission Director issued a memo in November 2008 requiring that travel vouchers related to site visits must include a trip report. Furthermore, the Environment Team is devising a checklist to document routine monitoring actions. Based on this information, a management decision can be made on this recommendation when USAID/Brazil provides a target date for the completion of the checklist.

Two Performance Indicators Are Inappropriate Measures of Program Progress

Summary: According to USAID policy, to be useful in managing for results and credible for reporting, data should meet data quality standards of validity, integrity, precision, reliability, and timeliness to support the appropriate level of management decisions. For partner reporting on the indicators "Increase in area of landscapes [sic] with (1) participatory regional planning for conservation and sustainable management, or (2) sustainable management plans" and "Number of stakeholders trained and/or empowered to participate in the planning and management for conservation and sustainable use of natural resources," there was a lack of consistency between the partners regarding what was being reported. Furthermore, for the indicator "Area placed under regional planning regimes or sustainable management plans," there was an unclear and questionable link to USAID activities. Several partners acknowledged that these indicators were not accurate reflections of their programs. Neither the mission nor the lead organizations provided subpartners with well-defined methodologies for measuring these indicators. Therefore, there was no standard reporting on these indicators, and reported results cannot be relied on.

According to ADS 203.3.5.1, to be useful in managing for results and credible for reporting, data should be of sufficiently high quality to support the appropriate level of management decisions. The ADS establishes data quality standards for validity, integrity, precision, reliability, and timeliness. Validity requires that data should clearly and adequately represent the intended result. Integrity requires that data should have established mechanisms in place to reduce the possibility that they are intentionally manipulated. Data should be sufficiently precise to present a fair picture of performance and enable management decisionmaking at the appropriate levels. One key issue is whether data are at an appropriate level of detail to influence related management decisions. Reliability of data is supported by stable and consistent data collection processes and analysis methods over time. Finally, data should be timely enough to influence management decisionmaking at the appropriate levels.

Training - According to the data quality assessment for the indicator, “Number of stakeholders trained and/or empowered to participate in the planning and management for conservation and sustainable use of natural resources” does not take into account the possibility that individuals participating in multiple training events may be counted more than once. The data quality assessment also recommended amplifying the indicator to include not only numbers of trainees but also the intensity (i.e., length) of training.

Many of the partners provide training, and the content and length of the training they provide varies from partner to partner. Yet all of these types of training or outreach are given equal weight in USAID’s reporting of results. One partner reports training based on the provision of a seven-module, yearlong course for a limited number of participants. Other partners report training based on attendance at a 1-day event. Extension and outreach events were also included in the number of persons trained: according to one partner, people were counted if they simply stopped by a booth at a fair. It might be worthwhile to report short-term and long-term training separately, or even to report three categories: extension or outreach contacts, short-term training, and long-term training.

Area of Improved Management - Partners are using inconsistent methodologies to report on the “Increase in area of landscapes [sic] (measured in square kilometers) with (1) participatory regional planning for conservation and sustainable management, or (2) sustainable management plans.” The link between reported results for this indicator and USAID-financed activities is at best tenuous. At the highest level, it does not seem plausible that USAID funding in the range of \$4 million to \$5 million per year could significantly influence the placement of hundreds of thousands of square kilometers of land under participatory planning regimes or sustainable management plans as USAID/Brazil reported in FY 2006 and FY 2007. When these overall reported results are traced to individual partner reports, the impression of a very tenuous or unclear relationship between USAID financial activities and reported results is reinforced. For example, one partner reported 74,000 square kilometers of land covered by participatory regional planning after the partner provided information that was used to map a protected forest. Of course, mapping protected forest is not the same as placing it under a participatory regional planning regime. Another partner reported an increase in area under improved management after it assumed that the federal government would implement a plan that the partner helped prepare. While some organizations reported area placed under regional planning regimes or a sustainable management plan based on indirect assistance, such as training, others did not.

The 2005 independent data quality assessment for this indicator stated, “this approach can be extremely arbitrary because it lumps together landscapes [sic] in which the degree of investment and effort varies wildly.” The indicator’s data quality assessment for increased areas under sustainable management plans states, “the indicator was originally conceived to refer exclusively to recognition of forest management plans and certification, which are based on clear improvements in forest management and involve discreet approval by either governmental agencies or communities. However, the USAID programs are applying the indicator to a much wider array of land use improvements—including smallholder management of natural resources, fire management, and broadly defined implementation of community-based forest management. Such improvements are harder to distinguish than those specified under the more restrictive definition above.” The data quality assessment recommended that

“partners furnish clear information about how areas other than those approved for management or certification are distinguished and measured.”

Based on interviews with USAID/Brazil staff and implementing partners, no well-defined methodology was provided to partners on how to measure these indicators. Several partners stated that they suggested to USAID an alternative indicator measuring the hours of training given. They felt that this would be a more accurate measure of performance and would demonstrate the required level of effort to achieve results. However, their suggestions were not adopted, possibly because most USAID standard indicators for training measure the number of people trained instead of training hours.

As a result of these problems, the program is reporting land area placed under regional planning regimes or a sustainable management plan, even when it is not clear that this has been accomplished or that there is a plausible link to USAID activities. Additionally, reporting on training does not recognize important differences in the length or intensity of training provided.

Recommendation No. 7: We recommend that USAID/Brazil revise its current performance indicators so that they (1) are precisely defined and (2) better reflect the progress of its partners' activities.

Evaluation of Management Comments - In responding to recommendation no. 7, USAID/Brazil stated that the Environment Program is using standard agency indicators and is conducting a data quality assessment that should be completed by February 2009. However, the mission did not agree that the indicators were not defined or explained to partners as mentioned in the report.

Although USAID/Brazil is conducting a data quality assessment to improve its current performance indicators system and is currently using standard agency indicators, the mission has not committed to establish new performance indicators that are more precisely defined and better reflect the progress of partner activities. The draft report has been modified to clarify the sources of the information given to the audit team regarding the lack of a well-defined methodology for reporting on the indicators used and many partners' belief that the indicators do not reflect the progress of their activities. A management decision can be made when USAID/Brazil submits an action plan with timeframes to implement the recommendation.

Economic Performance Indicator Is Needed

<p>Summary: The objective of one cooperative agreement is to increase sustainable production, marketing, and trade of natural resource-based products and services. USAID policies require missions to establish performance indicators that directly measure the results of their activities. USAID policy further states that performance indicators may be dropped for a compelling reason. Starting in FY 2008, USAID/Brazil will no longer report on its indicator “Increase in the volume of revenues from sale of sustainable goods and environmental services benefiting poor, rural communities.” Even though an independent data quality assessment believed this was an excellent indicator, program personnel felt that this indicator was not a fair measure of the program's achievements. Additionally, program personnel incorrectly believed that a</p>
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performance indicator could be dropped if the mission was not achieving the target. Some economic performance indicator is needed to help measure sustainability, as natural resource-based activities are more attractive to beneficiaries when there is an economic benefit.

USAID environment programs currently fall under the Economic Growth strategic objective. Throughout the life of the original cooperative agreements, under the intermediate result “Markets for environmental goods and services developed to provide tangible economic benefits for poor communities,” USAID/Brazil reported on the performance indicator “Increase in the volume of revenues from sale of sustainable goods and environmental services benefiting poor rural communities.” As the program transitioned to the current cooperative agreements, the program maintained its strong economic focus. Currently, the objective of one cooperative agreement is to increase sustainable production, marketing, and trade of natural resources-based products and services.

ADS 203.3.4.2 outlines the characteristics of good performance indicators. Performance indicators should (1) direct and closely track the results they are intended to measure; (2) be objective and unambiguous about what is being measured; (3) be useful for management for the relevant level of decision making; (4) be practical and can be obtained at a reasonable cost and in a timely fashion; (5) be attributable to USAID efforts and should measure changes that are clearly and reasonably attributable, at least in part, to USAID efforts; (6) be timely and available when needed to make decisions; and (7) be adequate for management reporting purposes. Furthermore, ADS 203.3.4.7 states that performance indicators may be dropped for a compelling reason. If a change in a performance indicator reflects a “significant” modification, the mission must send a memorandum to the responsible bureau to request approval to change the performance indicator.

Starting in FY 2008, USAID/Brazil will no longer report on its indicator for the increase in the volume of revenues from sale of sustainable goods and environmental services benefiting poor, rural communities. Yet a 2005 independent data quality assessment of this indicator stated, “measuring financial transactions that benefit cash-poor communities is considered to be an excellent indicator.” The assessment recommended that the then-current targets be maintained, noting that, even if they were not fully achieved, the targets would still have challenged the partners to strengthen their capacity to assist in business development activities.

However, personnel from the USAID/Brazil environment office stated that this indicator was not a fair measure of the program’s results. Program personnel incorrectly believed that a performance indicator could be removed if the program was not achieving the target.

If the indicator is dropped, there will be no performance indicator to measure progress in this area. An economic performance indicator is important for sustainability, as natural resource-based activities are more likely to be adopted if there is an economic benefit.

Recommendation No. 8: We recommend that USAID/Brazil develop an appropriate performance indicator to measure the economic benefits of the USAID/Brazil environment program or reinstate the previously used indicator "Increase in the volume of revenues from sale of sustainable goods and environmental services benefiting poor, rural communities."

Evaluation of Management Comments - The mission stated that it did not agree with recommendation no. 8 because FY 2009 awards onward do not require the documentation of economic benefits.

We do not agree that the mission's environment program does not require the documentation of economic benefits. One of the expected outcomes listed in its June 2008 Request for Applications for its Indigenous Based Biodiversity Conservation Program is the "implementation of alternative income generation activities that link biodiversity conservation with sustainable economic development of indigenous lands in the Amazon." One of the key results of this program was to have "at least 1,600 indigenous people with increased socio-economic benefits directly derived from sustainable resource management and conservation plans/agreements in place." Two projects focusing on protection of indigenous lands have economic components:

- The Strengthening Indigenous Organizations in the Brazilian Amazon project hopes to strengthen the capacity of Amazonian indigenous organizations through, among other things, improving sustainability of livelihoods by restoring degraded lands.
- The Indigenous Partnership for Conservation project provides forest certification for timber production with training in forest management for the Suruí indigenous people.

Futhermore, one of the activities of the Forest Enterprise Cluster, which began in April 2007, is to build capacity of local communities, forest enterprises, and government agencies to develop sustainable community-based sources of income and well-being for local populations. Therefore, RIG/San Salvador believes that a performance indicator to measure economic benefits is a vital measure of the progress of USAID/Brazil's Environment Program.

Inappropriate Guidance Was Given to Applicants During the Award Process

<p>Summary: USAID policies assert that the agreement officer is the Agency official responsible for guaranteeing the integrity of the competitive process by ensuring overall fairness and consideration of all eligible applications. Unless USAID authorizes an exception in accordance with ADS 303.3.6.5, USAID policy is to award all grants and cooperative agreements competitively. Furthermore, 22 CFR [Code of Federal Regulations] 226.43 requires that all procurement transactions be conducted in a manner to provide, to the maximum extent practical, open and free competition. However, during the design of the cooperative agreements awarded in 2006 and 2007, USAID/Brazil program personnel provided suggestions to the eventual prime recipients on how to prepare their proposals, including which organizations should receive</p>
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subawards. Owing to the transition to the operational plan system and late receipt of funds by the mission, the mission decided to bypass normal competition requirements. As a result, the open competition requirement was compromised, and it is possible that the mission is not working with the most qualified partners and subpartners.

ADS 303.3.6 states that the agreement officer is the Agency official responsible for guaranteeing the integrity of the competitive process by ensuring overall fairness and consideration of all eligible applications. ADS 303.3.6.1 states that in keeping with the Federal Grant and Cooperative Agreement Act, USAID encourages competition in the award of grants and cooperative agreements so that it may identify and fund the best projects to achieve program objectives. Unless USAID authorizes an exception in accordance with ADS Chapter 303.3.6.5, USAID policy is to award all grants and cooperative agreements competitively, seeking applications from all eligible and qualified entities.

In addition, the standard provisions for non-U.S., nongovernmental recipients included in the cooperative agreements with IEB, IPAM, and WWF-Brazil state that all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. Furthermore, Federal Acquisition Regulation 52.244-5(a) requires subcontractors to be selected on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract.

The minimum criteria that an operating unit must develop and use to evaluate applications is outlined in ADS 303.3.6.3. One criterion that must be considered is the applicant's past performance, as this can serve as an indication of future performance. According to the ADS, information on an organization's past performance information must be obtained prior to its selection.

According to USAID/Brazil staff, implementing partner officials, and subpartner officials, USAID/Brazil provided suggestions to the prime recipients of the current cooperative agreements while they were preparing their proposals. According to officials of two of the three lead recipients of these cooperative agreements, USAID environment program personnel strongly suggested which organizations should receive subawards. For example, one prime recipient stated that it was told which partners to use under the cooperative agreement. Another prime recipient was told to continue with the cooperative agreement with the addition of three new subpartners. One subpartner was told to select the cooperative agreement in which it would like to participate. Finally, at least one partner awarded subcontracts without any evidence of a competitive process.

A USAID/Brazil official stated that, owing to the transition to the new annual operational plan system and the late receipt of environment funds, the mission decided to bypass normal competition requirements because of insufficient time to prepare a Request for Application for the new cooperative agreements. The official acknowledged that the process was not under full and open competition.

As a result, the open competition requirement was compromised. In addition, some partner officials stated that it was hard to work with subpartners that had different management and operational styles, especially when the subpartners were dictated by USAID/Brazil. Furthermore, when full and open competition is used in the award process, the past performance of an applicant is normally evaluated. Because full and

open competition was not used, USAID/Brazil and its partners may not have fully evaluated the past performance of partners and subpartners.

Recommendation No. 9: We recommend that the agreement officer review the conditions under which the active cooperative agreements managed by the USAID/Brazil environment program office were awarded and determine if the awards should be re-competed under a Request for Application or other mechanism.

Recommendation No. 10: We recommend that the agreement officer and USAID/Brazil establish procedures to ensure that future award processes are not compromised.

Evaluation of Management Comments - In responding to recommendation no. 9, USAID/Brazil stated that it agreed with this recommendation. The Environment Team conducted a review of the active cooperative agreements and determined that the awards followed all applicable rules.

Although the Environment Team conducted a review of the active cooperative agreements, it is the responsibility of the agreement officer to determine whether or not the awards were executed properly. Therefore, a management decision can be made when the agreement officer submits an action plan with target dates to review the conditions under which the active cooperative agreements were awarded to determine whether or not the awards should be re-competed.

In responding to recommendation no. 10, USAID/Brazil stated that it agreed with this recommendation. It reviewed procedures as stipulated in the ADS and certified that it complied and will continue to comply with those rules and regulations.

Although the mission certified that it has complied with the procedures as stipulated in the ADS, the recommendation requested that the agreement officer and USAID/Brazil *establish* procedures to ensure that future award processes are not compromised. Therefore, a management decision can be made when the agreement officer and USAID/Brazil submit an action plan with timeframes to establish procedures to ensure that future awards processes are not compromised.

It appears that there is a factual disagreement between RIG/San Salvador and USAID/Brazil regarding inappropriate guidance given to partners during the preaward process. The draft report has been modified to clarify the sources of the information provided to the audit team.

Did USAID/Brazil's reporting on its environment program provide stakeholders with complete and accurate information on the progress of the activities and the results achieved?

USAID/Brazil's reporting on its environment program did not provide stakeholders with complete and accurate information on the progress of the activities and the results achieved. The main vehicle for reporting to stakeholders is the performance report for

the OP.⁶ The results reported in the performance report for the FY 2007 OP were either not supported with adequate documentation or inaccurate. In addition, there was not always a clear link between USAID activities and the results reported.

Reported Data Were Unsupported, Inaccurate, or Tenuously Linked to USAID Activities

Summary: USAID policy states that reported information should be accurate, be supported with adequate documentation, and be based on the results of USAID activities. Specifically, ADS 203.3.4.2.e states that performance indicators should measure changes that are clearly and reasonably attributable, at least in part, to USAID efforts. However, USAID/Brazil's performance report on its FY 2007 operational plan for the environment program contained several statements that were unsupported, inaccurate, or not clearly linked to USAID activities. The mission reports results based on its partners' annual reports, but there was insufficient evidence to substantiate the results or link them to USAID assistance. Additionally, neither the lead organizations nor the mission verified the accuracy of reported results. With information that is unsupported, inaccurate, or not clearly linked to USAID activities, stakeholders may reach incorrect conclusions on the progress of the program and make inappropriate decisions on the future direction of the program.

As outlined in ADS 203.3.5.1 and USAID TIPS 12, "Guidelines for Indicator and Data Quality," reported performance data should be adequately supported and accurate. To ensure this, ADS 202.3.4.6 requires that adequate official documentation on agreements used to implement USAID-funded activities, resources expended, issues identified, and corrective actions taken be maintained. The Performance Management Toolkit recommends maintaining, as official documentation, data tables with targets and actual data for all indicators, along with any source documentation and calculations to support the reported data.

ADS 203.3.4.2.e states that performance indicators selected for inclusion in the performance management plan should measure changes that are clearly and reasonably attributable, at least in part, to USAID efforts. In the context of performance indicators and reporting, attribution exists when the outputs of USAID-financed activities have a logical and causal effect on the result(s) being measured by a given performance indicator. One way to assess attribution is to ask, "If there had been no USAID activity, would the measured change have been different?" If the answer is "no," then there likely is an attribution issue, and the operating unit should look for a more suitable performance indicator. If more than one agency or government is involved in achieving a result, operating units should describe exactly what role each played in achieving the result.

ADS 203.3.5.2 states that data reported to USAID/Washington for Government Performance and Results Act reporting purposes or reporting externally on Agency

⁶ To comply with congressional reporting requirements, USAID/Brazil's Environment Program also reports results through the Global Climate Change Database and the Biodiversity Forestry Report. These reporting mechanisms contain much of the same information, and therefore, the audit team concentrated its efforts on the FY 2007 results report for the operational plan.

performance must have had a data quality assessment at some time within the 3 years before submission.

In the performance report for the FY 2007 OP, the reported results were unsupported, inaccurate, or not clearly linked to USAID activities. Examples are provided below:

- The performance report included the statement that “with USAID support, the government in the Brazilian state of Para has set aside 15 million hectares of conservation units around the state.” There is no evidence that clearly linked USAID assistance to this result. This information was reported by a partner as contextual information, but the partner did not take credit for the result. This partner reported that it assisted the state of Para to zone an area equivalent to 7.4 million hectares by providing information from satellite images; however, the partner did not provide sufficient documentation to support its claim. Furthermore, there is no evidence that a management plan exists for this 7.4 million-hectare conservation unit. Finally, USAID provided less than 10 percent of the partner’s funding in FY 2007 (and approximately 32 percent of the partner’s funding in FY 2006), further indicating only a tenuous link between USAID funding and the reported achievement.
- The performance report also included the statement that “an area of 6,848,500 hectares of Amazon forest has been secured under improved natural resource management.” The area reported was based on partners’ reporting. As discussed previously, the partners were not consistent in reporting on this indicator, and there was not always a clear link to USAID assistance. Also, partners did not have sufficient evidence to support the area reported.
- The performance report also included the statement that “an additional 744 people were benefited economically directly from U.S. Government assistance.” This report was based on the mission’s assumption that there were 186 families participating in one partner’s program and further assumed that each family had four members. However, the evidence provided by the partner only showed that 33 families were participating in program activities that could produce economic benefits.
- The performance report further stated that “revenues of over \$180,000 were generated from sustainably harvested, community-managed timber.” The mission acknowledged that the \$180,000 figure was inaccurate and that a more reasonable estimate is \$66,000 (this is an estimate based on the 33 families mentioned above).
- The performance report stated that “USAID provided training in biodiversity conservation and forest resources management to 2,168 people.” This number was based on partner reporting, which was not supported by sufficient source documentation (i.e., participant attendance lists).

The midterm evaluation of the program acknowledged the difficulty of attributing reported results to USAID assistance. It further stated that it is difficult or impossible to find a direct link to USAID support for the results reported by most of the partners.

These reporting errors occurred because the mission reported results based on its partners’ annual reports. However, there was not sufficient documentation to support

the results or link these results to USAID assistance. As discussed previously, neither the lead organizations nor the mission verified the accuracy of these reported results.

The mission is reporting results that are unsupported, inaccurate, or not clearly linked to USAID activities. This could lead to stakeholders reaching incorrect conclusions on the progress of the program and could lead to inappropriate decisions on the future direction of the program.

Recommendation No. 11: We recommend that USAID/Brazil establish procedures to report results in its annual operating reports that are accurate, complete, supported with adequate documentation, and clearly linked to USAID funding.

Evaluation of Management Comments - In responding to recommendation no. 11, USAID/Brazil reiterated the existing procedures for obtaining data that support the OP. However, as documented in the finding above, we found numerous cases where the performance report for the FY 2007 OP contained information that was unsupported, inaccurate, and/or not clearly linked to USAID activities. Although these problems stemmed from a lack of verification of partners' reported results, in its response, the mission did not clarify what, if any, actions it will take to include the verification of reported results. A management decision can be made when USAID/Brazil establishes procedures to improve results reporting.

USAID's Training Results and Information Network Is Not Being Used

Summary: USAID policy states that missions (or their implementers) must enter selected data on in-country training programs into the USAID Training Results and Information Network. However, as of September 2008, the mission's environment office was not using the network and had entered only a small fraction of the training data for the 53,244 individuals trained. This occurred because the mission was originally unaware of this requirement and later because of reluctance of some partners to provide the necessary information. As a result, USAID's training database is incomplete and this important tool could not be used for planning, management, and reporting purposes.

ADS 253.3.3 states that missions or their implementers must enter selected data on in-country training programs into the Training Results and Information Network (TraiNet) for training under their respective strategic objectives or activities. The data to be entered are:

- Subject area of training
- Start and end date
- Total trainees per training, with gender breakdown
- Total cost of training for each program (broken down by instruction, participant, and travel)

Missions or their implementers are required to enter data for any in-country training lasting 3 consecutive class days, or 15 hours scheduled intermittently. However, missions may wish to report shorter duration in-country training events.

In addition, ADS 253.3.1.c specifies that missions must design and carry out participant training activities with the fullest possible application of cost control and cost-sharing practices.

A significant portion of the mission's environment program has been and continues to be in-country training and workshop activities. For example, between FY 2003 and FY 2007, the mission and its partners reported 53,244 individuals trained on the planning and management for conservation and sustainable use of natural resources and fire management.⁷ Nevertheless, the mission's environment office and its partners were not using TraiNet. As of September 2008, only 14 training classes (with 200 individuals trained) for one partner for the period October 2007 to early February 2008 were included in the network.

Mission officials stated that they were originally unaware of this requirement. Recently, the mission has started requesting training data from partners, but some partners have complained that it was a new requirement not specifically mentioned in their agreements.

As a result, USAID's training database is incomplete, and any agency reporting on training to its stakeholders is also incomplete. Moreover, this important tool could not be used for planning and management purposes. For example, this tool could be used for more accurate budgeting of training and workshop activities and could be used for comparison of costs among the partners to identify cost efficiencies and inefficiencies. The tool also could be used to compare cost sharing among the various partners.

Recommendation No. 12: We recommend that USAID/Brazil obtain the necessary training data on its environmental activities from its partners from fiscal year 2004 to present and input these data into the USAID training network.

Recommendation No. 13: We recommend that USAID/Brazil institute procedures to collect and input training data into the USAID training network quarterly.

Evaluation of Management Comments - In response to recommendation no. 12, the mission stated that the Environment Team collected data from current partners and inserted information into the TraiNet database. Regarding recommendation no. 13, the Program Office has established procedures and a specific form for training data collection on a monthly basis. Partners have received training and written guidance on these procedures. Based on this information, a final management decision has been made on both recommendations.

⁷ Many of the training sessions were 3 days in duration or longer, but the mission did not have information on the exact numbers.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/San Salvador conducted this performance 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 based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The purpose of the audit was to determine (1) whether USAID/Brazil's environment program achieved planned results and assess their impact and (2) whether reporting provided stakeholders with complete and accurate information on the progress of the activities and the results achieved.

In planning and performing the audit, we assessed the mission's controls related to its environmental activities. The management controls identified included the mission performance management plan (PMP), mission data quality assessments, cognizant technical officer (CTO) site visits, program progress reports, day-to-day interaction between mission staff and program implementers, and the mission's annual self-assessment of management controls as required by the Federal Managers Financial Integrity Act of 1982.

The audit covered the environment program's activities under the mission's eighth strategic objective, "Natural Ecosystems Sustained." The audit was conducted in Brazil, in the cities of Brasilia, Belem, and Rio Branco, from September 8 to October 2, 2008. Our audit primarily focused on environment program activities performed during fiscal years (FYs) 2006 and 2007.

Methodology

To answer the audit objectives, we met with personnel from USAID/Brazil, the three lead organizations under the original cooperative agreements, and seven subpartners. We reviewed relevant documentation produced by USAID/Brazil's environment team, such as the program's PMP, the operational plan, award documents, and mission-maintained results tracking reports. We also reviewed partner-prepared documentation such as annual work plans and annual progress reports.

To assess whether results were achieved, we focused on the two strategic objective indicators and three intermediate result indicators included in the FY 2006 PMP.⁸ We conducted interviews with mission personnel and implementing partners. When possible, we reviewed partner and subpartner documentation, such as participant training lists and materials.

To determine whether accurate and complete information was reported, we interviewed mission and implementing partner personnel and reviewed documentation to determine how results are collected for the selected indicators. We validated the reported results

⁸ Although these indicators were largely incorporated into the FY 2007 operational plan, implementing partners continued to report on these five indicators throughout FY 2007.

for FYs 2006 and 2007 by tracing mission-reported results back to the records maintained at the offices of the implementing and subpartners.

Also, we determined what monitoring was done by the CTO and prime partners by reviewing award documents between USAID and its partners and interviewing officials of USAID and partner organizations. We also determined the degree of monitoring conducted by USAID partners over their subpartners by reviewing available award documents between USAID partners and subpartners and interviewing officials of these organizations. To determine the impact of USAID/Brazil's environment program, we interviewed officials from USAID, implementing partners, subpartners, the Government of Brazil, the Brazilian Forest Service, and the World Bank.

MANAGEMENT COMMENTS

MEMORANDUM

TO: Timothy E. Cox, Regional Inspector General/San Salvador

FROM: Jeffery D. Bell, USAID/Brazil Director

DATE: January 5, 2009

SUBJECT: Draft Audit Report – 1-512-09-XXX-P, Audit of USAID/Brazil’s Environment Program

As per your memorandum dated November 26, 2008, this memorandum provides USAID/Brazil’s response to your draft audit recommendations.

Recommendation 1: We recommend that USAID/Brazil obtain evidence that the International Institute of Education of Brazil (IEB), the Institute of Environmental Research in the Amazon (IPAM), and the World Wildlife Fund Brazil (WWF-Brazil) have corrected the monitoring and accountability issues discussed in this finding.

Comments:

The Mission agrees with this recommendation. In September 2008, the CTO contacted IEB, IPAM and WWF-Brazil and requested that they take actions to remedy the issues. The following actions were taken:

- 1) IEB has taken the following actions: a) reviewed IFT’s accounting records (for 2007 thru 2007) - report of this reconciliation is being prepared; b) developed “SIS-FORTIS”, a web based system that represents an important advance in consortium financial administration. It permits the decentralization of financial management and accounting for each consortium member while at the same time facilitating overall management by the prime institution. Accurate reports on the financial and budgetary situation of each partner and the consortium as a whole can be produced in real time. The system automatically generates standard USAID advance and liquidation forms, greatly improving processing of USAID’s monthly technical requirements.
- 2) IPAM. An audit exit meeting was held on November 20, 2008. It was agreed that IPAM will issue written comments on the issues discussed during the meeting. After review, the auditors (Domingos Teixeira Advogado) will issue a new opinion to IPAM and USAID.
- 3) WWF-Brazil. The local auditing firm, “Teixeira e Associados” is addressing WWF-Brazil audit issues with Brad Moore (San Salvador/RIG). The CTO has been monitoring the process and reiterated to WWF- Brazil the need to fulfill audit requirements and provide answers in a timely manner.

Recommendation 2: We recommend that USAID/Brazil establish internal controls that will prevent the recurrence of the types of monitoring and accountability issues discussed in this finding.

Comments:

The Mission agrees with this recommendation. The Environment Program is currently conducting a Data Quality Assessment (to be completed by February 2009) and strengthening its internal control procedures by: (1) providing training for the new CTO; (2) hiring a new team assistant and an additional intern; (3) providing a training program on monitoring and evaluation to the partners (a consultant has been contracted to carry out this activity during the current Fiscal Year); and (4) reinforcing guidance to the partners on Cooperative Agreement procedures and requirements through personal contact with key partners staff, close financial and technical monitoring and written reminders on reporting requirements including supporting explanations.

Recommendation 3: We recommend that USAID/Brazil remind its partners of the requirement to submit all sub-awards for Cognizant Technical Officer (CTO) approval.

Comments:

The Mission agrees with this recommendation. The Environment Team reviewed current cooperative agreements and reminded the awardees by e-mail of subject requirement.

Recommendation 4: We recommend that USAID/Brazil require an audit of Instituto Florestal Tropical's reconstructed accounting records for fiscal years 2005 and 2006 as well as its accounting records for fiscal year 2007 related to USAID funds.

Comments:

The Mission agrees with this recommendation. IFT's financial accounting issues are being addressed under the IPAM and IEB FY2007 audits – recommendations are being elaborated as described above in response to recommendation 1. In addition, IEB has reviewed IFT's accounting records for 2003 thru 2007 and a report on this reconciliation is being prepared. In response, IFT has provided clarification on audit issues and documented improvements in financial control systems.

Recommendation 5: Due to the imminent departure of the program's sole cognizant technical officer, we recommend that USAID/Brazil send the replacement cognizant technical officers to attend the required training and familiarize themselves with the roles and responsibilities outlined in the Automated Directives System, the cognizant technical officer designation letter, and the award agreements.

Comments:

The Mission agrees with this recommendation. The replacement has been trained in Washington and gained her CTO Certification in December 2008. Therefore, cooperative agreements oversight will be split between two certified CTOs and the Team Leader will act as alternate for both CTOs. However, the Mission points out that the Environment Program

had a duly cleared alternate CTO during the period the main CTO was on duty. After his departure, the alternate CTO assumed the responsibility for the whole program, in conjunction with an alternate CTO - the Environmental Team Leader.

Recommendation 6: We recommend that USAID/Brazil’s environment program establish procedures to ensure adequate oversight of its projects. At a minimum, all travel vouchers should be accompanied by a site visit report, and a site visit checklist should be used that includes verification of reported results.

Comments:

The Mission agrees with this recommendation. On November 19, 2008, the Mission Director issued a memo to all USAID/Brazil program staff establishing that travel vouchers related to site visits will only be approved if accompanied with the appropriate trip report. In addition, the Mission points out that adequate oversight of projects was done also through other monitoring activities such as periodic meetings, exchange of letters and phone calls, analysis of semi-annual and annual reports, contracting of independent evaluations, joint discussions of Performance Monitoring Plans, and sponsoring Annual Environment Partners’ Meetings. The Environment team is also devising a checklist to document routine monitoring actions.

Recommendation 7: We recommend that USAID/Brazil revise its current performance indicators to require that they (1) are precisely defined and (2) better reflect the progress of its partners’ activities.

Comments:

The Mission agrees with this recommendation. The Environment Program is using the Standard Agency Indicators as established in the Operational Plan Guidance. Also, in order to improve its current performance indicators system, a Data Quality Assessment (DQA) is currently under way and will be completed by February 2009. In addition, the 2008 Performance Report and Planning was completed in November 2008 and provided an opportunity to revise indicators and review targets for FY 2009 and 2010. However, the Mission does not agree that the indicators were not defined or explained to partners, as mentioned on page 13. USAID/Brazil developed the Performance Monitoring Plan (PMP) by exchanging correspondence on the subject and convening a series of meetings with the participation of all partners, including both awardees and sub-awardees.

Recommendation 8: We recommend that USAID/Brazil develop an appropriate performance indicator to measure the economic benefits of the USAID/Brazil environment program or reinstate the previously used indicator “increase in the volume of revenues from sale of sustainable goods and environmental services benefiting poor, rural communities.”

Comments:

The Mission does not agree with this recommendation. Activities implemented under FY 2009 awards onward do not call for documentation of economic benefit. Current activities of the USAID/Brazil environment program focus on protection of indigenous lands and

expansion of conservation opportunities on the agricultural frontier. Neither of these activities depends on increase in forest product revenues as a measure of success. Increase in protected areas and improved capacity to deal with these issues are adequate measures to document program impact.

Recommendation 9: We recommend that the Agreement Officer review the conditions under which the active cooperative agreements managed by the USAID/Brazil environment program office were awarded and determine if the awards should be re-competed under a Request for Application or other mechanism.

Comments:

The Mission agrees with this recommendation. The Environment Team conducted a review and determined that the awards followed all applicable rules. The three consortia were chosen in a competitive Request for Assistance launched in FY 2003, for a four-year period of implementation, following competition rules. The proposals submitted to the 2003 RFA included the organizations to be sub-awarded under the three consortia (CA 512-A-00-03-00026-00, CA-512-A-00-03-00027-00, and CA 512-A-00-03-00028-00). On Sept 28, 2007, one of the previous consortia (led by WWF-Brazil) was amended following applicable rules and regulations for a follow-on assistance agreement. On Oct 2, 2007, CA 512-A-00-07-00016-00 was awarded to The Nature Conservancy (TNC) under the Leader with Associates Award LAG-A-00-99-00045-00, following applicable rules and regulations for a leader with associates agreement. The Mission refutes any claim that USAID/Brazil personnel “*may have suggested which organizations should receive sub-awards*”, as stated on page 17.

Recommendation 10: We recommend that the Agreement Officer and USAID/Brazil establish procedures to ensure that future award processes are not compromised.

Comments:

The Mission agrees with this recommendation. The Mission reviewed procedures as stipulated in the ADS, and certifies that it does comply with those regulations and rules and will continue to use and apply them.

Recommendation 11: We recommend that USAID/Brazil establish procedures to report results in its annual Operating Reports that are accurate, complete, supported with adequate documentation, and clearly linked to USAID funding.

Comments:

The Mission agrees with this recommendation. Operating Reports are supported by data and information (1) collected through the Annual and Semi-Annual Reports, (2) provided by independent evaluations, (3) based on Performance Monitoring Plans, (4) analyzed during Portfolio Review exercises, and (5) improved through Data Quality Assessments. For detailed information please refer to the twelve Annual and twelve Semi-Annual Reports for the three consortia from FY 04 to FY 07, the Data Quality Assessment Report of 2005, the yearly Performance Management Plans from FY 04 to FY 07, the Environmental Program Mid-Term Evaluation Report of 2006, and the Environmental Program Final Evaluation Report of 2008. Mission will continue to follow these procedures.

Recommendation # 12: We recommend that USAID/Brazil obtain the necessary training data on its environmental activities from its partners from Fiscal Year 2004 to present and input this data into the USAID training network.

Comments:

The Mission agrees with this recommendation. The Environment Team collected data from current partners and inserted information into the Trainet Database.

Recommendation # 13: We recommend that USAID/Brazil institute procedures to collect and input training data into the USAID training network quarterly.

Comments:

The Mission agrees with this recommendation. The Program Office has established procedures and a specific form for training data collection on a monthly basis. Environment Program implementing partners received guidance in writing and training on these procedures and is reporting accordingly.

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