



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/PERU'S ENVIRONMENTAL ACTIVITIES

AUDIT REPORT NO. 1-527-12-008-P
SEPTEMBER 19, 2012

SAN SALVADOR, EL SALVADOR



Office of Inspector General

September 19, 2012

MEMORANDUM

TO: USAID/Peru Mission Director, Richard Goughnour

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

SUBJECT: Audit of USAID/Peru's Environmental Activities (Report No. 1-527-12-008-P)

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

The report contains 13 recommendations to improve USAID/Peru's oversight of its environmental activities. On the basis of actions that the mission took, we determined that final action has been taken on Recommendations 5, 11, and 13.

On the basis of actions that mission officials said they plan to take, we determined that management decisions were reached on Recommendations 1, 3, 4, 6, 7, 8, 9, 10, and 12. Please provide the Audit Performance and Compliance Division in the USAID Office of the Chief Financial Officer with the necessary documentation to achieve final action.

A management decision was not reached on Recommendation 2. Please provide written notice within 30 days of any action planned or taken to implement this recommendation.

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

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Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
AOR	agreement officer’s representative
CIMA	Centro de Conservacion Investigacion y Manejo de Areas Naturales
COR	contracting officer’s representative
DQA	data quality assessment
FY	fiscal year
PFSI	Peru Forest Sector Initiative
PMP	performance management plan
PPR	performance plan and report
REDD	Reducing Emissions from Deforestation and Degradation
TraiNet	Training Results and Information Network
UN	United Nations
USFS	U.S. Forest Service

SUMMARY OF RESULTS

In 2006 the United States signed a trade promotion agreement with the Government of Peru. In addition to market access, the agreement covers environmental protection. It requires both countries to uphold their domestic environmental laws and to “maintain and implement laws and all other measures to fulfill obligations under covered multilateral environmental agreements.”

Other provisions of the trade promotion agreement addressed:

- Improving forest sector governance.
- Promoting legal trade in timber products.
- Upholding environmental protections.
- Conserving biodiversity.
- Implementing the environmental cooperation agreement the two countries signed on July 24, 2006, which emphasizes building capacity in enforcing environmental laws like those against illegal logging.

To help Peru fulfill both agreements, USAID/Peru included in its current environmental portfolio activities to improve the government’s environmental policy and strengthen environmental institutions so that they can promote sustainable forest management and protect biodiversity.

The Regional Inspector General/San Salvador conducted this audit to determine whether USAID/Peru’s environmental activities were achieving their primary goals. The audit covered three of the four largest projects that USAID manages in Peru (shown in Table 1), accounting for 84 percent of its bilateral environmental assistance.

Table 1. Audited USAID/Peru Environmental Programs

Project	Implementer	Type of Award	Amount (\$ million)	Dates
Peru Bosques	Chemonics	Contract	38.6	7/8/11–7/7/16
Peru Forest Sector Initiative*	U.S. Forest Service	Cooperative agreement	14.0 17.0	5/26/09–4/1/12 9/1/11–8/31/16
Promoting Long-Term Sustainability of Parque Nacional Cordillera Azul (Cordillera Azul National Park)	The Field Museum	Cooperative agreement	4.8	8/5/08–2/4/13

Source: USAID/Peru.

* The Peru Forest Sector Initiative consists of two different agreements that include other countries, but only the Peru amounts are shown above.

Peru Bosques. *Bosques* is the Spanish word for forests, and this project, implemented by Chemonics, was designed to improve forest governance and environmental management, conserve sustainable tropical forests, and increase forest-based livelihoods in keeping with the U.S.-Peru Trade Promotion Agreement and other international agreements. The project was to

help the Government of Peru implement a new forestry law to control deforestation and reduce greenhouse gas emissions.

Through various activities with the Peruvian forest authorities, the Ministry of Environment, and the World Bank Forest Carbon Partnership Facility, the project is also helping the government prepare to participate in the United Nation's (UN's) Reducing Emissions from Deforestation and Forest Degradation (REDD) climate change initiative. REDD was designed to build capacity in developing countries to reduce emissions from deforestation and forest degradation, to conserve and sustainably manage forests, and to increase and protect forest carbon stocks. The initiative assigns a monetary value to the carbon stored in forests, giving developing countries an incentive not to cut down the trees. Peru Bosque activities address the main causes of deforestation and forest degradation, which include illegal logging, lack of forest governance, conversion of forests to agricultural land, informal mining, and an economically uncompetitive timber industry.

Peru Forest Sector Initiative (PFSI). This project, implemented by the U.S. Forest Service (USFS), supports Peru in complying with the U.S.-Peru Trade Promotion Agreement and its associated U.S.-Peru Environmental Cooperation Agreement. This means leading efforts to support forest sector governance, such as strengthening institutions, enforcing laws, managing forest concessions, strengthening regulatory controls and verification mechanisms for harvested trees, conducting a forest inventory, and working with indigenous communities on forest management. The initiative promotes biodiversity conservation activities in threatened, biologically significant areas of the Amazon.

Promoting Long-Term Sustainability of Parque Nacional Cordillera Azul. This project, implemented by the Field Museum of Natural History in Chicago (Field Museum), aims to protect the biological diversity of Cordillera Azul National Park and ensure sustained funding for the park's long-term management. The park protects many plants and animals that can be found only within its borders. According to the Field Museum's rapid inventory in 2001, an estimated 6,000 plant species, 800 bird species, 82 amphibian and reptile species, 110 fish species, and 71 large mammal species reside in the park. Project objectives include training a park guard force to conduct border patrols, developing an early warning system to detect threats to the park, securing financing for the park, and strengthening its management. Disseminating REDD lessons learned is an additional objective.

The total amount obligated for these three projects as of March 31, 2012, was \$36,902,017 and the amount expended was \$20,337,637.

The audit determined that the projects had moderately improved Peru's environmental policy and strengthened its environmental institutions. On June 15, 2011, the Peruvian Congress passed a landmark forestry law written with USAID support and assistance through PFSI; the law regulates the use of forestlands and resources and establishes protections for the indigenous people living in forests. The collaboration among indigenous communities, regional governments, and the national government was particularly noteworthy because the same parties clashed in 2009.*

* Protests erupted because the government, in an effort to encourage investment under the U.S.-Peru Free Trade Agreement, approved energy and mining projects in areas inhabited by indigenous people without consulting them or studying the projects' environmental impact. The protests ended in a June 2009 confrontation in the province of Bagua that cost many protesters and police their lives.

Both the Peru Bosques and PFSI projects strengthened Peru's environmental institutions. Peru Bosques carried out an analysis of the government's technical, legal, and institutional capacity to manage forests and designed a strategy and action plan for strengthening institutions, developing information systems, and establishing enforcement structures. PFSI designed and implemented a forest inventory system and a national forestry information system, assisted natural resource management units of regional governments, and led training and study tours for targeted recipients. Both projects have met with indigenous people to explain the provisions of the U.S.-Peru Trade Promotion Agreement and obtain the people's feedback and buy-in.

Despite these achievements, Peru Bosques was significantly behind schedule (page 5). The project started about 4 months later than planned, and numerous work plan tasks remained unfinished. The project's spending levels were also significantly below the amounts approved in the first-year budget. While the delays were mostly beyond the control of USAID or its implementing partner, revisions to the budget and implementing schedule are required.

Furthermore, the audit found that Cordillera Azul National Park will not be sustainable by 2013 (page 6). The Field Museum's plan to secure long-term funding was unsuccessful.

In addition, the audit disclosed the following problems and concerns:

- Annual reports have not accurately represented the achievements of the environmental portfolio (page 7). The indicators on which the reports provide data generally do not pertain to the two largest environmental projects.
- The mission's monitoring and evaluation were weak (page 9). The mission did not have an approved country development cooperation strategy, have a performance management plan (PMP) for environmental work, prepare complete data quality assessments (DQAs), maintain all necessary documents in project files, enforce partners' use of the Training Results and Information Network (TraiNet), approve two project PMPs, or conduct two required evaluations.
- Chemonics was not using its information management systems for monitoring and evaluation (page 13). Staff members had not received sufficient training on the systems and were reluctant to use them.
- Two projects did not follow marking requirements (page 14). Both mission and project personnel were confused about the policy on waivers of the requirements.

To address these issues, the Regional Inspector General/San Salvador recommends that USAID/Peru:

1. Require Chemonics to adjust its budget and prepare a realistic second-year work plan (page 6).
2. Implement a new plan for achieving sustainability for Cordillera Azul National Park, discontinue USAID funding to the park, or perform a cost-benefit analysis to justify additional USAID support absent a plan for long-term sustainability (page 7).
3. Include in the 2012 performance plan and report indicators that more completely measure the achievements of USAID/Peru's environmental program (page 9).

4. Implement a PMP that includes the indicators mentioned in Recommendation 3 to track its environmental activities (page 12).
5. Issue a letter to USAID/Washington's Bureau of Policy, Planning and Learning requesting approval of the country development cooperation strategy for Peru (page 12).
6. Perform data quality assessments in accordance with USAID requirements (page 13).
7. Provide training to contracting officer's representatives (CORs) and agreement officer's representatives (AORs) about the importance of establishing and maintaining files for projects in accordance with USAID guidance and relevant mission orders (page 13).
8. Require its partners to verify that training information is being entered into TraiNet as required by the Automated Directives System (ADS) (page 13).
9. Work with USFS and Chemonics to develop PMPs that meet ADS standards, and approve them (page 13).
10. Evaluate PFSI and the project to sustain the Cordillera Azul National Park (page 13).
11. Ask Chemonics to improve its Internet-based management information systems to improve project management (page 14).
12. Determine which USAID-funded assets under its PFSI and Cordillera Azul National Park awards are unmarked, and mark them or execute waivers as appropriate (page 16).
13. Provide branding and marking instructions and guidance to PFSI and Cordillera Azul National Park partners (page 16).

Detailed findings appear in the following section. Appendix I describes the audit scope and methodology. Our evaluation of management comments is on page 17, and the full text of management appears in Appendix II.

AUDIT FINDINGS

Peru Bosques Was Significantly Behind Schedule

USAID/Peru's contract with Chemonics requires a start-up work plan for the first 100 days. It was to be provided as part of the contractor's technical proposal. However, Chemonics did not complete it until February 2012, about 7 months late. It was incorporated into the first year work plan, and many of the tasks in this plan were also delayed. Of the 46 activities identified in the project's first-year work plan, 22 activities (48 percent) were not progressing as planned.

The slow pace of implementation is reflected in the project's spending. As shown in Table 2, only about half (48 percent) of the planned budget was used during Year 1 (July 8, 2011, to June 30, 2012). Furthermore, most of the technical assistance is to be provided under "Training-Strategic Funds" and "Subcontractors," yet less than 10 percent of the budgeted amounts for these line items was spent. As a result, USAID spent relatively more money on salaries and indirect costs and less money on activities that would meet project objectives.

Table 2. Approved Year 1 Budget Compared With Year 1 Expenditures as of June 2012 (not audited)
(\$)

Cost Category	Approved Year 1 Budget	Year 1 Budget Expenditures*	Difference	Percentage of Approved Year 1 Budget Spent
Salaries-Fringe-Allowances	1,901,409	1,349,257	552,152	71
Travel-Other Direct Costs-Equipment	846,816	1,516,247	(669,431)	179
Training-Strategic Funds	1,061,050	51,158	1,009,892	5
Subcontractors	2,854,181	241,056	2,613,125	8
Indirect costs [Overhead and General and Administrative]	1,336,423	760,564	575,859	57
Fixed Fee	519,015	254,295	264,720	49
Total	8,518,894	4,124,624	4,394,270	48

Source: Chemonics.

* The amounts reported from June 2011 to April 2012 are actual expenditures; those for May and June are based on estimates. Expenditures do not equal the total, which reflects an uncategorized adjustment by Chemonics (a reduction of \$47,953).

These delays contributed to an excessive funding pipeline. According to ADS 602.3.2, "Maximum Length of Forward Funding," program managers, with some exceptions, should not make obligations "for more than 12 months beyond the end of the fiscal year in which the obligation takes place." However, as of March 31, 2012, Peru Bosques was forward-funded for 30 months. This might not have been the case had the budget been adjusted to account for the delays the program was experiencing. USAID/Peru was aware of the excessive forward funding;

according to mission officials, Peru Bosques has several large procurements scheduled that should reduce the excess, including a \$4 million subcontract for a logging chain-of-custody tracking system.

USAID/Peru and Chemonics offered several reasons for falling behind schedule. Several tasks depended on passage of the forestry law, and the regulations associated with it—such as a tracking system to ensure trees being sold were logged legally—were still being worked on. The Peruvian Congress was unlikely to pass the regulations before the summer of 2013 because more meetings, discussions, and negotiations were expected during the intervening months; consequently, activities valued at nearly \$500,000 have been postponed. Changes in Peruvian governments at both the national and regional levels after the 2011 elections also contributed to delays.

Chemonics also had difficulty staffing the office in Lima with key personnel, recruiting forest specialists for the three regional offices, registering as a business, and setting up a bank account. Other difficulties that contributed to the delays include working with indigenous communities in remote locations and coordinating closely with USFS and other partners to avoid duplication of efforts. USAID and Chemonics said that all the problems have been resolved and that spending should increase significantly.

The effect of these delays is that many activities may be poorly implemented—if Chemonics rushes to make up for lost time—or not implemented at all. In addition, USAID has paid Chemonics overhead expenses during this time with few results to show for its investment.

To correct these problems, we make the following recommendation.

***Recommendation 1.** We recommend that USAID/Peru require Chemonics to adjust its budget and prepare a realistic second-year work plan.*

Cordillera Azul National Park Will Not Be Sustainable by 2013

ADS 201.3.3.3, “Results Framework,” states that development objectives “should show progress toward project sustainability and a reduction of future USAID support as appropriate.” Missions should “build the capacity of specific institutions and related governance systems” at the appropriate levels to ensure that the results of any work done can last well into the future.

To achieve the long-term sustainability goal, the Field Museum planned to have a mechanism by 2010 to fund the park’s management and protection. To obtain the needed funding, the Field Museum planned to pursue two options: building an endowment fund and entering the REDD carbon market incentive program (described on the next page). The Field Museum awarded a subcontract to a Peruvian organization, Centro de Conservacion Investigacion y Manejo de Areas Naturales (CIMA), to manage and protect the park. CIMA, in turn, entered into a 20-year contract with the Peruvian Government that granted CIMA management rights to the park but required the organization to obtain its own financing after the USAID assistance ends. As manager of the park, CIMA is authorized to sell ecosystem services, such as carbon offsets and ecotourism opportunities.

What Is a Carbon Offset? The monetary value assigned to stored carbon is called a forest carbon offset, equal to one metric ton of greenhouse gas. To comply with limits on carbon emissions set by the Kyoto Protocol to the UN Framework Convention on Climate Change or to voluntarily reduce emissions, industrialized countries and companies can buy carbon offsets to compensate for emitting too much themselves.

How Are Carbon Offsets Designed to Work? Carbon offsets can be traded in global markets and used to fund development and conservation. But there are problems with carbon trading. The United Nations Framework Convention on Climate Change has been unable to set mandatory limits on greenhouse gas emissions for countries and cannot enforce voluntary limits. And problems with specifics such as land rights, measuring emissions avoided, and verification have created low demand and low prices for carbon credits. A top member of a UN panel that met in Bangkok in September 2012 declared that the clean development mechanism, which accredits projects to which credits may be applied, has “essentially collapsed.”

The audit found, however, that the park would not be sustainable by February 2013 when the agreement ends because the funding sources identified have proven unreliable. The Field Museum expected to obtain a \$40 million endowment for the park. However, since the economic downturn in 2008, no viable donors have been willing to contribute. Obtaining funds through the REDD carbon market incentive program has been very slow, partly because of the failure of carbon markets to develop. In addition, methodologies and standards for validating, measuring, and monitoring carbon credits keep changing, making certifying the park’s carbon store an ongoing process. Field Museum officials said pursuing REDD to sustain the park has been much more complicated and time-consuming than envisioned. They acknowledged it is extremely unlikely that carbon credits from the park will be available for purchase by February 2013.

Neither USAID nor the Field Museum has a realistic backup plan for sustaining the park. They considered other ideas for raising funds, like making the museum’s subpartner on the project a direct partner with USAID in a follow-on award, but these efforts would require additional USAID funds. The mission asked the Peruvian Government to absorb the park guards’ salaries,

but it has not agreed to do so. Ultimately, the park depends on continued assistance from donors for its management and protection.

USAID has invested more than \$10 million in the sustained protection of this park since 2003, more than \$2 million of which was specifically for the development of a long-term sustainability plan. Without implementing a viable sustainability plan—one that is not heavily dependent on REDD—additional taxpayer money may be spent on an unsustainable park.

Recommendation 2. *We recommend that USAID/Peru (1) implement a new plan for achieving sustainability for Cordillera Azul National Park, (2) discontinue USAID funding to the park, or (3) perform a cost-benefit analysis to justify additional USAID support absent a plan for long-term sustainability.*

Annual Reports Have Not Accurately Represented the Mission’s Environmental Portfolio

According to ADS 200.6, the annual performance plan and report (PPR) records the results of U.S. foreign assistance by fiscal year. The fiscal year (FY) 2010 and FY 2011 PPRs listed six indicators used to measure USAID’s work in the environment (Table 3).

Table 3. Indicators in the Performance Plan and Report, FYs 2010 and 2011

Indicator	Implementer(s) Providing Result
<i>Number of hectares under improved natural resource management as a result of USG [U.S. Government] assistance</i>	World Wildlife Fund
<i>Number of people with increased economic benefits derived from sustainable natural resource management and conservation as a result of USG assistance</i>	World Wildlife Fund, the Field Museum
<i>Number of policies, laws, agreements, or regulations promoting sustainable natural resource management and conservation that are implemented as a result of USG assistance</i>	Ministry of Environment
<i>Number of stakeholders with increased capacity to adapt to the impacts of climate variability and change as a result of USG assistance</i>	The Mountain Institute, Asociación Especializada para el Desarrollo Sostenible
<i>Number of people receiving USG-supported training in global climate change including the Framework Convention on Climate Change, greenhouse gas inventories, mitigation, and adaptation analysis</i>	The Mountain Institute
<i>Number of people with increased adaptive capacity to cope with impacts of climate variability and change as a result of USG assistance</i>	The Mountain Institute, Asociación Especializada para el Desarrollo Sostenible

The purpose of the PPR is to provide transparency in programs and in performance reporting, yet the six indicators above did not adequately take into account results achieved under the two largest activities being implemented during FYs 2010 and 2011. The USFS and Field Museum projects were largely absent from the reported results above. The results primarily came from four smaller projects implemented by Asociación Especializada para el Desarrollo Sostenible, the Mountain Institute, the Ministry of the Environment, and the World Wildlife Fund; they accounted for only 21 percent of the funds being spent on environmental activities in Peru. Table 4 shows the amount of funding for the six implementers that should have reported results in the PPR.

Table 4. Total Estimated Cost of USAID/Peru's Environmental Activities as of March 31, 2012 (unaudited)

Project Implementer	Total Estimated Cost (\$)	Percent of Total Estimated Cost
U.S. Forest Service	14,014,908	59
The Field Museum	4,817,491	20
Ministry of Environment	1,475,096	6

Project Implementer	Total Estimated Cost (\$)	Percent of Total Estimated Cost
Asociación Especializada para el Desarrollo Sostenible	1,258,776	5
The Mountain Institute	1,250,000	5
World Wildlife Fund	1,100,000	5
Total	23,916,271	100

Source: USAID/Peru.

Note: Only projects with results in FYs 2010 and 2011 were included. Peru Bosques, implemented by Chemonics, was too new to report results for those years.

The PPR was not representative of the mission's environment portfolio because the mission chose not to add custom indicators to the document. The guidance states that missions "may find that adding indicators is necessary to reflect the portfolio adequately." The mission had the opportunity to add custom indicators to capture the results of the two largest projects in the PPR, but it did not do so in FYs 2010 and 2011. The mission's environment officer explained that representing only the smaller projects was an oversight and said that the mission would include larger projects in future PPRs.

USAID and Department of State officials use the PPR to fulfill data needs and develop other required documents, like the Congressional Budget Justification. Because various stakeholders rely on it, a PPR that does not completely represent the mission's environment portfolio could lead to erroneous conclusions about the impact of the U.S. Government's contributions to Peru's environmental programs.

Recommendation 3. *We recommend that USAID/Peru include in the 2012 performance plan and report indicators that more completely measure the achievements of USAID/Peru's environmental program.*

Mission's Monitoring and Evaluation Were Weak

According to ADS 200.3.5.5, "Evaluation and Monitoring":

To help understand whether projects are on track to achieve intended results, Missions should:

- (1) Plan how they will systematically monitor and evaluate progress toward those results,
- (2) Regularly monitor the achievements of programs and projects, and
- (3) Collect and analyze performance information to track progress toward planned results.

Missions should then use this performance information as well as evaluation findings to influence decision making and resource allocations and then communicate results to advance organizational learning and inform stakeholders.

The audit determined that USAID/Peru's monitoring and evaluation were weak in several areas. As described below, the mission did not (1) have an approved country development cooperation strategy, (2) have a PMP for its environmental objective, (3) prepare complete DQAs, (4) maintain all necessary documents in project files, (5) enforce its partners' use of TraiNet, (6) approve two project PMPs, or (7) conduct two required evaluations.

Country Development Cooperation Strategy Not Approved. According to ADS 201.3, "USAID Country Development Cooperation Strategy Content," the strategy defines development objectives to maximize the impact of development cooperation. The strategy includes sections on the development context, challenges, and opportunities; the development hypothesis; the results framework; monitoring, evaluation, and learning; program resources and priorities; and management requirements.

The mission did not have an approved strategy, despite submitting one to USAID/Washington for review in June 2010. According to USAID/Peru's program officer, approval was delayed because USAID/Washington was uncertain about what the strategy should include. In addition, mission officials delayed the strategy because they wanted feedback on it from Peruvian Government officials, many of whom were replaced after the presidential elections in June 2011. The mission believed that the strategy would be approved by the end of June 2012.

Without a clearly defined strategy, mission officials may disagree about which objectives should be accomplished and how best to accomplish them. Moreover, USAID investments might not be focused on areas that shape Peru's overall stability and prosperity.

Mission PMP Not Developed. ADS 203.3.3.4, "Performance Management Plans," requires USAID teams to develop a PMP, but USAID/Peru had not developed one for its environmental development objective. ADS 200.6 defines a PMP as a tool "to plan and manage the process of monitoring, evaluating, and reporting progress toward achieving the various levels of the approved [strategy] results framework." Mission officials explained they were waiting for approval of the Peru country development cooperation strategy, which is required before developing a PMP to ensure that indicators align with the mission's results framework. Once that is approved, the mission intends to prepare PMPs for each of its three development objectives in targeted areas: coca-free economic development, improved governance, and sustainable management of natural resources. Because the PMP is an important management tool, the absence of the PMP increases the likelihood that USAID/Peru will not meet its objectives.

Data Quality Assessments Incomplete. ADS 203.3.5.3, "Conducting Data Quality Assessments," requires missions to perform DQAs and recommends the "review of data collection, maintenance, and processing procedures to ensure that the procedures are consistently applied and continue to be adequate." USAID/Peru's Mission Order 200.7 on monitoring and evaluation, issued March 28, 2012, notes: "DQAs are used to ensure that the USAID Mission/Office and Development Objective Team are aware of the strengths and weaknesses of the data, and are aware of the extent to which the data integrity can be trusted to influence management decisions." The mission order provides the format to use when performing a DQA for outcome indicators.

However, USAID/Peru did not prepare complete DQAs. On the prescribed format, the column used to describe what USAID can do to address data limitations was incomplete. It did not provide any data quality steps and did not explain why no steps were necessary. The mission also chose to use a shorter, simplified format rather than the more detailed version. The lack of

high-quality DQAs increases the likelihood that USAID will receive poor data that can result in poor decision making.

Project Files Incomplete. ADS 202.3.6.1, “Assessing Performance of Contractors and Recipients,” lists CORs’ and AORs’ monitoring responsibilities for their assigned contracts or agreements. One of the responsibilities cited and reiterated in their designation letters is that of establishing and maintaining adequate work files.

The audit found that the AORs’ files were incomplete. The AOR for PFSI was unable to provide the activity approval document, the branding and marking plan, or the security plan. The lack of files was mainly due to confusion among USAID/Washington, USAID/Peru, and USFS over responsibilities for filing project documents. The initial PFSI cooperative agreement involved management by USAID/Washington, with some tasks being led by the mission. When the mission took over the management of PFSI, it did not receive many of the initial documents. Both the mission and USFS agreed that their communication with the AOR in Washington was inadequate and contributed to the confusion. However, after the mission took the project over under the follow-on award, communication and record keeping improved.

Files kept by the AOR for the Cordillera Azul National Park award were missing several documents, including audit reports, the monitoring and evaluation plan, and DQAs. Some files could not be found, while others were available only electronically. The AOR cited various reasons for incomplete files, including the lack of time to organize, print, and file the documents. Regarding the audit reports, the AOR mistakenly believed that reviewing and keeping them was not the AOR’s responsibility.

Site visits were not documented. USAID/Peru’s Mission Order 200.7 on monitoring and evaluation, issued March 28, 2012, requires technical teams to verify the quality of performance data routinely through site visits and other means and provides a sample trip report to use in documenting the visit. The USAID/Peru environment team leader explained that team members performed site visits as needed and that he did not enforce the documentation of the visits.

Complete and well-organized files are an important part of project management. Without them, project managers, supervisors, and auditors may not have important information needed to perform their duties.

Information Not in the Training Results and Information Network. ADS 253.3.4.5.b, “Participant Reporting,” requires the use of TraiNet, the official USAID Web-based training management system. For selected awards, aggregated, in-country training data must be entered at least quarterly. The awards with USFS and Chemonics both include this requirement. All three audited projects conducted training activities, yet partner staff members were uncertain whether their trainings were properly recorded in TraiNet. USFS and Chemonics officials in Peru believed that their home offices were responsible for entering data into TraiNet, but they admitted that they could not access the system to verify that entries had been made. The Field Museum was never informed about TraiNet. The uncertainty occurred because USAID officials relied on their partners to comply with this requirement. As a result, TraiNet does not include all of USAID/Peru’s training activities.

Performance Management Plans Not Approved. Awards to USFS and Chemonics require project PMPs, yet USAID had not approved either project’s PMP.

USFS has been implementing PFSI since May 26, 2009, under two awards: an initial 3-year, \$14 million agreement, which ran from May 2009 to April 2012, and a 5-year, \$17 million follow-on, which runs from September 2011 to September 2016. Because USAID's Economic Growth, Agriculture, and Trade Bureau in Washington, D.C., managed the first agreement and did not share all documentation with the mission, USAID/Peru could not provide auditors with a PMP corresponding to the first 3 years. For the follow-on agreement, USFS prepared a draft PMP dated May 2012, but it was incomplete. USAID/Peru asked for a revised PMP with custom indicators and more details about each indicator.

The Chemonics PMP was unapproved as of May 2012, even though the contract started July 8, 2011. USAID's contracting office personnel explained that they were working on a modification that must be approved before the approval of the PMP. Negotiations between USAID and Chemonics over the fixed-fee schedule and other issues have delayed the modification.

Because the PMP is an important management tool, its absence increases the likelihood that these environmental activities will not meet their objectives.

Performance Evaluations Not Done. USAID's evaluation policy, issued in January 2011, explains: "Each operating unit is required to conduct at least one performance evaluation of each large project it implements." The recent mission order further specified that technical teams must plan for external performance evaluations on all projects with budgets greater than the benchmark budget, which is \$2 million for environmental programs. The mission order continues: "Performance evaluations must be timed so that the findings will be available as decisions are made about new strategies, project designs, and procurements."

However, the mission had not done a performance evaluation of its current project for Cordillera Azul National Park, which began in 2008 with a total estimated cost of \$4.8 million. Similarly, the mission had not evaluated the \$14 million PFSI award that began in 2009 and ended April 1, 2012. Because requirements were unclear, mission officials said they did not know they needed to do the evaluations.

Mission officials said they intend to select an independent contractor later this year to perform evaluations. The scope of work currently includes midterm and final evaluations for the Peru Bosques and PFSI projects. The officials said USAID's evaluation policy and the mission order were only recently issued, but they acknowledged that evaluations for PFSI and the park project would be useful. Because the mission's \$38.6 million Peru Bosques project works in many areas covered by PFSI, any lessons learned from an evaluation of the expired PFSI agreement would benefit both projects.

The problems mentioned in this finding, as well as the other findings, indicate that the mission's internal controls related to monitoring and evaluation should be strengthened. Poor internal controls increase the likelihood of not meeting project objectives. Therefore, we make the following recommendations to address these problems.

Recommendation 4. *We recommend that USAID/Peru implement a performance management plan that includes indicators to track its environmental activities.*

Recommendation 5. *We recommend that USAID/Peru issue a letter to USAID's Bureau of Policy, Planning and Learning requesting approval of the Peru country development cooperation strategy.*

Recommendation 6. We recommend that USAID/Peru perform data quality assessments in accordance with USAID requirements and document the results.

Recommendation 7. We recommend that USAID/Peru provide training to agreement and contracting officers' representatives about the importance of establishing and maintaining files for projects in accordance with USAID guidance and relevant mission orders.

Recommendation 8. We recommend that USAID/Peru require its partners to verify that training information is entered into Training Results and Information Network as required by the Automated Directives System.

Recommendation 9. We recommend that USAID/Peru work with the U.S. Forest Service and Chemonics to develop performance management plans that meet Automated Directives System requirements and approve them.

Recommendation 10. We recommend that USAID/Peru evaluate the Peru Forest Sector Initiative and the project for the Cordillera Azul National Park and document the results.

Chemonics Was Not Using Its Information Management Systems

Mission officials said one of the key reasons for selecting Chemonics to implement Peru Bosques was the organization's use of Internet-based information management systems for managing tasks and reporting. Chemonics envisioned using tools run by TeamDesk, a customizable online database, to support work planning and monitoring and evaluation functions. This platform would also permit financial planning at the activity level and allow documents—scopes of work, reports, and final deliverables, etc.—to be uploaded so that they would be easy to find. Chemonics also intended to use Smartsheet, a spreadsheet with project management capabilities, as an activity planning tool. If used properly, it would allow interested parties (including USAID managers and auditors) to assess the status of each task and measure the project's progress toward its goals.

However, information in the systems was not up-to-date at the time of the audit. TeamDesk contained few documents, and Chemonics was still relying on paper files. Regarding Smartsheet, Year 1 work plan tasks and dates in the database differed from those in the approved, printed work plan. The COR was not aware of any changes to the work plan that would account for the differences.

The chief of party agreed that staff members were not using the management information systems as frequently as he would like even after 8 months of project implementation. While training was provided to all regional users, the chief of party said that getting everyone to use the systems had been challenging. Therefore, the monitoring specialist had to provide the audit team with manually generated status reports of all activities. In addition, although the project's COR had access to these systems for tracking project implementation activities in real time, he had not used them.

Unless everyone uses them, substantial effort may be wasted on systems that provide incomplete information.

Recommendation 11. We recommend that USAID/Peru ask Chemonics to improve its Internet-based management information systems to improve project management.

Two Projects Did Not Follow Marking Requirements

ADS 320.3.3.1, “Co-branding and Co-marking,” states that the “USAID Identity and implementer’s logo must both be visible with equal size and prominence on program materials produced for program purposes.” However, two of the three audited projects were not following USAID’s requirements.

Peru Forest Sector Initiative. According to the award agreement between USAID and USFS, “All USAID-financed equipment and materials must be marked with the USAID red, white, and blue emblem. . . . All locations receiving USAID financing must display signs marked with the USAID red, white, and blue emblem” indicating participation by the United States.

However, USFS did not have the USAID logo in and around its office (as the following photo illustrates) or on all project-funded equipment. The deputy chief of party thought this requirement had been waived because, as a U.S. Government agency, USFS is not required to use USAID markings. But USAID/Peru’s branding and marking specialist said there was no waiver in place for USFS and that USFS never received training from USAID on branding and marking.



The entrance to the USFS office does not bear the USAID logo.
(Photo by PFSI, June 27, 2012)

Cordillera Azul National Park. The Cordillera Azul cooperative agreement and the branding and marking plan correctly referenced these requirements. The agreement specifically states: “Including the USAID identity is intended to acknowledge and thank the American people for their generous contribution to, and support of, the project. Sustained protection of the Park is not possible without USAID funding.”

However, while USAID markings were on posters, they were not on any park publications or on any assets seen during site visits. We visited the main office in Tarapoto, where equipment had been purchased for the project, and found that none of it had been marked. We then made a site visit to one of the park's 17 control points built, maintained, and furnished with equipment from USAID funds, and saw no USAID markings of any kind (as is clear from the photo below). We received photos of three other control points showing they did not have USAID logos.



**This park control point is not marked with the USAID logo.
(Photo by USAID/Peru, May 22, 2012)**

These problems occurred because the AOR did not verify that implementers received training and did not visit project sites to check branding and marking.

According to USAID/Peru's branding and marking specialist, new implementing partners are supposed to receive branding and marking training, but the Field Museum never did. The AOR at the time of the audit was not the AOR when the Field Museum's agreement began, and the previous AOR left no record of providing training to Field Museum staff on branding and marking.

The specialist said that verifying branding and marking is the AOR's job. The designation letter that every AOR receives clearly states this responsibility. But the AOR that auditors spoke with thought that a site visit meant visiting the implementer's main office. The AOR did that and talked during the visit about branding and marking. The AOR and representatives of the Field Museum said they had agreed verbally to a waiver of the branding and marking requirements.

The specialist, however, verified that no waivers of branding and marking requirements had been approved. Further, the cooperative agreement clearly states that waivers must be approved by the agreement officer, not the AOR.

Not having the USAID brand at project locations and on equipment denies USAID and taxpayers credit for their efforts and investment. In the case of the park, USAID's 9-year, \$10 million investment may end without USAID receiving acknowledgment. In the case of the

\$31 million spent on PFSI, not all the stakeholders know who sponsored it.

Recommendation 12. *We recommend that USAID/Peru determine which USAID-funded assets under its Peru Forest Sector Initiative and Cordillera Azul National Park awards are unmarked and mark them or execute waivers as appropriate.*

Recommendation 13. *We recommend that USAID/Peru provide branding and marking instructions and guidance to the Peru Forest Sector Initiative partner.*

EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft audit report, USAID/Peru agreed with 12 recommendations and disagreed with 1. Summarized below are the comments and the audit team's evaluation of them.

Recommendation 1. USAID/Peru agreed and has instructed Chemonics to adjust its budget and develop a FY 2013 work plan that takes into account the actual working environment. The mission plans to complete these actions by October 31, 2012. Based on the mission's described actions, a management decision has been reached.

Recommendation 2. USAID/Peru disagreed, stating that our recommendation is based on a "misinterpretation of the agreed meaning of sustainability" and that we "overlook the project's actual progress towards improved sustainability".

However, we note that the Field Museum's award document states that "USAID funds will be used to guarantee . . . long-term sustainability for the park and its management infrastructure." . The award also stipulates that by 2010 the Field Museum will have a "mechanism in place to generate yearly funds for recurring management costs." This failed to occur through either of the financial mechanisms Field Museum pursued, an endowment or REDD.

Because Field Museum could not meet this deliverable, USAID/Peru extended the award through February 2013 and provided \$2 million more in funding to continue the pursuit of long-term sustainability for the park. At the time of audit fieldwork in May 2012, less than a year remained on the extension, and the Field Museum officials conceded that it was extremely unlikely that carbon credits from the park would be available for purchase by the project end date. The mission's management response on August 29, 2012, states that the park "has achieved substantial progress in generating new and sustainable sources of financial support for the park" and "will have verified carbon credit to register and sell by the project end date in February 2013."

While progress toward a mechanism to generate recurring management costs is encouraging, this still does not answer the question: At what point does the U.S. Government cease funding park operations should they fail to become sustainable? We believe that USAID/Peru should consider the costs and benefits of continued funding. Therefore, a management decision has not been reached on this recommendation.

Recommendation 3. USAID/Peru agreed, saying that more in-depth reporting is needed. The mission acknowledged that results achieved under PFSI have been underrepresented in its reporting. It plans to fix these reporting deficiencies in the FY 2012 PPR by reporting on several key environment activities and by adding two standard indicators. The mission plans to finish the reporting for the FY 2012 PPR no later than December 31, 2012. Based on the mission's described actions, a management decision has been reached.

Recommendation 4. USAID/Peru agreed and will, as part of the recently approved country development cooperation strategy, develop a PMP for each development objective. The

mission will complete the one for the environment by December 31, 2012. Based on the mission's described actions, a management decision has been reached.

Recommendation 5. USAID/Peru received approval of its country development cooperation strategy on July 21, 2012. Accordingly, this recommendation is closed on issuance of this report.

Recommendation 6. USAID/Peru agreed to perform data quality assessments as it completes the FY 2012 PPR. The mission will also conduct mission-wide training to comply with the mission order on monitoring and evaluation. The mission expects to complete these actions by December 31, 2012. Based on the mission's described actions, a management decision has been reached.

Recommendation 7. USAID/Peru agreed to offer periodic training beginning in FY 2013 for all COR/AORs in the mission on the importance of establishing and maintaining project files for the awards they manage. The mission expects the training to be completed by March 2013. Based on the mission's described actions, a management decision has been reached.

Recommendation 8. USAID/Peru agreed to ensure that all implementers have access to TraiNet and enter training information as prescribed. It will also routinely follow up with implementers to ensure timely data entry. The mission will complete these actions by December 31, 2012. Based on the mission's described actions, a management decision has been reached.

Recommendation 9. USAID/Peru agreed and in August 2012 approved a PMP that Peru Bosques had submitted in May 2012. The mission was working with USFS to submit a PMP by September 30, 2012, and anticipates approving it no later than December 31, 2012. Based on the mission's described actions, a management decision has been reached.

Recommendation 10. USAID/Peru agreed. It scheduled a final evaluation of the project for the Cordillera Azul National Park, which it anticipated concluding in May 2013. The mission scheduled a midterm evaluation for the Peru Forest Sector Initiative that should be finished by June 2013. Based on the mission's described actions, a management decision has been reached.

Recommendation 11. USAID/Peru disagreed with the wording of the recommendation in the draft report (which has been modified accordingly in this report) but indicated that the intent has been met. Chemonics adjusted and improved its Internet-based management system, including integrating a planning module with an accounting module. After the project's regional office personnel received training in June 2012, the COR visited Peru Bosques offices and confirmed that the system was fully functional and that personnel were using it. In view of the actions taken and the evidence provided, this recommendation is closed on issuance of this report.

Recommendation 12. USAID/Peru disagreed with the wording of the recommendation (which has been revised in this report to include the option of issuing a waiver). On August 28, 2012, the mission approved a branding and marking waiver for some assets used by the Field Museum for the Cordillera Azul National Park project because of security concerns. For PFSI, the mission is working with USFS to determine which USAID-funded assets are unmarked and mark them by September 30, 2012. Based on the mission's described actions, a management decision has been reached.

Recommendation 13. USAID/Peru disagreed with the recommendation's applicability to the Field Museum (which we omitted in the revised recommendation shown in this report). The Field Museum attended information sessions when the new branding and marking strategy was issued and now has an approved branding and marking plan. The mission did, however, provide USFS staff with instructions and guidance on branding and marking in August 2012. In view of the actions taken and the evidence provided, this recommendation is closed on issuance of this report.

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 in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The objective of the audit was to determine whether USAID/Peru's environmental activities were achieving their main goals to improve the Government of Peru's environmental policy and strengthen the ability of environmental institutions to promote sustainable forest management and protect biodiversity. To make this determination, the audit team selected three activities that accounted for 84 percent of USAID/Peru's bilateral environment portfolio.

The activities covered were implemented under four awards: the USFS 3-year, \$14 million PFSI, which ran from May 2009 to April 2012; the USFS 5-year, \$17 million PFSI follow-on, which runs from September 2011 to August 2016; the Chemonics 5-year, \$38.6 million Peru Bosques, which runs from July 2011 to July 2016; and the Field Museum's 4.5-year, \$4.8 million Promoting Long-Term Sustainability of Parque Nacional Cordillera Azul, which runs from August 2008 to February 2013. As of March 31, 2012, USAID/Peru had obligated \$36,902,017 and expended \$20,337,637 for its environmental activities covered under this audit.

We conducted audit fieldwork from May 14 to June 1, 2012, at USAID/Peru in Lima, as well as in Tarapoto (San Martin Region) and Pucallpa (Ucayali Region). We visited and interviewed staff members from the main and regional offices of USFS, Chemonics, and the Field Museum and the offices of their subpartners, including indigenous organizations and an indigenous university. We also met with various government officials.

As part of the audit, we assessed the significant internal controls USAID/Peru used to monitor project activities and progress. The assessment included controls to determine whether the mission (1) conducted and documented site visits to evaluate progress and monitor quality, (2) reviewed and approved required assessments or evaluations, (3) reviewed progress reports and work plans submitted by its implementers, and (4) reviewed and tested activities and indicators used by its implementers and partners. We reviewed the mission's annual certification required by the Federal Managers' Financial Integrity Act of 1982 to verify whether the assessment cited any relevant weaknesses. We also reviewed prior environmental audit reports for Latin America for any problems related to the audit objective.

Methodology

To answer the audit objective, we interviewed officials from USAID/Peru, USFS, Chemonics, the Field Museum, subpartners, and both the federal and regional governments. For implementing partners, we interviewed the chiefs and deputy chiefs of party, forestry specialists, capacity-building specialists, the monitoring and evaluation specialist, and several other employees. We also reviewed and analyzed relevant documents and data at the mission and implementers' offices. Documents included portions of ADS, annual work plans, quarterly

reports, selected agreements between USAID/Peru and its implementers, financial reports, and a variety of environment-related materials. Furthermore, we compared the results reported by implementers in their PMPs with those reported by USAID in its PPR.

We selected a sample of project implementation sites to visit based on feedback from USAID and implementers. We audited key portions of all the projects. We chose sites based on time and distance constraints and the need to cover all project areas. Since the testing and the site visit selection were based on a judgmental, not a statistical sample, the results and conclusions related to this analysis are limited to the items and areas tested and cannot be projected to the entire audit universe.

MANAGEMENT COMMENTS



DATE: August 29, 2012

TO: Jon Chasson, Regional Inspector General/San Salvador

FROM: Richard J. Goughnour, USAID/Peru Mission Director /s/

SUBJECT: Comments to Audit of USAID/Peru's Environmental Activities

Thank you for giving USAID/Peru the opportunity to respond to the draft report of the Audit to USAID/Peru's Environmental Activities, per your memorandum dated July 23, 2012.

Below we have listed each of the main recommendations and findings of this audit. Following each recommendation are USAID/Peru's comments and suggestions for your consideration. Additional comments on the body of the report are included in the last section of this memorandum.

Recommendation 1. *We recommend that USAID/Peru require Chemonics to adjust its budget and prepare a realistic second year work plan that takes into account the actual working environment.*

USAID/Peru concurs with this recommendation. The Mission has instructed Chemonics to develop its FY 2013 work plan under guidelines consistent with this recommendation, in a participatory manner with other USAID partners and GOP agencies. A first draft is scheduled to be submitted for USAID/Peru review on August 31, 2012. We anticipate the work plan will be approved no later than October 31, 2012.

Recommendation 2. *We recommend that USAID/Peru (1) develop, document, and implement alternative plans for achieving sustainability for the Parque Nacional Cordillera Azul or (2) discontinue USAID funding to the park or (3) perform a cost-benefit analysis to justify additional USAID support absent a plan for long-term sustainability.*

USAID/Peru does not concur with Recommendation No. 2. All three of the Recommendation's options appear to be based on a misinterpretation of the agreed meaning of sustainability in the context of the national park, and they overlook the project's actual progress towards improved sustainability by the agreed standard.

First, USAID's award to the Field Museum of Chicago (FMC) calls for achieving level 5 of the Index of Conservation Compatibility (ICC 5). An indicator for ICC 5 is a "reliable financial

source for recurring annual costs (e.g., carbon market for REDD)" -- see the award document, page 13. The table on page 15 of the same document shows the following as an "Operational Aspect" of ICC 5: "Stakeholders engaged in sustaining the park at all levels – local, regional, national, and international," of which one indicator is "support groups address the basic needs of the park."

Thus, there is no indication in ICC 5 that "sustainability" implies discontinuance of support for the park from public resources like taxes or donor contributions. On the contrary, ICC 5 urges that public support continue and be cultivated "at all levels." Furthermore, given that the park serves a public interest, economic logic indicates that without public funds park financing would be suboptimal.

ICC 5's standards are to be met by improving the financial sustainability of the park through developing new sources of financing, including nongovernmental sources. And indeed the project with the Cordillera Azul National Park has, through a sustained effort, achieved substantial progress in generating new and sustainable sources of financial support for the park.

On July 31, 2012, a leading international accreditation agency, Verified Carbon Standard (VCS), approved FMC's proposed method for projecting the amount of deforestation. This allows FMS to credibly contrast actual deforestation with what would have happened in the absence of conservation efforts. Having won methodological approval from this authoritative source, FMC will proceed to perform final project validation for the method for calculating the amount of deforestation averted, under a contract whose scheduled completion date is January 2013. As a result of this validation, the project will have verified carbon credit to register and sell by the project end date in February 2013.

When the final validation is complete, FMC will seek to put sales agreements in place for when credits are registered. FMC will continue discussions with the five organizations that have previously expressed interest in purchasing credits and who have requested that FMC contact them when the credits are close to being available. FMC will also contact companies that have publicly expressed interest in financing conservation and REDD, such as The Walt Disney Company and Marriott. In addition, groups like Code REDD are being formed to help publicize carbon credits like those of this project and to introduce them to corporations who are potential buyers.

The Mission believes that this achievement represents substantial progress towards a new and continuing source of financing for the park. Therefore, the Mission believes there is no justification for changing plans or discontinuing support to the project. The Mission requests that the recommendation be revised to read that the Mission should verify substantial progress towards improving financial sustainability and that the revised recommendation be closed on the basis of the progress described above.

Recommendation 3. *We recommend that USAID/Peru report against different indicators or develop custom indicators for inclusion in the 2012 performance plan and report to describe more completely the achievements of USAID/Peru's environmental program.*

USAID/Peru agrees that more in-depth reporting is needed to more completely describe the achievements of USAID/Peru's environmental program. The Mission requests that Recommendation 3 be modified to include a third option in order to accomplish this outcome: fuller reporting on the results of Peru Forest Sector Initiative (PFSI), FMC and Peru Bosques. To date, results achieved under PFSI and FMC have been under-represented in reports. Results under Peru Bosques have not yet been fully reported under the currently established indicators for FY 2011, given its relatively recent start-up.

The Mission believes that several key results of these three activities contribute directly to the core indicators already used in FY 2011 and will be fully reported in the FY 2012 PPR.

Peru Bosques' first year of implementation ended July 7, 2012, its first annual results report will be included in the 2012 PPR and incorporated into the first three indicators of Table 3 (p. 8). In the case of PFSI, indicators 1 and 3 of the same table will include its results.

Two additional standard indicators have been added in the FY 2012 OP: (1) quantity of greenhouse gas emissions reduced or sequestered, and (2) number of people receiving training in natural resources management and/or biodiversity conservation. Both Peru Bosques and AFSI will report achievements against these two indicators.

We estimate closure of this recommendation by December 31, 2012, once these new indicators are reported in the FY 2012 PPR.

Recommendation 4. *We recommend that USAID/Peru develop a performance management plan that includes indicators to track its environmental activities.*

USAID/Peru concurs with this recommendation. The recently approved Country Development Cooperation Strategy sets forth the basis for developing Performance Management Plans (PMPs) for each Development Objective. The Mission will complete a PMP for Development Objective 3 by December 31, 2012.

Recommendation 5. *We recommend that USAID/Peru issue a letter to USAID's Bureau of Policy, Planning, and Learning requesting the approval of its country development cooperation strategy.*

On July 21, 2012, LAC/SPO approved the USAID/Peru Country Development Cooperation Strategy (CDCS). The CDCS is now fully approved, and this recommendation should be closed.

Recommendation 6. *We recommend that USAID/Peru perform data quality assessments in accordance with USAID requirements.*

USAID/Peru concurs with this recommendation. The Mission will comply with ADS 203.3.5.3 and follow Mission Order 200.7 as it completes the 2012 PPR. Additionally, USAID/Peru will do a Mission-wide training on the content of the Mission Order prior to the FY 2012 PPR. We estimate closure of this recommendation by December 31, 2012, after submission of the FY 2012 PPR.

Recommendation 7. We recommend that USAID/Peru provide training to contracting officer's representatives about the importance of establishing and maintaining files for the projects in accordance with USAID guidance and relevant mission orders.

USAID/Peru concurs with this recommendation. As part of USAID/Peru's general management policy, in agreement with this recommendation, the Mission will offer the recommended training periodically, starting at the beginning of FY 2013, for all COR/AORs in the Mission. This will supplement the training that CORs/AORs already receive through the formal certification course and the COR/AOR Designation Letter from the Contracting/Agreement Officer. We estimate that this recommendation can be closed by March 2013 after the completion of this training.

Recommendation 8. We recommend that USAID/Peru require its partners to verify that training information is being input into Training Results and Information Network as required by the Automated Directive System.

USAID/Peru concurs with this recommendation. USAID/Peru will: (1) verify that all implementers have access to the TraiNet; (2) verify that implementers have entered training information (per the ADS, in-country training programs of two consecutive class days or more in duration, or 16 contact hours or more scheduled intermittently should be recorded in TraiNet); and, (3) set a plan to follow-up with implementers at regular intervals to ensure that data is being entered on no less than a quarterly basis.

To ensure continued compliance with this requirement, USAID/Peru will: (1) modify any applicable implementing instruments that do not already include a provision that requires implementers to collect and enter the training information, (2) send a notice to AOR/CORs to remind them of their responsibilities, include the TraiNet responsibilities in the COR/AOR designation letter, and (3) conduct a training for AOR/CORs on their monitoring and reporting responsibilities with respect to ADS 253. We anticipate that this recommendation can be closed by December 31, 2012 with the completion of these actions.

Recommendation 9. We recommend that USAID/Peru work with U.S. Forest Service and Chemonics, to develop and approve performance management plans that meet ADS standards.

The Mission concurs with this recommendation. The final version of Peru Bosques' Performance Management Plan (PMP) was submitted to the Mission in May 2012 and approved by USAID on August 3, 2012. USAID/Peru is working with U.S. Forest Service (USFS) to develop its PMP, which will be submitted for review by September 30, 2012. Following review and further revision, USAID/Peru anticipates approval of the USFS PMP and closure of this recommendation by December 31, 2012.

Recommendation 10. We recommend that USAID/Peru perform an evaluation of the Peru Forest Sector Initiative and Promoting Long-Term Sustainability of Parque Nacional Cordillera Azul.

USAID/Peru concurs with this recommendation. The Mission recently established a mechanism

for program evaluation in accordance with USAID Forward initiatives. We have scheduled a final evaluation of the activity “Promoting Long-Term Sustainability of *Parque Nacional Cordillera Azul*” to be concluded in May 2013. In addition, we have scheduled a mid-term evaluation for the Peru Forest Sector Initiative to be concluded by June 2013. We anticipate that recommendation can be closed by June 30, 2013, once these evaluations have been successfully performed.

Recommendation 11. *We recommend that USAID/Peru require Chemonics to improve project management through the full implementation of its internet-based management information systems.*

USAID/Peru does not concur with this recommendation as currently drafted. Contractually, USAID/Peru cannot require Chemonics to use the internet-based management system, as it is not a deliverable within the contract. However, USAID/Peru believes that the intent of the recommendation has been addressed as Chemonics has substantially implemented the system. It was initially launched on May 15, 2012 for a three-month trial period. As a result of the trial, more than 3,000 adjustments and improvements were made based on users’ suggestions and needs. Improvements included the integration of a planning module with an accounting module. To achieve full implementation, additional training of the project’s regional office personnel was conducted in June 2012. During recent COR visits to Peru Bosques offices, the system for managing tasks and reporting was fully functional and regional office staff were using the system for reporting and getting approvals. The COR is also participating in the system and will continue to consult with Chemonics when experience suggests additional functionality that can be added. We therefore request that this recommendation be modified to read that “USAID/Peru requests Chemonics to improve...” and that the revised recommendation be closed based on the current state of implementation of the system as described above.

Recommendation 12. *We recommend that USAID/Peru determine which USAID funded assets under its Parque Nacional Cordillera Azul and Peru Forest Sector Initiative awards are unmarked and proceed to mark them.*

USAID/Peru does not concur with this recommendation as it is currently written. The Mission requests that Recommendation 12 should be revised by adding "or executes waivers as appropriate." On August 10, 2012 the Field Museum of Natural History submitted a request for a waiver of branding and marking requirements on vehicles and equipment to be deployed in regions identified by the U.S. Embassy as security sensitive due to ongoing *Sendero Luminoso* terrorist activity. The corresponding Waiver No. FY-12-004-527-0423 was signed on August 28, 2012. Concurrently, USAID/Peru will determine which USAID funded assets are unmarked under the PFSI award and proceed to mark them by September 30, 2012, at which time we anticipate that this recommendation can be closed.

Recommendation 13. *We recommend that USAID/Peru conduct branding and marking training with Parque Nacional Cordillera Azul and Peru Forest Sector Initiative partners.*

USAID/Peru does not concur with this recommendation as it is currently written, and requests that it be revised (1) to replace "training" with "instructions and guidance" and (2) to delete

reference to the Parque Nacional Cordillera Azul. Parque Nacional Cordillera Azul implementing partner FMC attended information sessions when the new Branding and Marking Strategy was issued and has an approved Branding and Marking Plan. We feel that FMC understands and is following established procedures and that no further guidance is necessary. With reference to the Peru Forest Sector Initiative activity, Mission staff will provide instructions and guidance on branding and marking to PFSI staff during the last week of August 2012. At that time the revised recommendation could be closed.

Body of the Report

Below are some suggested changes to consider before the final issuance of the audit report.

Page 1: The 2012-16 CDCS did not apply during the period of the audit. The same essential points are made in the preceding paragraphs. Suggest deleting that sentence.

Page 1: Note that the Readiness Preparation Proposal was drafted in 2011 -- change the verb in that sentence from "*will coordinate*" to "*was designed to coordinate.*"

Page 2: The summary statement "*moderately improved forest governance*" should be modified to take into account that USAID/Peru's environment program has only recently expanded to its current size. The actual achievements in the last couple years have been historic: the unprecedented degree of consultation allowing Peru to approve a critically important Forestry Law despite an atmosphere of conflict; a program for improving forest management that the international NGO report on illegal logging identified as the course to take in the future; and approval in recent weeks of a globally innovative methodology for benchmarking deforestation in the growing agricultural frontier surrounding the Cordillera Azul National Park (to give just three examples). The draft appears to underestimate the degree of success achieved in a difficult, scientifically demanding, and conflictive situation in Peru. USAID/Peru suggests the statement to read "*made important contributions to improving forest governance -- a long-term process with many further challenges remaining.*"

Page 5: The last sentence before Table 2 implies that project objectives can be met without paying salaries or indirect costs. Please re-write to clarify what was intended.

Page 5: Please double-check the figure for Actual Fixed Fee paid in Year 1. According to the terms of the contract, the fees are not being paid until the contractor submits a performance measure which is tied to the fees. Up to May 2012, USAID/Peru paid fixed fees in the total amount of \$4,367.33.

Page 6: The second paragraph implies that assistance can achieve results without "overhead" expenses incurred in setting up project implementation systems. Please re-write to clarify what was intended. Also, USAID/Peru is currently negotiating a fixed fee based on measurable deliverables. USAID/Peru will not pay any fees until this negotiation is final and the percentage is agreed upon with the contractor.

Page 7: At the bottom of the page the draft notes that Cordillera Azul National Park will continue to depend on public resources: "taxpayers" and "donors." ICC Level 5 is characterized as follows: "*Stakeholders engaged in sustaining the park at all levels – local, regional, national, and international.*" The report should therefore be revised to clarify that dependable public support is consistent with sustainability. (Given the public interest in the park, operating the park without public financing would leave it at a suboptimal level.)

Page 8: Table 3 (draft report, p. 8) and Table 4 (p. 9) contains mistakes that USAID/Peru requests to be corrected. There is no USAID/Peru implementing partner in the environment portfolio with the name of *Academia para el Desarrollo Educativa*. The draft may be referring to Asociación Especializada para el Desarrollo Sostenible (AEDES).

Page 10-11: With reference to the section "*The mission was not maintaining important project-related documents,*" the AOR of the "Park" was not missing the files referred to in paragraph 2. The AOR showed the files to the RIG auditor electronically. Also, a Security Plan was not requested for the CA with FMC. The Mission requests that Page 11, paragraph two be deleted or rewritten substituting "AOR" for "She".

Page 11: With reference to 3rd paragraph "Site visits to the Park", we concur that site visits were not occurring regularly due to the difficulty of access, although the AOR, former EGE Chief, and Monitoring and Evaluation Specialist, performed an over-flight of the Park and an in-depth site visit to Control Post 16 in October 2010. The AOR regularly visits the local implementing partner's office in Lima and Tarapoto, and meets with The Field Museum Project Director regularly. EGE will arrange on the ground site visits on a regular basis.

Page 11: In reference to the first paragraph, the AOR of the former PAPA with the USFS was based in Washington; therefore the AOR designation letter is in Washington. The current AOR's designation letter for the PAPA was provided to the auditors. USAID/Peru requests modification of the first paragraph to clarify which documents should be sought in Washington under the previous management of the PAPA, and which documents should be on file in the Mission.

Page 12: The section entitled "Mission did not conduct evaluations", paragraph 3, should be revised to take into account that a final evaluation was done for the first award to FMC. The results and lessons learned were used for developing the second proposal. The Mission is scheduling a final evaluation to be completed by May 2013. We also suggest that the word "consumed" be replaced with "received."

Page 13: Regarding the reasons for selecting Chemonics to implement Peru Bosques, USAID/Peru clarifies that the use of an internet-based information management system for managing the project was neither a requirement in the RFP nor mentioned in the Chemonics' proposal. The system management information was an initiative by the COP and the M&E Specialist of Peru Bosques, *after* the award of the contract.

Page 14: The draft should be revised to remove the characterization as "ignorance" relative to actions that are incomplete or about which there is a difference in judgment. For example, the

Park Guard Center in La Polvora (picture in p.14), in the buffer zone of PNCAZ, is in a particularly dangerous place where a terrorist was captured a few months before the auditors' visit. There are no markings placed or exhibited because of security reasons. As mentioned earlier, a waiver was approved on August 28, 2012.

Page 14: The draft might re-phrase "*had a verbal waiver*" to say that there was "*an understanding had been discussed orally that a waiver was appropriate in certain circumstances.*"

Page 15: The last full paragraph about the purpose of branding and marking could be summarized as, "*Branding and marking is required by ADS 320.*"

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