



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/NICARAGUA'S ECONOMIC GROWTH PROGRAM

AUDIT REPORT NO.1-524-08-001-P
OCTOBER 3, 2007

SAN SALVADOR, EL SALVADOR



USAID
FROM THE AMERICAN PEOPLE
Office of Inspector General

October 3, 2007

MEMORANDUM

TO: USAID/Nicaragua Mission Director, Alexander Dickie IV

FROM: Regional Inspector General/San Salvador, Timothy E. Cox /s/

SUBJECT: Audit of USAID/Nicaragua's Economic Growth Program (Report No. 1-524-08-001-P)

This memorandum is our report on the subject audit. In finalizing the report, we carefully considered your comments on the draft report and we have included the Mission's comments in their entirety in Appendix II.

The report includes five recommendations for your action. The information provided in the Mission's response to the draft report indicates that management decisions have been made for all five recommendations. Determination of final action for Recommendations Nos. 1 through 5 will be made by the Audit Performance and Compliance Division (M/CFO/APC) upon completion of the actions planned by the Mission.

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

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SUMMARY OF RESULTS

The United States has an interest in Nicaragua's economic growth, since poverty and high unemployment can threaten democracy and the rule of law. In addition, U.S. national security can be threatened by poor border security or weak governmental institutions that cannot adequately defend against international terrorism and transit of illegal aliens, drugs, and arms. Nicaragua, the second poorest country in the Western Hemisphere according to U.S. government documents, has made some recent progress, with real economic growth rebounding from 0.8 percent in 2002 to 3.1 percent in 2005 and an estimated 3.7 percent in 2006. Since the Nicaraguan National Assembly approved the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) on October 11, 2005, a key challenge will be to execute strategies and undertake investments that will help Nicaragua capture the potential benefits of the treaty (see page 2).

As part of its fiscal year 2007 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following question (see page 3):

- Did USAID/Nicaragua's reporting on its economic growth activities provide stakeholders with complete and accurate information on the progress of the activities and the results achieved?

USAID/Nicaragua's reporting on its economic growth activities did not provide stakeholders with complete and accurate information on the progress of its activities and the results achieved. USAID/Nicaragua's reporting was accurate for two of the five cases tested. In two cases, however, results reported in the Mission's 2006 Annual Report were unsupported, and in one case the reported result was inaccurate. In addition, the 2005 Annual Report did not report any actual results for the economic growth program (see page 4). The audit identified opportunities to strengthen performance monitoring (see page 4) and also identified the need to perform and document additional site visits (see page 6).

The audit also identified two other matters that require corrective action by USAID/Nicaragua. First, approximately \$1.75 million remains unspent under an award that USAID/Nicaragua decided to terminate during our audit fieldwork because of a lack of progress; this amount should be reprogrammed for other uses (see page 7). Second, an environmental study needs to be completed to verify that appropriate safeguards were put in place during an activity that may have involved advice on the use of pesticides. This study, which is anticipated to cost between \$17,500 and \$35,000, would have been unnecessary had USAID completed a revised initial environmental examination (see page 8).

This report recommends that USAID/Nicaragua take steps to strengthen performance monitoring, develop a site visit reporting form that includes a section for verifying information reported by partners, take steps to better ensure that sufficient numbers of site visits are performed and documented, reprogram the estimated \$1.75 million remaining under one of its cooperative agreements, and complete an environmental study of its assistance related to use of pesticides (see pages 5, 6, 8, and 9).

USAID/Nicaragua agreed with the recommendations in our draft report and has developed action plans and target completion dates for each of the recommendations. (See Appendix II for the Mission's comments in their entirety.)

BACKGROUND

A key U.S. national interest in Nicaragua is to promote economic growth through integration in regional and global markets, since poverty and high unemployment can threaten the long-term sustainability of democracy and rule of law. Increased stability in Nicaragua's democratic institutions and growth in its economy contribute to a more secure, democratic and prosperous region. In addition, U.S. national security can be affected by poor border security and weak governmental institutions that cannot adequately defend against international terrorism and transit of illegal aliens, drugs, and arms.

Despite its rich natural resources and substantial donor support, Nicaragua remains the second poorest country in Latin America. Real per capita gross domestic product is lower than it was in the 1960s. Around 75 percent of the population lives on less than \$2 a day, unemployment and underemployment are close to 50 percent, and income inequality is pronounced. However, there have been some recent improvements. Real economic growth has rebounded from 0.8 percent in 2002 to 3.1 percent in 2005 and an estimated 3.7 percent in 2006, according to the Economist Intelligence Unit. Foreign investment has increased from an annual average of \$115 million during the 1990 to 2000 period to \$250 million in 2004 and \$241 million in 2005.

On October 11, 2005, the Nicaraguan National Assembly approved the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA), an agreement that has the potential to provide the framework Nicaragua needs to attract investment, create employment, and increase economic integration with its Central American neighbors. The challenge will be to execute strategies that will capture the full benefits of the treaty.

The activities funded by USAID/Nicaragua to promote economic growth in Nicaragua are outlined in Table 1 below.

**Table 1: Intermediate Results and Contractors and Grantees
(Financial Information as of September 30, 2006 – Unaudited)**

Description	Total Estimated Cost (US\$)	Cumulative Expenditures (US\$)
<i>Intermediate Result No. 1: Laws, Policies, and Regulations that Promote Trade and Investment</i>		
Caribbean Central American Action – Help business leaders articulate a common vision regarding DR-CAFTA implementation.	500,000	371,380
Financial Markets International – Help Nicaragua meet its obligations and take advantage of opportunities under DR-CAFTA.	3,464,092	693,936
U.S. Department of Agriculture – Provide technical sanitary and phytosanitary assistance to Nicaragua to enable compliance with international standards, strengthening competitiveness in export markets under DR-CAFTA.	1,100,000	273,253

Description	Total Estimated Cost (US\$)	Cumulative Expenditures (US\$)
Caribbean Central American Action – Help the Nicaraguan Foundation for Economic and Social Development (FUNIDES) conduct public policy research and advocate market-based solutions.	5,000,000	0
<i>Intermediate Result No. 2: More Competitive Market-Oriented Private Enterprises</i>		
Michigan State University – Support the improvement of agricultural products, expand agribusinesses and farms, and improve links between farmers and markets.	14,137,751	12,267,799
<i>Intermediate Result No. 3: Broader Access to Financial Markets and Services</i>	USAID/Nicaragua does not fund activities in this area.	USAID/Nicaragua does not fund activities in this area.
<i>Intermediate Result No. 4: Improved Management and Conservation of Critical Watersheds</i>		
The Nature Conservancy – Help Nicaragua better conserve its natural resources and help ensure long-term economic competitiveness.	1,500,000	1,500,000
U.S. Department of Agriculture – Provide technical assistance for forest management services.	683,847	675,625
Rainforest Alliance – Promote the sale of sustainably produced, certified timber, bananas, and coffee.	1,000,000	410,820
Rainforest Alliance – Strengthen the competitiveness of small and medium enterprises and community-based operations in agriculture, tourism, and forestry, and improve their access to international markets and business partners.	3,640,000	0
<i>Program Management</i>	3,143,882	1,283,275
Total Strategic Objective	34,169,572	17,476,088

Under its economic growth program, USAID/Nicaragua obligated \$12.6 million during FY 2005 and \$15.6 million during FY 2006. Disbursements totaled \$2.6 million during FY 2005 and \$11.0 million during FY 2006.

AUDIT OBJECTIVE

As part of its FY 2007 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following question:

- Did USAID/Nicaragua’s reporting on its economic growth activities provide stakeholders with complete and accurate information on the progress of the activities and the results achieved?

Appendix I contains a discussion of the audit’s scope and methodology.

AUDIT FINDINGS

Did USAID/Nicaragua’s reporting on its economic growth activities provide stakeholders with complete and accurate information on the progress of the activities and the results achieved?

USAID/Nicaragua’s reporting on its economic growth activities did not provide stakeholders with complete and accurate information on the progress of its activities and the results achieved. USAID/Nicaragua’s reporting in FY 2005 and FY 2006 on foreign direct investment was accurate (representing two of five cases tested). However, results reported in the Mission’s 2006 Annual Report for increased sales and jobs created were unsupported (two of five cases tested), and the reported number of laws and regulations adopted to increase trade and investment was inaccurate (one of five cases tested). These and related issues are discussed in the following report section; the need to perform and document additional site visits is discussed in the report section beginning on page 7.

Performance Monitoring Should Be Strengthened

Summary: USAID guidance requires that realistic performance targets be set and that reported information on actual results be accurate. However, in several instances, performance targets were set too low to be useful in managing the economic growth program or where the targets were stated inconsistently; in two instances, reported information on actual results was unsupported; and in one instance, reported information was inaccurate. These issues occurred primarily because Mission staff relied entirely on partners to report accurate data. Consequently, the Mission lacked adequate assurance that its performance targets and reported results provided a sound basis for program management decisions.

Automated Directives System (ADS) 203.3.4.5 states that performance targets should be set at a level that can be optimistically but realistically achieved with available resources within the stated timeframe. Targets that are set too low become irrelevant. Finally, ADS 203.3.5.2 and TIPS 12 (supplemental guidance referenced by the ADS) require USAID mission staff to ensure that data reported by implementing partners and the mission itself are accurate.

In several instances, however, performance targets were set too low to be useful in managing the economic growth program or the targets were stated inconsistently, and in three instances reported information on actual results was unsupported or inaccurate:

- USAID/Nicaragua had not updated its performance management plan (PMP) since January 2005. The need for a review and realignment of targets within the PMP should have been evident when the Mission reported that it had exceeded its 2005 target for “Increased Sales for Firms Receiving USAID Assistance” by 78 percent and its 2006 target by 168 percent.

- The 2005 and 2006 targets for the “Increased Sales for Firms Receiving USAID Assistance” indicator in the PMP were not the same as those reported in the Mission’s 2005 and 2006 Annual Reports. The PMP listed the targets as \$12 million for both 2005 and 2006, while the Annual Reports listed the 2005 target as \$9 million and the 2006 target as \$10 million.
- The 2006 reported results for the “Increased Sales for Firms Receiving USAID Assistance” indicator could not be verified. Based on interviews with Mission staff, we concluded that the Mission relied on reporting by its partners without verifying the data and that the Mission had no supporting documentation for these reported results. Examination of source documentation available from USAID’s partner showed insufficient support for the results provided to USAID.
- The target for the “Foreign Direct Investment (FDI)” indicator was shown in the 2005 Annual Report as a percentage increase, but the 2006 Annual Report showed the target as a dollar amount.
- The Mission’s PMP showed the 2005 target for FDI as \$255 million, but the 2006 Annual Report showed the target for 2005 as \$248 million.
- For the indicator entitled “Number of Laws, Policies, and Regulations Adopted to Increase Trade and Investment” the PMP showed a 2005 target of two, while the 2006 Annual Report stated that the 2005 target was three.
- The Mission defines the indicator “Number of Laws, Policies, and Regulations Adopted to Increase Trade and Investment” as the number of new laws, policies, and regulations adopted as a result of USAID assistance. However, according to a Mission official, the Mission’s results included not only those laws and policies that were adopted but also laws that had only been developed in draft form by the implementing partner.
- The Mission’s 2006 Annual Report narrative section stated that USAID-assisted enterprises created 24,082 full-time equivalent jobs in the agriculture sector, but Mission staff could not demonstrate how they arrived at this figure.

Some of these problems occurred because Mission staff relied on their implementing partners to report results data and did not recognize the importance of independently verifying data quality. Mission staff should have noticed and resolved the inconsistencies among the various program management documents during the portfolio review process. Periodic data verification testing could have been done during regular site visits to partners. A useful tool for Mission staff would be a standard site visit form with a data verification section to remind cognizant technical officers (CTOs) to check reported results and data collection methodologies on a sample basis. Mission documents indicate that staff members were aware that some targets needed to be adjusted in light of actual performance, but the PMP was never adjusted as the staff became involved in the new operational plan process. We also noted that the Mission did not have a Mission evaluation officer, who potentially could have reinforced the rigor of the Mission’s performance monitoring systems. In response to our audit, USAID/Nicaragua plans to designate a Mission evaluation officer.

For these reasons, program targets were not as useful for program management purposes as they could have been, and the Mission lacked sufficient assurance that reported information on actual results was accurate.

Recommendation No. 1: We recommend that USAID/Nicaragua put management and supervisory controls in place to reasonably ensure that performance targets are consistently stated and up to date and that cognizant technical officers periodically review data reported by partners for completeness, accuracy, and consistency.

Recommendation No. 2: We recommend that USAID/Nicaragua develop a site visit reporting form that includes a section detailing the cognizant technical officers' examination and testing of information reported by partners.

Few Site Visits Were Performed for Michigan State University Activity

Summary: Site visits are an important part of USAID's monitoring activities, and USAID/Nicaragua's 2006 internal control self-assessment concluded that the Mission should schedule a minimum of two visits per quarter to every "major project." However, for FYs 2005 and 2006, only five site visits were documented for the Michigan State University activity. The responsible Mission staff member acknowledged that the limited number of site visits was a weakness, although he stated that some additional site visits were performed but not documented, and he noted that the activity was successful. Without sufficient documented site visits, Mission monitoring will be dependent on secondhand accounts of progress and issues.

ADS 303.3.17 states that "site visits are an important part of effective award management, since they usually allow a more effective review of the project ... When the Agreement Officer or CTO makes a site visit, the Agreement Officer or CTO must write a brief report highlighting findings, and put a copy in the official award file." USAID's *Guidebook for Managers and Cognizant Technical Officers on Acquisition and Assistance* states that site visits are a key element in the CTO's ability to monitor the progress of contractors. Site visits allow the CTO to observe the contractor at work to determine if the performance is in compliance with the contract. These visits also allow the CTO to check actual contractor performance against scheduled performance and verify reported performance progress. USAID/Nicaragua's 2006 internal control self-assessment pursuant to the Federal Managers' Financial Integrity Act of 1982 concluded that the Mission should "schedule at a minimum two visit [*sic*] per quarter to every major project to monitor project activities and benchmarks more closely."

The Mission documented only five site visits during FYs 2005 and 2006 for the Michigan State University award, the largest award in the economic growth portfolio. The CTO acknowledged that the modest number of site visits was a weakness but also maintained that (1) some visits were performed but not documented and (2) the activity was successful. Without sufficient documented site visits, Mission monitoring is dependent on second-hand accounts of progress and issues.

Recommendation No. 3: We recommend that USAID/Nicaragua put management and supervisory controls in place to reasonably ensure that sufficient numbers of site visits are performed and documented.

Other Matters

During the audit, two other matters requiring corrective action, not closely related to our audit objective discussed above, came to our attention. These matters, which concern the need to reprogram funds obligated under one award and complete an environmental study, are discussed in the following section.

Funds Are Available for Reprogramming

Summary: USAID guidance emphasizes both the importance of partner involvement in developing plans for USAID programs and the need for prompt corrective action when planned outputs are not achieved. One of the Mission's activities, designed to support an independent think tank, was cancelled during our audit because of a lack of a common understanding on what the activity was to accomplish. The Mission became aware that the activity was not progressing satisfactorily in late 2006, but it did not take decisive action before the audit because of unusual events like the Nicaraguan presidential election in November 2006 and the need to give the Mission's partner time to try to get the activity back on track. According to the activity manager for the award, this resulted in relatively little being accomplished for an estimated cost of \$250,000 (as of February 2007). Consequently, approximately \$1.75 million remaining under the agreement can be reprogrammed.

ADS 201.3.4.2 and 201.3.12.7 emphasize the importance of involving partners in developing strategic plans and clarifying the roles of partners in implementing USAID activities. ADS 202.3.6 states that monitoring the quality and timeliness of outputs produced by implementing partners is a major task of CTOs and strategic objective teams. Delays in completing outputs, or problems in output quality, provide an early warning that results may not be achieved as planned. Early action in response to problems is essential in managing for results.

On July 27, 2006 Caribbean Central American Action (CCAA) was awarded a cooperative agreement to support the *Fundación Nicaraguense para el Desarrollo Económico y Social* (FUNIDES). The estimated amount of the award was \$5 million, of which \$2 million was obligated. FUNIDES was to be a credible, apolitical, nonprofit organization ("think tank") that would help formulate a shared vision in Nicaragua among the business community, civil society, and the public sector to fully take advantage of the opportunities that DR-CAFTA would bring to people in Nicaragua.

Unfortunately, it soon became apparent that CCAA and FUNIDES had different understandings of what CCAA's assistance would entail, with FUNIDES welcoming CCAA's material support but resisting any participation by CCAA in helping set FUNIDES' agenda. As a result, FUNIDES declined to approve any of the work plans developed by CCAA. According to the Mission's activity manager for this project, by late 2006, USAID/Nicaragua was aware that CCAA's activities were not progressing satisfactorily, but it was persuaded by CCAA to wait until after the Nicaraguan

presidential election in November 2006 before making any decisions. Since FUNIDES was to be tasked with conducting public policy research, it was thought that the presidential election results would indicate which direction research should take and how it should be presented to the new government for consideration. Additionally, in January 2007, CCAA's chief executive officer and in-country project manager left the company, leaving CCAA with no presence in Nicaragua. In February/March 2007, a CCAA staff member began visiting Nicaragua on a monthly basis to "get the project back on track" while CCAA searched for suitable staff to work in Nicaragua, but by this time FUNIDES had openly stated that it would no longer work with CCAA. During our audit fieldwork, USAID/Nicaragua decided to cancel the award. In retrospect, a Mission official recognized that it would have been useful to prepare a memorandum of understanding with FUNIDES to formalize understandings on the type of assistance to be provided to FUNIDES by CCAA.

As a result of this situation, relatively little was accomplished for an estimated cost of \$250,000 (as of February 2007), according to the Mission's activity manager for the project. An estimated \$1.75 million of unliquidated obligations remains under the CCAA cooperative agreement, which can be reprogrammed for other purposes.

Recommendation No. 4: We recommend that USAID/Nicaragua reprogram the estimated \$1.75 million remaining under the cooperative agreement with Caribbean Central American Action (CCAA) to activities that are determined to be achievable within the Mission's operational plan.

Environmental Requirements Were Not Fully Met

Summary: USAID/Nicaragua has not yet fully complied with the environmental regulations in Title 22, Part 216 of the Code of Federal Regulations. USAID prepared an Initial Environmental Examination (IEE) for the program implemented by Michigan State University. After the program evolved to include advice on the use of pesticides, USAID drafted a revised IEE. However, USAID did not finalize the revised IEE before the program ended. Therefore, the Bureau environmental officer determined that a study should be performed to see if appropriate safeguards were followed during the program. While the study was expected to be completed by July 2007, the contract for the study had not yet been awarded as of early August 2007. Because the revised IEE was not finalized before the end of the program, USAID will incur additional expenses to complete the study and USAID currently has insufficient assurance that appropriate safeguards related to pesticide use were in place.

Title 22, Part 216 of the Code of Federal Regulations (22 CFR 216) establishes environmental policy and procedures for USAID programs. Unless conditions for a categorical exclusion from the requirements are met, USAID must prepare an IEE when designing new programs. Based on the IEE, USAID makes a threshold decision to determine whether the proposed program will have a significant effect on the environment. If a positive threshold decision is made, then USAID may undertake additional analysis (either an Environmental Assessment or an Environmental Impact Statement).

In August 2003, USAID completed and received approval of an IEE for the activities under the economic growth strategic objective. The IEE included the originally envisioned activities to be performed under its 2003 cooperative agreement with Michigan State University. However, during the course of the Michigan State University program, the scope of work to be conducted under the cooperative agreement was expanded to include activities that made a second IEE advisable. Because the expanded activities may have included advice on the use of pesticides, USAID decided that a review of the activities performed under the award was important to ensure compliance with USAID's environmental policies.

As a result of the evolution of activities under the cooperative agreement, a revised IEE was drafted beginning in 2005. Although it underwent numerous changes and reviews, it was not approved before the end of the cooperative agreement with Michigan State University in April 2007. The resignation of the Mission's environmental officer in October 2006, and the arrival of a new economic growth office director in late 2006, resulted in further delays in approving the IEE. In late 2006, the Bureau Environmental Officer noted that the revised IEE had not been finalized. He decided that an environmental audit (study) should be performed to determine the scope of Michigan State University's activities related to the use of pesticides and to determine whether appropriate safeguards were in place. If any deficiencies are found, the study will also recommend mitigation measures. The study was originally expected to be completed by July 31, 2007 but, as of early August 2007, USAID had not yet awarded the contract for the study.

Because the revised IEE was not finalized in a timely manner, USAID must now incur expenses to pay for the environmental study described above. USAID/Nicaragua and the regional environmental advisor anticipate that the cost of the study will be from \$17,500 to \$35,000, not including the cost of any mitigation measures that may be required. In addition, USAID currently has insufficient assurance that the program incorporated appropriate environmental safeguards related to pesticide use.

Recommendation No. 5: We recommend that USAID/Nicaragua complete an environmental study of its assistance related to use of pesticides and complete any needed mitigation measures that may be identified by the study.

EVALUATION OF MANAGEMENT COMMENTS

USAID/Nicaragua agreed with the recommendations in our draft audit report and has developed specific plans to address all five recommendations and has set target dates for the completion of each action. Mission comments in their entirety are presented in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/San Salvador conducted this audit in accordance with generally accepted government auditing standards. The purpose of the audit was to determine whether USAID/Nicaragua's reporting of its economic growth activities provided stakeholders with complete and accurate information on the progress of the activities and the results achieved.

In planning and performing the audit, we assessed the Mission's controls related to its economic growth activities. The management controls identified included the performance management plan (PMP), the Mission's data quality assessments, the Mission's annual self-assessment of management controls as required by the Federal Managers' Financial Integrity Act of 1982, reports on cognizant technical officer (CTO) field visits, program progress reports, and day-to-day interaction between Mission staff and program implementers.

The audit covered the Mission's second strategic objective, Economic Freedom: Open, Diversified, Expanding Economies. The audit was conducted in Nicaragua from May 21, 2007 to June 7, 2007. The audit focused on the period from October 1, 2004 through September 30, 2006.

The scope of the audit included the Mission's bilateral economic growth activities and excluded regional activities that were implemented in Nicaragua.

Methodology

To answer the audit objective, we met with CTOs and implementing partners. We reviewed relevant documentation produced by USAID/Nicaragua such as award documents, Mission correspondence, worksheets for measuring results, the Mission performance management plan, annual reports, and field visit reports. We also reviewed documentation prepared by implementing partners such as annual work plans and quarterly progress reports.

We sampled three key implementing partners with current awards. We also included the largest program partner, even though its award had just ended, because it still had some operations within the country and was willing to support our audit requests as much as possible. The sample was judgmentally selected to represent the largest awards within each intermediate result to provide sufficient coverage of the program. The sample excluded regional programs, as well as the award to Rainforest Alliance, because the Rainforest Alliance award was new and activities were in the start up stage during the period covered by the audit.

To determine whether accurate information was reported, we compared results obtained from tests and interviews with the results presented in the Mission's performance

management plan and the annual report. We specifically verified reported accomplishments through the following procedures:

- We reviewed Mission performance monitoring documentation to compare reported results with supporting figures in the Mission's files.
- For context indicators and national-level indicators, we verified the Mission's reported results against source organizations' reported results and data to ensure accuracy of reporting by the Mission.
- For the performance indicators that the Mission formally reported on in its FY 2006 Annual Report, plus one performance indicator that was covered in the Annual Report narrative, we interviewed Mission and/or implementing partner personnel and reviewed documentation to determine how results are collected for these indicators. The following tests were performed to determine the accuracy of reported results:
 - For agricultural activities, we reviewed the lead implementing partners' supporting records and attempted to verify the reported performance figures for increased sales against the correct reporting period and against the records kept by the subgrantees, if available.
 - For the performance indicator "number of laws, policies, and regulations adopted to increase trade and investment," we compared information in USAID/Nicaragua's Annual Report with the partner's quarterly performance reports to ensure that only results that fell within the indicator definition were reported.
 - For the foreign direct investment indicator, we verified the reported amounts against those publicly published by the organization defined in the indicator definition.

The audited sample represented \$10.0 million of the \$12.6 million total obligations (79 percent) and \$2.2 million of the \$2.6 million total disbursements (84 percent) for FY 2005. In addition, the audit covered \$9.6 million of the \$15.6 million in FY 2006 obligations (62 percent) and \$10.3 million of the total \$11.1 million in disbursements for FY 2006 (93 percent).

MANAGEMENT COMMENTS

To: Timothy E. Cox, Regional Inspector General/San Salvador

From: Alexander Dickie IV, USAID/Nicaragua Mission Director /s/

Subject: Audit of USAID/Nicaragua's Economic Growth Program (Report No. 1-524-07-xxx-P)

Date: September 12, 2007

This memorandum responds to your draft report on the referenced subject and provides Mission comments on the five recommendations contained therein. As requested, we have specified our agreement or disagreement with each recommendation. In cases of agreement, we have specified a target date for the identified actions. I appreciate the opportunity to comment on the recommendations.

Recommendation No. 1: We recommend that USAID/Nicaragua put management and supervisory controls in place to reasonably ensure that performance targets are consistently stated and up to date and that Cognizant Technical Officers periodically review data reported by partners for completeness, accuracy, and consistency.

We concur with the recommendation. All performance targets for the Trade and Agribusiness SO will be adjusted, if needed, to ensure that they are consistently stated and up to date as required by ADS203.3.4.5. We will amend the current mission order on site visits to include a requirement that Cognizant Technical Officers periodically select and review of sub-set of data reported by partners for completeness, accuracy and consistency. Target date: December 31, 2007.

Recommendation No. 2: We recommend that USAID/Nicaragua develop a site visit reporting form that includes a section detailing the CTOs' examination and testing of information reported by partners.

We concur with the recommendation. We will amend the current mission order on site visits to include a standard site visit worksheet developed for CTOs' to record their results of information reported by partners. Target date: December 31, 2007.

Recommendation No. 3: We recommend that USAID/Nicaragua put management and supervisory controls in place to reasonably ensure that sufficient numbers of site visits are performed and documented.

We concur with the recommendation. USAID/Nicaragua will designate a Mission Evaluation Officer. One of the responsibilities of this position will be to monitor Mission site visit scheduling to ensure that a sufficient number of site visits are performed and documented for each activity. Target date: December 31, 2007.

Recommendation No. 4: We recommend that USAID/Nicaragua reprogram the estimated \$1.75 million remaining under the cooperative agreement with Caribbean Central American Action (CCAA) to activities that are determined to be achievable within the Mission's operational plan.

We concur with the recommendation. The Trade and Agribusiness SO is currently reviewing a concept paper for direct small grant to FUNIDES – the original beneficiary of the CCAA agreement. Target date: December 31, 2007. The SO is in early stages of a scoping exercise to determine priorities for a new activity under the Program Area of Private Sector Competitiveness. Target date: December 31, 2007.

Recommendation No. 5: We recommend that USAID/Nicaragua complete an environmental study of its assistance related to use of pesticides and complete any needed mitigation measures that may be identified by the study.

We concur with the recommendation. An audit of the environment impact of the use of pesticides started on August 27, 2007. LAC Regional and Bureau Environmental Officers came to USAID/Nicaragua on TDY to participate in the first week of the audit. A final report is expected by September 28, 2007. If this audit identifies any mitigation measures, we will take appropriate measures. Target date: December 31, 2007.

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