OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/MEXICO'S GLOBAL CLIMATE CHANGE PROGRAM

AUDIT REPORT NO. 1-523-13-006-P
JUNE 20, 2013

SAN SALVADOR, EL SALVADOR

Office of Inspector General

June 20, 2013

MEMORANDUM

TO: USAID/Mexico Mission Director, Tom Delaney

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

SUBJECT: Audit of USAID/Mexico's Global Climate Change Program (Report No. 1-523-13-006-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we carefully considered your comments on the draft and have included them in their entirety in Appendix II.

The report contains 13 recommendations to help USAID/Mexico strengthen its Global Climate Change Program. Based on actions the mission has taken or plans to take, final action was taken for seven recommendations and management decisions have been reached on six. 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 for all the recommendations.

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

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Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
DQA	data quality assessment
FAR	Federal Acquisition Regulation
FY	fiscal year
GCC	Global Climate Change Program
GHG	greenhouse gases
MLED	Mexico Low Emissions Development
M-REDD	Mexico's Reduced Emissions from Deforestation and Degradation
OMB	Office of Management and Budget
PMP	performance management plan
PPR	performance plan and report
REDD+	Reducing Emissions from Deforestation and Degradation
TraiNet	Training Results and Information Network

SUMMARY OF RESULTS

In 2009 the United States and Mexico entered into a bilateral framework on clean energy and climate change. Through this agreement, the two countries outlined their common commitment to a low carbon future and clean energy economies.[1] To support this effort, USAID/Mexico's Global Climate Change (GCC) Program aims to help Mexico reduce emissions from deforestation and forest degradation, implement a low emissions development strategy, and establish a strong national monitoring, reporting, and verification system for greenhouse gases (GHG).

The audit team chose two components of GCC that account for 61 percent of its funding in fiscal year (FY) 2012. (Table 1 outlines the breakdown for each.)

Mexico Low Emissions Development (MLED) Program. This program, implemented through a contract with Tetra Tech Inc., helps the Mexican Government (1) establish low emissions development strategies and (2) strengthen the systems that monitor, report, and verify emissions in all sectors of the economy. MLED also helps the government develop energy policies, financing mechanisms, and institutional and technical capacity to enable the adoption of clean energy technologies in the public and private sectors. The program ensures that efforts carried out by other implementing partners for GCC are coordinated and integrated.

Mexico's Reduced Emissions from Deforestation and Degradation (M-REDD) Program. Implemented though a cooperative agreement with the Nature Conservancy, this helps Mexico implement a sustainable Reducing Emissions from Deforestation and Forest Degradation (REDD+)[2] strategy, including an effective monitoring, reporting, and verification system for emissions. In addition, the program helps Mexico develop REDD+-related policies, build institutional and technical capacity, and create the financial structure necessary to support the sustainable implementation of REDD+ activities.

Table 1. USAID/Mexico's Environmental Programs (Audited)

Program	Total Amount ($ millions)	Amounts Obligated ($ millions)	Amounts Expended ($ millions)	Dates
MLED	19.5*	9.3	2.2	9/1/11–9/1/16
M-REDD	29.1	9.5	1.2	8/29/11–8/28/16

Source: USAID/Mexico. Dollar values are as of September 30, 2012.

* The contract is for $12.1 million with an option to raise the total amount to $19.5 million and extend for 2 years.

[1] "A clean economy is a segment of an economic system in which supply chains are transformed to meet demand for low-carbon energy technologies. It's based on a simple but controversial idea: that cutting global warming emissions from burning fossil fuels and shifting to clean energy can unleash economic growth and job creation." (Maria Gallucci, "A Primer on the U.S. Clean Energy Economy: What It Is, Why It Matters," *InsideClimate News*, February 28, 2012.)

[2] According to the United Nations, "REDD is an effort to create a financial value for the carbon stored in forests, offering incentives for developing countries to reduce emissions from forested lands and invest in low-carbon paths to sustainable development. 'REDD+' goes beyond deforestation and forest degradation, and includes the role of conservation, sustainable management of forests and enhancement of forest carbon stocks."

The Regional Inspector General/San Salvador (RIG/San Salvador) conducted this audit to determine whether USAID/Mexico's GCC Program is achieving its primary goals of helping Mexico reduce emissions from deforestation and forest degradation, implementing a low emissions development strategy, and establishing a strong national monitoring, reporting, and verification system for greenhouse gases (GHG).

The audit found that by the end of the first year, 64 percent of M-REDD's and 21 percent of MLED's activities were late (page 4). The main reasons were lack of start-up plans, problems with hiring personnel, misunderstandings among some subpartners, and changes within the Mexican Government after national elections.
The audit identified the following concerns related to program implementation.

- Indicator and results reporting were not always accurate or complete (page 6). Data for some indicators were missing, and results reported at the program level did not always match the results included in the mission's performance plan and report (PPR).

- One program did not comply with human trafficking requirements (page 9). The counter-trafficking clause was left out of the MLED contract, and the program's staff was not aware of the compliance requirement.

- The mission did not require its programs to track earmarked funds nor were all needed financial controls implemented (page 10).

- Program security plans were not complete (page 11). Safety and security protocols were not adequate for the high-risk locations where contract employees are scheduled to work.

Despite these problems and delays, USAID/Mexico's environmental activities succeeded in some areas. For example, MLED helped the Mexican Government develop a basis document for a low emissions development strategy and is supporting efforts to implement it. M-REDD provided technical and strategic support for Mexico's General Law of Ecological Balance and Environmental Protection, the General Sustainable Forestry Law, and the development of REDD+ strategies at the national and state levels.

To help the program overcome the initial delays and achieve its intended objectives, RIG/San Salvador recommends that USAID/Mexico:

1. Require the Nature Conservancy to adjust its work plans and budgets to account for the delays in the first year (page 6).

2. Help the Nature Conservancy find a new local partner to take on the development of a financial structure for REDD+ investments and help manage subgrants with local partners while maintaining the cost-share level agreed to in the award (page 6).

3. Require Tetra Tech Inc. to provide status updates of activities approved in the work plans (page 6).

4. Develop a plan to help the Nature Conservancy improve the monitoring and evaluation components in its program (page 6).

5. Execute a plan with Tetra Tech Inc. and the Nature Conservancy to define how each indicator is to be tracked (page 8).

6. Consult with USAID/Washington's Global Climate Change Office on how to calculate and report greenhouse gas emissions reductions and sequestrations for activities related to law, policy, agreement, or regulation (page 8).

7. Verify the information reported in the performance management plan and performance plan and report, and revise accordingly (page 9).

8. Conduct a data quality assessment (which includes verification of data) on its performance plan and report indicators (page 9).

9. With Tetra Tech Inc. and the Nature Conservancy, implement uniform guidance on how to calculate and report training data in the Training Results and Information Network (page 9).

10. Amend Tetra Tech Inc.'s contract to include the Federal Acquisitions Regulation 52.222-50 clause (page 9).

11. Advise Tetra Tech Inc. and the Nature Conservancy to implement appropriate methodologies for planning, allocating, tracking, and reporting earmarked funds (page 11).

12. Verify that Tetra Tech Inc. has corrected the internal control deficiencies identified in this audit report (page 11).

13. Advise Tetra Tech Inc. and the Nature Conservancy to implement security plans that adequately address the safety and security of their personnel working in regional locations (page 12).

Detailed findings appear in the following section. Appendix I describes the audit scope and methodology. Management comments will appear in Appendix II, and our evaluation of them is on page 13.

AUDIT FINDINGS

Environmental Programs Were Late

According to Automated Directives System (ADS) 202.3.6, "Monitoring the quality and timeliness of outputs produced by implementing partners is a major task of contracting officer representatives and development objective teams . . . Delays in completing outputs or problems in output quality provide an early warning that results may not be achieved as planned."

Additionally, per their respective agreements with USAID/Mexico, the implementers of the MLED and M-REDD programs developed annual work plans for the period from October 2011 to September 2012. USAID considers these very important management tools because they contain clear performance indicators, benchmarks against which the implementers report quarterly, and a budget projection for the period. According to their first-year work plans approved by USAID/Mexico, MLED and M-REDD were required to implement 77 and 105 activities, respectively, from October 2011 to September 2012.

However, both programs were late; as of October 2012, MLED had implemented only 61 of the 77 activities (79 percent), and M-REDD only 31 of 105 (30 percent). As a result, key activities, such as setting up the grants component, supporting the creation of the financial structure for a national REDD+ system, and supporting the development of a monitoring, reporting, and verification system for GHG, had not started or were significantly behind schedule.

According to officials at the Nature Conservancy and Tetra Tech, some delays stemmed from Mexico's elections in July 2012. They said they could not work with government personnel from the transition team until U.S. Embassy and USAID/Mexico officials had established official contacts with the new leaders.

While delays from these types of external factors may be unavoidable, other delays occurred because USAID/Mexico's contracting officer representatives and development objective team did not (1) closely monitor the implementing partners' work to identify potential problems or (2) provide timely assistance and coordination to make sure programs stayed on track.

Implementers Lacked Start-up Plan. Neither Tetra Tech nor the Nature Conservancy had a start-up plan, and the mission provided limited guidance and assistance to help them begin their programs. As a result, Tetra Tech had problems opening bank accounts, acquiring and remodeling office space, and acquiring clearances, documentation, and accreditations from the government.

Implementers Faced Hiring Delays. According to USAID/Mexico and its implementers, the salary levels the Agency originally approved were too low to attract qualified candidates for selected positions. Delays averaged about 45 days per position for Tetra Tech and 5 to 8 months for the Nature Conservancy. The Nature Conservancy still has not been able to fill its policy adviser position after more than 1 year of implementation.

By the time USAID agreed to increase the salaries, delays had occurred and the most eligible candidates had taken other jobs. This situation could have been avoided in the case of the Nature Conservancy because the regulations governing its agreement did not have as stringent

salary requirements as those governing Tetra Tech's contract[3].

USAID Approved Documents Late. USAID took a very long time to approve some key documents needed to get the programs started. For example, it took about 2 months for USAID to approve the programs' work and management plans, and approximately 9 months to approve the MLED grants manual. MLED was to distribute $400,000 in grants during its first year, but could not distribute any because the manual had not been approved.

Organization Misunderstood Its Role. To implement M-REDD, the Nature Conservancy proposed forming a consortium with three other organizations. USAID awarded the program to the consortium based on the "(1) technical expertise of the partners, (2) proposed cost share from each member, and (3) potential synergies and efficiencies" that the consortium offered. However, the Nature Conservancy entered into the agreement as the prime partner with the other members of the consortium as subpartners, which caused a misunderstanding of roles because the other partners expected to have equal status within the consortium. This led to major disagreements, and one partner pulled out, putting at risk the $2 million in cost sharing that it had agreed to contribute. This is causing even more delays as the Nature Conservancy looks for a replacement organization to manage its subgrants and local partners.

Excessive Reporting Created Burdens. As part of the MLED agreement, Tetra Tech provides weekly, monthly, quarterly, and annual reporting, and it responds to ad hoc requests for information for all GCC programs. Tetra Tech also coordinates all GCC events, such as partners' meetings and workshops.

Although Tetra Tech agreed to the extra reporting and coordination requirements, they have become a significant burden. The contracting officer's representative realized this and eliminated the monthly reporting requirement from the agreement.

Tracking Activity Implementation Status Was Difficult. Tetra Tech was not reporting on the progress of its program by activity, making it hard for the contracting officer's representative[4] to monitor the progress of the activities specifically outlined in the approved work plans. Therefore, USAID was not aware of delays and could not address their causes. Additionally, the Nature Conservancy's chief of party expressed concern that a large program like M-REDD ($29 million) did not have a monitoring and evaluation specialist on staff.

These planning and coordination delays contributed to the mission setting aside more funds than they were allowed to. According to ADS 602.3.2, "Maximum Length of Forward Funding," program managers, with some exceptions, should not make obligations "for more than 12 months beyond the end of the fiscal year in which the obligation takes place." Based on the mission's assessment at the time of the audit, both programs are funded beyond that length of time: MLED for 15 months, and M-REDD for 26 months.

The delays could impede progress toward achieving the programs' main goals. While Tetra Tech has adjusted its second year work plan and budget, the Nature Conservancy has not. Unless it does, key activities, such as supporting development of the financial system for

[3] The agreement officer had rejected the requests for the Nature Conservancy's higher salary levels based on USAID Acquisition Regulation 701.301(b)), even though this regulation applied to contracts and not cooperative agreements.

[4] Numerous people had this job during the program's first year.

REDD+ and supporting development of the national monitoring, reporting, and verification system for GHG, will not be completed. To address these problems, we make the following recommendations.

Recommendation 1. *We recommend that USAID/Mexico require the Nature Conservancy to adjust and resubmit its work plan and budget to account for the delays experienced in the first year.*

Recommendation 2. *We recommend that USAID/Mexico work with the Nature Conservancy to identify a new local partner to take on the financial system for REDD+ and help manage subgrants with local partners while maintaining the cost share level agreed to in the award.*

Recommendation 3. *We recommend that USAID/Mexico work with Tetra Tech Inc. to provide written status updates on activities approved in the work plans.*

Recommendation 4. *We recommend that USAID/Mexico develop a plan to help the Nature Conservancy improve the monitoring and evaluation component of the M-REDD Program.*

Indicator and Results Reporting Were Not Always Accurate or Complete

Per ADS 203.3.3, a performance management plan (PMP) "is a tool to plan and manage the process of monitoring, evaluating, and analyzing progress toward achieving results"; the PMP should "inform decision-making, resource allocation, learning, and adapting projects and programs." USAID missions are required to have PMPs for any projects or activities they fund. Performance indicators[5] are tools in a PMP that allow the progress of a USAID project to be measured.

ADS 203.3.4.3 states that baseline data for each of the performance indicators are determined before the project starts. Targets are then set for each indicator, and results are measured through the PMP. The data from the PMP are not only used to measure progress and inform decision-making, but they also are reported to Congress through the annual PPR to justify foreign assistance programming and resource requests.

Additionally, to certify the quality of the data being reported, ADS 203.3.11.3 requires missions to conduct data quality assessment (DQAs) "to ensure that decision makers are fully aware of data strengths and weaknesses and the extent to which data can be trusted when making management decisions and reporting." Per ADS 200.2, development objective teams make sure that all accountability requirements related to use of foreign assistance resources assigned to them are identified, met, and documented adequately.

[5] ADS 200.6 defines a performance indicator as "a particular characteristic or dimension used to measure intended changes . . . Performance indicators are used to observe progress and to measure actual results compared to expected results. Performance indicators help answer how or if a USAID mission . . . is progressing towards its objective(s), rather than why such progress is or is not being made."

Some of USAID/Mexico's reporting on performance indicators and training results were not accurate or complete.

Reported Progress for Indicators Was Not Accurate. On a quarterly basis, the MLED program reported on *Number of laws, policies, agreements, or regulations addressing climate change proposed, adopted, or implemented as a result of USG (U.S. Government) assistance*. However, Tetra Tech reported results only when a law or regulation has gone through all three stages, thereby underreporting the actual results. Likewise, for *Number of climate mitigation and/or adaptation reports, tools, technologies, and methodologies developed, improved, tested, presented, and/or adopted as a result of USG assistance*, Tetra Tech reported results when all three stages were finished rather than after each one.

For a third indicator, *Number of institutions with improved capacity to address climate change as a result of USG assistance*, Tetra Tech considered only government ministries as "institutions" and did not count the improved capacity of other organizations. For example, even though 18 organizations attended a workshop on low emissions development, Tetra Tech counted only 1—a government ministry—toward the indicator results. Undercounting also occurred to a lesser extent with M-REDD.

Implementers reported inaccurate results because they did not understand clearly how results were to be measured and did not receive any guidance from USAID/Mexico.

Results Reported in PMP and PPR Differed. The results reported by the implementing partners in the PMPs did not always agree with results that the mission reported in the PPRs. The differences in some cases were large, as noted in Table 2.

Table 2. Differences Between Plan and Report (Audited)

Program	Indicator	Year 1 Results in PMP	Year 1 Results in PPR	Difference Between PMP and PPR (%)
MLED	*Number of laws, policies, agreements, or regulations addressing climate change proposed, adopted, or implemented as a result of USG assistance*	2	2	0
M-REDD		8/0/0	6/0/0	75
MLED	*Number of institutions with improved capacity to address climate change issues as a result of USG assistance*	6	3	50
M-REDD		26	71	273
MLED	*Number of climate change mitigation and/or adaptation reports, tools, technologies, and methodologies developed, improved, tested, and/or adopted as a result of USG assistance*	8	4	50
M-REDD		7/0/0	7/0/0	0
M-REDD*	*Number of people receiving training in climate change supported by USG assistance*	444	1,537	346

Source: USAID/Mexico
* MLED plans to start reporting for this indicator in the second year.

Auditors noted other problems and discrepancies as well.

Partners Did Not Know How to Calculate GHG Reductions Stemming from Policy-level Interventions. Both implementing partners are required to report on the performance indicator *Quantity of GHG emissions, measured in metric tons of CO2e, reduced or sequestered* to track any results that could be attributed to policy changes.[6] However, through the first year, neither partner has reported any results because they did not have a formula for calculating that quantity.

Reporting on Training Activities Was Not Accurate. ADS 253.3.4.5.b requires reporting training activities in the Training Results and Information Network (TraiNet). The directive specifies that any in-country training provided by the program or its subpartners should be reported if it lasts more than 16 hours (or if it is considered critical). ADS also describes the types of data that should be recorded, including the number of participants recorded by gender.

However, the information recorded in TraiNet was not always accurate. For example, Tetra Tech recorded 34 people trained at one event, but the sign-in sheet showed that 12 of them worked for USAID and Tetra Tech. According to ADS 253.3.2.1, USAID and implementer employees are considered observers and should not to be counted as participants in any training. Additionally, the Nature Conservancy reported in TraiNet that 266 people were trained during FY 12, but reported 444 people in the PMP. Furthermore, the implementers did not properly enter the total number of participants for training sessions that took place over several days.

These problems occurred because USAID/Mexico's development objective team did not verify that reported results were accurate and reliable. The team did not confirm that effective DQAs for each indicator were conducted. Officials at the Nature Conservancy and Tetra Tech said they did not receive proper training on TraiNet, and the mission official in charge of the system agreed that additional training was needed.

Mission officials said they had other priorities and an increased workload, which gave them less time to focus on data quality and TraiNet. While the mission conducted DQAs for all of the indicators reported in the FY 2012 PPR by both programs, they were done very early in the process when little data were available to evaluate.

The next DQA is scheduled to be done in 3 years when the programs have only 1 year left. Without high-quality DQAs, USAID/Mexico runs the risk of receiving inaccurate, incomplete data about a program's status and results. Without accurate data, the mission may misstate results to Congress. It also may lack the information needed to assess the effectiveness of the programs and make informed decisions about current and future programming. To correct these problems, we make the following recommendations.

> ***Recommendation 5.*** *We recommend that USAID/Mexico, Tetra Tech Inc., and the Nature Conservancy implement a plan to define how each indicator is to be tracked.*
>
> ***Recommendation 6.*** *We recommend that USAID/Mexico consult with USAID/Washington's Global Climate Change Office on how to calculate and report*

[6] According to the Environmental Protection Agency, carbon dioxide equivalent (CO2e) is a metric measure used to compare the effect GHGs have on climate change.

greenhouse gas emissions reductions and sequestrations for activities related to law, policy, agreement, or regulation.

Recommendation 7. *We recommend that USAID/Mexico verify the information reported in the performance management plan and performance plan and report, and revise the reports accordingly.*

Recommendation 8. *We recommend that USAID/Mexico conduct a data quality assessment (which includes verification of data) on its performance plan and report indicators.*

Recommendation 9. *We recommend that USAID/Mexico, Tetra Tech Inc., and the Nature Conservancy implement uniform guidance on how to calculate and report data in the Training Results and Information Network.*

Programs Did Not Comply With Human Trafficking Requirements

According to the State Department's June 2012 *Trafficking in Persons Report*, about 27 million men, women, and children worldwide are victims of human trafficking.[7] To help reduce trafficking, the Federal Acquisitions Regulation (FAR) requires that Clause 52.222-50, "Combating Trafficking in Persons," be included in all solicitations and contracts.[8]

As previously noted, development objective teams should make sure that all accountability requirements related to use of foreign assistance resources assigned to them are identified, met, and adequately documented. However, despite that requirement, Tetra Tech had not notified its staff of the FAR requirement. According to USAID and Tetra Tech, this occurred because the agreement with Tetra Tech did not include the clause requiring compliance with antitrafficking activities.

The State Department has determined that Mexico is a Tier 2 Country with regard to human trafficking.[9] However, without adequate awareness, program officials are at risk of coming into contact with victims of trafficking without knowing how to recognize or address these situations.

To correct these problems, we make the following recommendation.

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[7] According to the Trafficking in Persons and Contractor/Recipient Compliance Agency-Wide Standard Operating Procedures, trafficking in persons is an "international crime involving the acquisition of human beings with force, fraud, or coercion for the purpose of exploiting individuals for profit through forced labor or prostitution."

[8] According to FAR 52.222-50, there is a zero-tolerance policy regarding implementing partners and their employees that engage in or support severe forms of human trafficking. They are required to establish policies and procedures for making sure their employees do not engage in or support trafficking, procure commercial sex acts, or use forced labor in the performance of a federal contract.

[9] A Tier 2 country is one whose government does not fully comply with the minimum standards for the Trafficking Victims Protection Act of 2000 (Public Law 106-386) but is making significant efforts to bring itself into compliance with those standards.

Recommendation 10. *We recommend that USAID/Mexico amend the Tetra Tech Inc. contract to include Clause 52.222-50 of the Federal Acquisitions Regulation.*

Programs Did Not Track Earmarked Funds or Implement All Financial Controls

ADS 634.3.2 states that funds must be obligated and expended solely for the purposes for which they were appropriated, except as otherwise provided by law. USAID provided earmarked funds to Tetra Tech and the Nature Conservancy to use only for intended environmental purposes. Tetra Tech received Clean Energy and Sustainable Landscapes earmarked funds. The Nature Conservancy received Sustainable Landscapes and Biodiversity earmarked funds. According to their agreements with USAID, the implementing partners are required to consider the best use of earmarked funds when developing annual work plans and then track expenditures by earmark category to demonstrate that the expenditures respect congressional restrictions on the funding.

However, USAID/Mexico did not require its implementing partners to track these funds. Therefore, Tetra Tech and the Nature Conservancy did not consider the best use of earmarked funds when developing their annual work plans as required by their agreements. The Nature Conservancy did not have a system in place to track funds by earmark. While Tetra Tech did have a system, it was being done after the activities were already completed.

This problem occurred because USAID/Mexico did not provide adequate guidance or training to its implementing partners on how to track these funds. Other priorities and an increased workload contributed to the mission's lack of attention to the earmarked requirements. According to Tetra Tech, its accounting system had not been set up to track earmarks, and it had not received guidance on how to track and allocate earmark funds. Officials at the Nature Conservancy said they understood that all the program's funds related to one type of earmark, so they did not see a need to track the two separately.

Without adequate tracking, the programs' funds may not be used as appropriated, and that could result in inaccurate allocations and misuse of those earmarked funds.

Furthermore, the A-102 Common Rule and the Office of Management and Budget (OMB) Circular A-110 (2 Code of Federal Regulations, Part 215) requires organizations receiving federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Protecting property and assets from loss from unauthorized use or disposition are among the key objectives of internal controls, per OMB Circular A-133.

During the audit, the team noted the following additional control weaknesses within MLED.

- Tetra Tech signed checks without tiered authority levels to prevent the risk of misappropriation of assets.

- Tetra Tech did not segregate duties when preparing bank reconciliations and processing payments.

- Computer system backups were not kept at an offsite location to allow recovery in case of disaster.

- Tetra Tech's Mexico operations manual was incomplete; the staff there tried adopting the one used in the U.S. headquarters instead of writing one tailored to its Mexico office.

According to Tetra Tech officials, these problems happened because in the past year the staff focused more on setting up an office than they did on internal controls.

Weak internal controls may result in misappropriation of assets or loss of data. To correct these problems, we make the following recommendations.

> ***Recommendation 11.*** *We recommend that USAID/Mexico advise Tetra Tech Inc. and the Nature Conservancy to implement appropriate methodologies for planning, allocating, tracking, and reporting earmarked funds.*
>
> ***Recommendation 12.*** *We recommend that USAID/Mexico verify that Tetra Tech Inc. corrects the internal control deficiencies identified in this audit report.*

Program Security Plans Were Not Complete

According to the operational security supplement to ADS 302 and 303, "When implementing any USAID award, the implementing partner bears the ultimate responsibility for ensuring adequate steps are taken to safeguard the security and safety of its personnel and any USAID funded equipment/property/vehicles." Furthermore, the supplement states that to achieve an adequate level of security, USAID implementing partners must see security as a top priority. It must be an integral component of program design and program management.

While the MLED program has a security plan, it is not adequate for the high-risk areas in which the staff members are scheduled to work next year. The plan was developed to provide guidance for the first-year activities carried out in and around Mexico City. But it does not address the risks of working in more dangerous places, such as Ciudad Juarez, Chihuahua, Coahuila, Baja California, and Morelos, where MLED is slated to be implemented next year. The Regional Security Office at the American Embassy has identified these places as dangerous areas where precautions and security measures should be taken, and it has warned employees to avoid travel to Ciudad Juarez and Chihuahua.

The M-REDD program does not have a security plan and is scheduled also to be working in areas identified as high-risk next year, including Chihuahua and Michoacan.

This occurred because the mission did not monitor the partners to make sure they had effective security plans in place before work began. Furthermore, Tetra Tech intended to work only around the capital when it prepared its security plan during the first year of implementation. Subsequently the Mexican Government asked the program to work in high-risk areas. Tetra Tech did not change the plan to include those areas because program officials said they did not know this was necessary to address security risks.

A security plan considers the volatile environments in which contractors work and should minimize risks to them as well as to program beneficiaries. To correct these problems, we make the following recommendation.

> ***Recommendation 13.*** *We recommend that USAID/Mexico advise Tetra Tech Inc. and the Nature Conservancy to implement security plans that adequately address the safety and security of their personnel working in regional locations.*

EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, USAID/Mexico concurred with each recommendation and either took or plans to take the actions, as described below.

Recommendation 1. The mission met with Nature Conservancy officials to discuss the delays during the first year. Appropriate updates and adjustments to their work plan and budget were made, and the mission approved them on May 24, 2013. Based on these actions, we acknowledge that final action has been taken on this recommendation.

Recommendation 2. The mission met with Nature Conservancy officials to discuss the issues identified in the audit. They implemented a mechanism to take on the development of the program's financial system. They also hired a new local partner, Espacios Naturales para el Desarrollo Sustentable, to manage the subgrants program and agreed to assume full responsibility for the cost-share level decided on in the award. Based on these actions, we acknowledge that final action has been taken on this recommendation.

Recommendation 3. The mission modified the contract with Tetra Tech Inc. to require annual reporting by activity, and the contractor has adopted a new reporting format to meet this requirement. Based on these actions, we acknowledge that final action has been taken on this recommendation.

Recommendation 4. The mission has taken steps with the Nature Conservancy to improve monitoring and evaluation by integrating an adaptive management plan that incorporates tracking progress toward achieving program goals. The Nature Conservancy intends to hire additional staff to conduct the program's monitoring and evaluation; the additional staff is expected to be in place by August 30, 2013. Based on these planned actions, we acknowledge that a management decision has been reached on this recommendation.

Recommendation 5. The mission has worked with Tetra Tech and the Nature Conservancy, and both programs have adjusted their tracking systems to standardize the way in which outcomes are measured against indicators. Based on these actions, we acknowledge that final action has been taken on this recommendation.

Recommendation 6. The mission consulted with USAID/Washington by sending a letter on June 4, 2013, and received guidance from the Bureau of Economic Growth, Education and Environment's Global Climate Change Office on how to calculate GHG emissions for policy activities. Based on these actions, we acknowledge that final action has been taken on this recommendation.

Recommendation 7. The mission amended and resubmitted the 2012 PPR to address issues identified in the audit. Mission officials said they will also amend their implementers' award documents to make sure accurate, consistent information would be reported in future PMPs and PPRs. They estimate closing this recommendation by July 31, 2013. Based on the actions planned and time frames established, a management decision has been reached.

Recommendation 8. The mission will conduct data quality assessments for indicators reported to Washington under both programs by January 30, 2014. Based on the actions planned and time frames established, a management decision has been reached.

Recommendation 9. The mission had Nature Conservancy employees complete TraiNet training on April 17, 2013. On May 3, 2013, the mission met with staff from Tetra Tech Inc. to provide additional training on TraiNet use. These sessions provided uniform guidance to Tetra Tech Inc. and the Nature Conservancy on how to calculate and report data into the system. Mission officials said they would confirm that guidance is implemented correctly by November 30, 2013. Based on the actions planned and time frames established, a management decision has been reached.

Recommendation 10. The mission amended the contract with Tetra Tech on April 29, 2013, to include Clause 52.222-50 of the FAR. Based on these actions, we acknowledge that final action has been taken on this recommendation.

Recommendation 11. The mission has taken steps to improve Tetra Tech. and Nature Conservancy procedures for tracking and reporting on earmarked funds. The mission also asked both implementers to provide a description of their procedures to manage earmarked funds properly, and anticipates approval and implementation of them by August 31, 2013. Based on the actions planned and time frames established, a management decision has been reached.

Recommendation 12. The mission worked with Tetra Tech to address the control deficiencies identified in the audit, and officials said they would conduct a financial review to verify the correction of each identified internal control deficiency by November 30, 2013. Based on the actions planned and time frames established, a management decision has been reached.

Recommendation 13. The mission has taken steps to address safety and security issues with Tetra Tech and the Nature Conservancy. Additionally, on June 4, 2013, the mission sent formal letters advising both to implement security plans that address the safety and security of their personnel adequately. Based on these actions, we acknowledge that final action has been taken on this recommendation.

SCOPE AND METHODOLOGY

Scope

RIG/San Salvador conducted this performance 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 objective of the audit was to determine whether USAID/Mexico's GCC was achieving its primary goals of helping Mexico reduce emissions from deforestation and forest degradation, implementing a low emissions development strategy, and establishing a strong national monitoring, reporting, and verification system for GHG. To make this determination, the team reviewed two environment programs that accounted for 61 percent of GCC. The total amount obligated for these two as of September 30, 2012, was $18,879,586, and the amount expended was $3,401,790. The expended amount represents the amount tested during the audit.

We conducted audit fieldwork from January 21 to February 8, 2013, at USAID/Mexico in Mexico City, as well as in Chetumal and Felipe Carrillo Puerto in the state of Quintana Roo. We visited and interviewed employees from the main and regional offices of Tetra Tech and the Nature Conservancy, including their subpartners Fondo Mexicano Para La Conservacion de La Naturaleza, the Woods Hole Research Center, Rainforest Alliance, and the World Wildlife Federation. We also met with various Mexican officials at the state and federal levels.

As part of the audit, we assessed the significant internal controls USAID/Mexico used to monitor activities and progress. The assessment included controls to determine whether the mission conducted and documented site visits to evaluate progress and monitor quality, reviewed and approved required assessments or evaluations, reviewed progress reports and work plans from its implementers, and reviewed and tested activities and indicators its implementers and partners used. We reviewed the mission's annual certification required by the Federal Managers' Financial Integrity Act of 1982 to verify whether the assessment cited any relevant weaknesses. We also reviewed prior environmental audit reports for Latin America as a guide in planning the audit.

Methodology

To answer the audit objective, we interviewed officials from USAID/Mexico, Tetra Tech, Nature Conservancy, subpartners, the Mexican Government, and some regional governments. For implementing partners, we interviewed the chiefs and deputy chiefs of party, natural resources advisers, grant specialists, coordinators, and several other employees. We also reviewed and analyzed relevant documents and data at the mission and implementers' offices. Documents analyzed included portions of ADS, annual work plans, quarterly reports, PMPs, selected agreements between USAID/Mexico and its implementers, financial reports, DQAs and a variety of environment-related material. Furthermore, we compared the results implementers reported in their PMPs with those the mission reported in its PPR. We also verified actual activity results reported in annual reports and compared them with annual work plans.

We performed site visits based on feedback from the mission and implementers and on time and distance constraints. We audited key portions of the two major programs. Since the testing and the site visit selection were based on a judgmental sample instead of a statistical one, the results and conclusions related to this analysis are limited to the items and areas tested, and they cannot be projected to the entire audit universe.

MANAGEMENT COMMENTS

June 07, 2013

ACTION MEMORANDUM

TO: Jon Chasson, Regional Inspector General/San Salvador

FROM: Thomas R. Delaney, Mission Director /s/

SUBJECT: Mission Response to Draft Audit Report of USAID/Mexico's Environment Program (Audit Report No. 1-523-13-00X-P)

Thank you for the opportunity to respond to the draft report of the audit of USAID/Mexico's Environmental Program, per your memorandum dated May 28, 2013.
Below we have listed each of the recommendations contained in the draft audit report. Following each recommendation are USAID/Mexico's management comments and decisions. Additional comments on the body of the report are included in the last section of this memorandum.

Management Response to Recommendations

Recommendation 1. "We recommend that USAID/Mexico require The Nature Conservancy to adjust and resubmit their work plan and budget to account for the delays experienced in the first year."

USAID/Mexico concurs with this recommendation. The Mission has met with The Nature Conservancy to discuss the delays during the first year. In response, The Nature Conservancy updated and adjusted their work plan and budget, and these were approved by the USAID/Mexico Agreement Officer's Representative on May 24, 2013 (see Attachment 1). The adjusted budget and work plan account for the delays experienced during the first year. The Mission, therefore, requests that this recommendation be closed upon issuance of the audit report.

Recommendation 2. "We recommend that USAID/Mexico work with The Nature Conservancy to identify a new local partner to take on the financial system for REDD+ and help manage sub-grants with local partners while maintaining the cost share level agreed to in the award."

USAID/Mexico concurs with this recommendation. The Mission has met with The Nature Conservancy (TNC) to discuss these issues and, in response, TNC has implemented a mechanism to take on the financial system of the project with approval from the Agreement Officer; TNC has hired a new local partner, Espacios Naturales para el Desarrollo Sustentable (ENDESU), to manage the sub-grants program, and has agreed to assume full responsibility for the cost share level agreed to in the award (see Attachment 2). The Mission, therefore, requests that this recommendation be closed upon issuance of the audit report.

Recommendation 3. "We recommend that USAID/Mexico work with Tetra Tech Inc. to provide written status updates on activities approved in the work plans."
USAID/Mexico concurs with this recommendation. While the Mission actively tracks outcomes for the Tetra Tech Inc. (MLED) project, the progress reporting format that had been used until recently did not track progress at the activity level. A new tracking format has been adopted by the MLED Project (see Attachment 3), and the Mission modified the contract to require annual reporting by activity (see Attachment 4). The Mission, therefore, requests that this recommendation be closed upon issuance of the audit report.

Recommendation 4. "We recommend that USAID/Mexico develop a plan to assist The Nature Conservancy with improvements to the monitoring and evaluation component of the M-REDD program."
USAID/Mexico concurs with this recommendation. As part of a telephone call made on March 6, 2013 by the Agreement Officer with TNC's senior management to discuss this and other performance and implementation issues, the Agreement Officer asked TNC to improve compliance with the monitoring and evaluation component of the cooperative agreement. In their detailed response on the 8th of April (see Attachment 2), TNC proposed an Adaptive Management Plan through which the TNC would better monitor and evaluate progress toward achieving program goals. In addition, during a follow-up meeting held on April 22, 2013, TNC agreed with USAID/Mexico's recommendation to hire additional staff to be primarily dedicated to conduct the program's monitoring and evaluation tasks (see Attachment 1). The above actions address the intent of the recommendation. The Mission, therefore, requests that this recommendation be closed upon issuance of the audit report.

Recommendation 5. "We recommend that USAID/Mexico, Tetra Tech Inc., and The Nature Conservancy implement a plan to define how each indicator is being tracked."
USAID/Mexico concurs with this recommendation. USAID/Mexico does track the indicators of each program through their quarterly and annual reports, which are then consolidated into an Integrated Annual Global Climate Change Report. However, to improve the consistency of future reporting, USAID/Mexico has addressed these concerns with Tetra Tech Inc. and The Nature Conservancy, and both programs have adjusted their tracking systems to standardize the way in which outcomes are measured against indicators. Please see Attachment 3 and, as an example, the adjustments to the Performance Management Plan (PMP) that The Nature Conservancy produced as part of their first Annual Report (see Attachment 5). The Mission, therefore, requests that this recommendation be closed upon issuance of the audit report.

Recommendation 6. "We recommend that USAID/Mexico consult with USAID/Washington's Global Climate Change Office on how to calculate and report greenhouse gas emissions reductions and sequestrations for activities related to law, policy, agreement or regulation."
USAID/Mexico concurs with this recommendation. A letter requesting guidance from the E3 Global Climate Change office was sent on June 4, 2013 (see Attachment 6). Having complied with the recommendation to "consult with USAID/Washington," the Mission, therefore, requests that this recommendation be closed upon issuance of the audit report.

Recommendation 7. "We recommend that USAID/Mexico verify the information reported in the Performance Management Plan and Performance Plan and Report (PPR), and revise the reports accordingly."
USAID/Mexico concurs with this recommendation. On May 16, 2013, the Mission amended and resubmitted the 2012 Performance Plan and Report (PPR) to update the preliminary indicator

information that had been included in the first submission of the PPR in December 2012 (see Attachment 7). In addition, in response to the inconsistencies found during the audit, the Mission is in the process of amending the MREDD cooperative agreement to ensure that accurate and consistent information will be reported in future PMPs and PPRs, as follows: annual reports from Tetra Tech will now be due October 31st; The Nature Conservancy will produce a Fourth Quarterly Report due on October 31st in addition to their Annual Report. The Integrated Global Climate Change Activities Report will be due November 30th to ensure verified year-end data is provided to inform the PMP and PPR process. We estimate closure of this recommendation by July 31, 2013, once the MREDD amendment is completed.

Recommendation 8. "We recommend that USAID/Mexico conduct a data quality assessment (which includes verification of data) on its Performance Plan and Report indicators."
USAID/Mexico concurs with this recommendation. USAID/Mexico will conduct a data quality assessment (DQA) after the end of the second year of implementation. The Mission notes that a DQA was conducted in the first months of project implementation in compliance with USAID/Washington Performance Plan and Report guidance which requires that "for new indicators, a DQA must be completed within six months before reporting results to Washington. Afterward, the DQA must be updated every three years for active Standard or Custom indicators before the data is reported to Washington." Since the original DQAs were completed in July 2012, Washington guidance does not require that new DQAs be conducted until July 2015. However, the Mission will also conduct new DQAs for indicators reported to Washington under both programs by January 30, 2014, at which time we anticipate requesting closure of this recommendation.

Recommendation 9. "We recommend that USAID/Mexico, Tetra Tech Inc. and The Nature Conservancy implement uniform guidance on how to calculate and report data in the Training Results and Information Network."
USAID/Mexico concurs with this recommendation. Staff from USAID/Mexico and The Nature Conservancy completed TRAINet training on April 17, 2013 (see Attachment 8) in the United States. In addition, on May 3, 2013, USAID/Mexico staff met with Tetra Tech Inc. to provide additional training on TRAINet use (See Attachment 9). These training sessions provided uniform guidance to Tetra Tech Inc. and The Nature Conservancy on how to calculate and report data in TRAINet. The Mission will confirm that guidance is implemented correctly by November 30, 2013, at which time we anticipate requesting closure of this recommendation.

Recommendation 10. "We recommend that USAID/Mexico amend the Tetra Tech Inc. contract to include the Federal Acquisitions Regulation 52.222-50 clause."
USAID/Mexico concurs with this recommendation. On April 29, 2013, the contract with Tetra Tech Inc. was amended to include the FAR 52.222-50 clause (see Attachment 4). The Mission, therefore, requests that this recommendation be closed upon issuance of the audit report.

Recommendation 11. "We recommend that USAID/Mexico, Tetra Tech Inc., and The Nature Conservancy implement appropriate methodologies for planning, allocating, tracking and reporting earmarked funds."
USAID/Mexico concurs with this recommendation for Tetra Tech and The Nature Conservancy. The Mission has existing systems in place and uses appropriate methodologies for planning, allocating, tracking and reporting earmarked funds. On April 30, 2013, USAID/Mexico sent a formal letter to Tetra Tech Inc. (see Attachment 10) citing the type of funds obligated to the MLED contract and the responsibility to plan, allocate, track and report on these earmarked funds appropriately. Tetra Tech Inc. was asked to respond to the Mission with its plan for complying with

this requirement. These same points were addressed in a meeting with The Nature Conservancy on April 22, 2013. USAID/Mexico has requested that both Tetra Tech and The Nature Conservancy provide a description of their procedures to manage earmarked funds properly. We anticipate requesting closure of this recommendation by August 31, 2013, once the methodologies are approved and implemented by Tetra Tech Inc. and The Nature Conservancy.

Recommendation 12. "We recommend that USAID/Mexico verify that Tetra Tech Inc. corrects the internal control deficiencies identified in the audit report."
USAID/Mexico concurs with this recommendation. USAID/Mexico has provided guidance to Tetra Tech Inc. to address the control deficiencies identified in the audit, and Tetra Tech Inc. responded with a description of actions taken to address these deficiencies in a letter to the COR (see Attachment 3). The USAID/Mexico Financial Management Office will conduct a financial review to verify the correction of each identified internal control deficiency by November 30, 2013, at which time we anticipate requesting closure of this recommendation.

Recommendation 13. "We recommend that USAID/Mexico advise Tetra Tech Inc. and The Nature Conservancy to implement security plans that adequately address the safety and security of their personnel working in regional locations."
USAID/Mexico concurs with this recommendation. The safety and security of USAID/Mexico's implementing partners is a top priority of the Mission. From the beginning of GCC program, in order to help Tetra Tech Inc. and The Nature Conservancy ensure the safety of their employees, USAID/Mexico provided both implementers with USG-issued travel warnings, put the implementing partners in touch with the Regional Security Office (RSO) to discuss specific security concerns, and responded to requests for location-specific information regarding the security conditions within Mexico. On June 4, 2013 USAID/Mexico sent formal letters advising Tetra Tech Inc. and The Nature Conservancy to implement security plans that adequately address the safety and security of their personnel, consistent with their responsibilities under their contract or agreement (see Attachment 11). The Mission, therefore, requests that this recommendation be closed upon issuance of the audit report.

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