



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/PERU'S PRODECENTRALIZATION PROJECT

AUDIT REPORT NO. 1-527-15-005-P
FEBRUARY 19, 2015

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Office of Inspector General

February 19, 2015

MEMORANDUM

TO: USAID/Peru Acting Mission Director, Ted Gehr

FROM: Regional Inspector General/San Salvador, Van Nguyen /s/

SUBJECT: Audit of USAID/Peru's ProDecentralization Project (Report No. 1-527-15-005-P)

This memorandum transmits our final report on the subject audit. In finalizing the audit report, we considered your comments on the draft report and included them in their entirety in Appendix II. This report includes two recommendations to help improve USAID/Peru's implementation of its ProDecentralization Project.

The mission agreed with both recommendations. Based on comments from the mission, management decisions have been reached and final action taken on both recommendations.

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

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SUMMARY OF RESULTS

The Peruvian Government passed the Decentralization Law in 2002 to improve how regional, provincial, and district governments provide public services. To do so, the law transferred responsibilities and resources to those subnational levels.

USAID/Peru responded by investing \$17.2 million in its first ProDecentralization Project from 2003 to 2008. Through it, officials at the national level received technical assistance in applying the law and reassigning certain responsibilities to their counterparts at the subnational levels. Then from 2008 to 2012, the mission invested \$10.6 million in a second project that provided technical assistance to subnational officials, with a focus on planning, budgeting, and spending.

To implement a third project, USAID/Peru awarded Tetra Tech ARD a 5-year, \$12 million contract on October 11, 2012. The mission subsequently increased it to \$14.9 million with an estimated completion date of October 14, 2017. As of September 30, 2014, the mission had obligated \$7.1 million and disbursed \$5 million for the project.

The current project's goal is "Improved decentralized management for effective service delivery benefitting marginalized populations in target regions¹ (Madre de Dios, Amazonas, Loreto, San Martin and Ucayali)." To achieve this, it focused on the following three areas.

- **National Policy.** Improve key policies and implement reforms that have direct impacts on decentralization and subnational governance.
- **Institutional Strengthening.** Strengthen subnational institutions so they can deliver public services directly.
- **Transparency and Accountability.** Enhance government accountability by making government processes and actions open to the public.

Additionally, the contractor was tasked with building "synergies" between the private sector and the targeted subnational governments so activities could be expanded and public service delivery improved.

The Regional Inspector General/San Salvador (RIG/San Salvador) conducted this audit to determine whether USAID/Peru's ProDecentralization Project was on track to achieve its main goal. The audit found that it was in that it successfully provided technical assistance in each of the three areas in three of the five regions we visited (Loreto, San Martin, and Ucayali). As of September 30, 2014, the project had:

- Helped draft 26 new laws, policies, ordinances, and regulations at the national and subnational levels of government.
- Trained 2,997 people how to deliver public services more efficiently.
- Helped 18 of the 25 governments prepare operating plans.

¹ Regions in Peru are comparable to states. The project targeted the governments of 5 regions, 5 provinces, and 15 districts.

- Helped 24 of the 25 governments improve their institutional performance by at least 5 percent a year in planning, legal issues, participation, executive functions, and control and monitoring.
- Helped 12 governments conform to specific requirements in the Law of Transparency and Public Access to ensure transparency and public access to information.

Because of these activities, public service delivery in the education, environment, and health sectors has improved in the five regions. For example, the number of days needed to distribute educational materials decreased from 81 to 61 (target was 77), and the frequency of trash collection services increased by 78 percent (target was 25 percent). The wait time at a health center we visited dropped from 4.5 hours to an average of 25 minutes, and patients' medical records were digitized.

However, despite these achievements, the audit found some problems. The project had not addressed civil service reform adequately—a necessary step to keep the public service employees who were trained (page 3). The project also had not worked with the private sector on expanding activities or improving service delivery. Therefore, the project may not be sustainable (page 4).

In another matter, the audit found that the mission did not define indicators clearly enough to track results (page 5).

To improve project management, we recommend that USAID/Peru:

1. Adjust the project's remaining work plans to include a civil service law awareness campaign and provide technical assistance on how to implement the law (page 4).
2. Incorporate private sector involvement into the project's activities and track them accordingly (page 4).

Detailed findings appear in the following section. The scope and methodology are described in Appendix I. Management comments are included in their entirety in Appendix II, and our evaluation of management comments can be found on page 6.

AUDIT FINDINGS

Project Did Not Address Civil Service Reform

USAID's Automated Directives System (ADS) 200.3.1.5 requires the Agency to incorporate sustainability into all activities from the start. To comply with these requirements, USAID's contract with Tetra Tech states:

Sustainability will be achieved through building the capacity of government institutions. This consists of three elements: (1) engaging authorities and securing [the Peruvian Government's] ownership of activities; (2) institutionalizing processes and best practices; and (3) supporting civil service reform, particularly its application in the target regions, as appropriate.

While the project is working toward the first two, it has not addressed civil service reform adequately.

The Peruvian Government passed a civil service law in July 2013—a year after the project began—to tackle high turnover in civil service jobs. It is now going through the process of getting the operational statutes in place so the law can be implemented. However, according to Tetra Tech staff, public service employees have negative impressions of the law mainly because they don't understand it and fear that minimum qualifications will be required for jobs that were not required before. All 51 employees we spoke to in the 13 subnational governments we visited agreed that creating a stable workforce is positive, but more is needed—such as a public service campaign—to better understand the law and how it will be implemented.

Civil service reform is critical to the project's sustainability because it helps retain people who know how to use the tools the project developed. On average, 70 percent leave their jobs when administrations change in the subnational governments we visited, and an average of 30 percent per office have tenure.

Tetra Tech officials said the project has not yet taken an active role in providing technical assistance in implementing civil service reforms because it is still too early in the process and no statutes have been approved yet to implement the law at the subnational level.

However, the reforms must be addressed in a timely manner because the high turnover rate of civil service employees weakens the project's sustainability. The project must incorporate the civil service reforms into its remaining activities and outline plans for how it will continue after USAID funding ends. Few Agency projects exist for 14 years, and USAID/Peru officials said the third decentralization project is probably the last of its kind. The total investment of \$42.7 million will have been spent on a project that is not sustainable.

Therefore, this audit makes the following recommendation.

Recommendation 1. *We recommend that USAID/Peru adjust its ProDecentralization Project's remaining work plans to include a civil service law awareness campaign and provide technical assistance on how to implement the law.*

Project Did Not Involve Private Sector

Tetra Tech's contract states:

The contractor shall seek synergies where the private sector's interests coincide with regional and local authorities and/or civil society organizations in the Mission's target regions. Agreements between the private sector and these key stakeholders could be promoted to use private sector resources to expand activities or improve service delivery in the target regions or extend into new geographic areas.

In addition, the contract required Tetra Tech to get \$123,000 in private sector funds in the first 2 years of implementation, and the project itself had an indicator to track progress in obtaining those funds.

However, the project got only \$5,190—or 4 percent of its target. We could not find any private sector partnerships established, despite the fact that the project had several opportunities. It has not joined forces with private companies to improve recycling or trash collection although these companies are among the biggest producers of waste. The project had not worked with medical schools to recruit students to work in understaffed clinics. In addition, it had not pursued collaborations with the private sector even though civil service employees we spoke to described various examples of how the private sector had been involved successfully in sponsoring educational activities in the past.

Tetra Tech officials said they had not contacted anyone in the private sector because they thought private entities were not interested in delivering public services. In addition, they said, they focused more on getting private sector funds than forming partnerships because the project had an indicator for funds but not for partnerships.

Mission employees said they did not monitor this aspect of the contract as well as they should have, and they agreed that Tetra Tech needed to make more of an effort to work with the private sector. Collaboration with that sector would increase opportunities to expand and improve service delivery after the project ends.

Therefore, this audit makes the following recommendation.

Recommendation 2. We recommend that USAID/Peru incorporate private sector involvement into the ProDecentralization activities and track them accordingly.

OTHER MATTER

Some Indicators Were Not Defined Clearly

ADS 203.3.2 states that performance indicators are the “basis for observing progress and measuring actual results compared to expected results.”

The audit found that the following indicators in the project’s performance monitoring plan were not well defined.

- *Number of laws, amendments promoting decentralization drafted with USG assistance and Number of laws, policies or procedures promoting gender or intercultural equality drafted and proposed with USG assistance.* The project is not getting credit for laws or policies adopted—only those drafted.
- *Percentage of regional governments that improve their institutional capacity to manage social conflicts and Percentage of regional governments that improve their institutional capacity on disaster risk management.* The project is actually tracking the adoption of policies and guidelines.
- *Number of individuals who received USG-assisted training in efficient public management practices and improved service delivery and Percentage of citizens trained to improve leadership abilities participating in social service (health, education and environment) oversight committees or other oversight mechanisms.* These indicators do not define a trained participant.

Mission officials have since said that having 70 percent of a group participate in a training is sufficient. However, in some instances, the project reported anyone who attended part of a training, and in others reported those who attended the entire class. Therefore, training is not reported consistently, nor is it reflected accurately in TraiNet.²

- *Value of direct financial or in kind counterpart contributions leveraged from the public sector and Value of financial or in kind contributions leveraged under National Public funds or Private Partnerships for the improvement of services prioritized by Decentralized Management Groups and furtherance of project objectives in Peru’s departments.* These indicators could be combined and reported by separate types of funding obtained (private sector, other donor funds, or host-government contributions).

While these are a fraction of the total number of indicators, we suggest the mission review them and make adjustments as required.

² TraiNet is USAID’s database for all data related to training that the Agency has paid for through its various programs, projects, and activities.

EVALUATION OF MANAGEMENT COMMENTS

USAID/Peru agreed with our two recommendations. Based on comments from the mission, management decisions have been reached and final action taken on both recommendations.

Our evaluation of management comments follows.

Recommendation 1. The mission has included in its ProDecentralization Project FY 2015 work plan activities that provide awareness on the civil service law and technical assistance on how to implement it. The project already has begun implementing some of the activities. We acknowledge the mission's management decision and final action taken on this recommendation.

Recommendation 2. The mission has instructed Tetra Tech ARD to incorporate some steps immediately to make sure the project addresses concrete actions to get the private sector involved. We acknowledge the mission's management decision and final action taken on this recommendation.

SCOPE AND METHODOLOGY

Scope

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

The purpose of this audit was to determine whether USAID/Peru's ProDecentralization Project was achieving its main goal of improving decentralized management for effective service delivery benefiting marginalized populations in targeted regions of Peru.

On October 11, 2012, USAID/Peru signed a \$12 million contract with Tetra Tech ARD to implement the 5-year project. The mission subsequently increased the award to \$14.9 million with an estimated completion date of October 14, 2017. As of September 30, 2014, USAID/Peru had obligated \$7.1 million and disbursed \$5 million for the project. This represents the amount tested.

In planning and performing the audit, the audit team assessed significant management controls the mission used to manage the project and make sure it provided adequate oversight. These included quarterly and annual performance reports, performance management plans, and annual work plans. In addition, the auditors examined the mission's portfolio review notes and its FY 2014 annual self-assessment of management controls, which missions are required to perform to comply with the Federal Managers' Financial Integrity Act, to determine whether the assessment cited any relevant weaknesses.

We also reviewed award documents, tested reporting systems, conducted site visits, interviewed USAID/Peru staff, Peruvian Government officials, Tetra Tech ARD staff, and beneficiaries. We reviewed reported results for accuracy and made note of any potential issues identified. We conducted fieldwork in Peru from September 15 through October 3, 2014. We visited three of the five departments the project is working in, and reviewed technical assistance being provided to provincial and municipal levels of government in the areas of education, environment, and health.

Methodology

To answer the audit objective, we reviewed project documentation and conducted interviews and site visits. We evaluated the mission's management and oversight of the project, the performance of Tetra Tech ARD, and the effectiveness of activities. We met with officials from USAID/Peru and the project's prime and subpartners. We also interviewed beneficiaries and Peruvian Government officials.

Through these interviews and the review of the project's documentation, the audit team obtained an understanding of (1) the project's goals, (2) how performance indicators, targets, and baseline data were established to measure progress, (3) how the mission verifies the quality of the data the contractor reported, (4) how the mission monitors project activities, and

(5) whether the mission is aware of any allegations of fraud or other potential illegal acts or noncompliance with laws, regulations, and agreement terms.

In addition, we performed the following audit tests:

- Reviewed and tested all the performance indicators, targets, baselines, and results to determine their appropriateness.
- Reviewed and tested all the procedures the mission established to monitor and confirm the accuracy of the project's reported results.
- Documented and tested compliance with award requirements for sustainability, gender analysis, human trafficking, branding and marking, performance-based payment of the fixed fee, and environmental compliance.

To verify the status of activities completed, we examined documentation maintained at the contractor's office in Lima that supported the reported results. In addition, we judgmentally selected three of the five regions the project is working in (Loreto, San Martin, and Ucayali), and reviewed the technical assistance being provided to provincial and municipal levels of government in the areas of education, environment, and health. We based our sample on factors including accessibility and diversity of activities.

Within these regions, we visited activities implemented in Belen, Coronel Portillo, Lamas, Manantay, Maynas, Moyobamba, Nueva Requena, Pucallpa, Punchana, and Yarinacocha. We conducted these field visits to validate reported results to the extent possible.

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

MANAGEMENT COMMENTS



DATE: FEB 06 2015

TO: Van Nguyen, Regional Inspector General/San Salvador

FROM: Matthew Cohen, Acting Mission Director /s/

SUBJECT: Comments to Audit of USAID/Peru's ProDecentralization Project

Thank you for giving USAID/Peru the opportunity to respond to the draft report of the Audit of USAID/Peru's ProDecentralization Project, per your memorandum dated January 7, 2015.

Below we have listed the two findings and recommendations of this audit, followed by USAID/Peru's comments and suggestions, submitted for your consideration. Additional comments are included in the last section of this memorandum.

Recommendation 1: We recommend that USAID/Peru adjust its ProDecentralization Project's remaining work plans to include a civil service law awareness campaign and provide technical assistance on how to implement the law.

The Mission concurs with this recommendation.

However, it is important that the Audit Team understand that support in this area has been limited by delays in the GOP's approval of the regulations which provide the basic guidance to implement civil service reform. The Civil Service Reform Law was approved by the Congress in December 2013, but regulations guiding the implementation of the reform were not approved by the Executive until June 2014, and then only partially. This audit occurred from September 15 to October 3, 2014.

Since the approval of the regulation, ProDecentralization started coordinating with the National Civil Service Authority (SERVIR) to identify strategic actions to move this reform at the sub-national level. The main actions taken by ProDecentralization include the following:

- a) *November* – December 2014, ProDecentralization provided technical assistance to SERVIR to design the strategy for the implementation of a public review on guidance to the public sector to implement the new civil service law.
- b) December 2014: ProDecentralization provided technical assistance to SERVIR in the organization and facilitation of an expert review to validate SERVIR's guidance for the implementation of the Civil Service Law. Two public workshops were developed, one comprised largely of central government authorities and a second one with national experts, academics, lawyers, and former high ranking governmental officials.

These two steps contributed to building the technical understanding of the approved regulation crucial for the preparation of a Communication Strategy to be launched by SERVIR.

Throughout FY 2015, PRODES will continue to provide technical assistance to SERVIR in the following actions:

- Preparation of instruments (regulations, guides, etc.) required by regional governments to transition to the new civil service system (FY15 Q3).
- Elaboration of a “road map” to monitor the implementation of the civil service law in those Amazonian regional governments which committed to transition to the new civil service system (FY15 Q3).

Recognizing that a national public awareness campaign is very expensive and goes beyond the scope of the current project, the project will focus its activities on supporting SERVIR’s public awareness campaign to:

- Disseminate a user friendly brochure outlining a description of the Civil Service Law (FY15 Q3-4) and its benefits, focusing on the targeted regions.
- Prepare an Orientation Manual with frequently asked questions and answers regarding the benefits and problems arising in the transition for the implementation of the Civil Service Law (FY15 Q3-4).
- Collaborate with SERVIR’s campaign efforts within the project’s regions.

Additional support which may be needed, in accordance with SERVIR’s institutional strategic plan, 2015-2021, within this framework:

- At the regional level ProDecentralization will also offer technical assistance to each of the sub-national partner institutions with the implementation of the law. The Regional Government of San Martin (GORESAM) has already requested project support to review and revise employment position descriptions that GORESAM will use for the transition process to the civil service law (FY15 Q1-4).

In conclusion, and based on the action taken (See Attachment A, page 2, f and g), USAID/Peru considers that this recommendation has been implemented.

Recommendation 2: *We recommend that USAID/Peru incorporate private sector involvement in the ProDecentralization activities and track them accordingly.*

The Mission concurs with the recommendation that the Project should seek alliances with the private sector in the regions to reinforce program activities for the improvement of service delivery.

While the Mission will search out opportunities to engage the private sector in project activities, and recognizes the intent of the audit’s recommendation, USAID would like to provide some clarifications to this statement.

- a) Provision of public services is mainly a governmental role.
- b) For sustainability purposes, the focus of the project is to build institutionalization of practices and the use public management tools by the responsible public entities of

service delivery. It includes technical assistance in the financial and administrative areas.

- c) Private sector participation is only a complementary strategy under the SOW of the program. It is aimed at complementing efforts to deepen some experiences, or expand them, if possible, in other regions.

USAID/Peru recognizes the importance of promoting private sector involvement in the project, to the greatest degree possible. To this end, USAID/Peru directed the Contractor to incorporate immediately some steps to ensure the Program will address concrete actions to engage private sector into the program. Some of these actions are the following:

- ProDecentralization will conduct a consultancy in, at least two regions, to identify potential partnerships with the private sector to reinforce the improvement of prioritized services" (WP FY2015-Q2-3)
- Upon completion of the consultancy report, USAID will immediately convene a strategy session with ProDecentralization to review major findings and lessons learned and to define a plan of action to engage the private sector in project activities (FY15 Q2). As part of this plan of actions, we will analyze concrete opportunities in the three areas of intervention: health, education, and solid waste management, in accordance with the parameters of the USAID procedures and Peruvian regulations.

In conclusion, and based on the action taken (See Attachment A, page 7, IR 2.3.4), USAID/Peru considers that this recommendation has been implemented.

Other Matter

Some indicators were not defined clearly

USAID has reviewed with the contractor the four indicators observed by the Audit Team and they have been adjusted to more effectively reflect the project efforts and include more disaggregation to provide better analysis of the project intervention (See Attachment B with the revised indicators).

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