



# OFFICE OF INSPECTOR GENERAL

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## FOLLOWUP AUDIT OF USAID/BRAZIL'S ENVIRONMENT PROGRAM

AUDIT REPORT NO. 1-512-10-006-P  
June 4, 2010

SAN SALVADOR, EL SALVADOR



*Office of Inspector General*

June 4, 2010

**MEMORANDUM**

**TO:** USAID/Brazil Acting Director, Denny Robertson

**FROM:** Regional Inspector General/San Salvador, Catherine Trujillo /s/

**SUBJECT:** Followup Audit of USAID/Brazil's Environmental Activities (Audit Report No. 1-512-10-006-P)

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

The initial draft report contained 10 recommendations for corrective action. After reviewing the mission's written comments, we agreed to remove a recommendation related to the relationships the mission has with governmental stakeholder organizations and implementing partners (recommendation 2 in the draft). As well, in response to the mission's comments we have revised recommendation 3 in the final report. The final report contains nine recommendations.

On the basis of your written comments, in which you described actions already taken or initiated to address our concerns, we consider that final action has been taken on recommendations 1, 4, 5, 6, and 7 (formerly 1, 5, 6, 7, and 8), while management decisions have been reached for recommendations 8 and 9 (formerly 9 and 10). Determination of final action will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions.

Management decisions for recommendations 2 and 3 (formerly 3 and 4) can be reached once USAID/Brazil and we agree on a firm plan of action, with target dates, for implementing these recommendations. Please advise my office within 30 days of any further actions planned or taken to reach management decisions on these recommendations.

I want to express my sincere appreciation for the cooperation and courtesies extended to my staff during this audit.

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# SUMMARY OF RESULTS

USAID/Brazil's environment program focuses exclusively on the Brazilian Amazon rainforest region. Program activities attempt to generate sustained economic growth by ensuring that the environment and natural resources are effectively managed. The total estimated USAID budget for the program is \$38 million. As of September 30, 2009, USAID/Brazil had obligated \$28.4 million and expended \$10.7 million under the program (page 4). Through September 2009, USAID/Brazil implemented its environment program through five cooperative agreements and one interagency agreement with partner organizations based in the United States and in Brazil (page 3).

As part of its FY 2010 annual plan, RIG/San Salvador carried out a followup audit of USAID/Brazil's environmental activities. The audit was designed to answer the following questions (page 4):

- Are USAID/Brazil's environmental activities achieving their main goals?
- Were the actions taken by USAID/Brazil in response to recommendations in Audit Report No. 1-512-09-005-P effective?

Regarding the first question, USAID/Brazil's environmental activities are making interim progress toward achieving USAID/Brazil main goals to ensure that the environment and the natural resources are effectively managed (page 5). However, despite these accomplishments, there is a need for the mission to improve oversight of its activities (page 6). In addition, the mission should develop a better followup mechanism to measure training effectiveness (page 7).

With respect to the second question, RIG/San Salvador determined that the mission's actions in response to 6 of the 13 recommendations were effective (page 8). However, the mission's actions in response to the other seven recommendations were either partially effective or have not corrected the underlying problem (page 9).

The report recommends that USAID/Brazil:

- Establish written procedures that require adequate oversight of its projects (page 7).
- Establish written procedures to measure training effectiveness (page 8).
- Develop and report against an indicator which it considers most significant and best reflects the progress and impacts of their interventions (page 11).
- Provide training during the next meeting with all implementers to discuss the definition and the expectations of what should be considered for reporting progress against the training indicator and the policies, laws, agreements, or regulations indicator (page 11).
- Require implementing partners to submit monitoring and evaluation plans as required by the cooperative agreements (page 13).

- Adapt its monitoring and evaluation tool to track the mission's receipt and approval of key documents such as life-of-project plans, annual work plans, and monitoring and evaluation plans (page 13).
- Develop and implement a system to confirm that reported performance results are accurate (page 14).
- Conduct an assessment to confirm that the implementing partners have procedures and internal controls to properly track and report activities correctly (page 14).
- Develop and implement procedures to collect and input training data quarterly into the USAID training network (page 15).

In response to our draft report, USAID/Brazil concurred with seven recommendations and outlined measures that had been or would be taken in response to the audit findings. On the basis of the mission's written comments and the supporting documentation provided, we consider that final actions have been taken on recommendations 1, 4, 5, 6, and 7, while management decisions have been reached for recommendations 8 and 9.

Management decisions for recommendations 2 and 3 can be reached once USAID/Brazil submits a suitable plan of action, with target dates, for implementing these recommendations. Determination of final action will be made by Audit Performance and Compliance Division upon completion of the planned corrective actions.

USAID/Brazil's comments are included in their entirety in appendix II.

# BACKGROUND

Brazil holds about one-third of the world’s rainforests, including 60 percent of the Amazon rainforest. Tropical forests provide important environmental services and play a significant role in climate change worldwide. Emissions from activities that cause tropical forest deforestation represent 17 percent of annual greenhouse gases emissions worldwide, while rainforests continue to sequester almost the same amount of atmospheric carbon each year. Studies estimate that activities that cause deforestation are the source of 75 percent of Brazil’s total greenhouse emissions, which makes protecting the rainforest an important part of the country’s effort to mitigate climate change.

USAID/Brazil’s environmental program supports activities that improve the management of natural resources and conserve biodiversity. These activities are of particular importance for Brazil, where deforestation in tropical rainforest areas remains a challenge and, due to the correspondent emissions of greenhouse gases, contributes to global climate change. The rate of deforestation is still high in Brazil for a number of reasons—cattle ranching, soybean production, illegal logging, uncontrolled settlement, land tenure conflicts, and agribusiness economic incentives.

Through September 2009, USAID/Brazil implemented its environment program mainly through five cooperative agreements and one interagency agreement, as shown in the table.

## USAID/Brazil Environment Program Implementing Partners

Lead Organization*	Initiative Name	Start Date End Date	USAID Total Estimated Costs
U.S. Department of Agriculture Forest Service	Forest Enterprise	April 2007 April 2012	\$4,579,587
International Institute of Education of Brazil	Strengthening Organizations in Southern Amazonas State	Jan. 2008 Sept. 2011	8,286,485
The Nature Conservancy	Indigenous Landscape	May 2008 Sept. 2011	3,384,287
University of Florida	Environmental Management of Watersheds and Roads	Sept. 2008 Sept. 2011	2,703,294
World Vision	Conservation in the Indigenous Amazon	Oct. 2008 Sept. 2011	4,096,625
Centro de Trabalho Indigenista	Ethno-Environment Protection of Isolated Peoples in the Brazilian Amazon	Oct. 2008 Sept. 2011	4,478,392
<b>Total</b>			<b>\$27,528,670</b>

\*Each of these organizations led a consortium of implementing organizations referred to in this report as subpartners.

On September 30, 2009, the mission awarded two cooperative agreements which increased the total USAID obligated amount to \$28.4 million and the total amount expended to \$10.7 million.

## **AUDIT OBJECTIVES**

As part of its FY 2010 annual plan, RIG/San Salvador carried out a followup audit of USAID/Brazil's environmental activities. The audit was designed to answer the following questions:

- Are USAID/Brazil's environmental activities achieving their main goals?
- Were the actions taken by USAID/Brazil in response to recommendations in Audit Report No. 1-512-09-005-P effective?

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

# AUDIT FINDINGS

## **Are USAID/Brazil's environmental activities achieving their main goals?**

USAID/Brazil's environmental activities implemented under five cooperative agreements and one interagency agreement are making interim progress toward achieving USAID/Brazil's main goals to ensure that the environment and natural resources are effectively managed, although implementation delays have limited the program's overall impact.

USAID/Brazil's environmental activities have improved the management of natural resources and the conservation of biodiversity by:

- Helping indigenous peoples combine their intimate knowledge of the local environment with scientific knowledge to improve their livelihoods and management of natural resources. For example, the project has provided financial resources that have allowed groups to conduct additional expeditions, resulting in more efficient monitoring of areas where isolated indigenous peoples live.
- Training private sector and community associations in sustainable forest management. USAID/Brazil's program has trained indigenous leaders in environmental legislation and built their capacity to become involved in the management and conservation of protected areas, leading to a reduction of forest fires in the region.
- Providing government at all levels with critical information necessary for forest sector management and forest law enforcement.
- Making information about the forest environment available to local populations, increasing their understanding and their awareness of threats. For example, one implementing partner works in close collaboration with members of indigenous communities to develop natural resource management plans for their reserves.
- Helping local associations (including indigenous associations) and municipalities strengthen their organization and capacity to play an effective role in local and regional environmental governance and conservation efforts.
- Protecting indigenous lands and isolated indigenous people through stronger surveillance and vigilance.

Despite these accomplishments, USAID/Brazil did not adequately monitor these activities, resulting in implementation delays. The mission should improve monitoring and develop better followup mechanisms to measure training effectiveness. These issues are addressed below, along with recommended actions.

## USAID/Brazil Should Improve Oversight of Environmental Activities

**Summary.** Work plans or implementation plans serve as management tools that allow the mission to visualize the work to be performed and monitor the implementation process. These work plans often identify critical tasks regarding implementation that are necessary to ensure timely and successful accomplishment of the planned activities. As of September 2009, USAID/Brazil's planned environmental activities were behind schedule. In addition, some critical assumptions related to implementation had proved to be mistaken. Some activities fell behind work plan schedules because of (1) a slow start during the first year of implementation, (2) critical counterparts experiencing financial and litigation issues, and (3) the suspension of program activities during a redesign phase. During these periods of delays, the mission's assistance objectives teams<sup>1</sup> did not take early action in response to problems identified. As a result, the expected progress as of the end of FY 2009 had not been fully achieved.

As required by their agreements with USAID/Brazil, implementing partners submitted annual work plans for FY 2008, 2009, and some for 2010. These work plans are important planning and management instruments that define performance expectations and allow the mission to monitor progress. Further, these work plans identify critical assumptions that can ensure timely and successful accomplishment of the planned activities.

As of September 2009, each of the projects had experienced implementation delays, which caused planned activities to fall behind schedule. For example, Centro de Trabalho Indigenista postponed some activities because of problems it experienced: its funding was delayed because of the USAID requirement to undergo an evaluation of its administrative polices and internal controls, and because USAID did not provide timely approval to purchase necessary supplies and equipment. World Vision had not made the progress planned for the first year because establishing its internal administrative processes took longer than expected.

Activities of The Nature Conservancy, International Institute for Education of Brazil, and the University of Florida were suspended when the Government of Brazil declined to participate in a regional program. USAID had to modify its program design and have Brazil-based activities managed under USAID/Brazil's bilateral program as opposed to a regional program. This change required the affected partners to write new program descriptions and develop new budgets, suspending the ongoing activities for almost 1 year.

Lastly, efforts by The Nature Conservancy to strengthen Amazonian indigenous organizations were not on schedule. Delays occurred because a key partner experienced litigation and financial problems and could not fully participate in implementation.

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<sup>1</sup> Assistance objective team is a group of people with complementary skills empowered to achieve a specific Foreign Assistance result for which they are willing to be held accountable. The primary responsibility of an assistance objective team is to make decisions in designing and implementing activities and projects related to accomplishing the result.

Monitoring the quality and timeliness of outputs produced by implementing partners is a major task of agreement officer's technical representative and assistance objectives teams, and early action in response to problems is essential in managing for results. However, as these problems developed, USAID/Brazil did not take timely or effective action. As a consequence, some planned program results were not met for FY 2009, putting planned project accomplishments in doubt. To prevent such problems in the future, we make the following recommendation.

*Recommendation 1. We recommend that USAID/Brazil establish written procedures that require adequate oversight of its projects.*

## **USAID/Brazil Should Assess the Effectiveness of Training**

**Summary.** USAID guidance (Automated Directives System 253.3.1) requires the missions to design and implement participant training for results and impact. Training is a critical component of the environmental program at USAID/Brazil. However, neither the implementing partners nor USAID/Brazil has developed a formal system for evaluating the effectiveness of the training provided to the participants. The impact of training was not evaluated because the development of a formal training evaluation system was not considered during the design stage of the training. Without assessing the effectiveness of training, USAID does not know whether its training programs are having the desired impact or could be better tailored to the needs of the participants. Assessing the impact of training may yield greater returns on training investments and provide management better information to determine future training needs.

Automated Directives System (ADS) 253.3.1 requires missions to design and implement participant training for results and impact. Specifically, missions must plan, track, manage for results, and report on their participant training activities as part of their broader performance measurement, evaluation, and reporting requirements. ADS 203.3.2 also states that missions are responsible for measuring progress toward the desired results identified in the planning stage to achieve foreign assistance objectives.

In FY 2009, USAID/Brazil reported that 1,631 people received training in natural resources management or biodiversity. However, the implementing partners have not developed systems for evaluating the effectiveness of the training they provided to the participants. Implementing partners acknowledged that they did not have formal evaluation systems for the training conducted. Although some partners mentioned they collected some participants' feedback, this information was never used to improve the course. The mission agreed that no formal system for evaluating training is in place.

USAID/Brazil and its implementing partners have not formally assessed the effectiveness of the training because the need for evaluation was not considered during the design of the training.

Without assessing the effectiveness of training, USAID/Brazil and its partners do not know whether their training programs are having the desired impact or could be better tailored to the needs of the participants. Training programs may fail to deliver the expected organizational benefits; having a well-structured measuring system in place

can help the mission determine where the problem lies. Assessing the effectiveness of training may yield greater returns on training investments and provide management better information to determine future training needs.

To address this concern, we make the following recommendation.

*Recommendation 2. We recommend that USAID/Brazil establish written procedures to measure training effectiveness.*

## **Were the actions taken by USAID/Brazil in response to recommendations in Audit Report No. 1-512-09-005- P effective?**

RIG/San Salvador determined that the mission's actions in response to 6 of the 13 previous recommendations were effective. The mission's actions in response to the other seven recommendations were either partially effective or have not corrected the underlying problem.

### **Effective Actions**

The six previous recommendations with acceptable action are listed below.

**Previous Recommendation 3** – *USAID/Brazil remind its partners of the requirement to submit all subawards for cognizant technical officer<sup>2</sup> approval.*

In response to recommendation 3, the mission sent an email notification to its partners requesting that a copy of signed subawards be forwarded to USAID/Brazil. Once received, these subawards are regarded as part of the agreement officer's technical representative's (AOTR's) monitoring of program activities. As a result of this action, we consider that USAID/Brazil has effectively implemented this recommendation.

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

In response to recommendation 4, USAID/Brazil ensured that the accounting records for *Instituto Florestal Tropical* were audited. The audit report covering the period October 1, 2003, to September 30, 2006, was issued on August 6, 2009. As a result of these actions, we consider that USAID/Brazil has effectively implemented this recommendation.

**Previous Recommendation 6** – *USAID/Brazil establish procedures to ensure that, at a minimum, all travel vouchers are accompanied by a site visit report, and a site visit checklist that includes verification of reported results is used.*

In response to recommendation 6, on November 19, 2008, the Mission Director issued a memo to all USAID/Brazil program staff establishing that travel vouchers related to site visits would be approved only if submitted with the appropriate trip report. Furthermore, the environment team devised a checklist to document routine monitoring actions.

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<sup>2</sup> This position title changed to contracting officer's technical representative in January 2009.

Finally, the mission established a hardcopy documentation trail and an electronic form to strengthen the AOTR's abilities to discharge the duties and responsibilities designated by the agreement officer. As a result of these actions, we consider that USAID/Brazil has effectively implemented this recommendation.

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

The mission did not agree with recommendation 8, noting that USAID/Brazil's environment program focuses on protection of indigenous lands and expansion of conservation opportunities on the agricultural frontier. The mission stated that the success of these activities is not measured by increased forest product revenues. To validate these claims, the audit conducted an extensive review of the work plans and awards for the six different agreements included in the mission's environment program. The audit concluded that there is no direct link between the planned objectives and activities to improve the economic status of the beneficiaries. Therefore, recommendation 8 is not feasible in the context of the current awards, which will run through 2011, and the audit is not making any official recommendation to have the partners measure economic benefit. However, in the future USAID/Brazil may wish to design specific components within the awards to focus on the economic impact.

**Previous Recommendation 9** – *The agreement officer review the conditions under which the active cooperative agreements managed by the USAID/Brazil environment program office were awarded and determine whether the awards should be recompeted under a Request for Application or other mechanism.*

**Previous Recommendation 10** – *The agreement officer and USAID/Brazil establish procedures to ensure that future award processes are not compromised.*

In response to these two recommendations, the mission's agreement officer reviewed the award process and made a determination that competitions for the USAID/Brazil awards were conducted in accordance USAID internal guidance, policy directives, and procedures addressing the award and administration of USAID grants and cooperative agreements. The audit further examined the negotiation memorandums and the technical evaluation memorandums for current agreements (awarded after the previous audit) to assess compliance. The review of these key negotiation documents showed that USAID/Brazil followed the required policy and procedures for soliciting, reviewing, and awarding the agreements. Therefore, the mission has completed effective actions in response to these two recommendations.

## **Not Fully Effective Actions**

The seven recommendations for which actions were not fully effective appear below.

**Previous Recommendation 7** – *USAID/Brazil revise its current performance indicators so that they (1) are precisely defined and (2) better reflect the progress of its partners' activities.*

In response to recommendation 7, the mission contracted with a consultant in FY 2008 and FY 2009 to perform data quality assessments. In addition, the mission hired a consultant to develop a monitoring and evaluation course, which was presented to the implementing partners. Lastly, the mission developed a template to instruct the partners to objectively evaluate and report the number of hectares under improved natural resource management as a result of U.S. Government assistance.

These actions have heightened the awareness among partners of the importance of monitoring and reporting. However, the audit concludes that the underlying problems have not been resolved. These issues are discussed in further detail below.

- **Number of hectares under improved natural resource management** – This indicator measures the scale of impact of natural resource management interventions.

Three of USAID/Brazil's implementing partners reported progress under this indicator. The mission developed a scoring system to measure the quality of the improvement and expanded the definition to identify activities that (1) lead to the protection of a clearly discriminated area and (2) have tangible influence on the promotion of enhanced management of natural resources.

Despite the mission's attempts to make the process more objective, the partners' interpretation of the guidance has not been consistent. For example, one partner reported 68,000 hectares of land under improved management although the activity completed was simply the development of maps indicating the areas most vulnerable to deforestation and biodiversity loss. Another partner reported 250,000 hectares under improved management; however, partner officials explained that area of land represented the total area where it conducted expeditions but no further analysis was performed to determine the area of land impacted by interventions taken. Lastly, a partner reported that 60,000 hectares had been improved, although there was no direct evidence of any improvement; the partner had simply provided courses and workshops that may or may not have led to improvements.

The audit of reported results determined that, of the 791,352 hectares that the mission reported as being under improved natural resource management, 378,000 should not have been included because the activities did not meet the indicator definition.

- **Number of people receiving U.S. Government-supported training in natural resources management or biodiversity conservation** – This indicator provides information about the reach and scale of training and capacity-building efforts.

All six of USAID/Brazil's implementing partners reported progress on this indicator. Since the last audit, the mission required the prime partners to use the TraiNet<sup>3</sup> template for collecting training data. This action has increased the partners' awareness of the need to report training results. However, the audit revealed that

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<sup>3</sup> The Training Results and Information Network (TraiNet) is the Agency-wide database training management system for reporting on all USAID training activities.

the partners are applying inconsistent practices when reporting their results.

For example, a partner reported a total of 2,227 people trained in natural resources management or biodiversity conservation. The partner should have included only the individuals participating in learning activities directly related to the indicator. However, the partner included participants from workshops on subjects such as administrative and financial management instruments, project preparation, fundraising, and other unrelated subjects.

- **Number of policies, laws, agreements, or regulations promoting sustainable natural resource management and conservation that are implemented as a result of U.S. Government assistance** – This indicator provides a snapshot of strengthened environmental governance that underpins sound natural resources management and ensures its sustainability.

Four of USAID/Brazil's implementing partners reported results on this indicator. The mission expanded the indicator to include not only policies, laws, agreements, and regulations, but also tangible measures that will lead to the creation of policies, laws, agreements, and regulations, by enabling a favorable environment.

Because the definition allows partners to report on potential improvements, the partners are reporting results that have tenuous links to conservation or cannot be attributed to partners' efforts alone. For example, one partner reported the preliminary development of legal documents that could not be linked to measures that will lead to conservation. Additionally, some contractors worked in committees and contributed to the formulation of policies and laws, but the output could not be predominantly attributed to the action of partners supported by USAID.

When reporting its results for this indicator for FY 2009, the mission accepted only 2 out of the 10 measures reported by the 4 implementing partners.

USAID developed indicators so that the U.S. Government could accurately capture the most relevant activities pertaining to its development programs in economic growth. To improve USAID/Brazil's measurement of its activities against these indicators, we make the following recommendations.

*Recommendation 3. We recommend that USAID/Brazil develop and report against an indicator which it considers most significant and best reflects the progress and impacts of their interventions.*

*Recommendation 4. We recommend that USAID/Brazil provide training during the next meeting with all implementers to discuss the definition and the expectations of what should be considered for reporting progress against the training indicator and the policies, laws, agreements, or regulations indicator.*

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

**Previous Recommendation 2** – *USAID/Brazil establish internal controls that will prevent monitoring and accountability issues.*

**Previous Recommendation 5** – *USAID/Brazil send cognizant technical officers<sup>4</sup> (CTO) to attend required training and familiarize them with the roles and responsibilities outlined in the Automated Directives System, CTO designation letter, and award agreements.*

In response to recommendation 1, USAID/Brazil has obtained evidence that some of the monitoring and accountability issues discussed in the previous audit report were corrected. Specifically, Instituto Florestal Tropical's accounting records for the period October 1, 2003, to September 30, 2006, were reconstructed and subjected to an audit; the lead partner created a Web-based system capable of handling the financial administration of its subpartners; subawards for current subpartners have received USAID approval; and reported results for FY 2009 were verified by an independent consultant.

Despite these positive actions, several of the monitoring issues identified in the previous audit report are still present among the current set of subpartners.

- Performance reporting by subpartners is still not well documented. At least one subpartner could provide no supporting documentation for the progress reported against its indicators.
- The lead organization for one consortium and the subpartner carrying out monitoring and evaluation for a second consortium stated that they performed no verification of reported results. Instead, these organizations relied solely on the information reported to them by their subpartners.
- Although required by the current set of cooperative agreements, partners have not submitted, and USAID/Brazil has not approved, monitoring and evaluation plans for the lead implementing organizations.

In response to recommendations 2 and 5, USAID/Brazil implemented corrective actions that have improved the monitoring process. For example, the mission required individuals to complete the AOTR certification program, and the mission increased staffing to divide the technical oversight responsibilities between two individuals. Also, the mission has developed monitoring tools to facilitate keeping records of monitoring activities such as AOTR's participation at meetings with implementing partners. Program files that we reviewed contained more documentation, both hardcopy and in electronic format, to demonstrate the AOTR's monitoring efforts.

However, the mission did not formalize the process for approving key project documents, such as work plans and monitoring and evaluation plans. Within the mission and among implementing partners, there is an assumption that when work plans are submitted, approval is automatically conferred unless expressly denied. In some cases, the mission did not require formal submission of monitoring and evaluation plans and informally approved them during discussions with the partner.

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<sup>4</sup> This position title changed to contracting officer's technical representative in January 2009.

As a result, USAID management may rely on reported results that are not supported with adequate documentation and may reach incorrect conclusions on the performance of the program. Furthermore, the mission does not have an effective system to demonstrate approval of lead implementer's work plans and monitoring systems. Without the formal review and approval of these key documents, the mission places itself at risk if an implementing partner makes a unilateral decision to take on activities that are outside the objectives of the agreements. Accordingly, we make the following recommendations.

*Recommendation 5. We recommend that USAID/Brazil's Agreement Officer's Technical Representative require each implementing partner to submit a monitoring and evaluation plan if one was required as part of the cooperative agreement.*

*Recommendation 6. We recommend that USAID/Brazil's Agreement Officer's Technical Representative adapt its monitoring and evaluation tool to track the receipt and approval of key documents such as life-of-project plans, annual work plans, and monitoring and evaluation plans.*

**Previous Recommendation 11 – USAID/Brazil establish procedures to report results in its annual operating reports that are accurate, complete, supported with adequate documentation, and clearly linked to USAID funding.**

In response to recommendation 11, USAID/Brazil reiterated the existing procedures for obtaining data that support its annual operating reports. Operating reports are supported by information that is: (1) collected through annual and semiannual reports, (2) provided by independent evaluations, (3) based on performance monitoring plans (PMPs), (4) analyzed during portfolio review exercises, and (5) improved through data quality assessments. However, the audit identified numerous cases where the performance report for FY 2009 contained information that was unsupported or inaccurate. These problems stemmed from a lack of verification of subpartners' reported results, inconsistent interpretation of indicators by the implementing partners, and inconsistent practices for data collection. Therefore, this audit concludes that the mission's actions in response to the recommendation were not effective.

For instance, one implementing partner noted that hectares were reported based on a process that might lead to the identification of a new indigenous reserve of approximately 220,000 hectares. Another partner reported 369,800 hectares; however, supporting documentation included a total area of only 187,700 hectares—of which 7,500 were certified in FY 2006.

Reporting on actual results is also inaccurate for the indicator reflecting the number of people receiving training in natural resources management or biodiversity conservation. The implementing partners reported a cumulative training of 4,477 people during FY 2009. After the review of the annual reports, USAID/Brazil reduced the number of people trained to 1,631 because implementing partners could not provide documentation of the total number of people trained, and there was not sufficient documentation to link results to USAID assistance.

The audit team also noticed inconsistencies in the ways implementing partners kept training records and interpreted what should be reported as training. For example, 1

lead implementing partner reported 83 participants but provided evidence of attendance for only 16 participants. USAID/Brazil reported that in FY 2009 one implementing partner trained 12 participants; however, the implementing partner reported 175. One implementing partner official informed us that he counted the entire indigenous community that was present during the training, even women and children who did not benefit directly from the training. One implementing partner reported only long-term training, and another reported all meetings as training.

These inconsistencies occurred because of lack of verification of subpartners' reported results, inconsistent interpretation of indicators by the implementing partners, and inconsistent practices for data collection. Without complete and accurate information about performance results, USAID cannot make decisions about the success of USAID's programs and the level of resources needed to implement the programs. Accordingly, we make the following recommendations.

*Recommendation 7. We recommend that USAID/Brazil develop and implement a system to confirm that reported performance results are accurate.*

*Recommendation 8. We recommend that USAID/Brazil conduct an assessment to confirm that the implementing partners have procedures and internal controls to properly track and report the activities correctly.*

**Previous Recommendations 12 – USAID/Brazil obtain the necessary training data on its environmental activities from its partners from Fiscal Year 2004 to present and input this data into the USAID training network.**

**Previous Recommendation 13 – USAID/Brazil institute procedures to collect and input training data into the USAID training network quarterly.**

In response to recommendation 12, the mission stated that the environment team collected data from current partners and input the data into the TraiNet database. However, USAID/Brazil only included the data for FY 2008 and FY 2009. Additionally, reports for those years are incomplete because they do not include all of the implementing partners and do not include the total number of people trained. Therefore, this audit concludes that the mission's actions in response to the recommendation have been only partially implemented.

Regarding recommendation 13, the mission has established procedures and a specific form for collecting training data on a monthly basis. But although partners have received training and written guidance on these procedures, the number of participants reported by TraiNet is still inaccurate. For example, for FY 2008 and 2009, USAID/Brazil reported the number of people trained as 1,191 and 1,631 respectively. However, for FY 2008 and 2009, implementing partners reported 659 and 4,477 participants, respectively. Moreover, the implementing partners reported in TraiNet total training for FY 2008 and 2009 of 706 and 2,646, respectively. Therefore, this audit concludes that the mission's actions in response to the recommendation were not effective.

The mission has not implemented uniform procedures to collect data so the implementing partners can have a consistent understanding of what is considered training and what is required to be reported in TraiNet. As a result, USAID cannot rely on participant training data to make informed management decisions, answer

congressional inquiries, report on USAID activities, or develop policy and procedural guidance. To address this problem, we make the following recommendation.

*Recommendation 9. We recommend that USAID/Brazil develop and implement procedures to collect and input training data quarterly into the USAID training network.*

# EVALUATION OF MANAGEMENT COMMENTS

On the basis of USAID/Brazil's response and our review of the supporting documentation, we consider that final action has been taken on recommendations 1, 4, 5, 6, and 7 (formerly 1, 5, 6, 7, and 8); the mission also provided appropriate supporting documentation. We therefore conclude that final actions have been completed for these recommendations.

The mission's comments also contained specific plans and timeframes for completing actions in response to recommendations 8 and 9 (formerly 9 and 10); we therefore conclude that management decisions have been reached for these recommendations. Determinations of final action will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions.

Mission management disagreed with recommendation 2 (formerly 3), which required a systematic evaluation of the mission's training program. The mission stated that tracking training participants would be very difficult and expensive given the remote areas in which participants reside. However, because training is a major part of the assistance provided through USAID/Brazil's environment activities, we strongly believe that the mission should develop some means to assess the effectiveness of its training program. Many USAID missions use participant questionnaires, pretests, posttests, or similar instruments to assess the effectiveness of their training programs, along with indirect observations. Therefore, to address the mission's concerns, we adjusted recommendation 2 to clarify that detailed tracking and followup with individual participants are not required. A management decision can be achieved for recommendation 2 when USAID/Brazil submits a suitable plan of action, with target dates, for implementing the recommendation.

Mission management also disagreed with recommendation 3 (formerly 4), which requires the development of a more objective and consistent method for determining the number of hectares protected through USAID's environmental program. The mission stated that its partners measure and collect other types of data such as the numbers of hectares logged or deforested in the Brazilian Amazon, contributing to documented improvement in the transparency of environmental governance in the region. We agree that this type of data provides a more objective and precise description of results and program impact than the mission's reported number of hectares under improved natural resource management. Therefore, to better capture the environmental program outcomes we are revising the original recommendation and recommending that USAID/Brazil develop and report against an indicator which it considers most significant and best reflects the progress and impacts of their interventions. A management decision can be achieved for recommendation 3 when USAID/Brazil submits a suitable plan of action, with target dates, for implementing the revised recommendation.

# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General/San Salvador conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The purpose of the audit was to determine (1) whether USAID/Brazil's Environmental activities have achieved their main goals, and (2) whether the actions taken by USAID/Brazil in response to the recommendations in Audit Report No. 1-512-09-005-P have been effective.

In planning and performing the audit, we assessed the mission's controls related to its environmental program. The management controls identified included the mission's performance management plan, and data quality assessments, the agreement officer's technical representative's site visit reports, program progress reports, and day-to-day interaction between mission staff and program implementers.

The audit covered the environment program's activities under the mission's eighth strategic objective, "Natural Ecosystems Sustained." The audit was conducted in Brazil, in the cities of Brasilia, Rio Branco, Belem, Labria, and Porto Velho, from January 12 to February 2, 2010. The audit focused on environment program activities performed under five partners and one interagency agreement during FY 2008 and 2009. As of September 30, 2009, USAID/Brazil's environment program had total cumulative obligations of \$28.4 million and total expenditures of \$10.7 million. The audit scope included the total expenditures of USAID/Brazil's environmental activities as of September 30, 2009.

## Methodology

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

To assess whether results were achieved, we used the performance indicators included in the FY 2009 PMP and cooperative agreements. We tested a judgmental sample of outputs under each major task (based on program maturity, accessibility, and total dollars committed in grants) and verified reported progress related to these outputs during site visits and interviews with the contractor staff, local officials, and beneficiaries. We validated the reported results for FY 2008 and 2009 by tracing mission-reported results back to the records maintained at the offices of the implementing and subpartners. Using the collective results, we determined the progress of each major task toward the achievement of the main goals stated in the contract documents.

In assessing the accuracy of reported results, we established a materiality threshold of 95 percent. If the reported results could be verified and if the difference between reported and documented results was less than 5 percent, the reported results were judged to be accurate.

To answer the second objective described in the scope section, we made a determination as to the effectiveness of the mission's actions to address each of the 13 recommendations in the above-referenced audit report. To make the determinations, we analyzed the mission's written responses on how they addressed each recommendation in the prior audit report, interviewed mission and implementing partner staff, reviewed documentation showing that effective implementation and action had been taken, and verified whether any new procedures or policies were applied as a result of the recommendations.

Also, we determined what monitoring was done by the agreement officer's technical representative and by USAID/Brazil as a whole by reviewing site visit reports and data quality assessments and interviewing officials of USAID/Brazil and the implementing partners. We also determined the degree of monitoring conducted by USAID partners over their subpartners by reviewing available documentation provided by USAID partners, such as operational plans, monitoring and evaluation plans, documented achievement of results, and cooperative agreements and their modifications. To determine the impact of USAID/Brazil's environment program, we interviewed officials from USAID, implementing partners, subpartners, beneficiaries, and the Government of Brazil.

# MANAGEMENT COMMENTS

**DATE:** May 14, 2010

**TO:** Catherine M. Trujillo, Regional Inspector General/San Salvador

**FROM:** Eric Stoner, Acting USAID/Brazil Director

**SUBJECT:** Follow-up Audit of USAID/Brazil's Environmental Activities (Audit Report N° 1-512-10-00X-P)

Per your memorandum dated April 16, 2010, this memorandum provides USAID/Brazil's response to your draft audit report.

On initial review, it seems the recommendations fall into two categories: 1) monitoring and evaluation (M&E); and 2) communication. The Mission believes the root of both the M&E and the communication concerns stems from a lack of trained personnel during the majority of the periods covered by the current and previous audits – there were only two local hires responsible for monitoring approximately \$15 million worth of programs covering a land mass larger than the continental United States. With the addition of the Environment Program Specialist and the DLI Environment Officer, the Mission now has a sufficient number of personnel to adequately address both concerns. However, participation in Agency-required training of the new personnel has become problematic.

While the current two local hire supervisors are responsible for training the new personnel and providing technical supervision, completion of the Programming Foreign Assistance, Contracting/Assistance Officer's Technical Representative (COTR/AOTR), Project Design and Management, and M&E Courses are necessary for the new personnel to be fully certified project managers and perform their oversight functions. With USAID/Washington's new policy of prohibiting field personnel from participating in training in Washington, the training schedule of the Program Specialist has been significantly disrupted. In addition, the DLI Environment Officer was scheduled to attend the PFA Course during the week prior to her arrival at Post, but was removed from the course due to a policy change that prohibits DLIs from attending the course until they have reported to Post. These two USAID/Washington policy shifts will hinder the Environment Team's ability to perform its oversight functions. In addition, none of the team members have attended the M&E Course. Any assistance the Regional Inspector General's office could provide in expediting the training of both the Program Specialist and the DLI Environment Officer and in obtaining slots for each of the four team members in the M&E Course would be greatly appreciated.

Unfortunately, the current workforce structure is in flux. The DLI Environment Officer position is for training purposes and is not permanent. In order to adequately perform current operational requirements, be prepared for a possible expansion due to the anticipated receipt of Global Climate Change Initiative funding, and prepare for the departure of the senior Environment Officer (likely within four years), the Mission will modify workforce requirements to include an FS-1 Environment Office Director and an FS-3 Environment Team Leader. The presence of two experienced/trained Direct Hire

personnel is essential to maintain adequate program monitoring and evaluation and to ensure that all communication is accurate, effective, and captures the true context of the Brazilian operating environment.

Finally, with the exception of the interagency agreement, all Mission environment programs are managed through cooperative agreements – thus subject to substantial involvement limitations. Their purpose is to foster alliances between USAID, the private sector, nongovernmental organizations, and the Brazilian federal, state and local governments. As evidenced by the recent naming by Vale (a large Brazilian mining conglomerate) of grants to five current USAID Environment Program partners and one to a former partner (out of seven total grants) to expand environmental protection in the Amazon – the USAID Environment Program is widely recognized for its success in strengthening Brazilian institutions.

Having stated all this, below are the responses to each recommendation included in the subject audit report (draft) as follows:

**Recommendation 1: We recommend that USAID/Brazil establish written procedures that require adequate oversight of its projects.**

**Comments:**

*The Mission agrees with this recommendation.* The Mission has developed a field visit and project check list template (see attachment) to ensure critical program areas are reviewed during each project visit. We believe this action to be sufficient to merit closure of this recommendation by M/CFO/APC.

**Recommendation 2: We recommend that USAID/Brazil develop and implement a strategy to strengthen and institutionalize long-term relationships between the mission, governmental stakeholders organizations and implementing partners.**

**Comments:**

*The Mission disagrees with this recommendation.* USAID/Brazil believes this recommendation is too vague to be effective. Strengthening and institutionalizing long-term relationships between the mission, government stakeholders, organizations and implementing partners has been a pillar of the Environment Program since its inception and is incorporated into all agreements and planning documents. For example, the 2012 Mission Strategic Resource Plan includes a provision for a new memorandum of agreement on protected area management between the U.S. and the Government of Brazil (GOB). However, the Mission will continue to program annual meetings to discuss aspects of the whole program and reinforce the relationships between the mission, governmental stakeholders' organizations and implementing partners. This is an effective way that will allow all actors of the program know where they stand and their role in the program itself creating synergies and avoiding duplication of efforts. We believe this recommendation should be eliminated from the report.

**Recommendation 3: We recommend that USAID/Brazil establish written procedures for systematically following up with training participants to assess the impact and effectiveness of training.**

**Comments:**

*The Mission disagrees with this recommendation.* This is a systemic, Agency-wide problem, exacerbated in Brazil by the geographic size of the country and scope of environment programming. The cost of tracking training participants after the end of training is prohibitive – and in most cases impossible - due to the remote areas where participants reside. Resources for participant tracking have never been included in Agency funding. That said, the Environment Program has ample anecdotal evidence of the success of its training program participants. For example, the Brazilian Space Research Institute (as part of the interagency program not reviewed by the auditors) recently monitored forest fires in an indigenous region to assess the impact of a USAID firefighter training program. When compared with baseline data, one year after training, forest fires in the region had been reduced by 80%. Based on this, we strongly believe that this recommendation should be eliminated from the report.

**Recommendation 4:** We recommend that USAID/Brazil develop a more objective systematic approach to measuring the number of hectares and train the implementing partners who can directly support this indicator so that all are applying the approach consistently.

**Comments:**

*The Mission disagrees with this recommendation.* As stated by the auditors during the RIG outbriefing, this is a systemic, Agency-wide problem. In many cases, the precise definition of improved management of protected areas cannot be agreed upon even by Agency experts. In addition, area measurement is a result, not an indicator. USAID partners perform precise, timely, and systematic data assessment on numbers of hectares logged or deforested in the Brazilian Amazon, contributing to documented improvement in the transparency of environmental governance in the region. Based on this, we strongly believe that this recommendation should be eliminated from the report.

**Recommendation 5:** We recommend that USAID/Brazil provide training during the next consortium wide meeting to discuss the definition and the expectations of what should be considered for reporting progress against the training and policy, laws, agreements and regulations indicator.

**Comments:**

*The Mission agrees with this recommendation.* In 2009, USAID/Brazil hired a consultant who produced two reports that addressed these issues - “The FY 2009 Monitoring and Evaluation Report” and “The Performance Data Verification and Quality Report.” An excerpt of the first report states that, “submissions by the partners, at least those accepted by USAID for its own report, were well documented. Several other PLARs have been reported which might have qualified as well, but were not included so as to avoid reporting “overachievements” (over target).” These issues were presented during the Mid-Term Partners’ Meeting held April 29-30, 2010, and both reports were distributed to all partners. The conclusions provided in the reports were discussed at length. A meeting report is currently being drafted and when complete (by June 30, 2010) will be provided upon request. The two reports described above will also be provided upon request. We believe the action taken provides a solid base to close this recommendation with M/CFO/APC.

**Recommendation 6:** We recommend that USAID/Brazil's Agreement Officer's Technical Representative require each implementing partner to submit their monitoring and evaluation plans if one was required as part of the cooperative agreement.

**Comments:**

*The Mission agrees with this recommendation.* As of October 1, 2009, all cooperative agreements have provisions requiring monitoring and evaluation plans. M&E plans have been received from all implementers and have been reviewed and approved by the Mission. Additionally, USAID/Brazil, based on the findings of the above-mentioned "Mid-Term Partners' Meeting," is revising and improving the PMP format. We believe the action taken provides a solid base to close this recommendation with M/CFO/APC.

**Recommendation 7:** We recommend that USAID/Brazil's Agreement Officer's Technical Representative adapt its monitoring and evaluation tool to track the receipt and approval of key documents such as life-of-project plans, annual work plans, and monitoring and evaluation plans.

**Comments:**

*The Mission agrees with this recommendation.* The Environment Program has developed and implemented a "Technical and Financial Control" tracking table (see attachment), which includes all requirements stated in the cooperative agreement template. AOTR's are responsible to make sure that information required under each agreement such as LOP plans, annual work plans, and M&E plans are submitted on time for its review and approval. We believe the action taken provides a solid base to close this recommendation with M/CFO/APC.

**Recommendation 8:** We recommend that USAID/Brazil develop and implement a system to confirm that reported performance results are accurate.

**Comments:**

*The Mission agrees with this recommendation.* USAID/Brazil Environment Team has implemented the new field visit and project check list (see attachment) which includes provisions to verify the accuracy of reported performance results. This task is to be performed by the AOTR to conform that the requirements established under the agreement have actually occurred. We believe the action taken provides a solid base to close this recommendation with M/CFO/APC.

**Recommendation 9:** We recommend that USAID/Brazil conduct an assessment to confirm that the consortium members have procedures and internal controls to properly link the activities to the funding and track and report them correctly.

**Comments:**

*The Mission agrees with this recommendation.* USAID/Brazil Environment Team has implemented a new field visit and project check list (see attachment) which includes provisions to verify internal controls and ensure they properly link activities to funding and track and report them correctly. This checklist will be incorporated into each future project visit and used to assess consortium member internal controls. The Mission will provide a report on the results of this assessment by September 30, 2010, to substantiate the closure of this recommendation with M/CFO/APC.

**Recommendation 10:** We recommend that USAID/Brazil develop and implement procedures to collect and input training data quarterly into the USAID training network.

**Comments:**

*The Mission agrees with this recommendation.* As of October 1, 2009, the Mission requires all partners to input training data into the USAID training network on a quarterly basis. This information is being tracked on the tracking table (see attachment). A report describing follow-up procedures and verifying the actions taken by the partners will be provided by June 30, 2010. This will be the action to support closure of this recommendation with M/CFO/APC.

**U.S. Agency for International Development**  
**Office of Inspector General**  
1300 Pennsylvania Ave., NW  
Washington, DC 20523  
Tel: (202) 712-1150  
Fax: (202) 216-3047  
**[www.usaid.gov/oig](http://www.usaid.gov/oig)**