OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/PARAGUAY'S NORTHERN ZONE INITIATIVE

AUDIT REPORT NO. 1-526-13-002-P
March 6, 2013

SAN SALVADOR, EL SALVADOR

Office of Inspector General

March 6, 2013

MEMORANDUM

TO: USAID/Paraguay, Mission Director, Rose Rakas

FROM: Regional Inspector General/San Salvador, Jon Chasson /s/

SUBJECT: Audit of USAID/Paraguay's Northern Zone Initiative
              (Report Number 1-526-13-002-P)

This memorandum transmits our final report on the subject audit. In finalizing the audit report, we considered your comments on the draft report and included them in their entirety in Appendix II of this report.

The final report includes three recommendations to help the mission improve reporting of program information and tracking training records for the Paraguay Northern Zone Initiative Program. Based on your written comments in response to the draft report, final action has been taken on Recommendations 1, 2, and 3.

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

CONTENTS

Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
FY	fiscal year
FTE	full-time equivalent
M&E	monitoring and evaluation
PMP	performance management plan
RIG	Regional Inspector General
TraiNet	Training Results and Information Network

SUMMARY OF RESULTS

In Paraguay, approximately 35 percent of the population lives below the poverty line. While the country's gross domestic product has grown in recent years, the benefits have not been distributed equally, and Paraguay has the 14th highest income disparity[1] index in the world. According to USAID/Paraguay, the rural poor in four departments[2] in the northeastern part of the country resort to criminal activity to compensate for the lack of income from legal sources. In addition, the communities have little faith in local governments that are not able to provide adequate basic services. The region also is plagued by the Ejército del Pueblo Paraguayo (Paraguayan People's Army), a small insurgent group that kidnaps and ransoms wealthy citizens.

It was after one such kidnapping, mission officials said, that the government turned to USAID for help. In March 2010, USAID/Paraguay awarded a $4 million, 18-month cooperative agreement to ACDI/VOCA to implement the Northern Zone Initiative. This program's goal was to help establish a new level of stability in the four departments to end the violence and criminal activity; to achieve that, the program would improve local governance and generate income for poor farmers. The mission subsequently increased the award to $5,016,000 and extended the agreement to March 1, 2014. As of March 4, 2013, cumulative obligations and disbursements totaled $5,016,000 and $4,733,901, respectively.

The program operated in 15 municipalities that Paraguayan ministries selected. Interventions were generally small with 41 percent of projects worth less than $10,000 each and an average of $25,865 per project. Local governance assistance included infrastructure projects, such as building classrooms and additions to health centers, and technical assistance to local governments, particularly in addressing tax management. Economic support projects helped small entrepreneurs and agricultural producers connect with private sector partners and mapping of value chains.[3]

The purpose of this audit was to determine whether USAID/Paraguay's Northern Zone Initiative was achieving its main goal of helping establish a new level of stability in four departments in northeastern Paraguay that would reduce the level of violence and criminal activity.

The audit found that while the program has made significant progress toward improving local governance and generating income for poor farmers, it is not yet clear that it has made progress toward the main goal. The mission has scheduled a final evaluation to determine the overall impact.

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[1] Income disparity is the difference between the incomes of the richer and poorer parts of society; the more unequal the distribution of wealth in an economy, the greater the income disparity. Information related to 2009 data per the CIA World Factbook. https://www.cia.gov/library/publications/the-world-factbook/rankorder/2172rank.html

[2] The departments are Amambay, Canindeyu, Concepcion, and San Pedro. The original agreement included a fifth, Alto Parano, but it was dropped at the request of the Paraguayan Government.

[3] Mapping a value chain is the process of documenting the flow of a good from raw materials to production, commercialization, and ultimately to delivery to end users or consumers. According to USAID/Paraguay officials, this process took from 3 to 8 months to complete.

The program had done the following:

- Increased local governance performance in each of the 15 municipalities as demonstrated through a measurement tool called MIDAMOS.[4]

- Mapped ten value chains and provided technical assistance to five value chains.

- Implemented development plans for each of the 15 municipalities.

In addition, many project activities appear to be sustainable after program assistance ends. ACDI/VOCA provided intensive technical assistance to producers in key value chains, including banana and sesame, for 9 to 11 months, and it obtained $2.6 million in contributions from beneficiaries, municipalities, and private sector partners. Additionally, beneficiary institutions often developed a budget for infrastructure project maintenance to ensure sustainability.

Notwithstanding the positive aspects of the program, it did not submit program results to USAID/Washington (page 3). To comply with applicable reporting criteria, USAID/Paraguay should:

1. Begin reporting program targets and results in the performance plan and report (page 3).

2. Obtain access to the Training Results and Information Network (TraiNet)[5] for the mission and ACDI/VOCA so they can track and enter data from training provided by the Northern Zone Initiative (page 3).

3. Work with ACDI/VOCA to implement procedures that include criteria and verification processes for entering training data in TraiNet (page 4).

The audit team also noted two additional matters.

- ACDI/VOCA did not apply standardized methods for collecting program data, resulting in labor-intensive analysis of data and numerous small errors (page 5).

- The program's indicator for measuring full-time equivalents (FTEs) did not provide useful information about how many jobs the program actually created (page 5).

Detailed findings follow. The audit scope and methodology are described in Appendix I. Our evaluation of USAID/Paraguay's management comments will appear on page 10, and the mission's comments will appear in Appendix II.

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[4] MIDAMOS (Sistema de Medición del Desempeño Municipal or System of Municipal Performance Measurement) is a set of 31 qualitative and quantitative indicators organized into five main themes of municipal management for measuring municipal performance. The MIDAMOS scores were anticipated to increase two indicators in each of the 15 municipalities by 1 point.

[5] TraiNet is the official USAID Web-based training management system database.

AUDIT FINDINGS

USAID/Paraguay Did Not Submit
Program Results to Washington

Per Automated Directives System (ADS) 203.3.14, assuring transparency in programs and performance reporting is an important goal of foreign assistance. The annual foreign assistance performance plan and report (PPR) calls for qualitative and quantitative data from all operating units in USAID and the Department of State that implement programs with foreign assistance funds. Data from the PPR are used to justify foreign assistance programming and resource requests, meet statutory requirements and management reporting needs in support of presidential initiatives, and to communicate agency performance information to Congress and the public as required by the Government Performance and Results Modernization Act of 2010.

According to ADS 253.3.4.5b, USAID missions must enter data in TraiNet for any in-country training programs or subprograms that last for at least 2 consecutive days or 16 contact hours.

The audit found that USAID/Paraguay was not reporting the program targets and results in the PPR nor was it reporting training information in TraiNet. For example, the April 2012 program quarterly report listed 4,079 beneficiaries trained, though no beneficiaries were reported to USAID/Washington.

These reporting errors occurred because USAID/Paraguay officials incorrectly believed that the program's original funding source—1207 of the National Defense Authorization Act—exempted them from reporting requirements. For fiscal years 2006 and 2007, that section authorized the Defense Department to provide up to $200 million over 2 years in funds, services, and defense articles to the State Department for security, reconstruction, and stabilization. State's Office of the Coordinator for Reconstruction and Stabilization assumed leadership of an interagency process to develop proposals and request funding for projects that would carry out the intent of the authorization act.

However, according to USAID's foreign affairs office, the funding source did not exempt the mission from USAID reporting requirements. Officials in that office said the information collected in the PPR is important because it helps USAID comply with the Government Performance and Results Modernization Act, meet statutory and other reporting requirements, respond to congressional inquiries, and make programming and budget decisions.

USAID/Paraguay should make sure that all program data are reported in the PPR and any program-sponsored training goes into TraiNet. Therefore, we make the following recommendations.

> **Recommendation 1.** *We recommend that USAID/Paraguay begin reporting program targets and results in the Performance Plan and Report.*

> **Recommendation 2.** *We recommend that USAID/Paraguay obtain access to the Training Results and Information Network for the mission and ACDI/VOCA so they can track and enter data from training provided by the Northern Zone Initiative.*

Recommendation 3. *We recommend that USAID/Paraguay work with ACDI/VOCA to implement procedures that include criteria and verification processes for entering training data in USAID's Training Results and Information Network.*

OTHER MATTERS

USAID/Paraguay officials expect to complete the program as early as March 2013. Therefore, the following problems would be addressed more effectively as lessons learned for future program design efforts.

Implementer Did Not Establish Data Collection Procedures

An ACDI/VOCA official said it did not develop data collection tools because of the program's rapid implementation and its original short duration (18 months). ACDI/VOCA's strategy was to review and approve each subimplementer's standardized data collection forms and validate reported information based on field spot-checks and interviews with beneficiaries.

However, this informal process was not well documented. The audit found numerous small discrepancies between the reported information and the supporting documentation.

Analyzing data from the different subimplementers using different formats for collection was a labor-intensive effort for ACDI/VOCA's staff. When the program was extended for 2 years, the chief of party brought in a monitoring and evaluation (M&E) expert who helped develop standardized forms for data collection—which improved both consistency and ease of data analysis.

In hindsight, designing standardized data collection forms and related training early in the program could have increased the consistency and accuracy of the collected data as well as reduced the amount of time and effort the staff spent analyzing and reporting them. To avoid similar problems in the future, USAID/Paraguay should verify that its implementers put appropriate M&E procedures and data collection tools in place as soon as a program starts.

Indicator Did Not Reflect Impact of Jobs Created

ADS 203.3.4.2 states that in choosing indicators, USAID should consider questions for each result, such as what will be different as a result of these projects and activities, and how will the Agency recognize the desired difference. In addition, performance indicators should be unambiguous about what is being measured and useful for the relevant level of decision making.

One program performance indicator measures the number of full-time equivalent (FTE) jobs created by program activities. The indicator justification states that these jobs contribute to family income and decrease conflict and violence. However, the program had no outcome indicator to measure the change in conflict and violence.

In addition, there is some ambiguity as to what exactly the FTE indicator actually measures. ACDI/VOCA used three different methods for calculating FTEs; two used formulas with multipliers (coefficients) that were based on improved hectares or increased sales, and the third was based on a calculation using the actual number of days workers spent on short-term activities like construction.

However, the reported FTEs do not reflect the program's actual job creation achievements accurately, as described in the following examples.

- The construction of a laboratory at a health clinic led to the creation of one permanent part-time job for a lab assistant. However, two FTEs were reported based on the temporary labor used to construct the facility.

- Fifteen FTEs were attributed to a sesame producer, based on increase in sales. However, these sales benefited the existing farmers, and no new jobs were created.

- An operational grant for an access to credit project included hiring 13 employees for 6 months. However, no FTEs were reported for this venture.

- For a dairy project, two FTEs were reported based on increase in sales, yet no new jobs were created.

The FY 2012 second quarter report said the program had created more than 720[6] full-time jobs, based on the FTE indicator reported results. Yet the indicator results represent increases in sales, land cultivation, and short-term jobs, not full-time jobs created.

USAID/Paraguay representatives said USAID uses the FTE indicator often, and, per ACDI/VOCA, USAID has devised various calculations for deriving an FTE. Nevertheless, there is always room to reconsider what an indicator represents and what value it provides. For instance, a mandatory reference to the ADS[7] reported that survey contributors (USAID and Department of State representatives) reported low confidence in the quality of foreign assistance data and their usefulness in making decisions. The survey report recommended initiating a review of foreign assistance indicators, beginning with the establishment of principles to improve foreign assistance indicator collection, reporting, and use.

FTEs are represented traditionally as the ratio of the total number of paid hours during a certain period of time to the total number of working hours in that period, Monday through Friday. This calculation is based on an actual number of people working an actual number of labor days, and it was the one ACDI/VOCA used for the small construction projects.

However, calculating job increases based on increase in sales, as shown in the examples above, does not reflect real jobs created. USAID/Paraguay should consider developing indicators that accurately reflect what the program is achieving. In addition, when setting up output indicators, there should be a correlative outcome indicator to demonstrate the link between the output and the outcome.

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[6] Five hundred and forty-seven FTEs (76 percent of total reported FTEs) were reported for a banana value chain, and they were calculated based on increase in sales.

[7] *Interim Streamlining of Foreign Assistance Planning and Reporting Processes And Selected Findings from Surveys of Contributors and Users: A Mandatory Reference for ADS Chapters 201 and 203.*

EVALUATION OF MANAGEMENT COMMENTS

Based on our evaluation of USAID/Paraguay's comments on our draft report, we have determined that final action has been taken on Recommendations 1, 2, and 3. Our evaluation of mission comments appears below.

Recommendation 1. The mission agreed with the recommendation. It began reporting program results for the Northern Zone Initiative in its FY 2012 performance plan and results. USAID/Paraguay provided documentation to support the action taken. As a result, final action has been taken for this recommendation.

Recommendation 2. The mission agreed with the recommendation. It reported that ACDI/VOCA has begun entering training data into TraiNet. USAID/Paraguay provided documentation to support the action taken. As a result, final action has been taken for this recommendation.

Recommendation 3. The mission agreed with the recommendation. It reported that ACDI/VOCA has established procedures, including criteria and a verification process, for entering data in TraiNet. USAID/Paraguay provided documentation to support the action taken. As a result, final action has been taken for 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/Paraguay's Northern Zone Initiative program was achieving its main goal of helping to establish a new level of stability in northeastern Paraguay to reduce the level of violence and criminal activity.

In planning and performing the audit, we assessed the mission's controls related to the program. The management controls included reviews of USAID/Paraguay's fiscal years 2011 and 2012 operating plan reports, the FY 2011 annual self-assessment of management controls (which the mission is required to perform to comply with the Federal Managers' Financial Integrity Act), environmental due diligence, award and modification requirements, agreement officer's representative designation letters, program evaluations, and portfolio reviews.

On March 2, 2010, USAID/Paraguay awarded a $4 million, 18-month cooperative agreement to ACDI/VOCA to implement the program. The mission subsequently increased the award to $5,016,000 and extended the time to 4 years.

The audit covered program activities from the program's start date through October 25, 2012. It reviewed 20 of 69 completed activities worth about $806,976 of the total $1,971,032 completed activities, or 41 percent of all completed activities. The audit team conducted fieldwork from October 9 through October 25, 2012, in Asuncion and various municipalities in the departments of Amambay, Concepcion, and San Pedro.

We interviewed key staff members of the mission, ACDI/VOCA, and other U.S. agencies, subimplementers, local government officials, and beneficiaries.

Methodology

To answer the audit objective, we evaluated the mission's management and oversight of the program, the performance of ACDI/VOCA, and the effectiveness of the activities. We met with the USAID/Paraguay mission director, the program agreement officer's representative, and other staff members responsible for the program, such as the environmental officer and the program officer. We held numerous meetings with ACDI/VOCA employees, including the chief of party, the economic support and local governance specialists, the M&E officer, and the subaward manager. We also met with a State Department political officer and an Office of Defense Coordination employee.

To gain an understanding of the program, the audit team reviewed USAID/Paraguay's cooperative agreements and associated modifications, USAID's negotiation memos and justifications, an independent evaluation of the program, operating plans, internal correspondence, and portfolio reviews.

We also reviewed ACDI/VOCA's documentation, including the PMP, work plans, periodic progress reports, subagreements, and various documents that support program activities such as M&E and environmental reports.

We reviewed applicable policies, regulations, and guidelines pertaining to USAID/Paraguay's implementation of the program, including ADS, the Code of Federal Regulations, USAID policy determinations, and other internal guidance. We also researched information related to Section 1207 funding.

We used a judgmental sample rather than a statistical sample because a statistical sample would have required sampling almost the entire population of 69 completed activities, for which we did not have the time or resources to perform. Therefore, we judgmentally selected 20 of 69 completed projects for field visits in various municipalities of the departments of Amambay, Concepcion, and San Pedro. The sample selection was based on an analysis of relevant factors including program objective affected, diversity of activity type, dollar value, cost share/leverage, gender, indictors impacted, travel time to locations, and date of completion. The final itinerary was refined through discussions with USAID/Paraguay. During the field visits, we met with program beneficiaries and local officials. Field visits were used to validate existence and, to the extent possible, reported results. As a statistical sample was not used, the sample results cannot be projected to the entire population.

MANAGEMENT COMMENTS

DATE: February 20, 2013

TO: Jon Chasson, Regional Inspector General/San Salvador

FROM: Rose Rakas, USAID/Paraguay Mission Director   /S/

SUBJECT: Comments to Audit of USAID/Paraguay's Northern Zone Initiative
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Thank you for giving USAID/Paraguay the opportunity to respond to the draft report of the Audit to USAID/Paraguay's Northern Zone Initiative, dated December 18, 2012.

Below we have listed each of the main recommendations and findings of this audit. Following each recommendation are USAID/Paraguay's comments and suggestions on the draft audit report for your consideration.

Recommendation 1. *We recommend that USAID/Paraguay begin reporting program targets and results in the Performance Plan and Report.*

USAID/Paraguay concurs with this recommendation. Thanks to the excellent collaboration between the audit team and the Mission, the Mission was able to include reporting on program targets and results from the Northern Zone Initiative in its FY2012 Performance Report, as attached.

Recommendation 2. *We recommend that USAID/Paraguay obtain access to TraiNet for the mission and ACDI/VOCA to track and enter training provided by the Northern Zone Initiative program in USAID's Training Results and Information Network.*

USAID/Paraguay concurs with this recommendation. Again thanks to the excellent collaboration between the audit team and the Mission, the Mission has already been able to amend the Northern Zone Initiative instrument to include this provision. ACDI/VOCA began entering TraiNet on February 19, 2013.

Recommendation 3. *We recommend that USAID/Paraguay work with ACDI/VOCA to document and implement procedures that include criteria and verification process, for entering training data in USAID's Training Results and information Network.*

USAID/Paraguay concurs with this recommendation. The Mission has already shared this recommendation with ACDI/VOCA. The Agreement Officer Representative is worked with ACDI/VOCA to document and implement procedures that include criteria and verification process, for entering training data in USAID's Training Results and information Network. As a result, ACDI/VOCA established internal procedures, including criteria and evaluation process for entering data in TraiNet on February 19, 2013.