Audit of the USAID/Colombia-Financed Coca Alternative Development Program Under the Plan Colombia Supplemental Appropriation

Audit Report No. 1-514-02-005-P

January 16, 2002

San Salvador, El Salvador

U.S. Agency for
International
Development

RIG/San Salvador

January 16, 2002

MEMORANDUM

FOR: USAID/Colombia Director, Kenneth C. Ellis

FROM: RIG/San Salvador, Timothy E. Cox

SUBJECT: Audit of the USAID/Colombia-Financed Coca Alternative Development Program Under the Plan Colombia Supplemental Appropriation (Report No. 1-514-02-005-P)

This memorandum is our report on the subject audit. In finalizing the report, we considered your comments on our draft report. Your comments are included in their entirety in Appendix II.

This report contains two recommendations for your action. Based on your comments, a management decision has been reached for both recommendations. A determination of final action for these recommendations will be made by the Bureau for Management's Office of Management Planning and Innovation (M/MPI/MIC).

I appreciate the cooperation and courtesy extended to my staff during the audit.

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Summary of Results

As part of its fiscal year 2001 audit plan, the Regional Inspector General/San Salvador performed this audit to determine whether the USAID/Colombia-financed coca alternative development program was on schedule to achieve planned outputs. (See page 4.)

The USAID/Colombia-financed coca alternative development program was not on schedule to achieve planned outputs as of September 30, 2001, which were to eliminate 900 hectares of coca, provide assistance to produce 1,200 hectares of licit crops or livestock, and provide assistance to 825 families. In addition, we identified two weaknesses in the mission's system for monitoring the achievement of outputs and are making two recommendations that should help USAID/Colombia better ensure that planned outputs are achieved. (See pages 5 through 8.)

USAID/Colombia agreed with our report and recommendations and has made management decisions to implement both of them. (See page 8.)

Background

In October 1999, the Government of Colombia announced a $7.5 billion counter-narcotics plan known as Plan Colombia. Plan Colombia proposes to reduce the cultivation, processing, and distribution of narcotics by 50 percent over six years. To assist the Colombian Government in carrying out Plan Colombia, on July 13, 2000, the U.S. Congress appropriated $869 million in supplemental funding to the Department of State, of which $123.5 million has been allocated to USAID. USAID/Colombia received this funding in September 2000.

Of the $123.5 million, $42.5 million relates to an alternative development program under USAID/Colombia's Strategic Objective No. 2, "Promote Economic and Social Alternatives to Illicit Crop Production." USAID/Colombia defines alternative development as a process designed to improve social and economic conditions in illicit crop producing areas, thereby encouraging small farmers to voluntarily abandon illicit crop production. It promotes the growth and stability of a legal economy based on sustainable production and marketing of agricultural, forestry, and fishery products. USAID/Colombia obligated the $42.5 million devoted to this strategic objective through an amendment to an agreement that it had with the Government of Colombia. This amendment added a five-year (2000-2005) coca alternative development (CAD) program.

The CAD program is implemented primarily through a contract awarded on March 30, 2001 to Chemonics.[1] According to USAID/Colombia, as of September 30, 2001, $33.5 million was committed and $1 million was spent. Chemonics, working

[1] The scope of our audit did not include some smaller agreements with Chemonics, the United Nations, and others. Commitments and accrued expenditures for these organizations, as reported by USAID/Colombia as of September 30, 2001, were $6.2 million and $3.3 million, respectively.

with a Colombian governmental organization and USAID/Colombia, is responsible for achieving program outputs. Chemonics implements the program primarily by awarding grants and subcontracts (sub-agreements) to municipal governments, regional and local producer organizations, non-governmental organizations, and the private sector. The program provides social and economic incentives to help small farmers and communities eliminate coca and develop sustainable legal economies. Targeted communities will participate in activities such as: agriculture-based programs, road and bridge rehabilitation/construction and local government strengthening.

The successful accomplishment of the CAD program is hindered by security constraints beyond the control of USAID/Colombia or Chemonics. Specifically, from June to September 2001, there were 12 security incidents reported involving USAID/Colombia programs. These incidents included kidnappings, threats, detainments, thefts, and killings of USAID/Colombia partners and recipients. Because of the imminent dangers in rural areas of Colombia, non-Colombian staff cannot perform site visits without massive security precautions. In addition, because of recent assassinations of the Colombian attorney general's wife and an employee of one of the non-governmental organizations (NGOs) working in Putumayo, Colombia, security concerns have increased and some NGOs have pulled out of the region. This impacts Chemonics' operations significantly because Chemonics planned to work with some of these NGOs on the CAD program. In addition, security threats make it more difficult to find people willing to work with Chemonics because to do so is seen as a danger in and of itself.

Audit Objective

As part of its fiscal year 2001 audit plan, the Regional Inspector General/San Salvador performed the audit to answer the following question:

- Is the USAID/Colombia-financed coca alternative development program on schedule to achieve planned outputs?

The audit scope and methodology is presented in Appendix I.

Audit Findings

Is the USAID/Colombia-financed coca alternative development program on schedule to achieve planned outputs?

The USAID/Colombia-financed coca alternative development program was not on schedule to achieve planned outputs as of September 30, 2001, which were to eliminate 900 hectares of coca, provide assistance to produce 1,200 hectares of licit crops or livestock, and provide assistance to 825 families. Additionally, we identified two weaknesses in the mission's system for monitoring the achievement of outputs and make two recommendations that should help USAID/Colombia better ensure that planned outputs are achieved. These weaknesses are discussed in the sections below entitled *Inconsistent Planned Program Outputs* and *Planned Activity Outputs Not Documented.*

CAD Program Not on Schedule

As of September 30, 2001, USAID/Colombia reported that less than a fourth of the planned outputs had been achieved. The reason for not achieving planned outputs was a delay in awarding the Chemonics contract, which resulted in a four-month delay in starting the CAD program. As a result, the intended beneficiaries had not received the planned level of benefits. Planned versus actual outputs are shown in the following chart.

Description of Planned Output	Planned as of 9/30/01	Reported as of 9/30/01	Verified[2] as of 9/30/01	Verified Percentage Achieved
Hectares of coca eliminated	900	0	0	0 %
Hectares of licit crops and livestock to be produced	1,200	260	200	17 %
Direct beneficiaries to be served	825	200	200	24 %

The shortfall in actual outputs was caused by delays in project start-up resulting from unanticipated complexities in contracting for the CAD contractor. USAID/Colombia had planned on selecting a contractor and awarding the contract in December 2000. It issued the request for proposal on time in September 2000, held the pre-proposal conference on time in early October, and received the proposals on time in November. However, the proposals received were very closely competitive, necessitating follow-up with offerers and two additional proposal reviews. Additionally, the proposal review process was

[2] Chemonics purchased sufficient seeds to support the production of 200 hectares of licit crops, which served 200 farm families. Although the mission reported the support of 260 hectares of licit crops, we are not making a recommendation that it correct the reporting discrepancy because Chemonics plans on updating reported information as outputs are verified during spot-checks.

complicated by the fact that USAID/Colombia did not have a contracting officer in country. As a result, the contract to the winning bidder, Chemonics, was not signed until the end of March 2001. Chemonics did not arrive in country until mid-May 2001. Because of this delay, the time available to achieve planned outputs by September 30, 2001, the cutoff date for our audit, was significantly reduced.

As a result of the start-up delays discussed above, the intended beneficiaries had not received the planned level of benefits.

Inconsistent Planned Program Outputs

Because of the sensitivity of this program, it is important that plans be consistent among the Government of Colombia, Chemonics and USAID/Colombia. This is highlighted in a U.S. General Accounting Office audit report[3] that stated that, in order to help ensure that U.S. counternarcotics assistance is used most effectively, U.S. implementation plans need to be completed and coordinated with the Colombian plans so that U.S. assistance is adequately supported and plans for its use clearly identified and agreed to.

For the CAD program, however, there were inconsistencies in planned outputs agreed upon with the Government of Colombia and Chemonics, on one hand, and USAID/Colombia's internal performance monitoring plan, on the other. In the agreement between USAID/Colombia and the Government of Colombia and in the contract with Chemonics, outputs to be achieved by September 30, 2002 are as follows:

Description of Output	Planned as of 9/30/02
Hectares of coca eliminated	13,000
Hectares of licit crops planted	32,000
Families benefited by CAD activities	5,700

These targets do not agree with USAID/Colombia's performance monitoring plan, which states that outputs to be achieved by September 30, 2002 are:

Description of Output	Planned as of 9/30/02
Hectares of coca eliminated	11,500
Hectares of licit crops and livestock to be produced	26,500
Direct beneficiaries to be served	5,000

The targets identified in USAID/Colombia's agreement with the Colombian government were the targets as of the date of execution,[4] which were from a

[3] *Drug Control: U.S. Assistance to Colombia Will Take Years to Produce Results* (GAO-01-26, October 17, 2000)

[4] Outputs were defined in an amendment signed September 27, 2000.

design document prepared in March 2000 by a USAID/Colombia contractor. Subsequent to this design exercise, the mission obtained updated information about estimated levels of coca production by small farmers (the target of its CAD program) and more accurate project objectives/outputs were developed. However, because the targets are relatively close and it would be very time consuming to change the agreement with the Colombian government and the contract with Chemonics, USAID/Colombia stated that they would strive to meet—and should be able to achieve by September 30, 2002—the outputs in the contract with Chemonics and the agreement with the Government of Colombia.

Because USAID/Colombia's performance monitoring plan does not use the same planned outputs as the USAID/Colombia agreement with the Government of Colombia and the Chemonics contract, the planned benefits to be provided are unclear.

> **Recommendation No. 1:** **We recommend that USAID/ Colombia amend its performance monitoring plan to agree with the planned outputs contained in its contract with Chemonics and its agreement with the Government of Colombia.**

Planned Activity Outputs Not Documented

In its contract with USAID/Colombia, Chemonics is required to implement and maintain a computerized information database system for tracking program data and indicators such as the achievement of planned outputs.

The database used by Chemonics did not contain information about the expected outputs of activities to be implemented. A report on planned and actual activities provided by Chemonics showed 19 activities totaling $45 million of which two had been approved and funded as of September 30, 2001. However, this tracking system did not identify to what extent, or by when, activities would result in the achievement of outputs specified in the Chemonics' contract. For example, the number of hectares of coca to be eliminated was not identified for any of the planned activities. In addition, the information regarding outputs contained within the sub-agreements for the two funded activities did not sufficiently define intended outputs and timeframes for reaching them. With respect to the definition of terms, the activity sub-agreements did not define "families benefited" in the same way that USAID/Colombia defined them in its performance monitoring plan. Additionally, one activity sub-agreement stated that 200 hectares of crops would be planted while USAID/Colombia's performance monitoring system and Chemonics' tracking system stated that 260 hectares of crops would be planted.

These ambiguities and inconsistencies occurred because the activities currently being implemented were designed by a Colombian governmental organization,

and Chemonics had little direct knowledge of these activities. In addition, outputs for planned activities were in varying stages of development by both Chemonics and the Colombian governmental organization. During a strategic planning exercise intended to be performed in July 2001, Chemonics and USAID/Colombia planned on laying out activities to be implemented and preparing an annual workplan geared towards the achievement of planned outputs. However, because of the delays in program start-up, there was a pressing need to implement activities as soon as possible, and therefore, it was decided to postpone the planning exercise until December 2001.

As a result of the delay in this planning exercise and the resulting ambiguities in what planned activities are to be accomplished, USAID/Colombia and other interested parties cannot be assured that the CAD program will result in the achievement of planned outputs specified in Chemonics' contract by September 30, 2002.

Recommendation No. 2: **We recommend that USAID/ Colombia review Chemonics' annual workplan and sub-agreements to ensure that all documents use the same definitions and timeframes and are sufficiently clear and specific as to determine how and by when outputs will be achieved.**

Management Comments and Our Evaluation

In its comments to our draft report, USAID/Colombia accepted both recommendations. For the first recommendation, the mission stated that it would amend the performance monitoring plan once expected program outputs were finalized during the annual planning exercise in December 2001.

For the second recommendation, the mission stated that, once the annual workplan is finished by Chemonics, and approved by USAID/Colombia, all documentation, including individual activity sub-agreements, would be amended in order to reflect same definitions, timeframes and outputs.

We agree that management decisions have been reached for both recommendations.

Scope and Methodology

Scope

We audited the USAID/Colombia's Coca Alternative Development (CAD) program in accordance with generally accepted government auditing standards. We conducted the audit at USAID/Colombia from September 27, 2001 through October 11, 2001.

The audit covered the CAD program, which was funded with the Plan Colombia supplemental appropriation (Public Law 106-246, dated July 13, 2000). The CAD program began in March 2001, when Chemonics, the primary implementer, and USAID/Colombia signed a contract. The audit covered $33.5 million in obligations and $1 million in accrued expenditures, as reported by the mission's accounting and control system from the project's inception through September 30, 2001.

We assessed risk exposure and the effectiveness of USAID/Colombia's management controls for ensuring that the CAD program was on schedule to achieve planned outputs. We interviewed USAID/Colombia and Chemonics officials and reviewed the following management controls: 1) monitoring of program outputs through the mission's performance monitoring plan and its March 2001 Results Review and Resource Request report, 2) self-assessing its adherence with the Federal Managers' Financial Integrity Act of 1982 in its October 2000 report, 3) preparing monthly and quarterly progress reports, 4) obtaining quarterly progress reports from Chemonics, and 5) performing site visits.

Methodology

To answer the audit objective, we interviewed program officials at USAID/Colombia and Chemonics/Colombia. In addition, we reviewed and analyzed program documents and verified program results reported in the mission's performance monitoring plan as of September 30, 2001.

To determine whether the CAD program was on schedule to achieve planned outputs, we reviewed the following program documentation: the mission's strategic plan for fiscal years 2000 through 2005; the U.S. General Accounting Office's audit report No. 01-26 on U.S. assistance to Colombia, dated October 2000; the request for proposal that resulted in the Chemonics contract; the Special Objective Grant Agreement Number 514-9003 with the Government of Colombia and all subsequent project implementation letters and amendments; the mission's performance monitoring plan; the mission's monthly results reporting; and the Chemonics contract and its quarterly progress reports for April through September 30, 2001. For the purpose of determining if the CAD program was on schedule to achieve planned outputs; we considered the program to be on schedule if 90 percent of the planned outputs were completed. This threshold reflected our judgments about the level of performance that was practical and achievable for the audited activities.

Further, we reviewed a list of activities planned by Chemonics for future periods that, if implemented, would result in the accomplishment of the program's planned outputs.

Lastly, we performed steps to verify outputs achieved as of September 30, 2001, as reported by USAID/Colombia. Specifically, we obtained and reviewed the assumptions used by Chemonics to ascertain if the quantity of seeds purchased would result in the reported number of supported hectares of licit crops and the reported number of benefiting families. We verified the quantity of seeds purchased by reviewing 100 percent of the receiving reports. We recalculated the results using the same formulas used by Chemonics.

Management Comments

United States Agency for International Development Bogotá

MEMORANDUM

Date: 12-17-01
To: Timothy E. Cox, RIG/SS
From: Clifford Brown, A/DIR *[signed]*
Subject: Audit of USAID/Colombia-Financed Alternative Development Activities under the Plan Colombia Supplemental Appropriation.

We have reviewed the draft report of the audit of USAID/Colombia-financed Alternative Development activities under the Plan Colombia Supplemental Appropriation and have the following comments:

> **Recommendation No.1: We recommend that USAID/Colombia amend its performance monitoring plan to agree with the planned outputs contained in its agreements with Chemonics and with the Government of Colombia.**

We accept this recommendation. As explained in the audit report, there was considerable pressure to implement these activities, given delays in program start-up. A planning exercise with USAID/Colombia contractor Chemonics, the GOC alternative development entity Plante, and the USAID/Colombia Alternative Development SO team, will take place during the second week of December 2001.

The expected results of this exercise will be the design of an annual activity plan and budget for 2002, including expected program outputs. Once the activity plan is approved by USAID/Colombia, the performance monitoring plan will be amended to reflect the agreed upon program outputs. The agreements with Chemonics and the Government of Colombia will also be amended to reflect the activity plan and expected outputs.

Copies of the activity plan and the amended performance monitoring plan will be sent to RIG/SS to fulfill this recommendation.

Recommendation No.2: We recommend that USAID/Colombia review activity plans and the implementing agreements so that all documents use the same definitions and time frames and are sufficiently clear and specific as to determine how an by when outputs will be achieved.

We accept this recommendation. As explained above, once the activity plan is finished and approved by USAID/Colombia, all documentation, including implementing agreements will be amended in order to reflect same definitions, tame frames and outputs.

Copies of the activity plan and amended implementing agreements will be sent to RIG/SS to fulfill this recommendation.