



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF USAID/PERU'S ALTERNATIVE DEVELOPMENT ACTIVITIES

AUDIT REPORT NO. 1-527-14-006-P  
March 21, 2014

SAN SALVADOR, EL SALVADOR



*Office of Inspector General*

March 21, 2014

**MEMORANDUM**

**TO:** USAID/Peru Mission Director, Deborah Kennedy-Iraheta

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

**SUBJECT:** Audit of USAID/Peru's Alternative Development Activities  
(Report No. 1-527-14-006-P)

This memorandum transmits our final report on the subject audit. This report contains seven recommendations to help USAID/Peru manage alternative development activities. We have considered your comments on the draft report and adjusted the text when appropriate. Your comments are included in Appendix II.

This report includes seven recommendations. Based on our evaluation of management comments, we acknowledge that the mission has taken final action on two recommendations and has made management decisions on five. However, we disagree with the mission's decision on Recommendation 7. Please provide written notice within 30 days of any actions planned or taken to implement this recommendation and a target date for completion.

Please coordinate final action for all recommendations with the Office of Audit Performance and Compliance Division.

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

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**Abbreviations**

The following abbreviations appear in this report:

ADS	Automated Directives System
AOR	agreement officer representative
CEDRO	Centro de Información y Educación para la Prevención del Abuso de Drogras
FY	fiscal year
PMP	performance monitoring plan
RIG	Regional Inspector General
TraiNet	Training Results and Information Network

# SUMMARY OF RESULTS

The U.S. and Peruvian Governments have collaborated on initiatives to eradicate coca, the plant used to make the drug cocaine, and replace it with legal crops such as cacao, coffee, and palm oil. To support these efforts, USAID/Peru has spent approximately \$453 million over the past 11 years to reduce the amount of cocaine exported from Peru.

Although Peru's overall cultivation of coca continues to expand in rural poor areas, USAID/Peru had made considerable progress in San Martin Region<sup>1</sup> (located in the northern part of the country) where the mission has focused its efforts. It reports that coca growing there decreased from 22,000 hectares in 1996 to 1,000 hectares in 2011.



**These cacao pods grow on the farm of a USAID beneficiary in Ucayali Region. (Photo by RIG/San Salvador, October 17, 2013)**

As part of its efforts to consolidate gains made in San Martin and to expand into the nearby regions of Huanuco and Ucayali, USAID/Peru entered into two cooperative agreements.

- On May 4, 2012, USAID/Peru signed a 3-year, \$8 million cooperative agreement with Centro de Información y Educación para la Prevención del Abuso de Drogas (CEDRO), a Peruvian nongovernment organization, to implement the Digital Inclusion Program. The objective was to contribute to the social and economic development in priority alternative development areas of the Amazon, and to promote legal activities in alliance with public and private organizations.
- On October 9, 2012, USAID/Peru signed a 4-year, \$36 million cooperative agreement with CARANA Corp., a U.S. consulting firm, to implement the Alianza (Alliance) Cacao Peru. The alliance's objective was to promote alternative sources of income to coca growers in Huánuco, San Martín, and Ucayali.

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<sup>1</sup> Peru is divided into 24 regions, which are comparable to states.

As of November 6, 2013, cumulative obligations, disbursements, and advances for CEDRO totaled \$5.9 million, \$2.4 million, and \$1.2 million, respectively; cumulative obligations, disbursements and advances for CARANA's program totaled \$19.3 million, \$5.7 million, and \$4.4 million, respectively. According to USAID/Peru, these awards represent less than half of the mission's overall alternative development budget.



**USAID funded technology centers or “telecentros” like this one in Ucayali so people could research crops or promote their businesses. (Photo by RIG/San Salvador, October 18, 2013)**

The Regional Inspector General/San Salvador (RIG/San Salvador) conducted this audit as part of its fiscal year (FY) 2013 audit plan to determine whether USAID/Peru was achieving its goals under the two programs.

CEDRO is on track to meet its goal of opening 30 technological centers in the 3 targeted regions. As of January 2014, CEDRO has opened 25 centers, and the remaining 5 are scheduled to be opened by April 2014.

CEDRO signed memorandums of understanding with the local governments in which they agreed to contribute up to at least 40 percent of the cost to operate the centers. Government officials and community leaders interviewed expressed deep appreciation for the technological centers and the opportunity to have Internet in remote locations where it had not been available. CEDRO also worked with local Internet and telecommunications providers and municipality officials to set up antennas and service expeditiously at these centers.



**CEDRO created these training materials to teach people how to use the computer and Internet. The training was conducted at the technological centers. (Photo by RIG/San Salvador, October 4, 2013)**

CARANA showed limited results in the first year; only 380 hectares of cacao were planted out of the overall goal of 28,000 hectares by 2016. This happened because (1) CARANA's chief of party and a key subcontractor were replaced, (2) a partner could not register in Peru and (3) the program's leadership was restructured and divided among three regional directors. In addition, the program ran into delays obtaining plants.

USAID/Peru officials explained that planting and growing cacao cannot be done quickly. Considerable initial groundwork on locating sites and establishing necessary local relationships and agreements is necessary before meaningful results can be obtained, they said.

Despite the slow start, CARANA moved quickly to remedy its problems, and officials there as well as the agreement officer's representative (AOR) said the program's goal can be achieved by 2016.

Overall, the audit identified the following problems.

- CEDRO did not develop a sustainability plan for the technological centers (page 5).
- CEDRO did not establish some indicators or reported results (page 6). Although the Digital Inclusion Program reported on activities completed and is on target for opening 30 technological centers, it did not report results for two of its three components or establish any indicators for the third. Therefore, the mission cannot determine how the program is working.
- Training data reported were inaccurate (page 7). CARANA and CEDRO entered training data into USAID's Training Results and Information Network (TraiNet) incorrectly for the number of participants trained in their programs.
- CEDRO did not collect data consistently at the technological centers (page 8). Administrators at the centers did not collect information on users and people who came to the training.

- CARANA did not provide summarized program results against targets (page 9). While CARANA reported on various activities, it did not provide or summarize achievements toward reaching indicator goals.
- USAID/Peru overstated results jobs created (page 10). CARANA's calculation for jobs created included calculations for jobs related to preexisting and productive cacao planted during a previous program.

In another matter, the sustainability of the Cacao Alliance was uncertain (page 11). CARANA just completed the first year of its 4-year program, and its draft Year 2 work plan includes initial steps to make the program sustainable after USAID assistance ends.

The report recommends that USAID/Peru:

1. Work with CEDRO to create a written sustainability plan for the technological centers (page 6).
2. Work with CEDRO to reevaluate and document what indicators should be tracked for all three components, and report on the progress of these indicators (page 7).
3. Direct CEDRO to define in writing the criteria for reporting a person trained (page 8).
4. Work with CARANA and CEDRO to update USAID's TraiNet to accurately reflect who has been trained (page 8).
5. Work with CEDRO to implement policies and procedures on what and how information should be collected at the technological centers (page 8).
6. Develop in conjunction with CARANA a template for summarized reporting of expected target results and progress toward those targets (page 9).
7. Document a revised calculation for jobs generated from existing crops assisted, and document a full-time equivalent multiplier, which is a coefficient for calculating jobs created through planting plantains (page 10).

Detailed findings follow. The audit scope and methodology are described in Appendix I on page 14. Our evaluation of USAID/Peru's management comments will appear on page 12, and the mission's comments will appear in Appendix II.



# AUDIT FINDINGS

## **CEDRO Did Not Develop Sustainability Plan for Technological Centers**

USAID’s project design guidance states, “The ultimate goal of development cooperation is to enable developing countries (governments, civil society, and private sector organizations) to devise and implement their own solutions to key development challenges. All projects must define the degree of sustainability that is considered essential for the success of the project.”

CEDRO’s Digital Inclusion Program intends to “create a network of technological centers for the Amazon to be used as places of learning, gathering, and communication that will strengthen the social and economically sustainable development of the communities through the use of new information technologies in the Amazon areas that have been affected by drug trafficking in alliance with public and private organizations.” Also, as part of the program’s institutional strengthening for sustainability, CEDRO agreed to implement a capacity-building plan to “improve its ability to perform this and other programs.”

The main activity in the digital program is to install 30 technological centers in Huanuco, San Martin, and Ucayali. These centers will provide Internet services and train farmers, women, and youth to use computers and the Internet to access information about services available, connect with other farmers and suppliers, and learn how to generate income from legal activities.

As of January 2014, CEDRO had opened 25 technological centers. The remaining five are scheduled to be opened by April 2014.



**CEDRO created signs and installed antennas, like those shown above, for the technological centers in Peru. (Photo by RIG/San Salvador, October 2013)**

With only 18 months left before the program ends in May 2015, CEDRO still had not developed a sustainability plan to address how and who would continue to operate or finance the centers. Digital program employees said they focused primarily on opening and establishing them and planned to address sustainability during the time left.



USAID/Peru and CEDRO have discussed different options for transitioning the centers, but no plan has been developed. Mission employees said CEDRO is on track to have a sustainability plan for the technological centers, and CEDRO's Year 2 work plan said it would hire a consultant to help. However, the consultant has not yet been identified.

A sustainability plan is critical. Delays in it could affect the program's and CEDRO's ability to be sustainable at the end of the agreement. Therefore, we make the following recommendation.

***Recommendation 1.*** *We recommend that USAID/Peru work with Centro de Información y Educación para la Prevención del Abuso de Drogas to create a written sustainability plan for the technological centers.*

## **CEDRO Did Not Establish Some Indicators or Reported Results**

USAID's Automated Directives System (ADS) 203.3.2 states that performance indicators are "the basis for observing progress and measuring actual results compared to expected results." USAID's TIPS No. 6, "Performance Monitoring and Evaluation," states, "Performance indicators define measure of change . . . when well-chosen, convey whether key objectives are achieved in a meaningful way for performance management." The guidance also notes, "Performance indicators define the data to be collected and enable actual results achieved to be compared with planned results over time."

Furthermore, ADS 203.3.5 states that monitoring plans "submitted to USAID should include only those indicators that the mission needs for activity management, rather than the entire set of all indicators an implementer uses for its management purposes."

The agreement required CEDRO to "place emphasis on quantifiable indicators wherever possible in addition to qualitative data." It also stated that monitoring and evaluation will be "conducted through ongoing assessments of project outcomes and indicators in the approved performance monitoring plan (PMP)." The PMP stated that 14 indicators agreed upon with the mission would be reported on an annual or semiannual basis.

To meet the goal of the Digital Inclusion Program, CEDRO has three components, listed below.

1. Create 30 technological centers in the three regions to be used as places of learning, gathering, and communication that will strengthen the social and economically sustainable development of the communities.
2. Promote an alliance between public and private organizations to develop public policies that focus on youth intervention through an exchange of lessons to support Peruvian youth.
3. Improve CEDRO's institutional strengthening for sustainability by developing a plan to improve its performance as an organization and its programs.

Although CEDRO has reported on activities accomplished for all three components, as of October 2013, it has not reported results for any indicators. Furthermore, CEDRO had established indicators for the first two components, but did not establish any for the third. Mission officials said the program focused more on the first two and overlooked the importance of establishing indicators for the third.

CEDRO and USAID/Peru informally agreed to start reporting results in Year 3, giving CEDRO time to open the technological centers and collect baseline data. Although baseline data were collected from the first ten centers opened, CEDRO did not complete its analysis or report results. Additionally, CEDRO officials said they were not certain how the program would calculate some indicator results. According to mission staff, the indicators were complex and would require more time to conduct evaluations and surveys before results can be reported.

Additionally, mission staff said although several indicators were established for the first two components, they were not relevant to the program objective because the mission was primarily concerned with establishing the centers.

The mission needs to reevaluate the indicators under the Digital Inclusion Program. Without performance indicators or results that measures progress, USAID/Peru is missing critical information for making decisions about the program and for verifying that the overall objective is being achieved. Therefore, we recommend the following.

***Recommendation 2.*** *We recommend that USAID/Peru work with Centro de Información y Educación para la Prevención del Abuso de Drogas to reevaluate and document what indicators should be tracked for all three components and report on the progress of these indicators.*

## **Training Data Reported Were Inaccurate**

ADS 253.3 states that all USAID units involved in funding or managing training must “design, implement, and track the training or program event for results and impact,” and “report on participant training activities as part of their monitoring, evaluation, and reporting requirements.” Training information that meets minimal requirements of hours trained must be entered into USAID’s TraiNet. In addition, per ADS 253.3.7.5, a participant’s progress must include rigorous monitoring requirements, which at a minimum must include assurances that the participant is attending scheduled activities or sessions of a technical program regularly.

As of October 3, 2013, CEDRO had reported in TraiNet that 719 people were trained from May 5, 2012, through May 3, 2015 (the end of the award). However, this information was inaccurate because it represents the total number of people who started training at various times at all the technological centers, rather than the actual number of participants who completed training during a specific time frame and location. Although CEDRO offered three different courses, the data in TraiNet did not reflect them.

Furthermore, many of CARANA’s participants who attended less than 60 percent of a 2-day course were counted as fully trained.

These problems occurred because CEDRO staff was unfamiliar with TraiNet, and USAID/Peru did not give them enough guidance on how to use it. In addition, CEDRO did not define the criteria clearly for what constituted a person trained. And, CARANA depended on employees in its Virginia headquarters to enter data in TraiNet rather than verifying the data in Peru.

As a result, USAID/Peru’s training results were neither complete nor accurate, and the mission did not have information related to those activities. Therefore, we make the following recommendations.

**Recommendation 3.** *We recommend that USAID/Peru direct Centro de Información y Educación para la Prevención del Abuso de Drogas to define in writing the criteria for reporting a person trained.*

**Recommendation 4.** *We recommend that USAID/Peru work with CARANA Corp. and Centro de Información y Educación para la Prevención del Abuso de Drogas to update USAID's Training Results and Information Network to accurately reflect who has been trained.*

## **CEDRO Did Not Collect Data Consistently at Technological Centers**

According to ADS 202.3.6, "Monitoring the quality and timeliness of outputs produced by implementers is a major task of [USAID officials]." ADS 200.3.5.5 states that missions should track whether projects achieve intended results by "(1) planning how they will systematically monitor and evaluate progress, (2) regularly monitoring the achievements of programs and projects, and (3) collecting and analyzing performance information to track progress toward planned outcomes."

Also, CEDRO's agreement states:

Activities for this program will be expected to provide timely feedback about project performance; ensure optimal use of available resources; and provide information regarding progress and accomplishments; performance monitoring activities will serve both recipient's and USAID's reporting and management needs and involve coordination on [monitoring and evaluation] strategies, selected benchmarks and indicators, presentation of programmatic progress reports, and ongoing discussions of performance monitoring processes and outcomes.

However, administrators at the technological centers did not collect data consistently. For example, some collected training participant attendance sign-in sheets for each day of training, while another collected sign-in sheets only once for courses that lasted for several days or signed in participants instead of having the participants sign themselves in. Also, some administrators collected data on users while others did not.

This occurred because CEDRO did not provide administrators with clear guidance on what information to collect. CEDRO's monitoring and evaluation team focused on how to collect and automate information for indicators, rather than on basic information on how participants are using the centers. The team was still deciding what information to collect for indicators and how people were using the centers.

Without consistent and uniform methodologies for collecting information, the mission is at risk of collecting and reporting inaccurate information. Without information on users at the centers, the mission and CEDRO cannot assess the value of or benefits from the centers. Therefore, we make the following recommendation.

**Recommendation 5.** *We recommend that USAID/Peru work with Centro de Información y Educación para la Prevención del Abuso de Drogas to implement policies and procedures on what and how information should be collected at the technological centers.*

## **CARANA Did Not Provide Summarized Program Results Against Targets**

According to ADS 202.3.6 “Monitoring the quality and timeliness of outputs produced by implementers is a major task of [USAID officials]. Outputs are critical to achieving results. Delays in completing outputs or problems in output quality provide an early warning that results may not be achieved as planned. Early action in response to problems is essential in managing for results.”

The cooperative agreement with CARANA states that quarterly reports must contain the information required by Title 22, Code of Federal Regulations, Section 226.51 (d), which requires performance reports to include a comparison of actual accomplishments to the goals and objectives established for the period, and reasons why established goals were not met, if appropriate.

In addition, USAID’s ProgramNet<sup>2</sup> Web page provides a standard Excel template for summarizing program results, which includes columns for baselines, quarterly indicator targets, and actual achieved results. This performance indicator tracking table is designed to help readers understand what the intended program results are and any progress made toward achieving them. In addition, ADS 203.3.3.1(g) recommends using spreadsheets that allow users to visualize and analyze trends in performance data.

CARANA’s PMP included 18 indicators; 14 were to be reported annually and 4 quarterly. However, while quarterly reports contained information on various activities, they did not provide achievements against target indicator goals. CARANA officials said they did not report on indicator progress because at the time there was either no progress or the progress they made had not been fully verified. A USAID representative said that under a cooperative agreement, the Agency could not require the implementer to use a specific reporting format. However, auditors provided CARANA employees with the ProgramNet template from which they immediately prepared an indicator-tracking table that they included in their FY 2013 fourth quarter report.

When implementer reports do not contain progress against indicator targets, it hinders the AOR’s ability to detect delays in completing outputs or problems in output quality. In addition, if this information is not summarized, monitoring program achievements is harder than it needs to be. Based on this, we make the following recommendation.

**Recommendation 6.** *We recommend that USAID/Peru develop in conjunction with CARANA Corp. a template for summarized reporting of expected target results and progress toward those targets.*

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<sup>2</sup> ProgramNet is USAID’s internal online platform that responds to a growing demand from missions for examples, tools, and experiences from other missions. ProgramNet is maintained by USAID’s Bureau for Policy, Planning and Learning.

## USAID/Peru Overstated Results for Jobs Created

ADS 203.3.11.1 states:

High quality data is the cornerstone for evidence-based decision-making. To be useful for performance monitoring and credible for reporting, data should reasonably meet five standards of data quality including: (1) Validity: Data should clearly and adequately represent the intended result, and (2) Precision: Data should have a sufficient level of detail to permit management decision-making.

CARANA's PMP stated that new and existing crops assisted would be considered in the job creation calculation.

CARANA's preliminary information shows that 8,693 jobs were created against the Year 1 target goal of 8,600. The calculation was based on using 383 newly installed hectares of cacao and 14,965 preexisting hectares of cacao. However, these results were overstated because USAID/Peru incorrectly took credit for jobs created in a previous program; the preexisting hectares would already have an established workforce.

CARANA officials explained that they used preexisting hectares in their calculation because their technical assistance resulted in a more labor-intensive method for existing crops. The technical assistance they gave to farmers using the preexisting hectares involved grafting the desired cacao variety onto existing trees planted shortly before the program started. These trees would not yet be in the production phase because they take 4 years to produce fruit.

However, the audit team visited a cacao farm planted during the previous program and saw that the 7-year-old trees were already highly productive and that the farmer already had labor in place.

A USAID/Peru representative said the program should use only newly planted hectares in the calculation and existing crops do not count toward job creation. USAID/Peru officials said they planned to verify the program's reported results in November/December 2013 and would fine-tune the calculation based on the results. In addition, they said CARANA could be calculating jobs created for plantains, which are planted simultaneously with the cacao; CARANA reported 2,822 hectares of plantains planted as of October 15, 2013. However, CARANA did not have a method to calculate this result.

USAID/Peru uses the information from this indicator to report to Washington on jobs created through support from the U.S. Government. Therefore, it is important that the numbers are accurate. To get a more accurate count of jobs created by the program, we make the following recommendation.

***Recommendation 7.*** We recommend that USAID/Peru document a revised calculation for jobs generated from existing crops assisted and document a full-time equivalent multiplier, which is a coefficient for calculating jobs created through planting plantains.

# OTHER MATTER

## **Sustainability of Cacao Alliance Was Uncertain**

According to ADS 201.3.15.3 (c) “Under most circumstances project outcomes are expected to be sustainable, meaning they continue or evolve under their own momentum or actions, without continued donor intervention.” Sustainable use of USAID’s \$36 million investment in increasing income from cacao depends in large part on the alliance continuing after the funding ends.

It takes 4 years for cacao trees to begin producing. The majority of the program’s trees are scheduled to be planted between the second and fourth year. Therefore, for the program to succeed in setting up a market for the fruit, keeping the alliance is critical, and it must be self-sustaining.

While the alliance is completing its first year, CARANA and USAID/Peru do not have a written agreement and plan for how to make sure the U.S. Government’s investment in improving Peru’s cacao industry has a successful outcome. In its technical proposal, CARANA stated that the cacao alliance and its principal activities were structured to be sustainable after USAID’s support stopped. This would be accomplished in part by making the alliance a membership organization within 2 years; by the fourth year, it would be fully functional without USAID’s continued funding.

In CARANA’s draft Year 2 work plan, the program intends to form a nonprofit organization that would be presented to CARANA’s advisory board for consideration. This new organization would receive and manage contributions from public or private sources. CARANA officials said this option was better because, unlike existing industry associations, the alliance structure incorporates entities involved in every aspect of the cacao industry.

USAID/Peru officials said they were considering different options. The mission supports the creation of a new nonprofit in Peru; however it may be perceived that USAID/Peru is favoring a new nonprofit over existing organizations. In addition, one of the major alliance partners, Armajaro, announced the sale of its cacao trading arm in early November 2013. Mission officials said the sale of Armajaro has been having a positive impact on the alliance; however, the long-term impact on project sustainability is not known.

# EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft report, USAID/Peru agreed with all recommendations except for Recommendation 7. Based on our evaluation of management comments, we acknowledge that the mission has taken final action on two recommendations and made management decisions on five recommendations. However, we disagree with the decision on Recommendation 7. Our detailed evaluation of the comments follows.

**Recommendation 1.** The mission concurred with this recommendation, noting that the development of a written sustainability plan was to be included in CEDRO's second year work plan. Subsequent to the audit, CEDRO drafted terms of reference to contract a specialized consulting firm to work on a sustainability assessment of the centers. The assessment will be used to develop the sustainability plan is expected to be completed by July 31, 2014. We acknowledge that the mission made a management decision.

**Recommendation 2.** The mission concurred with this recommendation, noting that CEDRO's Digital Inclusion Program did not establish indicators for Component 3 (institutional strengthening) because indicators were not considered critical for the first year of the activity. CEDRO presented a list of indicators with targets for Component 3 to USAID/Peru for approval. These are expected to be in place by March 31, 2014. We acknowledge that the mission made a management decision.

**Recommendation 3.** The mission concurred with this recommendation, and provided CEDRO with instructions on how to improve records for participant training. According to mission officials, as of November 2013, CEDRO developed criteria for courses and planned to implement this improved process. However, the mission did not provide evidence that this process has been fully implemented. Therefore, we acknowledge that the mission made a management decision.

**Recommendation 4.** The mission concurred with this recommendation and on November 6, 2013, asked CARANA to update its information in TraiNet. As of January 15, 2014, CARANA had reviewed and updated its information to make sure it was complete and accurate. Additionally, CARANA's management has delegated the responsibility of updating TraiNet to the monitoring and evaluation team in Peru that developed procedures and guidelines to confirm complete, accurate reporting on training data. In addition, CEDRO has updated total training records as of November 20, 2013. TraiNet training records reflect these changes made by both implementers. Therefore, we acknowledge that the mission made a management decision and final action on this recommendation.

**Recommendation 5.** The mission concurred with this recommendation. Officials said that as of November 2013, CEDRO has (a) changed training and attendance records by adding instructions on how to fill out the forms properly and add spaces so people trained can sign their names; and (b) gave directives to administrators on how to keep updated records. Finally, to help comply with these recommendations, mission officials stated that CEDRO established a flow chart summarizing the monitoring process from the implementation of each activity all the way through final reporting. However, the mission did not provide evidence that these policies



and procedures has been fully implemented. Therefore, we acknowledge that the mission made a management decision.

**Recommendation 6.** The mission concurred with this recommendation and developed a new reporting template that was approved by the Regional Program Office. CARANA agreed to start reporting on expected targets and progress toward those targets using the new template. The new template has been incorporated into CARANA's last progress report. Therefore, we acknowledge that the mission made a management decision and final action on this recommendation.

**Recommendation 7.** The mission did not concur with this recommendation and decided that no changes to the jobs calculation were needed. Officials said the calculation of jobs created includes multipliers for hectares of cacao crops installed, maintained, and in production. In their view, the number of jobs created accurately reflects proper use of this formula.

However, the multiplier for cacao is divided into categories to show that different phases of a crop's life cycle require differing levels of labor—with the production phase requiring the most labor. The mission is including the existing productive hectares as assisted hectares based on the new, more labor-intensive techniques the program introduced.

Since the existing hectares already have labor in place and the multiplier calculates the total labor needed, it does not reflect that only a portion of the amount of labor needed would increase. Our recommendation is to modify the multiplier when applied to existing hectares to reflect that only an incremental increase in labor could result. Therefore, we disagree with the mission's management decision regarding 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 based on the audit objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of the audit was to determine whether USAID/Peru is achieving its goal under CEDRO's Digital Inclusion Program and CARANA's Peru Cacao Alliance awards.

- CEDRO's program objective was to contribute to the social and economic development in Huánuco, San Martín, and Ucayali, and to promote legal endeavors in alliance with public and private organizations.
- CARANA's program objective was to promote alternative economic development in former coca-growing areas, providing households in Huánuco, San Martín, and Ucayali with sufficiently attractive legal sources of income to prevent a return to growing coca while increasing living standards.

The mission awarded CEDRO a 3-year, \$8 million cooperative agreement on May 4, 2012, to implement the Digital Inclusion Program. As of November 6, 2013, cumulative obligations, disbursements, and advances for the program totaled \$5.9 million, \$2.4 million, and \$1.2 million, respectively.

The mission awarded CARANA a 4-year, \$36 million cooperative agreement on October 9, 2012, to implement the alliance. As of November 6, 2013, cumulative obligations, disbursements, and advances for the program totaled \$19.2 million, \$5.7 million, and \$4.4 million, respectively.

The audit covered program activities from inception through October 23, 2013. Auditors conducted fieldwork from October 1 through October 24, 2013, in Lima and in Huanuco, San Martin, and Ucayali. We interviewed employees from the Peruvian Government, USAID/Peru, State, CEDRO, CARANA, CARANA alliance partners, program beneficiaries, and officials from local governments in Peru.

As part of the audit, we assessed the significant internal controls the mission used to monitor the program. 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 deliverables, and (3) performed data quality assessments and portfolio reviews. Additionally, we reviewed the mission's annual certification required by the Federal Managers' Financial Integrity Act of 1982, 31 U.S. Code 3512, to verify whether the assessment cited any relevant weaknesses. We reviewed previous audit reports in the alternative development area for any issues related to the audit objective.

## Methodology

To answer the audit objective, we evaluated the mission's management and oversight of the programs, the performance of both CARANA and CEDRO, and the effectiveness and sustainability of the activities. We met with USAID/Peru's AORs for the programs, the alternative development office director, various program office staff, the controller's office staff, the monitoring and evaluation specialist, the contracting office staff, and the gender specialist. We had numerous meetings with CARANA and CEDRO employees, including the chief of party, component managers, and monitoring and evaluation staff. We interviewed the State Department's Narcotics Affairs Section staff. We also met with users of technological centers, farmers, and local officials to discuss the benefits derived from the centers.

To gain an understanding of the program, the audit team reviewed the mission's cooperative agreements and associated modifications, the PMPs, the operational plans, portfolio review results, and site visit reports. We also reviewed CEDRO and CARANA's work plans, progress reports, environmental documents, branding and marking plans, training records, and other documents that support the programs and results reported to USAID. We reviewed applicable policies and procedures pertaining to USAID/Peru's implementation of the programs, like the ADS and selected mission orders.

We used a judgmental sample rather than a statistical sample for site visits. For CEDRO, we judgmentally selected 11 of the 15 technological centers that are opened and 1 of the 10 centers that was scheduled to open by November 2013. For CARANA, we made 24 site visits over 7 days and met with the regional staff, beneficiary farmers, alliance partners, and local and government officials. A CARANA representative said the site visits touched on about 90 percent of the program's activities.

The sample selection was based on an analysis of relevant factors such as inclusion of activities from the three regions for both implementers, travel time to location, security, and coordinated site visits of the programs. The final itinerary was refined through discussions with USAID/Peru and implementers. Field visits were used to validate the use of funds and existence of sites and activities, and to document aspects of monitoring, reporting, and compliance with environmental requirements. Since a statistical sample was not used, the sample results cannot be projected to the entire population.

# MANAGEMENT COMMENTS

**DATE:** February 13, 2014

**TO:** Jon Chasson, Regional Inspector General/San Salvador

**FROM:** Deborah Kennedy-Iraheta, USAID/Peru Mission Director /s/

**SUBJECT:** Comments to Audit of USAID/Peru's Alternative Development Activities

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Thank you for giving USAID/Peru the opportunity to respond to the draft report of the Audit of USAID/Peru's Alternative Development Activities, per your memorandum dated January 13, 2014.

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 work with Centro de Información y Educación para la Prevención del Abuso de Drogas to create a written sustainability plan for the technological centers.*

The Mission concurs with this recommendation.

The development of a written sustainability plan was called for by CEDRO's second year work-plan. The Cooperative Agreement with CEDRO intended from the start that the local governments and communities be the main protagonists for sustainability. All Technology Centers are being installed in locations provided by local governments (either alone or in alliance with other public and private institutions) following the signing of an agreement with CEDRO. Through the different MOU's, these local governments committed to cover maintenance and pay electricity, water and security expenses. The Digital Inclusion Program sees these agreements as essential to ensure the economic sustainability of the Technological Centers.

Further support for sustainability is given by the strong community involvement with the program since its inception. The communities are beneficiaries and partners in implementing the Digital Inclusion Program, supporting the management, preparation and implementation of the Technology Centers. Social sustainability is a process of developing ownership by communities, including mechanisms of affiliation and encouragement of the participation of the target groups so that:

- The existence and services of Technology Centers are positively valued by the communities.
- The target populations recognize that Technology Centers contribute to economic and social development.
- The target groups are integrated and remain active in the program, make it their own, and promote their advantages and benefits.

In addition, economic and social sustainability, adequate management and logistics, appropriate legal and political conditions, as well as technological sustainability, are all paramount. It is the case, therefore, that additional measures must be taken to ensure sustainability, and CEDRO has taken such actions. Subsequent to the audit, CEDRO has drafted terms of reference to contract a specialized consulting firm to develop a sustainability assessment of the Technology Centers, which includes market research, a business model and a sustainability plan, with concrete actions to transfer the Digital Inclusion Program to local governments.

When the sustainability plan is completed and accepted by CEDRO and USAID, we will request that this recommendation be closed. We estimate this will be completed by July 31, 2014.

***Recommendation 2.*** *We recommend that USAID/Peru work with Centro de Información y Educación para la Prevención del Abuso de Drogas to reevaluate and document what indicators should be tracked for all three components and report on the progress of these indicators.*

We concur with this recommendation.

CEDRO's Digital Inclusion Program established performance indicators for 2 of the 3 components but initially not for Component 3, Institutional Strengthening, because such indicators were not called for by the logical framework and the base-line document of the first year of the activity.

The Digital Inclusion Program has regularly issued its quarterly technical report documenting progress in components 1 and 2, as scheduled. Also, a program base line was established by quantifying the indicators to measure the program's output for these components. For component 3, CEDRO has taken action by contracting a consulting firm to develop indicators for the component. A revised indicator at the outcome level, including indicators for the institutional strengthening component of CEDRO, was presented to USAID/Peru for approval on January 27, 2014.

When the new proposed indicators are formally approved by USAID, we will request that this recommendation be closed. We expect this approval to be given before March 31, 2014.

***Recommendation 3.*** *We recommend that USAID/Peru direct Centro de Información y Educación para la Prevención del Abuso de Drogas to define in writing the criteria for*

*reporting a person trained.*

We concur with this recommendation.

In June of 2013, USAID trained a CEDRO staff member on how to report the number of persons trained. As part of this training, the USAID Peru Regional Program Office requested CEDRO to collect and track the necessary information about the trainings. However, the person who eventually entered the data in TrainNet was not the person who attended the training.

RIG representatives identified that data were not entered correctly into the system and recommended the following: a) only enter data for finished courses, b) only enter data for participants who have successfully completed the course, not those who were disapproved or who have voluntarily withdrawn, and c) enter the information for each course independently as if each were a program in itself. Instructions to this effect have been given to CEDRO, and CEDRO has agreed to implement this guidance and, as described below, information now reported confirms that CEDRO has taken actions to correctly track the Digital Inclusion Program trainees.

As of September 30, 2013, USAID reported that CEDRO had trained 720 individuals (317 men and 403 women). Based on revisions made as suggested by the audit, however, on October 19, 2013, revised data indicates CEDRO had trained 36 groups, 31 for basic training and 5 at the intermediate level, resulting in 195 individuals trained. As of November 30, 2013, a total of 73 groups had completed CEDRO digital literacy training, 53 for basic training, 16 intermediate, and 4 at the advanced level of training, involving 420 individuals (177 men and 243 women). These are individuals who have completed their particular training modules. The basic training involves 12 sessions in 35 hours; intermediate 11 sessions in 30 hours; and advanced 15 sessions in 37 hours. Because so many farmers cannot afford the time required to complete all the training modules, the curricula is being redesigned to make it more feasible for farmers to participate. In addition, these numbers do not reflect a significant amount of less-structured training that takes place via video conferencing, etc.

Based on the actions taken by CEDRO, we request that recommendation 3 be closed upon report issuance.

***Recommendation 4.*** *We recommend that USAID/Peru work with CARANA Corp. and Centro de Información y Educación para la Prevención del Abuso de Drogas to update USAID's Training Results and Information Network to accurately reflect who has been trained.*

The Mission concurs with this recommendation.

The Mission, on November 6, 2013, requested CARANA to update its information on TrainNet. As of January 15, 2014, CARANA had reviewed and updated its information to ensure completeness and accuracy. Additionally, CARANA Corp's management has delegated the responsibility of updating TrainNet from its Virginia headquarters to its local M&E team who have developed procedures and guidelines to ensure complete and accurate reporting on training

data. The actions taken by CEDRO concerning this recommendation are already discussed above in response to recommendation 3.

Based on the actions taken by CARANA and CEDRO, we request that recommendation 4 be closed upon report issuance.

***Recommendation 5.*** *We recommend that USAID/Peru work with Centro de Información y Educación para la Prevención del Abuso de Drogas to implement policies and procedures on what and how information should be collected at the technological centers.*

The Mission concurs with this recommendation.

As part of the M&E implementation mechanisms, the Technology Centers in operation have records of users and participants in training activities, where for both cases general data is collected such as name, age, place of birth, major occupation, address, phone number, email address, etc. This is how the level of demand is known for the services offered and how the number of recipients is determined for the target groups (farmers, youth and women).

During the audit visit in October 2013, it was verified that administrators at Technology Centers collected the requested information, although in some cases delays or omissions were noted. On the other hand, some administrators submitted additional information obtained on their own initiative which was not a standardized practice.

CEDRO has implemented the OIG auditors' suggestions and recommendations as follows: a) changes in training records and attendance were made, adding legends with instructions for properly filling out the forms and adding spaces for the signatures of trained users; and b) directives were offered to administrators to employ and keep updated records. Finally, to help comply with these recommendations, the program established a flow chart summarizing the monitoring process from the implementation of each activity all the way through final reporting.

Given the actions taken already by CEDRO, we request closure of this recommendation on report issuance.

***Recommendation 6.*** *We recommend that USAID/Peru develop in conjunction with CARANA a template for summarized reporting of expected target results and progress toward those targets.*

The Mission concurs with this recommendation.

The Mission has developed a new reporting template that was approved by the Regional Program Office, and CARANA has agreed to henceforth report expected targets and progress towards those targets using the new reporting template.



Based on the actions taken by CARANA, we request this recommendation also be closed upon report issuance.

***Recommendation 7.*** *We recommend that USAID/Peru document a revised calculation for jobs generated from existing assisted crops and document a full-time equivalent multiplier for calculating jobs created through planting plantains.*

The Mission does not concur with this recommendation.

Upon reviewing CARANA's job creation calculation, the Mission concluded that CARANA accurately reflected the number of jobs it created in year one. CARANA's Performance Monitoring Plan (PMP) states that new and existing hectares of crops would be considered in its calculation. The calculation includes multipliers for hectares of cacao crops installed, maintained, and in production. The number of jobs created accurately reflects proper use of this agreed upon formula. The recommendation states 'pre-existing hectares would already have an established workforce', and should therefore not be considered when calculating jobs created. The Mission disagrees: While pre-existing hectares do indeed have an established workforce, introducing new labor-intensive practices which farmers adopt directly results in additional work that can be translated into full-time equivalent jobs. For example, if a farmer with existing hectares is convinced that more work is necessary and worthwhile in order to greatly improve productivity, the existing workforce will not be sufficient and new jobs will be created. The draft report further states that "hectares assisted meant grafting the desired cacao variety onto existing trees." This is incomplete; hectares assisted not only included grafting work, but also pruning, fertilizing, improved post-harvest handling and a variety other labor-intensive activities. CARANA's calculation for jobs created encompasses all such activities within the installation, maintenance, and production stage and in the Mission's view therefore accurately calculates the number of full-time equivalent positions created in year one. "Assisted crops" already includes both plantains and cacao.

### ***Body of the Report***

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

For readers not already familiar with USAID/Peru's Alternative Development (AD) portfolio, it is important to note that the two activities audited are only part of the overall AD effort, representing far less than half of the overall AD budget. The two implementers involved here are part of an effort which involves various other implementers, both public and private, actively engaged in an overall effort to create alternative livelihoods for former coca growers in Peru.

There also are a few statements in the Draft Report which the Mission would ask to be corrected. The second sentence of the Summary of Results, for example, states that the mission "developed initiatives to eradicate coca . . . ." This is not correct; all eradication work and planning for it is

done by State/INL and the Peruvian Government rather than USAID. The summary also indicates that Peru's overall cultivation of coca has increased "steadily" since 2005. Both internal USG reports and the United Nations Office of Drug Control (UNODC) annual surveys indicate, however, that eradication efforts, together with AD activities, have led to a marked leveling out of the total area under cultivation of coca since 2010.

A few other statements in the Draft Report, in our view, need to be revisited.

- In the Summary of Results, the fact that CARANA showed only limited results in the first year is attributed solely to difficulties in staffing, registration, leadership divisions, and procurement of plants. In fact, the biggest factor is simply that results, as planned from the start, will take time to produce. Fine flavored cacao cannot be either planted or grown quickly. Considerable initial ground work, in terms of locating sites and establishing necessary local relationships and agreements, was known from the beginning to be necessary before meaningful results would be obtained. The Report should note this as well as the other factors.
- On page 5 of the Draft Report, the information about the plans to open technology centers should be corrected to reflect that 25 centers are open as of January of 2014; the remaining 5 will be open by April of 2014.
- In the "Other Matter" section [*sic*], there is an implication that it is somehow inappropriate for USAID to support the creation of a new nonprofit in Peru. USAID remains fully supportive of CARANA's intention to create a nonprofit to assist in achieving the objectives of this activity. We suggest this comment be deleted.
- Also in the "Other Matter" section, doubt is raised about the impact of the sale of the cacao trading arm of Armajaro. From events subsequent to the audit, we know that this purchase is having a positive impact on the Alliance. It brings the committed resources of a much larger partner to the table. The buyer has confirmed its commitment to the objectives of the Alliance. We suggest this comment also be deleted.

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