



OFFICE OF INSPECTOR GENERAL

AUDIT OF FEED THE FUTURE ACTIVITIES IN ETHIOPIA

AUDIT REPORT NO. 4-663-13-005-P
MARCH 1, 2013

PRETORIA, SOUTH AFRICA



Office of Inspector General

March 1, 2013

MEMORANDUM

TO: USAID/Ethiopia Mission Director, Dennis Weller

FROM: Regional Inspector General/Pretoria, Robert W. Mason /s/

SUBJECT: Audit of Feed the Future Activities in Ethiopia
(Report No. 4-663-13-005-P)

This memorandum transmits our final report on the subject audit. We have considered carefully your comments on the draft report and have included the formal comments in their entirety (without attachments) in Appendix II.

The report contains five recommendations to help USAID/Ethiopia strengthen its Feed the Future program. We acknowledge management decisions on all recommendations and final action on Recommendations 2, 3, 4, and 5. Our evaluation of management comments begins on page 11.

Please provide the Audit Performance and Compliance Division in the USAID Office of the Chief Financial Officer with the necessary documentation to achieve final action on Recommendation 1. Recommendations 2, 3, 4, and 5 are closed upon report issuance.

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

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Abbreviations

The following abbreviations appear in this report:

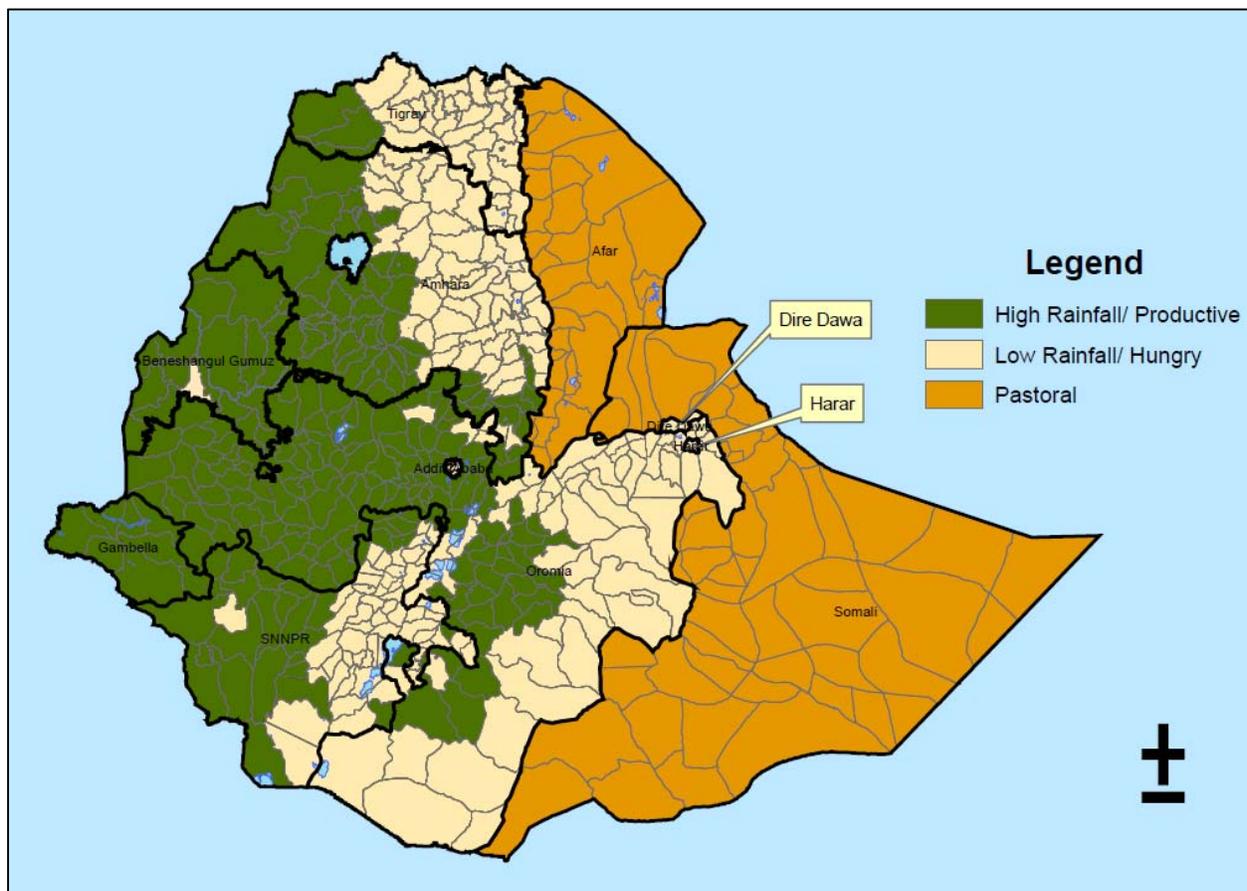
AMDe	Agribusiness and Market Development
AGP	Agricultural Growth Program
ADS	Automated Directives System
CARE	Cooperative for Assistance and Relief Everywhere
CIAFS	Capacity to Improve Agriculture and Food Security
ENGINE	Empowering New Generations to Improve Nutrition and Economic opportunities
FTF	Feed the Future
GRAD	Graduation with Resilience to Achieve Sustainable Development
PMP	performance management plan
RIG	Regional Inspector General

SUMMARY OF RESULTS

Ethiopia is one of the poorest countries in the world. According to the 2011 Demographic and Health Survey,¹ only 23 percent of the population has electricity, while 88 out of 1,000 children die before they reach the age of 5. Further, 44 percent of children under 5 suffer from stunted growth because of malnourishment.

According to USAID/Ethiopia, 10 percent of Ethiopians are food insecure,² primarily those who live in areas that are not suitable for farming (shown in the map below in beige and orange). To address this challenge, donors, including USAID, have provided the country with humanitarian assistance, including direct food aid. In fiscal years 2011 and 2012, the U.S. Government provided approximately \$531.6 million in humanitarian assistance to Ethiopia.

Food Security in Ethiopia



Source: USAID/Ethiopia, August 10, 2011.

¹ *Ethiopia Demographic and Health Survey 2011* (Addis Ababa, Ethiopia, and Calverton, MD: Central Statistical Agency and ICF International.)

² According to the World Health Organization, "The concept of food security is defined as including both physical and economic access to food that meets people's dietary needs as well as their food preferences."

To complement humanitarian assistance, USAID also implements activities as part of the U.S. Government's global hunger and food security initiative—Feed the Future (FTF). In Ethiopia the initiative focuses on agriculturally productive areas on the premise that investments there produce greater returns than humanitarian aid. These areas are shown in green in the map on page 1. The overall goals are to increase economic growth (in agricultural production and income) and to help rural Ethiopia be more resilient when facing food shortages in the future.

The audit selected four programs that USAID/Ethiopia developed to achieve these goals. They are listed below.

1. ACDI/VOCA's \$49.9 million Agribusiness and Market Development (AMDe) program, which complements the Ethiopian Government's Agricultural Growth Program (AGP), focuses on crops such as chickpeas, wheat, and sesame.
2. The Capacity to Improve Agriculture and Food Security (CIAFS) program, a \$7.5 million initiative implemented by Fintrac Inc., supports training, research, and monitoring and evaluation.
3. The Empowering New Generations to Improve Nutrition and Economic opportunities (ENGINE) program, implemented by Save the Children Federation Inc., supports nutrition interventions.
4. The Graduation with Resilience to Achieve Sustainable Development (GRAD) program, implemented by Cooperative for Assistance and Relief Everywhere (CARE) International, aims to graduate 50,000 households from Ethiopia's productive safety net program³ and increase each household's income by \$365 per year.

The ENGINE and GRAD programs are \$50.9 million and \$23.4 million, respectively. CIAFS, the earliest program, began in February 2011 and is scheduled to end in February 2015. The other three programs began between May 2011 and December 2011, and they are scheduled to end between May 2016 and December 2016. As of September 30, 2012, USAID/Ethiopia had obligated close to \$30 million and spent more than \$15 million on the four programs.

The Regional Inspector General/Pretoria (RIG/Pretoria) conducted this audit to determine whether these programs were on track to achieve their goals of increased growth with resiliency in rural Ethiopia. The audit found that they were showing some positive results, despite experiencing delays in implementation. However, these results were difficult to quantify because USAID/Ethiopia had not collected all baselines, which are data that establish a starting point prior to USAID interventions, nor had it set targets to track how activities perform (page 5).

AMDe. Auditors talked with farmers who were trained through the program and received a new variety of chickpea seeds. These new seeds were intended to help farmers increase production and earn higher prices than traditional chickpea varieties grown in Ethiopia. In addition, for fiscal year 2012, AMDe reported creating 360 jobs in the wheat, maize, sesame, and honey value chains.⁴

³ This program offers food aid and cash payments to beneficiaries in areas chronically short of food.

⁴ A value chain includes all activities required to produce a product or service and deliver it to the final customer. Value chains include activities such as production, marketing, and distribution.

However, the program's implementation was delayed partly because of what USAID/Ethiopia described as the poor performance of ACDI/VOCA; the organization submitted reports late, work plans lacked quality and detail, and it was slow in hiring staff. Ten months after the program was awarded in May 2011, mission officials sent a letter to ACDI/VOCA detailing their concerns. Subsequent to the letter, the chief of party of ACDI/VOCA was replaced, the program became fully staffed, and USAID/Ethiopia approved ACDI/VOCA's work plan.

AMDe also experienced delays because of the need to negotiate agreements with regional governments to comply with an Ethiopian law, "70/30," requiring that no more than 30 percent of funds be spent on non-program expenses, like administrative costs. The delays related to these negotiations were commonplace with donor-funded programs throughout Ethiopia and were not specific to AMDe.

CIAFS. Stakeholders expressed satisfaction with training and research performed by the program. For example, an official in the Ethiopian Government's Agriculture Transformation Agency noted that CIAFS' analytical studies on contract farming and agriculture input markets (such as fertilizer and seeds) were useful when making decisions.

ENGINE. Auditors observed some positive results, including demonstration plots displaying new crop varieties to vulnerable populations. In addition, auditors met with health workers trained by ENGINE who said the program had helped them reduce and prevent malnutrition.

However, as with AMDe, ENGINE experienced implementation delays due to challenges negotiating agreements with regional governments because of the 70/30 law. ENGINE was awarded in September 2011, but project activities did not begin until April 2012.

GRAD. Auditors met with households that received livestock with support from GRAD. The people in these households expressed hope in increasing their incomes so they could graduate from Ethiopia's productive safety net program. However, GRAD also experienced delays because of the 70/30 law, and the program awarded in December 2011 was launched officially in June 2012.

USAID/Ethiopia's FTF team had put into place a framework that aligned with the overall FTF strategy. Using this framework, the team had begun to build and implement tools designed to monitor activities.

However, the mission did not collect all baselines or set targets for its FTF program (page 5). USAID planned to collect baseline data in order to set targets for its impact and program-specific indicators. At the time of the audit, the population-based survey needed to collect baseline data for impact indicators was still under procurement,⁵ and the surveys needed to collect baseline data for the three programs requiring them (AMDe, GRAD, and ENGINE) were in process.

USAID policy states that performance monitoring is the process through which USAID determines whether its activities are on track to achieve their desired goal or goals, and both baselines and targets are essential when making such determinations. In the absence of finalized baselines and targets, USAID/Ethiopia was not able to measure the impact of \$15 million already spent to achieve increased growth with resiliency in rural Ethiopia.

⁵ The grant for the survey was awarded on January 4, 2013.

The audit also disclosed the following weaknesses.

- The structure of Ethiopian programs delayed nutrition (page 7). AGP, implemented by the Ministry of Agriculture, does not recognize nutrition as one of its components. Meanwhile, the National Nutrition Program, implemented by the Ministry of Health, is not linked directly to AGP. This has slowed the implementation of ENGINE's nutrition activities, which operate in the same areas as AGP, because AGP officials have inhibited the implementation of some of ENGINE's activities.
- USAID omitted the antiterrorism clause from an award (page 8). While three of the four awards audited included a section on preventing terrorist financing, USAID did not include this section in the AMDe award. This omission could increase the risk that funds may inadvertently support people or groups associated with terrorism.
- Grant recipients were not familiar with award provisions (page 9). Both AMDe grant recipients interviewed during the audit did not know about the debarment and suspension and antiterrorism provisions contained in their award documents. Though ACDI/VOCA was conducting some of the required checks on behalf of the grantees, the risk that USAID funds or resources went to people or groups supporting terrorism or were otherwise ineligible to receive USAID funding was increased.

To strengthen FTF, the audit recommends that USAID/Ethiopia:

1. Finalize its performance management plan and collect baseline data for population-based indicators, as planned (page 7).
2. Implement a plan to increase the coordination of nutrition activities between the Ethiopian Government's AGP and National Nutrition Programs (page 8).
3. Modify the task order for the AMDe program to include the clause related to preventing terrorist financing (page 9).
4. Instruct ACDI/VOCA, in writing, to include the clause related to preventing terrorist financing in its subcontracts (page 9).
5. Remind ACDI/VOCA, in writing, of its responsibility that grant recipients comply with award terms (page 10).

Detailed findings appear in the following section. Our evaluation of management comments is on page 11. Appendix I presents the scope and methodology, and management comments are included in Appendix II.

AUDIT FINDINGS

USAID/Ethiopia Did Not Establish Baselines and Targets

USAID policy sets forth a number of processes and procedures that missions should use to monitor program performance. These include developing a results framework to depict development goals and strategies; preparing a performance management plan (PMP) and establishing performance indicators to measure performance; collecting baseline data to establish a starting point for project activities; and setting targets to determine whether activities are on track to achieve their goals. Automated Directives System (ADS) 203.3.9 provides specific guidance on setting performance baselines and targets.

However, though USAID/Ethiopia first received FTF funding in fiscal year 2010, it had only partially implemented some of the necessary performance measurement tools as of audit fieldwork. The mission had developed a results framework, which integrated FTF activities, humanitarian assistance, and health activities—all contributing toward the goals of increased growth with resiliency in rural Ethiopia. USAID/Ethiopia also was developing a PMP, which is a tool to monitor performance and determine whether the mission is on track to achieve specified goals. The mission director approved the PMP on October 30, 2012. However, while it did contain a list of indicators, contrary to ADS 203.3.9 it did not establish the baseline data and targets that are necessary to determine whether activities were performing satisfactorily.

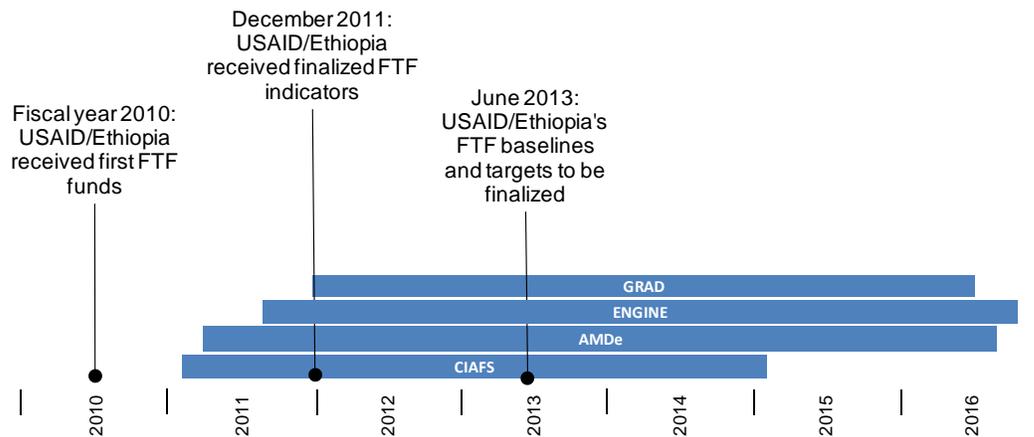
Collecting baselines is the responsibility of USAID/Ethiopia for indicators that are measured using population-based surveys and for USAID-funded partners for the specific indicators they report on. Without baseline data, the mission could not establish realistic yet ambitious targets.

Population-Based Baseline Data. USAID/Ethiopia did not collect population-based baseline data for the four impact indicators included in the PMP: (1) per capita expenditure (as a proxy for income) of U.S. Government-targeted beneficiaries, (2) prevalence of poverty: percent of people living on less than \$1.25 a day, (3) women’s empowerment in agriculture index, and (4) prevalence of households with moderate or severe hunger.

Baselines for these indicators are measured using population-based surveys. USAID/Ethiopia began negotiating a grant with the International Food Policy Research Institute in May 2012 to conduct these surveys and awarded it in January 2013. The mission anticipated the survey to be conducted in January and February 2013, but it was delayed. Mission officials said that one reason for this was that USAID/Ethiopia did not finalize the geographic areas that activities would target until November 2012, a result of additional funding. Rather than risk collecting insufficient data, the mission was waiting until those areas had been finalized before negotiating the contract. This rationale is consistent with background information given by an official from the Bureau for Food Security in Washington, D.C.

USAID/Ethiopia officials said they anticipated collecting baselines and establishing targets by June 2013. However, they said the institute provided interim baselines that can be used to set targets to mitigate the lag in collecting population-based survey data. The figure below shows a timeline of FTF implementation, covering selected projects and milestones for performance management.

Timeline for Selected Activities



Source: RIG/Pretoria.

Program Baseline Data. In addition, three of the four selected partners audited—AMDe, ENGINE, and GRAD—did not collect baselines in a timely manner for the specific indicators on which they report.

They attributed delays to the need to comply with Ethiopia's 70/30 law. This law requires nongovernmental organizations to spend 70 percent of funds on program expenses, with no more than 30 percent spent on nonprogram costs like administrative expenses. For example, the Ethiopian Government asked ACDI/VOCA to reclassify a number of activities, such as trainings and evaluations, as administrative, which disrupted its ratio of program to nonprogram expenses. Despite ACDI/VOCA's assertions that the nature of its program was knowledge transfer and technical assistance, the Ethiopian Government considered training and evaluations to be administrative expenses and suggested that ACDI/VOCA reorganize its program to comply with the law.

USAID/Ethiopia officials said delays resulting from the 70/30 law affected many projects funded by USAID and other donors, and it is already working with other donors and the government to address this problem.

Another reason for the delay in collecting baselines was that the mission received some indicators from USAID/Washington's Bureau for Food Security after many activities had been awarded. Thus, USAID/Ethiopia officials did not believe it was realistic for them to establish baselines before, or soon after, implementing activities, as required by ADS 203.3.9. An official from the Bureau for Food Security agreed with the mission's approach, noting that the FTF indicators and collection methods were not finalized until fiscal year 2012 and that additional programming priorities were added to the original strategy due to an increased focus on economic resilience. As a result, the geographic focus was fluid during the early stages of these programs, and collection of baseline data was delayed until the focus was finalized. The official also noted that outside data sources (e.g., a demographic and health survey) would have taken place in 2011, and they would have been useful to the data collection.

Because it did not have timely baseline data, USAID/Ethiopia was not able to measure whether the \$15 million it had already spent on FTF activities was effectively increasing growth with

resiliency in rural Ethiopia. Instead, the mission could measure only outputs such as jobs created and people trained. Further, the initiative relied, in part, on the hypothesis that increased investments in productive areas of Ethiopia would increase growth and help vulnerable populations by increasing job opportunities. This was a new approach for USAID, and thus performance data were essential in determining whether the hypothesis was valid. Therefore, to improve the mission's performance management of FTF activities, we make the following recommendation.

Recommendation 1. *We recommend that USAID/Ethiopia finalize its performance management plan and collect baseline data for population-based indicators, as planned.*

Structure of Ethiopian Programs Delayed Nutrition Activities

A pillar of both FTF and USAID/Ethiopia's development objective is to improve the nutritional status of women and young children. According to the FTF guide, issued in May 2010, the program seeks to prevent and treat undernutrition by:

Working with partner countries to raise the importance of nutrition on the national agenda; encouraging them to implement evidence-based interventions at a national scale to reach the most vulnerable (including women, adolescent girls, and young children); and using data to make sound decisions about our program investments to reduce undernutrition.

As illustrated in its results framework, USAID/Ethiopia's nutrition activities, including those implemented as part of ENGINE, are expected to increase growth with resiliency by strengthening nutrition services, improving nutrition-related behavior, and increasing access to nutritious food.

The ENGINE program supports these goals by strengthening national nutrition programs and policies, training extension workers on health care and nutrition matters, and providing livestock and seeds to vulnerable populations to improve their nutritional status. ENGINE operates primarily in *woredas* (Ethiopian administrative districts) implementing the Ethiopian Government's AGP. To improve the nutritional status of vulnerable populations, ENGINE should work closely with health workers in the Ethiopian Ministry of Health and AGP officials and agriculture extension workers in the Ministry of Agriculture.

However, some officials inhibited implementation of the nutrition activities. For example, in its March 2012 semiannual performance report, ENGINE reported that a federal AGP official was not allowing it to participate in AGP activities. Furthermore, ENGINE was not participating in the food security steering committee that is the main forum at the national, regional, and district levels; and AGP did not promote the importance of diversified foods such as fruits and vegetables.

In addition, vulnerable populations that ENGINE targeted had difficulty obtaining microfinance loans in AGP *woredas* because finance institutions were not used to dealing with these populations and instead are used to working with the productive agriculture sectors. In contrast, the audit found that vulnerable populations that GRAD supported in non-AGP *woredas* were accessing financial services.

ENGINE faced these problems because AGP (run by the Ministry of Agriculture) does not feel it has the authority to take the lead on nutrition matters since the National Nutrition Program is under the Ministry of Health. The audit team met with a regional AGP official who said the program did not explicitly include nutrition activities in its initial design. Further, an official from the Ethiopian Government's Agricultural Transformation Agency said nutrition has not been embraced by AGP and that many AGP officials are not aware that nutrition activities were taking place in their woredas. This official said nutrition would not be addressed unless it is added to AGP's strategy.

Because AGP has not embraced nutrition, USAID/Ethiopia is at risk that its nutritional activities may not achieve their goals. To strengthen the mission's nutrition activities, the audit makes the following recommendation.

Recommendation 2. *We recommend that USAID/Ethiopia implement a plan to increase the coordination of nutrition activities between the Ethiopian Government's Agricultural Growth and National Nutrition Programs.*

USAID Omitted Antiterrorism Clause From Award

According to the National Consortium for the Study of Terrorism and Responses to Terrorism's *Global Terrorism Database*, Ethiopia has suffered 133 terrorist incidents since 2007. While unknown groups committed many of the attacks, some were perpetrated by international terrorist organizations like the Al-Qaeda-affiliated Al-Shabaab.

U.S. law prohibits transacting with terrorists. To ensure that USAID funds do not reach terrorist organizations, assistance agreements must contain the following section on preventing terrorist financing, which was revised in June 2012:

The recipient must not engage in transactions with, or provide resources or support to, individuals and organizations associated with terrorism. In addition, the recipient must verify that no support or resources are provided to individuals or entities that appear on the Specially Designated Nationals and Blocked Persons List maintained by the U.S. Treasury . . . or the United Nations Security designation list.

This provision must be included in all subagreements, including contracts and subawards, issued under this award. Likewise, all USAID-funded contracts must include Federal Acquisition Regulation 52.225-13, Restrictions on Certain Foreign Purchases, which reads similarly.

Further, in response to a previous OIG audit (Report No. 4-663-10-003-P, issued on March 30, 2010), which found that this clause was missing from a number of subawards, USAID/Ethiopia recognized the mandatory nature of the antiterrorism clause and said that it would be included in new awards.

Three of the four programs audited included these clauses in their award document. However, USAID did not include it in the AMDe award, which was a task order under an indefinite quantity contract with ACDI/VOCA. While AMDe was managed by USAID/Ethiopia, the indefinite quantity contract was managed by USAID's East Africa regional contracting office in Kenya. In

an apparent oversight, that office omitted the antiterrorism clause from the contract, and as a result, the clause was not included in the AMDe task order. The audit attempted to discern the cause of this oversight, but current regional contracting officials had not signed the original indefinite quantity contract and were not sure why the clause was omitted. The antiterrorism clause was omitted also from the subcontracts between ACDI/VOCA and its six subcontractors since the subcontracts referred to the indefinite quantity contract for clauses.

Contract provisions like the antiterrorism clause heighten public awareness of people and groups linked to terrorism and promote due diligence by private sector entities to avoid associations with terrorists. Omitting this clause increases the risk that funds may inadvertently support groups or people associated with terrorism.

To reinforce the U.S. Government's policy on terrorism, the audit makes the following recommendations.

***Recommendation 3.** We recommend that USAID/Ethiopia modify the task order for the Agribusiness and Market Development program to include the clause related to preventing terrorist financing.*

***Recommendation 4.** We recommend that USAID/Ethiopia instruct ACDI/VOCA, in writing, to include the clause related to preventing terrorist financing in its subcontracts.*

Grant Recipients Were Not Familiar With Award Provisions

According to “Awarding Fixed Obligation Grants to Non-Governmental Organizations” (an additional help document for ADS 303), fixed obligation grants are appropriate when awarding funds to a non-U.S. organization with limited experience in managing U.S. Government grants, since the mechanism allows nascent organizations to improve their ability while being less risky for the U.S. Government. This is because payments are based on meeting verifiable milestones, like submitting a business plan, which requires less financial and management capacity from the recipient than a contract or agreement.

Accordingly, the AMDe program has a grants component, intended to support investments in technology and to introduce effective business and management practices. The potential recipients of the grants included cooperative unions, women's groups, and research institutions. As of September 30, 2012, the program planned to invest \$6.9 million in the grants component.

In agreement with USAID policy, the AMDe grants manual states that award documents should include the Agency's standard provisions. These include the debarment and suspension provision that states that a recipient must not conduct business with any individual or entity listed on the excluded parties list—a list of entities and individuals that the U.S. Government has identified as untrustworthy with taxpayer funds—unless they get prior approval from USAID.

Furthermore, similar to the antiterrorism clause discussed above, a provision should be included stating that a recipient must not engage in transactions with, or provide resources or support to, individuals and organizations associated with terrorism.

The audit reviewed two fixed obligation grants that AMDe made to the Becho-Woliso and Lume Adama farmers' cooperative unions and found that the documents contained clauses on

suspension and debarment and terrorist financing. However, representatives from these two unions were not familiar with the procedures required to comply with either of these clauses.

An ACDI/VOCA official said the unions were not well versed in U.S. regulations and that some grantees do not have the Internet connections required to perform the suspension and debarment and antiterrorism checks.

Although ACDI/VOCA was performing some of the required checks on behalf of the grantees, the risk that USAID funds or resources could go to excluded parties or individuals or entities supporting terrorism increases when recipients do not fully understand the terms of their awards. For example, the Lume Adama cooperative union purchased chickpea seeds, which they passed to woreda officials to give to beneficiaries. The officials selected the beneficiaries, and the cooperative did not know who got the seeds.

Additionally, by having ACDI/VOCA employees conduct the required checks, AMDe missed an opportunity to improve the capacity of the recipient—one of the goals of the grants program.

To improve AMDe's monitoring of fixed obligation grants and reduce the risk that USAID funds could go to excluded parties or individuals or entities supporting terrorism, we make the following recommendation.

Recommendation 5: *We recommend that USAID/Ethiopia remind ACDI/VOCA, in writing, of its responsibility that grant recipients comply with award terms.*

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Ethiopia agreed with the audit findings, and management decisions have been reached on all recommendations. Final action has been taken on Recommendations 2, 3, 4, and 5. Our detailed evaluation of management comments follows.

Recommendation 1. USAID/Ethiopia finalized the performance management plan covering FTF activities and took steps to begin collecting baseline data for population-based indicators. These surveys are expected to be completed by September 30, 2013. Therefore, we acknowledge that a management decision has been reached on Recommendation 1.

Recommendation 2. On November 16, 2012, USAID/Ethiopia signed a memorandum of understanding with the Ministry of Agriculture to collaborate on the integration of nutrition into AGP and ensure integration of ENGINE into existing Ministry of Agriculture programs. Based on management's comments and the supporting documentation provided, we acknowledge that a management decision has been reached and final action taken on Recommendation 2.

Recommendation 3. On December 20, 2012, USAID/Ethiopia amended the AMDe task order to include Federal Acquisition Regulation 52.225-13. Based on management's comments and the supporting documentation provided, we acknowledge that a management decision has been reached and final action taken on Recommendation 3.

Recommendation 4. On December 20, 2012, USAID/Ethiopia amended the AMDe task order to include Federal Acquisition Regulation 52.225-13. This modification also instructed ACDI/VOCA to include the clause in its subcontracts. Based on management's comments and the supporting documentation provided, we acknowledge that a management decision has been reached and final action taken on Recommendation 4.

Recommendation 5. USAID/Ethiopia notified ACDI/VOCA of its responsibility to be certain that grant recipients comply with award terms on December 7, 2012, and ACDI/VOCA agreed to change its post-award orientation procedures accordingly. Based on management's comments and supporting documentation provided, we acknowledge that a management decision has been reached and final action taken on Recommendation 5.

SCOPE AND METHODOLOGY

Scope

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

The objective of this audit was to determine whether selected FTF activities in Ethiopia were on track to achieve increased growth and resiliency in rural Ethiopia. Audit fieldwork took place from October 4 to October 25, 2012.

In planning the audit, we selected four programs that USAID/Ethiopia accurately represented its FTF activities. The selected programs comprised 46 percent of the mission's total FTF obligations and 40 percent of its total FTF expenditures as of September 30, 2012.

Selected USAID/Ethiopia Feed the Future Programs (Unaudited)

Program	Partner	Total Estimated Cost (\$)	Amount Obligated as of September 30, 2012 (\$)	Expenditures as of September 30, 2012 (\$)
AMDe	ACDI/VOCA	49,885,436	8,672,463	6,057,345
CIAFS	Fintrac Inc.	7,500,000	4,500,000	2,399,917
ENGINE	Save the Children Federation Inc.	50,891,422	9,621,172	3,765,157
GRAD	CARE International	23,400,000	6,675,009	3,015,865
Total for Selected Projects		131,676,858	29,468,644	15,238,284
Total FTF Activities [†]			64,592,086	38,361,235
Audit Coverage (%)			46	40

[†] This includes all activities managed by USAID/Ethiopia's FTF team and considered part of the FTF portfolio. Some of these activities receive funding from non-FTF sources.

To establish criteria for the audit, we considered the following documents, among others:

- The Government Accountability Office's *Standards for Internal Control in the Federal Government*
- ADS Chapters 201, "Planning"; 202, "Achieving"; 203, "Assessing and Learning"; 204, "Environmental Procedures"; 302, "USAID Direct Contracting"; 303, "Grants and Cooperative Agreements to Non-Governmental Organizations"; 320, "Branding and Marking"; and 502, "The USAID Records Management Program"
- *Ethiopia Feed the Future FY [Fiscal Year] 2011-2015 Multi-Year Strategy*
- *Feed the Future Indicator Handbook*, April 2012
- *Feed the Future Guide*, May 2010

To identify relevant risks, we reviewed RIG/Pretoria's most recent audit report on USAID's agricultural activities in Ethiopia.⁶ Based on this review, we added procedures to ensure that current awards contained the terrorism clause. We also reviewed several reports and articles⁷ to identify any findings that could be relevant to the audit. Because one article raised concerns about Ethiopian Government-sponsored agriculture programs funded by international donors, we discussed them with mission officials. They said these concerns had been addressed by a donor group, and no evidence had been found concerning USAID-implemented activities. As a result, additional audit procedures were not performed.

In planning the audit, we assessed internal controls related to planning activities, the award process, the ongoing management and monitoring of activities, and reporting and evaluating results. We reviewed the following:

- Results of USAID/Ethiopia's Fiscal Year 2012 Assessment for the Federal Managers' Financial Integrity Act of 1982⁸
- USAID/Ethiopia's Country Development Cooperative Strategy Fiscal Year 2011–2015
- Selected cooperative agreements, contracts, task orders, and modifications
- Implementing partners' work plans for selected programs
- Implementing partners' quarterly performance reports for selected programs
- Implementing partners' PMPs for selected programs
- Qualifications for selected contracting officer's representatives and agreement officer's representatives

In performing the audit, we interviewed key USAID/Ethiopia FTF team personnel and support staff—including personnel from USAID/Ethiopia's program, financial management, democracy and governance, and contracting offices. We also met with implementing partners Save the Children Federation Inc., CARE International, ACDI/VOCA, and Fintrac Inc. In Addis Ababa, we met with officials from the Agriculture Transformation Agency and staff from Management Systems International.⁹ We conducted site visits in four districts (Woliso, Dodola, Lume, and Arsi Negelle) in the states of Oromia and Southern Nations, Nationalities, and Peoples Region, where we met with regional and woreda staff from the Ministry of Agriculture, health extension workers, and beneficiaries, and visited homesteads.

⁶ "Audit of USAID/Ethiopia's Agricultural Sector Productivity Activities," Report No. 4-663-10-003-P, March 30, 2010.

⁷ Human Rights Watch, "Waiting Here for Death: Forced Displacement and Villagization in Ethiopia's Gambella Region," January 2012 and "Development without Freedom: How Aid Underwrites Repression in Ethiopia," October 2010; Maria McFarland Sanchez-Moreno and Naomi Roht-Arriaza, "Deadly Aid," *Foreign Policy*, August 2012.

⁸ Public Law 97-255 codified in 31 U.S. Code 3512.

⁹ Management Systems International is a U.S.-based implementing partner that focuses on technical assistance. USAID/Ethiopia hired it to help monitor performance within the FTF portfolio.

Methodology

To answer the audit objective, we met with officials from USAID, selected partners, and Ethiopian officials to gain an understanding of the FTF program, its intended beneficiaries, and the status of implementation. We supplemented these interviews by reviewing program documentation to determine whether USAID/Ethiopia's FTF framework and activities were in accordance with the overall FTF objectives and goals. We also reviewed program documentation to determine whether there was an adequate framework to measure progress toward achieving those goals.

We conducted site visits to confirm the existence of project activities, interview beneficiaries, and assess crosscutting areas such as compliance with environmental regulations and inclusion of gender considerations. These sites were selected using project locations provided by USAID/Ethiopia. Based on this information, we selected areas to visit that had project activities in close proximity. Given the logistical difficulties in Ethiopia, this was the most efficient approach for visiting a cross section of activities. Because these projects were in their early stages of implementation, there were few reported results to date, and data validation was not necessary to answer our audit objective. Further, as noted above, use of reported results in answering the audit objective was not possible because the mission had not established baselines and targets; thus, the reported results were not useful in performance monitoring. Accordingly, a statistical sample was not necessary in site selection, and the results could not be projected to the population. Nevertheless, we believe evidence gathered during fieldwork provided a reasonable basis for our findings and conclusions.

CIAFS. Because CIAFS primarily focuses on policy advocacy, monitoring, and evaluation, we did not conduct any site visits for it.

AMDe. To verify that intended individuals benefited from seeds procured with USAID funds, we visited three farmers' cooperative unions supported by the program (Becho Woliso, Sidama Elto, and Lume Adama) to interview the general managers. We specifically inquired about beneficiary selection criteria, the ongoing monitoring of the use of seeds given to farmers, and the marketing of their products. We also visited two farmers' training centers, also used as demonstration plots (Abiyejiru Farmer Training Center and Multi-Nutrient Fertilizer Demonstration).

ENGINE. We visited the homesteads of two farmers who received USAID-funded seeds. We interviewed the farmers to verify that they received a variety of seeds from ENGINE and planted them for home consumption. We also visited a cooking demonstration site where we saw health extension workers educate attendees on food variety and preparation. Lastly, we visited a local school and interviewed the principal to obtain an understanding of the use of the school garden for nutrition purposes.

GRAD. To ensure that microfinance loans negotiated under the GRAD program were used properly, we met with GRAD beneficiaries during a site visit at Arsi Negelle and Gubeta Arjo *kebeles* (villages). Thirty-four of 60 beneficiaries were present, and we interviewed 8 of them. We also met with beneficiaries and saw the sheep and goats that they had procured with loans. Additionally, we interviewed officials from Catholic Relief Services (a subawardee of CARE) regarding beneficiary selection criteria and monitoring how beneficiaries used the loans.

MANAGEMENT COMMENTS



February 22, 2013

Regional Inspector General/Pretoria
USAID
Pretoria, South Africa

Re: Audit of USAID/Ethiopia's Feed the Future Activities

Dear Sir or Madam:

This memorandum constitutes USAID/Ethiopia's response to the draft audit report submitted by your office on January 18, 2013.

In reviewing the report, we are in agreement with much of what the auditors have found. In addition to responding to the recommendations with our plan for rectification, we have included the steps already taken to address the recommendations in the report.

We would like to express our gratitude for the professionalism of your audit team while they were in Ethiopia and during the conduct of the audit. Their inclusive and collaborative approach proved to be an effective measure to ensure our responsiveness to the outlined recommendations.

If there are any additional outstanding issues that need to be addressed, or if we have not fully responded to the set of recommendations, please let us know and we will respond in greater detail.

Sincerely,

/s/

Dennis Weller
Mission Director

Mission Responses to Specific Recommendations:

The purpose of this response is to outline for the Regional Inspector General's Office the steps USAID/Ethiopia plans to take or has already taken to address the recommendations contained in the Draft Feed the Future Audit Report. Several of the audit recommendations have already been addressed or have ongoing plans to meet the recommendation.

Recommendation No. 1: We recommend that USAID/Ethiopia finalize its performance management plan and collect baseline data for population-based indicators, as planned.

- The Mission now has an approved performance management plan for Development Objective One, which covers all Feed the Future (FTF) activities. The PMP was finalized and approved by the Mission Director on October 30, 2012 (Attachment 1).
- All projects which implemented activities during FY 2012, including AMDe, GRAD, ENGINE and CIAFS, reported targets for FY 2013, FY 2014 and FY 2015 through the Feed the Future Monitoring System (FTFMS) on November 30, 2012.
- The grant agreement to collect all FTF baseline, midline and endline data for population-based survey (PBS) indicators was awarded to IFPRI on January 4, 2013.
- IFPRI provided interim baselines for all PBS indicators for 2010/11 on January 18, 2013 and has begun collection of baseline data. The interim baseline was submitted in FTFMS on January 31, 2013.
- AMDe completed its project-level baseline in October 2012.
- GRAD will complete its baseline in early 2013.
- The ENGINE baseline is using a "step-wedge" approach, which conducts a baseline survey for each woreda (district) before implementation begins. Baselines for 13 woredas in which implementation has begun are completed and 42 more will be completed by March 2013. The baseline surveys will continue until September 2013, when implementation will be effective in all 100 targeted woredas.

Recommendation No. 2: We recommend that USAID/Ethiopia develop and implement a plan to advocate for the addition of nutrition activities to the Ethiopian Government's Agricultural Growth Program.

- ENGINE signed a Memorandum of Understanding (MOU) with the Government of Ethiopia (GoE) Ministry of Agriculture (MoA) on November 16, 2012 to collaborate on the integration of nutrition into the Agricultural Growth Program (AGP) and ensure the effective implementation and integration of ENGINE into the existing structures and programs of the MoA (Attachment 2).

Recommendation No. 3: We recommend that USAID/Ethiopia modify the task order for the Agribusiness and Market Development program to include the clause related to Executive Order 13224 on Terrorism Financing.

- The AMDe task order was modified on December 20, 2012 to include the clause related to Executive Order 13224 on Terrorism Financing (Attachment 3).

Recommendation No. 4: We recommend that USAID/Ethiopia instruct ACDI/VOCA, in writing, to include the clause related to Executive Order 13224 on Terrorism Financing in its subcontracts.

- The Mission notified ACDI/VOCA, in writing, of this audit recommendation to include the Terrorism Financing clause in all of its subcontracts, on December 7, 2012. ACDI/VOCA acknowledged receipt of the recommendation on December 13, 2012 and indicated that they changed their post-award orientation procedures to comply with this recommendation. In addition, ACDI/VOCA was notified to include the clause in its subcontracts through the task order modification made on December 20, 2012 (Attachment 3).
- For future awards, the Mission will ensure that prime awardees are aware of their responsibility to include all provisions in the prime award in all sub-awards. OAA will make sure that this information is spelled out in the post-award meeting with the prime awardees. This information has been included in recent post-award meetings and going forward will be part of the documentation noted in the negotiation memorandum for all new awards.

Recommendation No. 5: We recommend that USAID/Ethiopia remind ACDI/VOCA, in writing, of its responsibility to ensure that grant recipients comply with award terms.

- The Mission notified ACDI/VOCA, in writing, of this audit recommendation to ensure that grant recipients comply with award terms, on December 7, 2012. ACDI/VOCA acknowledged receipt of the recommendation on December 13, 2012 and indicated that they changed their post-award orientation procedures to comply with this recommendation.

Attachments:

1. Approval for the Performance Management Plan (PMP) for Development Objective #1 (DO 1)
2. MOU between ENGINE and the Ministry of Agriculture (MOA)
3. Modification to the AMDe Task Order

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