



## OFFICE OF INSPECTOR GENERAL

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# AUDIT OF USAID/PHILIPPINES' MANGROVE REHABILITATION FOR SUSTAINABLY MANAGED, HEALTHY FORESTS PROJECT

AUDIT REPORT NO. 5-492-15-005-P  
MARCH 27, 2015

MANILA, PHILIPPINES



*Office of Inspector General*

March 27, 2015

**MEMORANDUM**

**TO:** USAID/Philippines Mission Director, Gloria Steele

**FROM:** Acting Regional Inspector General/Manila, Steven Ramonas /s/

**SUBJECT:** Audit of USAID/Philippines' Mangrove Rehabilitation for Sustainably Managed, Healthy Forests Project (Report No. 5-492-15-005-P)

This memorandum transmits our final report on the subject audit. We have considered carefully your comments on the draft report and included them in Appendix II.

The report includes ten recommendations to help the mission address the issues identified by our audit. We acknowledge management decisions on all ten. Please provide the necessary documentation to obtain final action on these recommendations to the Audit Performance and Compliance Division in the Office of the Chief Financial Officer.

I appreciate 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
COP	chief of party
IUCN	International Union for the Conservation of Nature and Natural Resources
MARSH	Mangrove Rehabilitation for Sustainably Managed, Healthy Forests
PIO	public international organization
PMU	project management unit
PNG	Papua New Guinea
PWM	Partners With Melanesians
RIG	Regional Inspector General
UPNG	University of Papua New Guinea

# SUMMARY OF RESULTS

According to USAID, mangrove forests provide habitat for fishes, protect coastal communities from typhoons and storm surge, and wood for cooking and construction; however, mangrove areas worldwide have shrunk by 20 percent since 1980.

To improve coastal communities' ability to manage mangrove forests, in September 2012 USAID/Philippines awarded a 5-year, \$7.47 million cooperative agreement to the International Union for the Conservation of Nature and Natural Resources (IUCN), a category two public international organization (PIO),<sup>1</sup> to implement the Mangrove Rehabilitation for Sustainably Managed, Healthy Forests (MARSH) project.<sup>2</sup> It initially started in Papua New Guinea (PNG) and will be extended to the Solomon Islands and Vanuatu in the third year. This was one of the first projects USAID/Philippines had implemented in PNG. As of September 30, 2014, it had obligations and disbursements of \$3 million and \$1.7 million respectively.

IUCN's Oceania Regional Office in Fiji is the lead organization in a consortium of international and PNG subrecipients. Within PNG, IUCN's project management unit (PMU) works in Port Moresby and operates in National Capital District and four provinces (Central, Manus, New Ireland, and West New Britain). The international subrecipients are the Nature Conservancy (Manus and West New Britain), and Wildlife Conservation Society (New Ireland). The local subrecipients are Partners With Melanesians (PWM—site management in National Capital District and Central Province), PNG Centre for Locally Managed Areas (site management in Central), University of Papua New Guinea (UPNG—technical assistance), and PNG Assembly of Disabled People (training).

The Oceania Regional Office has overall responsibility for the project including technical, administrative, and financial management. MARSH focuses on the following intermediate results:

1. Resilience in communities strengthened—to be achieved through capacity-building activities at national and local levels.
2. Deforestation and forest degradation reduced—focusing on mangrove rehabilitation and sustainable forest management.

Originally the project was supposed to implement activities in 33 sites in PNG, but the mission reduced that to 23 in March 2014 because progress was slower than expected. While USAID has a satellite office in Port Moresby, USAID/Philippines has the lead role in managing the project.

The Regional Inspector General (RIG)/Manila conducted this audit to determine whether USAID/Philippines' MARSH is achieving its objectives to restore degraded mangrove forests in PNG, Solomon Islands, and Vanuatu by providing training for community-based, sustainable mangrove forest management and reforestation, and strengthening the technical and scientific capacity for forest carbon monitoring, reporting, and verification.

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<sup>1</sup> According to the Agency Directives System (ADS) 308.3.1.2, "Category of PIOs," category two PIOs are generally small regional and international organizations that do not get USAID's assistance often.

<sup>2</sup> No. AID-492-A-12-00010, signed September 25, 2012.

Two years after MARSH began, it has provided training, taken initial steps to build the capacity of UPNG for the forest carbon monitoring, reporting, and verification, and planted 688 seedlings in one degraded area. However, the project has not had much success in restoring degraded mangrove forests, and strengthening community-based, sustainable mangrove forest management and reforestation. For example, the consortium completed only about 10 percent (18 of 178) of planned outputs for the second-year work plan. Additional time may be needed, because many planned activities are scheduled to be completed over 5 years, and most community-based awareness training and strengthening capacity activities began after October 2013—1 year into the 5-year performance period.

This happened in part because MARSH got off to a slow start. IUCN did not make subawards until late in the first year of implementation (four local subawards after 6 months and two international subawards after 9 months). Furthermore, neither USAID nor IUCN understood the operating environment in PNG. Since IUCN had not operated there before, it took 2 years to obtain legal registration to work in the country. This delayed many actions needed to work effectively, such as opening a bank account, obtaining tax-exempt status, competitively hiring local employees, and getting a vehicle for site visits.

In addition, the mission and IUCN underestimated logistics, operating costs and weather-related obstacles. PNG's transportation infrastructure is poor, and the project sites were in remote locations.

The report discusses seven areas in which project accomplishments have been delayed or where improvements can be made.

- The project significantly underestimated costs of operating in PNG (page 4). Port Moresby is one of the most expensive cities in the world.
- Some targets were unrealistic and unachievable (page 5).
- The project did not try hard enough to work with communities (page 7). It fell short in conducting baseline surveys, vulnerability assessments, and management plans.
- The project monitoring was not sufficient (page 8). It did not have a monitoring and evaluation position, and the award monitoring plan did not address roles, responsibilities, and procedures for monitoring subrecipients.
- Some reported results were not supported or reliable (page 9).
- The project did not promote and mark commodities and activities consistently (page 11).
- The mission did not amend the agreement when necessary (page 12). The mission did not amend the agreement to reflect the reduction from 33 project sites to 23 and did not include standard provisions for non-U.S. nongovernmental recipients.

To address the issues above, we recommend that USAID/Philippines:

1. Conduct a cost-benefit analysis of the project and the remaining \$4.47 million unobligated funds to prioritize activities that can be achieved realistically, and amend the cooperative agreement and work plan as necessary (page 5).

2. Require IUCN to conduct a cost-benefit analysis, comparing the cost of procuring carbon stock equipment versus outsourcing (page 5).
3. Require IUCN to implement a plan to train PWM and the Centre for Locally Managed Areas on how to conduct baseline surveys (page 7).
4. Require IUCN to implement a plan to train PWM and the Centre for Locally Managed Areas on how to conduct vulnerability assessments (page 7).
5. Require IUCN to train the PMU to monitor subrecipients' activities (page 9).
6. Require IUCN to strengthen its monitoring plan to comply with the terms in the agreement (page 9).
7. Direct IUCN to implement procedures to verify reported data before submitting them to the mission (page 11).
8. Determine which USAID-funded activities and commodities under its MARSH project are unmarked and mark them as appropriate (page 12).
9. Require IUCN to provide branding and marking instructions and guidance to MARSH subrecipients (page 12).
10. Amend the cooperative agreement to further reduce the number of project sites and add standard provisions for non-U.S. nongovernmental recipients, as appropriate (page 13).

Detailed findings appear in the following section. Appendix I contains information on the scope and methodology. OIG's evaluation of management comments is on page 14, and the full text of them is in Appendix II.

# AUDIT FINDINGS

## Project Significantly Underestimated Costs

USAID's ADS 201.3.15.3, "Stage 2: Process – Analytical Stage," states that economic and financial analysis is part of project design. It describes cost-benefit analysis as "a decision-making approach used to determine if a proposed project is worth undertaking or to choose between several alternative ones."

USAID/Philippines granted a cooperative agreement to IUCN's Oceania Regional Office without conducting a cost-benefit analysis to operate in PNG. Consequently, IUCN's proposal significantly underestimated the funds necessary to achieve the project's goals. For example:

- No indirect costs were proposed.
- It did not include costs of getting subrecipients to remote areas. The award total budgets to carry out activities for Centre for Locally Managed Areas and PWM were \$227,000 and \$225,400, which averages about \$45,000 a year. Each implementer managed three to four project sites in the National Capital District and Central Province.
- It did not list costs for monitoring and evaluation.
- The costs of implementing mangrove carbon reporting and verification activities were underestimated. The project overlooked costs of outsourcing soil content analysis. In February 2014, the first carbon stock assessment<sup>3</sup> completed in Central Province took more than 2 weeks to gather 285 soil samples from a designated project site. The project then paid a laboratory more than \$4,000 to analyze the carbon content of the samples.

According to project officials, only one laboratory in PNG has the equipment needed to analyze carbon content. Another option was to send the samples to U.S. labs; however, the chief of party (COP) said the transportation fees made it even more expensive than doing it locally. So in June 2014 PMU and UPNG asked USAID to procure carbon analysis equipment for the sustainability of carbon activities. The COP estimated that the costs ranged from \$65,000 to \$100,000.

- Branding and marking funds for USAID commodities and activities were not included.

Due to time constraints to award the funds before they expired at the end of September 2012, the mission did not conduct a cost-benefit analysis.

As a result, MARSH's design was too ambitious and complicated to cover within the budget, which meant that IUCN could not effectively manage the project. It did not set realistic, achievable targets, as discussed in the next finding. Equally important, some reported results

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<sup>3</sup> A carbon stock assessment measures the amount of carbon stored in mangrove forests, which then allows the project to determine how much greenhouse gases have gone down in areas tested. A community participating in carbon monitoring in its mangrove forest could explore carbon offset projects.

were unsupported or unreliable. All of these problems indicate that the project may not be able to achieve its objectives and the remaining \$4.47 million in unobligated funds may not be spent effectively. Therefore, we make the following recommendations.

***Recommendation 1.*** We recommend that USAID/Philippines conduct a cost-benefit analysis of the project and the remaining \$4.47 million unobligated funds to prioritize activities that can be achieved realistically, and amend the cooperative agreement and work plan as necessary.

***Recommendation 2.*** We recommend that USAID/Philippines require the International Union for the Conservation of Nature and Natural Resources to conduct a cost-benefit analysis to compare the costs of procuring carbon stock equipment versus outsourcing.

## **Some Targets Were Unrealistic and Unachievable**

ADS 203.3.9, "Setting Performance Baselines and Targets," requires missions to set performance targets that are ambitious, but realistic within the stated time frame and with the available resources. The agreement sets 5-year targets for each subintermediate result, which the project must achieve to reach the primary goal. In addition, the agreement required IUCN to develop management plans that incorporate replanting mangroves, protecting mangroves from deforestation and destruction by communities, and developing guidelines for sustainable practices.

Some project targets were unrealistic and unachievable within 5 years and with the available resources. For example:

1. *Reducing emissions from deforestation and forest degradation (REDD) in 30 field demonstration activities.* The project implemented only three demonstration plots in two provinces. This alone was ambitious as demonstration activities take extensive planning, time, resources, and labor. In addition, as discussed in the previous finding, the project underestimated costs for these activities.
2. *Reducing 245,520 metric tons of carbon dioxide equivalent of greenhouse gas emissions.* The project lacks the ability to measure the amount of carbon dioxide reduced. Any substantial reduction of emissions should be a result of sustainable management and rehabilitation activities, which the project had barely implemented.
3. *Completing management plans at 30 activity sites.* After 2 years, the project still had not approved management plans for activity sites, which is a key criterion linked to some performance results.

IUCN agreed to the terms of the agreement in part because it wanted an opportunity to work on climate change within PNG. According to IUCN, USAID provided a template for the project description that included 5-year targets. From the time IUCN submitted its application in July 2012 to when it was signed in September 2012, there was little room for negotiating any aspect of the project description and targets. However, after the award, the agreement stipulated that IUCN could revise targets within the first 60 days, including the one for predicted metric tons of greenhouse gas reduced. However, IUCN did not ask for an amendment to revise that target.



The project had not completed management plans for various reasons. For the first 16 months, the COP spent only 41 percent of his time in PNG because of personal issues. Furthermore, the PMU did not ensure consistency in the completion of management plans among partners. The COP allowed partners to design their own work plans, and two of the four included developing management plans for the designated provinces in the second year work plan.

As a result, MARSH was not achieving targets. Furthermore, without management plans, the project did not implement activities to effectively engage the communities. For example, in October 2014 the project constructed a nursery in the coastal community of Manumanu West to be used to grow seedlings that could be planted in deforested areas after 3 to 4 months. According to the subrecipient, it did not have a plan to maintain the nursery or supply the nursery with plastic bags used to grow seedlings. The subrecipient also said the community did not change mangrove management practices after the project provided conservation training. Consequently, the community continues to use the forest for firewood and building materials.



**Residents of a community in Manumanu West are not using a nursery (left) for mangrove seedlings and continue to use mangroves as building materials (right) instead of conserving the wood. (Photos by RIG/Manila, November 2014)**

In another example, the project built a nursery in Pari in National Capital District without a management plan in place. A management plan would have clarified that community participation in MARSH activities would not be compensated. Consequently, the nursery was not sustainable as community organizers said they were expecting compensation for work on mangrove management.

To address these issues, the audit issued Recommendation 1 to prioritize activities that can be achieved realistically.

## **Project Bypassed Technical Approaches to Work With Communities**

According to the agreement, the PMU must ensure consistent implementation at the 23 sites using baseline surveys, mangrove vulnerability assessments, and management plans. Contrary to the agreement, the project bypassed technical approaches to do any of these.

**Project Did Not Conduct All Baseline Surveys.** ADS 203.3.9, “Setting Performance Baselines and Targets,” states that a baseline is required to learn from and be accountable for the change that occurred during the project with the resources available. For MARSH, subrecipients were required to conduct surveys using questionnaires to identify communities’ awareness of managing mangrove forests. However, after 2 years, the project only completed 5 of 23 baseline surveys, and only 1 of the 4 subrecipients had conducted any surveys.

This occurred because the project underestimated the costs of completing baselines as described earlier in this report, and PMU overestimated the ability of two subrecipients—who had never conducted baseline surveys—and did not train them how to do it.

Without the baseline data, the project cannot measure the extent to which it changed communities’ knowledge, attitude, and practices in mangrove management.

***Recommendation 3.** We recommend that USAID/Philippines require the International Union for the Conservation of Nature and Natural Resources to implement a plan to train Partners With Melanesians and the Centre for Locally Managed Areas how to conduct baseline surveys.*

**Project Did Not Complete Most Vulnerability Assessments.** To further increase interactions in communities, the agreement requires that the project complete mangrove vulnerability assessments to identify natural and human threats to mangrove forests and identify ways to mitigate those threats.

However, the project completed only 6 of the 23 assessments that were necessary. This occurred because the PMU overestimated the subrecipients’ abilities and did not provide adequate training.

The COP confirmed that subrecipients’ abilities varied. For example, UPNG had experience in conducting vulnerability assessments, but the Centre for Locally Managed Areas and PWM did not. Even after receiving training in the second year, PWM officials said they did not conduct a vulnerability assessment because it was too complicated and working with communities and local governments took too much time.

Without mangrove vulnerability assessments, the project did not identify natural and human threats to mangrove forests and identify ways to mitigate those threats. Therefore, we make the following recommendation.

***Recommendation 4.** We recommend that USAID/Philippines require the International Union for the Conservation of Nature and Natural Resources to implement a plan to train Partners With Melanesians and the Centre for Locally Managed Areas how to conduct vulnerability assessments.*

## **Project Monitoring Was Not Sufficient**

According to the agreement officer's representative's (AOR's) designation letter, the AOR is responsible for USAID's substantial involvement in project oversight, which includes approving the recipient's award monitoring plan. This plan is required by the agreement and must include organizational policies, procedures, and staffing expertise for monitoring project activities. In addition, ADS 203.3.2, "Performance Monitoring," states that performance monitoring is the ongoing and routine collection of performance indicator data to show whether desired results are being achieved and whether implementation is on track.

However, the project did not have adequate management controls to oversee activities. It did not include a monitoring and evaluation position. In fact, IUCN did not employ a monitoring and evaluation officer at its regional office in Fiji until September 2014. The COP and deputy COP were responsible for monitoring subrecipients' performance, but did not monitor sufficiently, in part because the award monitoring plan did not mention roles, responsibilities, and procedures for monitoring subrecipients.

This occurred for several reasons. The project staff did not receive sufficient training on monitoring and evaluation. IUCN planned to conduct a monitoring course in November 2014; however, it was postponed until 2015. In addition, a senior IUCN official said that during the design phase for the proposal's project description, USAID provided a template for the staffing level of a PMU that did not include a monitoring and evaluation position. Furthermore, the mission approved the award monitoring plan even though it did not have all the required elements, such as organizational policies, procedures, roles, and responsibilities.

Because the project was not monitored, the staff did not know it was not on track. For example:

- The second year progress report showed that only 10 percent (18 of 178) of the subrecipients' work plan outputs were accomplished.
- In 2 of 12 sites we visited, no progress had been made and the sites have received little to no monitoring. At the project site in Taurama, National Capital District about 20 minutes outside Port Moresby, the community had been in a land dispute with a landowner, which has discouraged the community from implementing activities for the past 2 years. More importantly, in June 2014 the government built a road through USAID's project site, as shown on below. The COP was not aware of this.



**This mangrove restoration site in Taurama was bisected last year by a road. The side closest to the sea (left) is intact, while the other (right) is cut off. (Photos by RIG/Manila, November 2014)**

- At a site in Manumanu East, PWM officials said they had not started activities because the community was nomadic and local government did not support the project.

In both places, the PMU should have been aware of the situation and selected replacement sites. To improve the project's monitoring practices, we make the following recommendations.

***Recommendation 5.*** We recommend that USAID/Philippines require the International Union for the Conservation of Nature and Natural Resources to train the project management unit to monitor subrecipients' activities.

***Recommendation 6.*** We recommend that USAID/Philippines require the International Union for the Conservation of Nature and Natural Resources to strengthen the project's monitoring plan to comply with the terms in the agreement.

## **Some Reported Results Were Not Supported or Reliable**

ADS 203.3.11.1, "Data Quality Standards," states that data for performance monitoring should be valid and reliable. In addition, the award monitoring plan includes reference sheets that define methods to collect and report data under each indicator.

However, after the first 2 years, the project's data were not valid or reliable; some lacked support, and other data used different methods to report results than those identified in the award monitoring plan. Limited audit testing of data showed inconsistencies between the numbers IUCN reported to USAID and the supporting documentation, shown on the table below.

### MARSH Inconsistencies Reported as of September 30, 2014 (Audited)

Indicator	Reported Results	Audited Results
<i>a. Number of training hours completed in sustainable landscapes</i>	18,955	items tested were overstated by 9 percent
<i>b. Number of metric tons of CO2 greenhouse gas emissions reduced</i>	56,788	0
<i>c. Number of seedlings planted*</i>	1,137	688
<i>d. Area of managed coastal mangrove forest (hectares)*</i>	3,707	0
<i>e. Area of degraded mangrove forests rehabilitated (hectares)*</i>	50	no support

\*Custom indicators linked to 5-year targets identified in the agreement.

- a. Based on our sample, the project overstated the number of training hours by at least 9 percent. Audit tests of 5,520 training hours showed that 495 hours out of 18,955 should not have been included because they were for facilitators, not participants.
- b. The reported reductions in carbon dioxide emissions could not be attributed to MARSH. The estimate of reduced emissions for 6 of the 23 sites was based on the average rate of carbon dioxide absorbed annually per hectare of mangrove forests as reported in international studies—not using data obtained from the project.
- c. According to the monitoring plan, the number of seedlings planted includes only those raised in mangrove nurseries; however, only one site had planted 688 seedlings from a nursery. The other two sites conducted direct planting of propagules<sup>4</sup>.
- d. The monitoring plan also states that the project should count only areas of managed coastal mangrove forest where communities have a sustainable mangrove forest management plan in place. At the time of the audit, no plans existed.
- e. MARSH did not provide any supporting documentation for the areas rehabilitated, and the COP said 50 hectares was a very rough estimate of the area of mangrove forests rehabilitated using either direct planting or seedlings from nurseries.

These inconsistencies occurred because of human errors. Furthermore, the COP—in the absence of a monitoring and evaluation staff—had to personally handle data collection, analysis and reporting responsibilities and did not follow any of the data collection methods listed in the monitoring plan. The PMU collected the data and reported the results to USAID without safeguards to minimize the risk of transcription error or data manipulation.

As a result, the mission does not have accurate information it needs to assess the project's effectiveness and make informed decisions about current and future programming. It may also misstate results reported to Washington. Therefore, we recommend the following.

<sup>4</sup> A propagule is an elongated, dart-shaped seedling that becomes detached from a mangrove tree and grows into a new tree.

**Recommendation 7.** We recommend that USAID/Philippines require the International Union for the Conservation of Nature and Natural Resources to implement procedures to verify reported data before submitting them to the mission.

## **Project Did Not Promote and Mark Commodities and Activities Consistently**

The project's marking plan states that all commodities (including office equipment, computers, field equipment, projectors, cameras, etc.) and all publicity and materials produced should be tagged with the USAID identity. This is in keeping with ADS 320.3.3.1 "Co-branding and Co-marking," which states that the project name represents both USAID and the implementing partner, and the USAID identity and implementer's logo must both be visible with equal size and prominence on materials produced for project purposes.

However, MARSH did not consistently promote and mark USAID commodities and activities. Through confirmations during site visits and from interviews with beneficiaries, most communities were not aware that USAID was supporting the project. Although some sites had signs, when asked what organization was supporting the project, most people did not know. Some activities did not mark commodities or use USAID identity at project sites, as shown in the photos below.



**Signs (left) that should have been displayed at two sites in West New Britain Province instead were stored in an office. At right, a project-funded nursery located in the National Capital District does not have any USAID signage or logo. (Photos by RIG/Manila, November 2014)**

Other examples of marking not being done are listed below.

- Equipment purchased for UPNG laboratory at Motupore Island and its main campus at the finance officer's workspace.
- Household questionnaires used for baseline surveys.
- Three sites in West New Britain Province and one in Delena, Central Province.
- Nursery in Manumanu West, Central Province.

This occurred because some subrecipients were hesitant to promote MARSH as a U.S. Government-supported project. They believed that by doing so, communities would expect compensation in one form or another. Even when markings were present at activities, people did not understand the USAID logo. In addition, some USAID markings were not on commodities and some activities in part because the project did not employ a communications specialist.

The COP said not all sites had significant levels of activity going on; therefore, he did not want to put signs in those locations. Further, the COP cited other reasons that included the project's challenging logistics; it is not possible to have signs made in remote provinces because nobody knows how to make them, and even in the capital it can be challenging and costly to have a sign made and transported to a remote province.

Without promoting and properly marking the USAID logo at project locations, activities, and commodities, USAID and taxpayers do not receive credit for their efforts and investment. Therefore, we recommend the following.

***Recommendation 8.*** We recommend that USAID/Philippines determine which USAID-funded activities and commodities under its Mangrove Rehabilitation for Sustainably Managed Healthy Forests project are unmarked and mark them as appropriate.

***Recommendation 9.*** We recommend that USAID/Philippines require the International Union for the Conservation of Nature and Natural Resources to provide branding and marking instructions and guidance to its Mangrove Rehabilitation for Sustainably Managed Healthy Forests subrecipients.

## **Mission Did Not Amend Agreement When Necessary**

The agreement states that the project will implement activities in more than 30 communities within PNG. In addition, according to ADS 303.3.18, "Award Administration," when an amendment to the award is necessary, the AOR prepares internal USAID documentation that supports the amendment and meets the satisfaction of the agreement officer. ADS 308.3.14, "Standard Provisions," states:

Standard provisions for cost-type awards are contained in standard provisions for cost-type awards to PIOs. If you need additional provisions because of the nature of the program, you may use the appropriate provisions found in standard provisions for non-U.S., nongovernmental recipients.

The mission did not amend the agreement when necessary. First, the mission did not amend the agreement after informing IUCN to reduce the scope of work. In March 2014 mission officials met with IUCN officials and told them to reduce the number of project sites from 33 to 23. However, as of December 2014, the mission had not amended the agreement.

Second, the agreement only included mandatory provisions for a PIO and did not add standard provisions for non-U.S. nongovernmental recipients. By awarding a cooperative agreement to a PIO, it was the agreement officer's discretion to add standard provisions for non-U.S. nongovernmental recipients if deemed necessary. According to the director of the mission's office of acquisition and assistance, in this case, adding standard provisions for non-

U.S. nongovernmental recipients would have been necessary based on the nature of the award with six subrecipients. For example, the agreement did not include the following mandatory provision in ADS 303:

The recipient must have an annual audit conducted in accordance with the "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the USAID Inspector General, for any recipient fiscal year in which the recipient expends a combined total of \$300,000 in a year, either directly or through another USAID contractor or recipient, excluding fixed price contracts and fixed obligation grants.

The audit team could not determine why the agreement only contained standard provisions for cost-type awards to PIOs because the agreement officer's files did not contain such information, and the agreement officer who made the award was no longer at the mission. Furthermore, the mission did not amend the agreement to reduce sites to 23 because IUCN did not ask for an amendment until late September 2014. Mission officials said they were waiting for our audit findings to amend the agreement.

Delays in amending the agreement decreased the efficiency and effectiveness of project implementation. In addition, the mission needed more financial oversight and accountability for this project. In November 2014 the mission issued its control environment and risk assessment report on IUCN. The report concluded the control environment was generally adequate while the level of accountability was medium. The report had 18 recommendations to address the weaknesses, and 10 remain uncorrected. Without amending the agreement to include the mandatory provision for a financial audit, the project decreases accountability over USAID funds. Therefore, we make the following recommendation.

***Recommendation 10.*** *We recommend that USAID/Philippines amend the cooperative agreement to further reduce the number of project sites and add standard provisions for non-U.S. nongovernmental recipients, as appropriate.*



# EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Philippines agreed with and made management decisions on all ten recommendations. An evaluation of the management comments follows.

**Recommendation 1.** USAID/Philippines decided to close all ongoing MARSH activities by the end of fiscal year 2015 after conducting a review of each of the activities based on current progress, operational challenges, costs, and logistical constraints in implementing activities at the community level in PNG. It planned to modify the cooperative agreement to reduce (1) the performance period from 5 years to 3 years, (2) the total estimated cost of the project, and (3) the number of project sites and the project description to focus only on activities that can be successfully completed within the revised period of performance.

It also will include standard provisions for non-U.S. nongovernmental recipients, as appropriate. Consequently, a \$3.8 million program cost reduction would be available for better use. The target date for completion of the modified agreement is June 30, 2015. We acknowledge the mission's management decision.

**Recommendation 2.** USAID/Philippines decided to close all ongoing MARSH activities by the end of fiscal year 2015. It planned to modify the cooperative agreement and require IUCN to revise the work plan to exclude the procurement or outsourcing of carbon stock equipment. The target date for completion is June 30, 2015. We acknowledge the mission's management decision.

**Recommendation 3.** USAID/Philippines decided to close all ongoing MARSH activities by the end of fiscal year 2015. Because the program is ending, there is no longer a need to train partners on how to conduct baseline surveys. The mission will modify the cooperative agreement and require IUCN to revise the work plan to exclude this activity. The target date for completion is June 30, 2015. We acknowledge the mission's management decision.

**Recommendation 4.** USAID/Philippines decided to close all ongoing MARSH activities by the end of fiscal year 2015. Because the program is ending, there is no longer a need to train partners on how to conduct vulnerability assessments. The mission will modify the cooperative agreement and require IUCN to revise the work plan to exclude this activity. The target date for completion is June 30, 2015. We acknowledge the mission's management decision.

**Recommendation 5.** USAID/Philippines will require IUCN to train its PMU on monitoring subrecipients' activities. The target date for completion is June 30, 2015. We acknowledge the mission's management decision.

**Recommendation 6.** USAID/Philippines decided to modify the cooperative agreement to include requirements to strengthen the monitoring system and require IUCN to submit a revised M&E plan. The target date for completion for both modification of the cooperative agreement and approval of a revised M&E plan is June 30, 2015. We acknowledge the mission's management decision.

**Recommendation 7.** USAID/Philippines will require IUCN to revise the M&E plan to include data verification procedures. The target date for completion is June 30, 2015. We acknowledge the mission's management decision.

**Recommendation 8.** USAID/Philippines decided to work with IUCN on a list of all commodities, equipment, and other significant items, and validate them for branding and marking compliance. It will also revise the AOR designation letter to require validation of branding and marking compliance by IUCN and its implementing partners during AOR quarterly site visits. The target date for completion is September 30, 2015. We acknowledge the mission's management decision.

**Recommendation 9.** USAID/Philippines decided to obtain from each subrecipient a signed letter to acknowledge that IUCN provided it with branding and marking instructions and guidance, and to revise the AOR designation letter to require validation of branding and marking compliance by IUCN and its implementing partners during AOR quarterly site visits. The target date for completion is June 30, 2015. We acknowledge the mission's management decision.

**Recommendation 10.** USAID/Philippines decided to modify the cooperative agreement to reduce the number of project sites and include standard provisions for non-U.S. nongovernmental recipients, as appropriate. The target date for completion of the modified agreement is June 30, 2015. We acknowledge the mission's management decision.

# SCOPE AND METHODOLOGY

## Scope

RIG/Manila conducted this audit in accordance with generally accepted government auditing standards. They require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides that basis.

The purpose of this audit is to determine whether USAID/Philippines' MARSH project is achieving its objectives to restore degraded mangrove forest in PNG, Solomon Islands, and Vanuatu by providing training for community-based, sustainable mangrove forest management and reforestation, and strengthening the technical and scientific capacity for forest carbon monitoring, reporting, and verification. As of September 30, 2014, USAID/Philippines had obligated and disbursed \$3 million and \$1.7 million for 2 years of implementation.

The project has two intended intermediate results: resilience in communities strengthened, and deforestation and forest degradation reduced. Within PNG, the project was implemented in the National Capital District and the provinces of Central, Manus, New Ireland, and West New Britain. At the time of the audit, the project had not started activities in Solomon Islands and Vanuatu. For the cooperative agreement, IUCN organized a consortium of two international partners—the Nature Conservancy and Wildlife Conservation Society—and four locals—PWM, PNG Centre for Locally Managed Areas, UPNG, and PNG Assembly of Disabled People.

The period of performance under the cooperative agreement was from October 1, 2012, to September 30, 2017. The audit covered selected activities carried out under the project's two intermediate results from start-up through September 30, 2014.

In planning and performing the audit, the audit team assessed significant controls that USAID/Philippines used to monitor project activities and ensure that IUCN was providing adequate management and oversight of them. The audit assessed the mission's policies and procedures for monitoring IUCN's progress in achieving the objectives listed in the program description of the cooperative agreement and for verifying that activities funded by USAID conform to the terms and conditions of the agreement.

In addition to the significant controls, we assessed IUCN's quarterly and annual progress reports, as well as the annual work plans and financial data. We also attended meetings with the mission and IUCN and its partners to discuss the project's status. We went to several sites to validate project achievements. Additionally, we examined the mission's fiscal year 2014 annual self-assessment of management controls—which the mission is required to perform to comply with the Federal Managers' Financial Integrity Act—to check whether the assessment cited any relevant weaknesses.

We conducted audit fieldwork from October 24 to December 11, 2014, at USAID/Philippines in Manila; the USAID country representative office; and IUCN's office and partner offices in Port Moresby and Kavieng, PNG. In PNG we visited 12 of 23 activity sites in the provinces to observe mangrove forest management and reforestation activities. We also conducted fieldwork at IUCN's regional office in Suva, Fiji. The team met with government officials to learn their

perceptions of the project. Because MARSH did not start activities in Solomon Islands and Vanuatu, the audit team did not conduct fieldwork there.

## Methodology

In assessing the progress of the activities carried out under the cooperative agreement, the audit team considered IUCN's quarterly and annual progress reports from the start of the project through September 2014. We interviewed mission officials, IUCN and partner staff, and government officials. The audit team also considered the mission's control environment and risk assessment report on IUCN completed in November 2014 in Suva, Fiji. Finally, the audit team reviewed USAID/Philippines DQAs of IUCN and its consortium partners conducted in 2013 and 2014.

Through interviews, documentation reviews, and data analysis, the audit team obtained an understanding of (1) the project's main goals, (2) how the mission and IUCN monitor the project, (3) how the mission checks the quality of the data reported, and (4) whether the mission, IUCN, and partners were aware of any allegations of fraud or other potential illegal acts or noncompliance with laws and regulations.

The audit team judgmentally selected 12 of 23 activity sites to visit in PNG. The sample selection was based on sites' location, the number of intermediate results implemented at each one, and the diversity of their activities. We tested the results of eight performance indicators and traced reported results to IUCN's supporting documents. To answer the audit objective, we relied on the computer-processed data contained in Excel spreadsheets maintained by IUCN. For the indicators tested, we verified the accuracy of the totals generated by these spreadsheets.

During site visits, the audit team interviewed partner staff to solicit feedback on the project's activities, accomplishments, and challenges, and to assess the impact of the interventions on mangrove forest management and reforestation. The team interviewed beneficiaries such as community leaders and villagers receiving assistance from the project and to solicit feedback on activities. We also randomly checked supporting documentation maintained by IUCN to validate reported results on key performance indicators. These partner site visits, together with visits to IUCN's offices in Port Moresby and Suva, covered about \$5.7 million or 76 percent of the overall project budget.

Since the testing and site selections were based on judgmental samples, the results and conclusions related to the analysis were limited to the items and areas tested, and cannot be projected to the entire population. We believe our substantive testing was sufficient to support the audit's findings.

# MANAGEMENT COMMENTS



March 11, 2015

## MEMORANDUM

To: Matthew Rathgeber, Regional Inspector General/Manila

From: Gloria Steele, Mission Director /s/

Subject: Management Response to the Audit Recommendations of USAID/Philippines' Mangrove Rehabilitation for Sustainably Managed, Healthy Forests Project (Report No. 5-492-15-XXX-P)

This memorandum transmits USAID/Philippines' response on each of the audit recommendations for the Mangrove Rehabilitation for Sustainably Managed, Healthy Forests (MARSH) Project in Papua New Guinea (PNG), implemented by the International Union for the Conservation of Nature and Natural Resources (IUCN). USAID/Philippines agrees with all ten recommendations.

**Recommendation 1.** *We recommend that USAID/Philippines conduct a cost-benefit analysis of the project and the remaining \$4.47 million unobligated funds to prioritize activities that can be achieved realistically and amend the cooperative agreement and work plan as necessary.*

**Actions Planned/Taken:** The Mission conducted a review of each of the activities based on current progress, operational challenges, costs, and logistical constraints in implementing activities at the community level in PNG. As a result of this review, USAID decided to close all ongoing MARSH activities by the end of fiscal year (FY) 2015. USAID and IUCN mutually agreed to narrow down the program description to focus on ongoing tasks that are realistically achievable by the end of September 2015. USAID will modify the Cooperative Agreement to: (a) reduce the period of performance from five years to three years; (b) reduce the total estimated cost of the program; and (c) reduce the number of project sites and program description to focus only on activities that can be successfully completed within the revised period of performance. In addition, USAID will include standard provisions for non-U.S. nongovernmental recipients, as appropriate.

This recommendation will be completed upon issuance of the modification by June 30, 2015.

**Recommendation 2.** *We recommend that USAID/Philippines require the International Union for the Conservation of Nature and Natural Resources to conduct a cost-benefit analysis to compare the costs of procuring carbon stock equipment versus outsourcing.*

**Recommendation 3.** *We recommend that USAID/Philippines require International Union for the Conservation of Nature and Natural Resources to implement a plan to train Partners With Melanesia and Centre for Locally Managed Areas on how to conduct baseline surveys.*

**Recommendation 4.** *We recommend that USAID/Philippines require International Union for the Conservation of Nature and Natural Resources to implement a plan to train Partners With Melanesia and Centre for Locally Managed Areas on how to conduct vulnerability assessments.*

**Actions Planned/Taken:** As mentioned in the response to **Recommendation no. 1**, the Mission will close MARSH by the end of FY 2015. Procuring carbon stock equipment, training partners on how to conduct baseline surveys, and conducting vulnerability assessments will not be included in the modified program description and work plan.

Recommendation nos. 2, 3, and 4 will be closed upon issuance of the modification to the cooperative agreement and approval of the amended work plan by June 30, 2015.

**Recommendation 5.** *We recommend that USAID/Philippines require the International Union for the Conservation of Nature and Natural Resources to train the project management unit to monitor subrecipients' activities.*

**Actions Planned/Taken:** As per this recommendation, the revised work plan will require IUCN to train the Project Management Unit (PMU) to monitor sub-recipients' activities.

The recommendation will be closed upon completion of the training of the PMU by June 30, 2015.

**Recommendation 6.** *We recommend that USAID/Philippines require the International Union for the Conservation of Nature and Natural Resources to strengthen the project's monitoring plan to comply with the terms in the agreement.*

**Actions Planned/Taken:** The modification to the Cooperative Agreement will require IUCN to submit a revised final M&E Plan. A monitoring system will be in place for the revised program description which will include the Agreement Officer's Representative's (AOR) monthly progress desk review, and quarterly site visits to monitor performance.

The recommendation will be closed upon completion and approval of the revised M&E Plan by June 30, 2015.

**Recommendation 7.** *We recommend that USAID/Philippines require the International Union for the Conservation of Nature and Natural Resources to implement procedures to verify reported data before submitting them to the mission.*

**Actions Planned/Taken:** The Mission will require IUCN to implement procedures for data verification and incorporate these in the revised M&E Plan. The AOR will review performance data quality reported by IUCN and its implementing partners and also conduct data quality verification through quarterly site visits.

The recommendation will be closed upon completion and approval of the revised M&E Plan by June 30, 2015.

**Recommendation 8.** *We recommend that USAID/Philippines determine which USAID-funded activities and commodities under its Mangrove Rehabilitation for Sustainably Managed Healthy Forests project are unmarked and mark them as appropriate.*

**Actions Planned/Taken:** The Mission will require IUCN to create an inventory of all equipment, commodities, and other items and ensure that they comply with the branding and marking plan for MARSH. All future deliverables such as training events, meetings, technical reports, scientific papers, and other publications, will be inspected for branding and marking compliance before acceptance. In order to ensure compliance, the AOR designation letter will be revised to include, at a minimum, quarterly monitoring visits to check and validate the inventory for branding and marking compliance by IUCN and its implementing partners.

The recommendation will be closed upon completion of the inventory and validation for branding and marking compliance by the AOR and the revision of the AOR designation letter by September 30, 2015.

**Recommendation 9.** *We recommend that USAID/Philippines require the International Union for the Conservation of Nature and Natural Resources to provide branding and marking instructions and guidance to its Mangrove Rehabilitation for Sustainably Managed Healthy Forests subrecipients.*

**Actions Planned/Taken:** The AOR will verify in a signed letter from the sub-recipients that IUCN provided branding and marking instructions and guidance as per approved Branding and Marking Plan. In order to ensure compliance, the AOR designation letter will be revised to include, at a minimum, quarterly monitoring visits to check on branding and marking compliance by IUCN and its implementing partners.

The recommendation will be closed upon receipt of the signed letter from the subrecipients by the AOR and the revision of the AOR designation letter by June 30, 2015.

**Recommendation 10.** *We recommend that USAID/Philippines amend the cooperative agreement to further reduce the number of project sites and add standard provisions for non-U.S. nongovernmental recipients, as appropriate.*

**Actions Planned/Taken:** As presented under Recommendation no. 1, USAID will issue an amendment that will reduce the number of project sites and add standard provisions for non-U.S. nongovernmental recipients, as deemed appropriate.

The recommendation will be closed upon issuance of the modification by June 30, 2015

**U.S. Agency for International Development  
Office of Inspector General**

1300 Pennsylvania Avenue, NW  
Washington, DC 20523

Tel: 202-712-1150

Fax: 202-216-3047

<http://oig.usaid.gov>

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