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Office of Inspector General
Southeast Region

Audit Report

Foreign Agricultural Service
Private Voluntary Organization Grant Fund Accountability

Report No. 07016-1-At
March 2006

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

March 15, 2006

REPLY TO
ATTN OF: 07016-1-At

TO: Michael W. Yost
Administrator
Foreign Agricultural Service

ATTN: Robert J. Huttenlocker
Director, Compliance Review Staff

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Foreign Agricultural Service - Private Voluntary Organization Grant Fund Accountability

This report presents the results of our audit of the Foreign Agricultural Service's internal controls over private voluntary organizations operating food aid grants. Your written response to the official draft report, dated January 18, 2006, is included as exhibit D, with excerpts of the response and the Office of Inspector General's (OIG) position incorporated into the Findings and Recommendations section of the report, where applicable.

Your response generally agreed with OIG's recommendations to strengthen agency monitoring controls over food aid agreement operations and described your current efforts to implement the report's recommendations. Regarding the agreements of Winrock International Institute for Agricultural Development (Winrock), you agreed to conduct a detailed review of Winrock's Ivory Coast agreement, but decided against seeking recovery of monetization proceeds lost by Winrock during its food aid program in Angola.

We accept your management decisions on Recommendations 1a, 1d, 2, 3, 5, 7, 10, 11, and 15. We can accept your management decisions on Recommendations 1b, 1c, 1e, 4, 6, 8, 9, 12, 13, and 14 once we have been provided the information as outlined in the report sections, OIG Position.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, including timeframes, to address the recommendations for which a management decision has not been reached. Please note that the regulation requires management decisions to be reached on all recommendations within a maximum of 6 months from report issuance. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us by members of your staff during the audit.

Executive Summary

Private Voluntary Organization Grant Fund Accountability (Audit Report No. 07016-1-At)

Results in Brief

To avert famine and promote economic development, which may develop foreign markets for U.S. agricultural commodities, the U.S. Department of Agriculture (USDA) provides food aid to many countries worldwide. The Foreign Agricultural Service (FAS) administers these food aid programs, largely through grants to intermediaries known as private voluntary organizations (PVO)—charitable, non-profit organizations responsible for implementing USDA objectives abroad. In fiscal years (FY) 2002 and 2003, FAS donated more than $1.3 billion in agricultural commodities and program funds to 108 PVOs operating in 169 countries. In order to evaluate FAS' internal controls for ensuring that these PVOs use the donated commodities and funds in accordance with program regulations, the Office of Inspector General (OIG) reviewed 8 of the 108 PVOs awarded grant agreements.[1] Of almost 3 million metric tons (MT) shipped, we reviewed 198,751 MT, or 7 percent; of $1.3 billion in total costs, we reviewed $87 million, or 7 percent.

Although six of the eight PVOs generally complied with their agreements, we found that FAS' controls for monitoring how PVOs implement their grant agreements are weak and cannot provide reasonable assurance that USDA's program objectives are being met or that funds are spent appropriately. We concluded that due to these internal control weaknesses, one PVO—Winrock International Institute for Agricultural Development (Winrock)—was not held accountable for violations of its grant agreements leading to the loss of $2.2 million. Although FAS learned about possible grant irregularities in November and December 2000, it has still not completed a review of Winrock's compliance with its grant agreements.

FAS agreed in its response to an audit report issued by OIG in March 1999 to strengthen significant aspects of its management controls. However, we found that the agency did not implement corrective actions to several key recommendations.[2] FAS officials stated they have struggled to obtain adequate funding and staffing levels to be able to track and conduct adequate reviews of semiannual reports, but have been unable to meet the level of review recommended. Unless it carefully reviews PVO's semiannual reports, FAS cannot be certain how program funds are being used or that PVOs are achieving the program goals specified in their grant proposals.

[1] These eight PVOs were selected judgmentally to include a wide variety of different organizations. See Scope and Methodology for a fuller statement of how they were selected.
[2] "FAS Food for Progress Program PVOs Grant Fund Accountability," OIG Audit Report No. 50801-6-At.

Also, FAS did not conduct adequate onsite reviews of PVOs' U.S. Headquarters. In response to OIG's prior audit recommendation, FAS agreed to conduct thorough reviews of five to seven PVOs each year, but had only been able to conduct two to three reviews each year. The agency has also not been able to regularly review all problematic agreements. However, FAS has arranged for its Export Credits and Compliance Review Staff to combine their limited resources to increase the number of reviews conducted next year. These controls are important to identify and correct problems with ongoing food aid agreements.

Finally, FAS continues to face a backlog of agreements to close. Unless an evaluation of the agreement or closeout review has been conducted for prior agreements, FAS is unable to confirm that a PVO has been compliant with past agreements or fairly judge whether the PVO has committed any violations under past agreements that would preclude a favorable consideration of the PVO for new programming.

Had these controls been implemented, Winrock might have been prevented from violating its grant agreements, mismanaging program funds, and losing $2.2 million in food aid intended for the people of Angola and the Ivory Coast. In Angola, Winrock violated its grant proposal by keeping most (57 percent) of its program funds in kwanza—the highly unstable Angolan currency. When the value of that currency suddenly plummeted, Winrock lost a total of $1.4 million in grant funds. Since FAS was not receiving Winrock's semiannual reports, the agency did not learn of this loss until more than a year afterwards. In the Ivory Coast, Winrock could not account for $773,587 of $3.4 million provided for its projects. Winrock employees alleged that the implementation of this agreement was characterized by fraud, waste, and abuse, but Winrock—even though it forced the resignation of its regional director—has never satisfactorily explained the loss of program funds or made the outcome of its internal investigation available to FAS.[3]

We identified four weaknesses FAS must correct to improve its administration of USDA food aid agreements. FAS needs procedures to: (1) confirm that PVOs have received their host government's recognition before finalizing food aid agreements; (2) verify that PVOs have complied with financial requirements as specified in Federal regulations—such as opening separate bank accounts in-country to conduct grant program operations—prior to making funds and commodities available; (3) aggressively pursue grant funds lost due to a PVO's mismanagement; and (4) review PVOs' past performance before approving additional food aid agreements. Despite being aware of problems with Winrock's projects in

[3] More detailed narratives of Winrock's food aid agreements in Angola and the Ivory Coast are included in Finding 2.

Africa, FAS approved a third grant application for a project in Indonesia—Winrock's largest yet, involving almost four times the MT donated to Angola.

We conclude that FAS must implement controls to strengthen its monitoring of PVOs, including those it had agreed to implement in FY 2000. Without these controls, USDA cannot provide reasonable assurance that its foreign aid objectives are being met and that donated commodities are reaching the people intended.

Recommendations in Brief

FAS should implement management controls for reviewing semiannual reports, conducting onsite reviews, and completing closeout reviews of all food aid agreements.

FAS should strengthen its monitoring of PVO's food aid agreements by developing and implementing procedures to (1) confirm that PVOs have received the recognition of their host government before agreements are finalized; (2) verify that PVOs comply with all financial requirements before they receive donated funds or commodities; (3) aggressively seek recovery of grant funds lost due to PVO mismanagement; and (4) review PVOs' past performance as part of its application process for approving new food aid agreements.

FAS should seek to recover the $2.2 million in program funds provided to Winrock for projects in Angola and the Ivory Coast.

Agency Position

In her January 18, 2006, response, the FAS Administrator generally agreed with OIG's recommendations to strengthen the agency's management controls over its food aid agreements, and stated that efforts to implement several of OIG's recommendations are already well underway.

The agency agreed to conduct a detailed review of Winrock's Ivory Coast program by the end of FY 2006, and to timely review Winrock's semiannual reports on its Indonesian agreement. However, FAS attributed Winrock's losses of grant funds in Angola to the difficulties of operating in Angola and to the foreign buyer's breach of its sales contract with Winrock for the Community Credit Corporation-donated commodities. The agency did not hold Winrock responsible for losses of monetization proceeds during Angola's currency devaluation.

FAS' responses are incorporated along with our positions into the Findings and Recommendations section of the report. The complete FAS response is included as exhibit D.

OIG Position

We generally agreed with FAS' actions to strengthen its monitoring of food aid agreements, asking for clarifying information only when necessary to achieve management decision on the recommendations.

We agreed with FAS' plans to conduct a detailed review of Winrock's Ivory Coast agreement and will await the results of that review to make a determination on management decision.

However, we continue to believe that due to Winrock's negligence, disregard of its agreement terms, and regulatory violations, that FAS should recover the lost monetization proceeds from Winrock's Angola agreement.

Abbreviations Used in This Report

CARE
Cooperative for Assistance and Relief Everywhere ... 39
CCC
Commodity Credit Corporation ... 1
CFR
Code of Federal Regulations ... 5
E&SPB
Evaluation and Special Projects Branch ... 2
EC
Export Credits ... 1
FAS
Foreign Agricultural Service ... 1
FFE
Food for Education ... 1
FFP
Food for Progress ... 1
FSA
Farm Service Agency ... 1
FY
Fiscal Year ... 1
MT
Metric Ton ... 1
NIST
National Institute of Standards and Technology ... 9
OIG
Office of Inspector General ... 2
OMB
Office of Management and Budget ... 8
PCI
Project Concern International ... 20
PPDED
Program Planning, Development & Evaluation Division ... 2
PVO
Private Voluntary Organizations ... 1
Treasury
U.S. Department of Treasury ... 37
USAID
U.S. Agency for International Development ... 8
USDA
U.S. Department of Agriculture ... 1
WFP
World Food Program ... 42
Winrock
Winrock International Institute for Agricultural Development ... 4

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Background and Objectives

Background

The United States continues to be the largest donor nation to food relief organizations worldwide, donating about 60 percent of all global food aid in 2002. As part of this effort to avert famine and offset nutritional deficiencies, the U.S. Department of Agriculture's (USDA) food assistance programs help to feed over 10 million people in 50 to 80 countries each year. USDA provides food aid to foreign governments, private voluntary organizations (PVO), nonprofit organizations, cooperatives, and intergovernmental organizations through four programs: Title 1 of Public Law 480[4], Food for Progress (FFP), Food for Education (FFE), and Section 416(b) Commodity Donations.

The Foreign Agricultural Service (FAS) has the lead responsibility for managing these four USDA-administered food aid programs. Within FAS, Export Credits is responsible for food aid policy formulation and program administration. The Commodity Credit Corporation (CCC)—a wholly owned U.S. Government corporation staffed by USDA officials from FAS and the Farm Service Agency (FSA)—donates commodities for the foreign food aid programs. CCC enters into written program agreements with PVOs and other cooperating sponsors that incorporate the terms and conditions of the four program authorities.

In fiscal years (FY) 2002 and 2003, USDA donated $1.3 billion in agricultural commodities to PVOs which, in turn, agreed to accomplish various program objectives in their host countries. Some of these commodities (29 percent) were directly distributed to the hungry; others (71 percent) were sold, or monetized, in order to finance other objectives, such as improving host countries' agricultural infrastructure, expanding renewable sources of energy, and offering educational opportunities to young people.

Exhibits B and C in this report provide a snapshot of the types of programs offered by FAS during FYs 2002 and 2003, including the number of PVOs receiving grant agreements, the metric tons (MT) of donated commodities approved for direct distribution or for monetization to provide local currency to fund programs, and the value of donated commodities, administrative funds, and transportation costs provided for the various programs.

Food Aid Program Cycle—

PVOs and other cooperating sponsors submit their food aid proposals, plans of operation, and detailed budget information to the Program Planning,

[4] Public Law 480, Title 1 emphasizes commercial market development and sustains ability through the use of long-term concessional food aid sales.

Development and Evaluation Division (PPDED) of FAS' Export Credits. During our audit, PPDED was staffed by 30 FAS employees. The PPDED staff then reviews, evaluates, and ranks the food aid proposals to arrive at the final number of project plans to receive funding during the upcoming FY. PPDED also negotiates the food aid agreement terms with the applying organizations and works with FSA, CCC, and the Office of the General Counsel to finalize the agreement contracts and initiate agreement operations. FSA's Commodity Operations staff handles the acquisition, procurement, storage, and distribution of the CCC-donated commodities to the foreign ports of the recipient countries.

After agreement operations begin, the Evaluation and Special Projects Branch (E&SPB), a unit of PPDED, is responsible for monitoring the PVOs and other cooperating sponsors to ensure compliance with grant reporting, implementation, and financial requirements. E&SPB is staffed by 6 of PPDED's 30 employees. Grant recipients are required to submit semiannual logistic and monetization reports to the FAS agricultural counselor or attaché in-country and to Export Credits. The logistics reports must include information concerning receipt and storage of commodities, details of any losses, records of distributions to recipients, and ending inventory balances. The monetization reports must include details of any sales of commodities or barter transactions, secured deposits of monetization proceeds in interest-bearing accounts in both local and U.S. currencies, disbursements from monetization proceeds, and an assessment of the monetization transaction's impact on local country markets. These reports are required until all commodities have been distributed (direct distribution) or until all commodities have been sold and funds completely disbursed (monetization).

In addition, all agreements must be fully evaluated prior to closure. In cases where CCC provides cash, CCC will not advance more than 85 percent of the cash. PVOs may request the remaining funds on a reimbursement basis prior to the closeout of the agreement. E&SPB confirms the receipt of all reports, determines whether a grant recipient has complied with the terms of the agreement, and ensures that all issues are resolved before approving the final 15-percent disbursement of grant funds. [5]

Objectives

In March 1999, OIG issued a report on FAS' monitoring of PVOs operating FFP grants.[6] During the current audit, we evaluated FAS' actions to address management control weaknesses identified in the 1999 audit. We also reviewed the food aid agreement activities of eight judgmentally selected PVOs operating food aid grants under USDA's program authorities. Three of

[5] After the Office of Inspector General's (OIG) audit fieldwork ended, Export Credits realigned its Programming Division, formerly named PPDED. One result of that realignment was the dissolution of the Evaluation and Special Projects Branch (E&SPB). The functions and responsibilities of that branch have now been folded into each of the Division's three branches. Export Credits officials informed OIG they had retained a senior-level policy resource analyst to develop policies and review actions to ensure consistent evaluation procedures.

[6] Audit No. 50801-6-At, issued March 31, 1999, "FFP Program, PVOs Grant Fund Accountability."

the PVOs were selected due to hotline complaints that reported violations of PVOs' agreements.

Our overall audit objective was to determine whether FAS' internal controls are sufficient to ensure that PVOs make appropriate use of program funds, and efficiently and effectively operate food aid grants to achieve USDA program objectives.

Specifically, we reviewed FAS' internal controls and business processes for evaluating grant proposals and awarding grant agreements, monitoring active agreement operations, ensuring grantee compliance with agreement terms and applicable laws and regulations, timely conducting final reviews and closeouts of grant agreements, determining whether grantee programs achieve program objectives, and measuring and reporting program results.

Although FAS had agreed—in response to a 1999 OIG audit—to improve its monitoring of PVOs operating in foreign countries, we found that the agency did not implement several significant corrective actions, including strengthening its review of PVOs' semiannual reports, increasing the number of onsite reviews of PVOs' U.S. Headquarters, and completing closeout reviews of food aid agreements in a timely fashion. Without these improvements, FAS cannot reliably determine if PVOs are accomplishing the objectives of USDA's food aid agreements. These weaknesses in FAS' system for monitoring PVOs were brought into sharp focus by the mismanagement of food aid agreements in Angola and the Ivory Coast by one PVO—Winrock International Institute for Agricultural Development (Winrock).

Winrock is responsible for the loss of $2.2 million in benefits that never reached the people for whom they were intended. Had FAS implemented the corrective actions from the prior audit report as agreed, this misuse of program funds might have been avoided. In particular, Winrock did not submit semiannual logistics and monetization reports. Although FAS has always required the timely submission of all reports, the agency has not enforced this requirement on a consistent basis. These reports would have alerted FAS to Winrock's operational difficulties in Angola and perhaps helped mitigate the loss of program funds. Along with suggesting several new controls to further strengthen FAS' oversight of PVOs and to prevent similar incidents from recurring, we are recommending that FAS initiate steps to recover the $2.2 million lost due to Winrock's mismanagement.

Finding 1 — FAS Needs to Improve Its Monitoring of Foreign Food Aid Agreements

In response to an OIG audit report[7] issued in March 1999, FAS agreed to strengthen its oversight and monitoring of food aid agreement operations in foreign countries. More than 5 years later, FAS' monitoring of food aid agreements remains weak. The agency has not placed sufficient priority on the monitoring process and has not assigned adequate staff resources to conduct the reviews. The review process was further weakened when FAS lost password access to the automated database it uses to perform and document reviews. Until it thoroughly and promptly reviews food aid agreements—both while they are underway and at their conclusion—FAS cannot determine whether PVOs are administering USDA-funded food aid

[7] "FAS FFP Program PVOs Grant Fund Accountability," OIG Audit Report No. 50801-6-At.

programs in accordance with regulations and whether those programs achieve USDA's food aid objectives. Also, FAS cannot make informed decisions about whether PVOs should be considered eligible for additional funding.

USDA food aid agreements are usually administered in developing countries, where program commodities and administrative funds can, without proper monitoring, be vulnerable to loss. Following OIG's previous audit, FAS agreed to improve its monitoring of food aid agreements by:

- Reviewing the semiannual logistics and monetization reports submitted by PVOs to ensure that USDA-donated commodities are properly distributed, or sold to run the program in the local currency (monetized);

- Conducting onsite reviews of accounting records, invoices, and other pertinent documents at PVOs' U.S. Headquarters to verify information in the semiannual reports; and

- Completing closeout reviews of all food aid agreements to determine if sponsors have complied with the terms of their agreements and whether they should receive the final 15-percent disbursement of grant funds.

FAS agreed that it would implement these corrective actions beginning with FY 2000 executed agreements. We found, however, that FAS has not successfully implemented these recommendations.

FAS Did Not Always Receive and Review PVOs' Semiannual Reports—

CCC regulations require PVOs to submit semiannual logistics and monetization reports to FAS while food aid operations are underway.[8] By promptly reviewing PVOs' semiannual reports, FAS can identify compliance problems and direct PVOs to resolve them before the agreement ends. We found, however, that FAS did not follow up with PVOs to obtain missing semiannual reports. For example, FAS was unaware that one PVO, Winrock, had experienced major problems in implementing its food aid agreement in Angola, as discussed in Finding 2. Although Winrock signed the agreement with FAS in August 1998, Winrock did not submit the required semiannual reports and FAS did not attempt to obtain them. FAS did not request the missing semiannual reports until July 2000 when Winrock requested its final 15 percent distribution of grant funds. This was 23 months after the agreement was signed.

We also found that FAS did not thoroughly review the semiannual reports it did receive until the PVOs had completed their overseas operations and the

[8] 7 *Code of Federal Regulations* (CFR) 1499, "Foreign Donation Programs," and 7 CFR 1599, "McGovern-Dole International FFE and Child Nutrition Program."

agreements were ready for final closeout. Upon receiving the semiannual reports, FAS analysts performed only cursory reviews, which were limited to determining whether the PVOs reported any commodities or funds remaining. If the reports indicated that PVOs had not distributed or sold all of the donated commodities, the analysts simply filed the reports, without reviewing the PVOs' narrative descriptions of ongoing program operations. These narrative descriptions contain valuable information for assessing whether the PVOs are accomplishing agreement objectives and the needs of food aid recipients are being met.

OIG reported the weaknesses in monitoring semiannual reports to FAS in our March 1999 report. In April 2000, FAS responded, stating that budget and human resource constraints were the cause of the timeliness problem with the reviews. FAS planned to "work smarter" by using acceptable sampling techniques to review a minimum target of 10 percent of the active agreements.

However, our current audit confirmed that the weaknesses in monitoring active agreements have continued. We found that FAS could not provide documentation demonstrating that a 10-percent random sampling methodology for selecting and reviewing active agreements had been established. In addition, as we discuss later in this finding, FAS had lost access to its automated database where agreement reviews were documented, and thus could not provide documentation of agreement reviews performed.

Few Onsite Reviews Performed—

Onsite reviews are necessary to validate the existence and accuracy of PVO banking and accounting records supporting the amounts of proceeds received from selling commodities and program expenditures. Also, onsite reviews are necessary to confirm that PVOs are accomplishing USDA's food aid objectives in foreign countries.

In response to OIG's March 1999 report, FAS agreed to conduct:

- Random spot check reviews at the U.S. Headquarters of PVOs operating food aid programs;
- Thorough reviews of five to seven PVOs each year; and
- Regular review of problematic agreements.

However, OIG learned that FAS had not fully implemented these reviews due to a lack of staff resources in both the evaluation and compliance divisions. FAS had performed no reviews in 2000; only two reviews each year for FYs 2001, 2002, and 2003; and three reviews in 2004. None of these reviews included the PVO Winrock, whose food aid agreements in Angola and the Ivory Coast are discussed at length in Finding 2.

We also noted that FAS had not developed a method to focus the few onsite reviews it did conduct on the most problematic PVOs. In one instance, an FAS analyst recommended that a deficient PVO be referred for an onsite review, but that review did not occur. To identify and follow up on problematic PVO agreements, FAS needs to strengthen communication between its evaluation division, which conducts desk reviews of PVOs' semiannual reports, and its compliance unit, which conducts onsite reviews.

Final Closeout Reviews Backlogged—

Closeout reviews allow FAS to assess sponsors' administration of a particular food aid agreement from start to finish before disbursing the final 15-percent allotment of grant funds to the sponsor. Closeout reviews also enable FAS to evaluate sponsors' prior performance and determine whether they should be awarded new agreements.

Our March 1999 audit found a backlog of agreements requiring final closeout reviews for FYs 1992 through 1996. In response to our previous recommendations, FAS agreed to complete closeout reviews of the backlog of old agreements and to perform timely closeout reviews for all agreements signed after December 31, 1997. However, as of October 2004, we found that another backlog of agreements awaiting final closeout reviews had accumulated since our last audit. Of 316 agreements awarded over the 4-year period ending with FY 2001, only 110 had been closed out. (See table 1 below.)

Table 1—FAS Food Aid Agreements With All Cooperating Sponsors, Including Foreign Governments

FY	Total Agreements Awarded	Agreements Closed Out	Agreements Remaining Open	Percent Remaining Open
1998	44	15	29	65.9
1999	100	38	62	62.0
2000	100	49	51	51.0
2001	72	8	64	88.9
Total	**316**	**110**	**206**	**65.2**

We noted that agreements with foreign governments—typically third-world nations—comprised a significant portion (20 percent) of the backlog of open agreements requiring closeout reviews. Of the 206 open agreements for FYs 1998 through 2001, 42 were agreements with foreign governments; during that period, FAS made 45 of these government-to-government agreements, only 3 of which had been closed out as of October 2004. The closeout process for foreign governments can be considerably more complex than the closeout process for agreements with PVOs, and any problems encountered may require the involvement of departmental officials and officials from other U.S. Government agencies. Because of the diplomatic and foreign policy implications, FAS should develop a separate process to facilitate timely closeout reviews for agreements with foreign governments.

Review Efforts Hindered by Loss of Database—

FAS' efforts to conduct closeout reviews and reviews of semiannual reports were frustrated by the lack of an automated database to track food aid agreements. Until 2002, FAS used a Paradox database to store food aid grant agreements and semiannual logistics and monetization reports from PVOs. However, the system was outdated and could not support the billion-dollar array of food aid programs FAS manages. Furthermore, the agency's Information Technology staff had not ensured effective controls were in place to secure the Paradox data system before releasing the contractor. As a result, after a contractor worked on Paradox in 2002, FAS employees were unable to access the food aid agreement information in the password-protected database.

Without an automated system to facilitate the review process, FAS analysts relied on Excel spreadsheets to monitor food aid agreements and PVO reports. However, because the analysts' spreadsheets were not uniform, OIG could not determine if required semiannual reports had been received from PVOs, what years the reports covered, and whether the reports had arrived on time. This manual, paper-intensive process was an inefficient method of monitoring food aid agreements.[9]

FAS managers and staff are aware of the agency's need for an improved information technology infrastructure and have taken steps toward acquiring and implementing a new system. In 2003, FAS sought funding from OMB to begin design work for a new food aid information system. OMB then decided to expand the FAS system to include interagency information for all U.S. Government agencies dealing with food aid: FAS and FSA in USDA, the U.S. Agency for International Development (USAID), and the Department of Transportation Maritime Division. A contract for the new FAS system was awarded in September 2004, and an interagency requirements study was initiated. The results of the interagency study will be used to justify the new FAS system and the new overall U.S. Government-wide food aid reporting

[9] The lack of an automated database also prevented FAS from responding quickly to requests for information from program stakeholders, such as the Office of Management and Budget (OMB). For example, just after the start of U.S. combat operations in Afghanistan, OMB requested information about all food aid shipments into the area, such as the type of commodity, MT, and physical location (e.g., aboard ship, awaiting loading at port, etc.). FAS was unable to satisfy OMB's request without an extensive search of its paper files.

system. If funding is approved, FAS hopes to implement a design and build the project in FY 2006.

Meanwhile, FAS has already created a new performance management and evaluation module that will become part of the new food aid system. It is intended to track the submission of semiannual reports and other information required from PVOs. In addition to monitoring report submission, the module maintains the actual data contained in the semiannual reports, including the disposition of food aid commodities from the time they are unloaded from the ship until they are sold or distributed to recipients. FAS plans to use the new module to evaluate and rank the performance of PVOs and other sponsors in operating their individual food aid projects.

As of October 2004, FAS officials had entered food aid agreements through FY 2004 into the module, and the agency was in the process of entering semiannual reports received from PVOs for FYs 2000 through 2004. FAS had also sent letters to PVOs, requesting that they submit missing reports. Once it is fully functioning, the new performance management and evaluation module should strengthen FAS' review process by giving the agency ready access to accurate and up-to-date food aid data.

In order to prevent the data loss problems that impaired FAS' older system for storing food aid information, FAS should make sure that future systems comply with Federal regulations for information technology. Government internal control standards require that transactions be promptly recorded to maintain their relevance and value for management decision-making, and access to accounting records be limited to authorized individuals with accountability for their custody and use.[10] OMB requires agencies to implement a program to adequately secure agency information systems.[11] Agency information systems are to be certified and accredited in accordance with standards and procedures issued by the National Institute of Standards and Technology (NIST) of the Department of Commerce.[12]

FAS should establish controls to ensure that food aid data entered into the new performance management and evaluation module is protected from unauthorized access and alteration, and backup and recovery procedures to ensure that errors made during system maintenance or future system modifications do not cause the loss of the newly populated data. The performance management and evaluation module and the new food aid system should be certified and accredited in accordance with NIST standards.

[10] "Standards for Internal Control in the Federal Government, "U.S. Government Accountability Office, November 1999, pages 11-19.
[11] *OMB Circular A-130*, Appendix III, "Security of Federal Automated Information Resources," revised, "Transmittal memorandum No. 4, pages 1 and 2.
[12] NIST Special Publication 800-37, "Guide for the Security Certification and Accreditation of Federal Information Systems."

Insufficient Personnel Resources—

Further contributing to its agreement monitoring problems, FAS did not assign sufficient staff to strengthen its oversight of food aid agreements. In response to OIG's previous findings, FAS planned to increase staff devoted to evaluating its food aid programs and to explore contracting out certain functions as necessary.

In an August 2001 report, FAS informed Congress that its evaluation of food aid programs had been constrained due to limited personnel resources, high staff turnover, and the recent growth of FFE programs. Also, the limited presence of overseas attachés had impaired USDA's ability to oversee agreement projects. FAS has requested that its compliance staff help to monitor and verify the use of monetization proceeds. In addition, FAS planned to increase staff devoted to the evaluation of its food aid programs.

As of October 2004, the budget situation remained tight and a hiring freeze made it unlikely that new personnel resources could be obtained. However, FAS continued to understand the importance of monitoring and expressed its willingness to reallocate resources, if needed.

Recent developments should assist FAS in accomplishing this task. FAS has now completed startup operations for the new FFE programs that created an extremely heavy workload in FYs 2002 and 2003. In addition, the new performance management and evaluation module should eliminate the manual, paper-intensive tracking of semiannual reports and provide an automated process to perform agreement evaluations. However, if FAS officials determine that its current staff is unable to complete the reviews in a timely and comprehensive manner, FAS should consider contracting out some of the review responsibilities, as the agency proposed in response to our previous audit.

By fully implementing our March 1999 audit recommendations—reviews of semiannual reports, onsite reviews, and final closeout reviews—FAS will increase public confidence that PVOs are using USDA commodities and funds appropriately. Given the serious program violations by Winrock, discussed in the following finding, it is critical that FAS focus its efforts and resources on strengthening its monitoring of foreign food aid programs.

Recommendation 1a

Implement management controls for reviews of semiannual reports, onsite reviews, and closeout reviews, as agreed upon in response to OIG's March 1999 report. Establish and implement procedures to conduct detailed evaluations of all open food aid agreements with activities still underway.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS has evaluation procedures in place and each monitoring analyst in the * * * EC Programming Division has been provided a monitoring and evaluation handbook containing the steps involved in the agreement evaluation process. However, FAS will improve the implementation and monitoring of evaluation assignments by providing training in agreement evaluation procedures for monitoring and programming staff by the end of FY 2006. Further, one-on-one peer training will be provided.
>
> In addition, FAS has conducted an inventory of all open agreements from FY 1998 through FY 2005. During this 8-year period, FAS signed nearly 900 food aid agreements with PVOs, the World Food Program, and foreign governments. FAS now will give priority to reviewing the reports for agreements signed after FY 2003. This will ensure that agreements with continuing activities are monitored more closely. FAS expects to have more resources available for greater review of open agreements since the number of new agreements entered into has been dropping since 2003, after the Section 416(b) food aid program declined. FAS is studying the possibility of contracting for additional resources to assist in reviewing these reports in an even more timely manner.

OIG Position. We agree with the management decision based on FAS' development and implementation of the above-referenced monitoring and evaluation handbook, which provides the necessary procedures and instructions for conducting reviews of agreement operations, and the additional staff training on the agreement monitoring process and procedures.

Recommendation 1b

Target five to seven PVOs annually for thorough onsite reviews of PVO grant program operations and perform onsite reviews of documents supporting semiannual reports at the U.S. Headquarters of PVOs.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS will continue to perform onsite reviews of PVOs but is unable to commit to a target minimum each year. The number of PVOs visited will depend upon several unforeseeable factors, including the identification of questions or problems which are brought to light through the A-133 audit process. FAS will

> review the A-133 audits for all of the PVOs that have open agreements and note any findings that relate to those agreements. FAS will then follow up with the PVO on any such findings. FAS will review the findings to select PVOs for onsite reviews. FAS now requires and funds single agreement audits for all new PVOs that are implementing FAS-administered food aid programs.
>
> In carrying out annual onsite reviews, the EC Programming Division will select and prioritize PVO programs to receive a visit. The Programming Division will meet with the Compliance Review Staff * * * to discuss the possibility and timeframe for each onsite review. This procedure will be repeated at the start of each fiscal year. The Programming Division will keep records of the minutes of these meetings. However, FAS' ability to fully implement this recommendation also will be subject to the available staffing and travel resources of CRS.

OIG Position. OIG is aware of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requirements for annual audits. We agree that FAS should review PVOs' A-133 audits to discover any findings related to USDA grants and followup on those findings. However, the decision to perform onsite reviews of PVOs should also be based on FAS' system of checks and balances including its required semiannual logistics, monetization, and financial reports from PVOs, as well as on reliable external information FAS receives from its attaches and others concerning PVOs' grant operations. Finally, determinations of when to conduct onsite reviews should be an ongoing activity rather than a once-a-year determination.

In a June 27, 2003, *Federal Register Notice*, OMB commented that the A-133 audit is only one of many monitoring tools available to oversee the administration of and strengthen accountability over Federal grants. Grantee monitoring should occur throughout the year rather than relying solely on a once-a-year audit. OMB discussed other monitoring tools, including reviewing grantee financial and performance reports and performing site visits to review financial and program records and observe operations. Finally, OMB noted that the Federal Government has the authority to audit and/or investigate any entity suspected of using Federal funds improperly, regardless of the amount of funds involved.

Regarding the number of onsite reviews to be performed, FAS proposed five to seven annual onsite reviews of PVOs in its management decision correspondence to OIG following our 1999 audit. While we agree that there should be flexibility in the number of these reviews, we also believe there should be an annual minimum target for the number of reviews to be conducted. This target may be adjusted based on actual or overall PVO performance in a given year. If FAS is unable to conduct sufficient onsite reviews with its available staff resources, the agency should consider contracting out the reviews as it previously proposed.

We can accept management decision for this recommendation when FAS expands its criteria for determining when to perform onsite reviews to include its assessment of PVOs' required reports, and the agency establishes a minimum annual target for performing the reviews.

Recommendation 1c

Develop a system to identify problematic PVO agreements and perform regular reviews of these agreements.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS agrees with this recommendation. Agreements will now be identified as problematic when the following types of criteria are present:
>
> - Monetization problems;
> - High-risk country;
> - Inconsistent reporting;
> - Unexplained program delays; or
> - Warnings from Post, anonymous whistle blowers, or other sources.
>
> Once an agreement has been identified as having one or more types of the above mentioned criteria present, it will be included on a list of agreements to be considered for onsite review and given priority review status. This list will not be used as a basis to automatically preclude future grant awards or debar or suspend organizations.

OIG Position. We concur with the proposed evaluation criteria. To reach a management decision, FAS officials need to provide us either with evidence that these criteria have been incorporated into the agency's monitoring and evaluation handbook, or with timeframes for accomplishing this.

Recommendation 1d

Develop and implement a plan and timeframes to complete closeout reviews of the backlog of agreements for FYs 1998 through 2001.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS has taken several steps to reduce the backlog of agreements pending closeout review. First, FAS conducted an inventory of all open agreements from FY 1998 through FY 2005. During this 8-year period, FAS signed nearly 900 food aid agreements with PVOs, the World Food Program, and foreign governments. The inventory list of open agreements will now be sorted and prioritized for closeout review according to the age of the agreement, the timing of the closeout request, and the date of the submission of the final report. FAS is streamlining its procedures and policies relating to the closeouts and providing additional training to staff. These changes should allow closeouts of agreements to proceed more quickly. Barring any dramatic changes in staffing levels, FAS will give priority attention to closing 239 open agreements signed from FY 1998 to FY 2001 over the next three years.

OIG Position. We agree with management decision on this recommendation with the understanding that FAS will complete the closeout reviews for the FY 1998 to FY 2001 agreements by the end of FY 2009.

Recommendation 1e

Develop procedures to ensure that agreements for FY 2002 and beyond receive timely closeout reviews.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS agrees with this recommendation and has implemented the steps previously outlined to ensure completion of the backlog of closeout reviews of FY 1998 to FY 2001 agreements. To determine which agreements are reviewed first, FAS will consider criteria such as the date of the closeout request and the year of the agreement. FAS will give priority to older agreements during the closeout process.

OIG Position. We appreciate FAS' efforts to prioritize and address the current backlog of agreements awaiting closeout reviews. We also appreciate the agency's staffing constraints and system problems that led to the backlog. However, our 1999 audit found a backlog of agreements awaiting closeout reviews, and our current audit found a similar backlog.

To break the backlog cycle for active/ongoing agreements signed in FYs 2002 and beyond, FAS needs to establish realistic new procedures and timeframes to perform closeout reviews. For example, FAS may consider establishing a goal to close out all agreements signed in FY 2002 and beyond within 120 to 180 days of receiving the closeout request from the PVO. Working toward a goal of this type could assist FAS in timely closing agreements and avoiding future agreement backlogs.

We can reach management decision on the recommendation when FAS submits a plan to conduct timely closeout reviews of agreements signed for FYs 2002 and beyond.

Recommendation 2

Review narrative descriptions of agreement operations, commodity transactions, and all other information submitted in PVOs' semiannual logistics and monetization reports reviewed, and track any problematic issues.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS recognizes the need for early detection of problems in agreements and the need to track problematic issues. In response to this need, FAS is exploring ways to improve the timeliness of its review of the various types of reports received each year. During FY 2005, FAS dedicated two staff members to receive reports and record their receipt. The staff members notified managers of the reports that were received, and FAS compared these submissions with open agreements. During FY 2006, a staff member will review each report and quickly note any obvious problems. The reports will be sent to analysts responsible for the geographic regions for further review, especially of the narrative sections. The review will be recorded in the inventory of agreements. FAS will look especially for final reports, incomplete reports, and issues. FAS will give priority consideration to the review of PVO reports provided under problematic agreements.

OIG Position. We agree with the management decision.

Recommendation 3

Establish a process for meetings between the FAS evaluation and compliance personnel to refer problematic agreements for onsite reviews. Document agreement referrals and review results.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS agrees with this recommendation. By the end of FY 2006 FAS will establish a procedure and train staff on the procedure. The procedure will involve a chain from the analyst to the branch chief to the director's office in the Programming Division of EC, then to CRS. Guidance about violations and claims will also help analysts to improve their abilities to identify problems and solutions. A copy of the list of organizations requiring additional monitoring will be shared with CRS. Meetings will be conducted as needed and a record of each meeting will be retained in the files of the Programming Division. However, the Programming Division will also continue to request that CRS review all Cooperating Sponsors on a rotating basis to ensure that less visible issues are identified.

OIG Position. We agree with the management decision.

Recommendation 4

Develop and implement a separate process to ensure timely closeout reviews of government-to-government agreements, including steps to elevate closeout problems to departmental officials for timely final resolutions.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS agrees with this recommendation. The reporting requirements for foreign governments are the same as those for PVOs. Therefore, by the end of FY 2006, FAS will implement similar steps as those taken to complete closeout reviews of FY 1998 to FY 2001 agreements. This will include maintaining an inventory list and prioritizing these agreements for closeout.

OIG Position. FAS' initiative to complete closeout reviews of FY 1998 to 2001 agreements should also assist in closing government-to-government agreements. However, the FAS closeout process for agreements with PVOs will not address diplomatic and foreign policy issues that arise with sovereign foreign governments receiving USDA grants. To reach a management decision, FAS needs to develop a separate process to facilitate timely closeouts of these agreements, including procedures to elevate difficult foreign policy issues to the FAS Administrator and Departmental officials.

Recommendation 5

In order to protect food aid data from unauthorized access and loss during routine system maintenance and future system modifications, ensure that the performance management and evaluation module and related modules in the new food aid system comply with OMB A-130 and NIST 800-37 certification and accreditation procedures.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS agrees with this recommendation and will take reasonable steps to ensure compliance with OMB and USDA guidelines. Currently FAS is compliant with OMB A-130 and NIST 800-37 procedures. Additionally, an OMB-300 was developed for the Information Technology * * * development of the Food Aid Information System * * * (which includes enhancements to the PVO reporting module), in September 2005. The OMB-300 was reviewed and approved by the USDA Office of the Chief Information Officer, and forwarded to OMB for review.

OIG Position. We agree with the management decision.

Recommendation 6

Identify and implement a course of action to ensure thorough and timely reviews of food aid agreement operations.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS agrees with this recommendation and has set a goal of closing 80 percent of agreements within 6 years of signing, starting with FY 2002 agreements. However, any reduction in FAS resources could slow down or restrain the process.

OIG Position. We agree with the agency's stated goal. However, the response includes reservations about the ability of the agency to fulfill its goal. If FAS is unable to attain its goal due to staffing resources, the agency should consider contracting out the agreement reviews as it previously proposed. To reach a management decision, FAS officials need to provide us with their plan, including timeframes, to implement their stated goals while taking into account the anticipated possibility of reduced resources.

Finding 2

FAS Needs To Strengthen Controls Over PVOs' Implementation of FFP Agreements

USDA FFP agreements in Angola and the Ivory Coast were not successfully implemented, even though FAS donated more than 23,000 MT of CCC-donated commodities for monetization. FAS did not ensure that PVOs were capable of fulfilling their grant proposals prior to disbursing funds or sending commodities. Nor did it deal with PVOs that violated their agreements, or prevent PVOs that had violated past agreements from receiving additional funds. These weaknesses in the agency's controls were made manifest by Winrock's conduct. Over the course of two food aid agreements, Winrock misrepresented itself as a viable agent in its host countries, mismanaged its grant operations, repeatedly violated CCC regulations and the terms of its agreements, and failed to respond appropriately to serious internal weaknesses in its operations and Winrock employees' allegations of fraud. Together, FAS' control weaknesses and Winrock's mismanagement meant that $2.2 million in benefits from the sale of food aid commodities never reached the people of Angola and the Ivory Coast.

Federal regulations stipulate the agency's and grant recipients' responsibility for grant funds.[13] FAS has the lead responsibility for managing USDA's food aid programs.[14] The agency is responsible for monitoring to ensure that PVOs and other cooperating sponsors comply with their food aid agreement's reporting, implementation, and financial requirements.[15] Cooperating sponsors must have the organizational experience and resources available to implement and manage the programs they propose.[16] Sponsors who damage, misuse, or lose administrative funds, commodities, or sale proceeds through negligence or program violations are required to reimburse the U.S. Government for the value of commodities or program income lost.[17]

Our review, however, found weaknesses in FAS' controls for ensuring that the proceeds from the monetization of CCC-donated commodities are used in accordance with grant agreements. FAS lacked procedures for:

- confirming that PVOs have received the recognition of their host governments before finalizing food aid agreements;

[13] *OMB Circular A-110*, "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations."
[14] *Agricultural Factbook* 2001-2002, Chapter 7, "Farm and Foreign Agricultural Services," page 7.
[15] "FAS Management Controls Review, Risk Program / Function Risk Assessment Worksheet (Including Management Control Objectives)," November 2003, "Export Credits, Office of Deputy Administrator, Foreign Food Aid."
[16] 7 CFR 1499.15 (e), "Liability for Loss, Damage or Improper Distribution of Commodities—Claims and Procedures."
[17] 7 CFR 1499.3, "Eligibility Requirements for Cooperating Sponsors."

- verifying that PVOs have complied with agreed upon financial arrangements, such as establishing separate bank accounts in-country to enable the PVO to receive grant program income and make routine program disbursements to carry out agreement operations, prior to shipping the commodities;

- pursuing grant funds lost due to PVOs' mismanagement; and

- reviewing PVOs' past performance before approving additional food aid agreements.

Winrock's conduct in Angola and the Ivory Coast has demonstrated that FAS needs to correct these weaknesses in its internal controls.

FAS Lacks Necessary Controls to Ensure that Food Aid Agreements Are Properly Implemented—

1. Recognition of Host Governments—

While regulations do not specifically require PVOs to obtain the legal recognition of their host governments, CCC regulations do require that PVOs have experience working in targeted countries and the resources needed to implement and manage the type of program they propose.[18] We believe that recognition by a host country's government is a necessary prerequisite if PVOs are to accomplish most basic program activities, including opening an office, hiring staff, and establishing a local bank checking account. Despite the need for legal recognition to perform these ordinary business activities, FAS has no procedure in place to verify that PVOs have received such recognition before they receive donated commodities or funds.

Most PVOs would, as a matter of course, seek and obtain their host government's recognition as they initiate their program activities in-country; however, we maintain that FAS should, in order to prevent mismanagement of CCC-donated commodities, confirm that this recognition has been obtained prior to finalizing any agreements. In cases where the PVO has already established itself and successfully implemented previous agreements in-country, additional evidence of the host country government's recognition would not be necessary.

However, FAS did not confirm whether or not the Angolan Government had recognized Winrock. This control weakness is partially responsible for the loss of grant funds in that country, as discussed later in this finding.

[18] 7 CFR, Chapter 1499.3c (1)(2) — "Eligibility Requirements for Cooperating Sponsors."

2. Necessary Financial Arrangements—

Because PVOs often operate in foreign economies where the business environment is unstable or where the conditions for investment are not ideal, FAS requires PVOs to include prudent solutions to these problems in their grant proposals. FAS does not, however, ascertain that these arrangements have been carried out before it ships commodities for monetization.

For example, PVOs must establish separate special bank accounts to deposit monetization proceeds, accrue interest, and make disbursements to carry out program activities.[19] The August 10, 2001, FAS report to Congress on food aid monetization stated that "[m]onetized proceeds must be placed in a special account and used only for approved purposes. The funds in the special account may not be commingled with other funds." Regulations do not, however, require that PVOs provide evidence to FAS that a separate bank account in-country has been established to conduct program operations, nor does FAS verify that these separate accounts have been established before shipping donated commodities.

If PVOs do not follow these regulations, serious financial problems can result. For instance, in 2003, Project Concern International (PCI)—a PVO operating for the first time in Honduras—allowed $3.8 million in grant funds to be commingled with the funds of other entities in Honduras receiving donations from multiple sources. Because PCI did not have legal status in Honduras, it could not open a separate local bank account to transact program activities. Without a separate account to deposit monetization proceeds, PCI deposited grant funds in an account shared with several other entities.[20] Due to its improper handling of program funds, PCI found itself unable to determine how much interest had accrued on grant funds provided by USDA and properly report the interest in its quarterly financial statements. PCI's predicament demonstrates that FAS needs to take steps to verify that PVOs have established a separate bank account in-country to receive sales proceeds and make disbursements for program activities before CCC commodities are shipped.

[19] 7 CFR 1499.5, "Program Agreements and Plans of Operation." (6) "Use of Funds or Goods and Services Generated: When the activity involves the use of sale proceeds, the receipt of goods or services from the barter of commodities, or the use of program income, the following information must be provided: (f) "procedures for assuring the receipt and deposit of sale proceeds and program income into a separate special account and procedures for the disbursement of the proceeds and program income from such special account."

[20] As a stopgap measure, PCI shared a bank account with the Regional Water and Sanitation Network of Central America and Swiss Development Cooperation. The common bank account was used to process disbursements of monthly program operating expenses associated with five separate agreements, funded by four different donors: Swiss Development Cooperation, USAID, the World Bank, and USDA. As of July 28, 2004, PCI opened a separate bank account. However, the funds associated with the USDA grant remained commingled with the Swiss Development Cooperation, the World Bank, and USAID grant funds in the joint account. PCI was uncertain how interest accrued on the joint account balance would be allocated. Also, a finance team had to be assigned to calculate how much of the account balance belonged to each party.

FAS' failure to verify that Winrock had fulfilled the financial requirements in its grant proposal—including separate accounts for monetization proceeds and arrangements for limiting its holdings of the unstable Angolan currency—is partially responsible for the loss of grant funds in that country, as discussed later in this finding.

3. Pursuit of Grant Funds Lost Due to PVO Mismanagement—

CCC regulations provide that cooperating sponsors receiving food aid agreements repay the United States the value of lost commodities, monetization sales proceeds, or program income when the cooperating sponsor is at fault due to any act or omission, or failure to provide proper storage, care, and handling of the commodities or commodity sales proceeds.[21] FAS, however, has no procedures for aggressively pursuing the recovery of grant funds lost due to PVO mismanagement.

As discussed later in this finding, FAS has not initiated any efforts to recover the $2.2 million in grant funds Winrock mismanaged in Angola and the Ivory Coast, even though it possesses evidence that Winrock violated its grant agreements in ways that materially contributed to those losses.

4. Review of PVOs' Past Performance—

Despite having agreed to institute a performance-based review as part of its approval process for all PVO food aid proposals, that review system was not functioning as designed. FAS has stated that its performance-based review is designed to assess a PVO's worthiness to receive USDA funds and donated commodities by taking "into account a PVO's demonstrated capabilities and its track record in managing USDA food aid and other similar programs."

Even though FAS has maintained that "[a]n organization . . . which failed to maintain sufficient transparency in its program implementation and was less than responsive to FAS requests for documentation, would undoubtedly receive a very low rating for past performance and stand little chance of receiving additional food aid," FAS signed a new agreement in July 2002 to provide Winrock with 32,500 MT of commodities for program activities in Indonesia. FAS signed this new agreement even though it was aware of Winrock's mismanagement of funds in Angola and the Ivory Coast—its own analyst had previously called for an audit of Winrock's prior agreement activities and recommended that Winrock receive no more food aid agreements.

Including a performance-based review as part of approving all PVO food proposals would represent a significant improvement in FAS' application

[21] 7 CFR 1499.15(e), "Liability for Loss, Damage, or Improper Distribution of Commodities."

process; however, in the case of Winrock's Indonesian agreement, that review system was not functioning as designed. As part of improving its internal controls over how food aid grants are administered, FAS should fully implement this review process and apply it to all food aid proposals submitted by PVOs.

Overall, we conclude that FAS should strengthen its controls for ensuring that PVOs implement their food aid projects as specified in their grant proposals and agreements. These improvements should increase public confidence that funds set aside for foreign policy objectives are serving their intended purpose. They should also help prevent grant funds from being wasted, as occurred with two Winrock agreements in Africa.

Winrock Mismanaged FFP Agreements in Angola and the Ivory Coast—

The shortcomings in FAS' controls over PVO agreement operations have been brought into sharp focus by Winrock's conduct in Angola and the Ivory Coast. Due to the PVO's failure to comply with regulations and its grant agreements, $2.2 million dollars in grant funds has been lost and food aid programs intended for the people of those countries were not completed as planned.

1. Loss of Grant Funds in Angola—

In August 1998, Winrock signed its FFP agreement for Angola. In its proposal, Winrock aimed to enhance Angolan women's participation in agriculture and to establish renewable energy activities in Angola and Namibia. In exchange, FAS provided Winrock with 8,781 MT of CCC-donated wheat flour for monetization and $50,953 for administrative costs. In accordance with CCC regulations,[22] FAS immediately advanced $43,310 of this sum—$7,643 was withheld until the agreement was successfully closed out.

By undertaking this agreement, Winrock asserted that it was a viable agent in Angola; however, throughout the duration of the grant agreement, Winrock never received the recognition of the Angolan Government. This failure sharply curtailed its activities and rendered many program activities impossible. As part of its proposal, Winrock had agreed to establish a fully equipped office in Angola and to limit its holdings of the unstable local currency by maintaining two separate, interest bearing accounts, one in the United States for dollars and one in Angola for local currency. Without the Angolan Government's recognition, it could not abide by the terms of its proposal. Because FAS has no control in place to verify that PVOs receive

[22] 7 CFR 1499.7 (f), "Apportionment of Costs and Advances."

their host government's recognition, the agency remained unaware of this problem.

Between January and March 1999, Winrock sold its donated wheat flour to an African distribution and baking company, Tondo Limitada, for $1,887,851. The proceeds from this sale were to be paid both in dollars and in the local kwanza. Since Winrock had not—in violation of its grant proposal and CCC regulations—established special accounts for the receipt of monetization proceeds, it allowed Tondo Limitada to keep the entire sum and make disbursements on Winrock's behalf for program activities. Even though Winrock was aware of the kwanza's extreme instability—and had suggested in its grant proposal a prudent mechanism for protecting program funds—it allowed more than half of its monetization proceeds to remain in the Angolan currency, leaving $1,076,075 vulnerable to the currency's fluctuations. Again, since it did not verify that PVOs fulfilled their financial obligations, FAS was not cognizant of this exposure of grant funds.

Despite regulations requiring PVOs to notify FAS of adverse circumstances materially impacting their implementation of grant agreements,[23] Winrock chose at this point not to inform the agency of its failure to obtain the Angolan Government's recognition, of its inability to lease office space and hire local staff, of its failure to establish a local bank account to deposit monetization proceeds and make program disbursements, and of its keeping more funds in kwanza than its immediate needs required. Had Winrock been forthright and notified FAS that its operations in Angola were in jeopardy, FAS could have modified the agreement to transfer monetization proceeds to another PVO in Angola—one with Government recognition.

Instead, the monetization proceeds remained largely (57 percent) in kwanza, and the currency underwent a dramatic devaluation in May 1999. A dispute between Winrock and Tondo Limitada over the rate at which devalued kwanza could be converted to dollars contributed to this loss of program funds. Since Winrock was not recognized by the Angolan Government, it could have no recourse in Angolan courts and soon exhausted any meaningful alternative for recovering this money. In the end, Winrock received only 25 percent of the local currency anticipated and was forced to scale back program activities accordingly.

Due to weaknesses in how FAS monitored PVOs and Winrock's decision not to report as required by regulations (see Finding 1), the agency knew nothing of this situation until July 2000, when Winrock requested the $7,643 remaining for administrative costs. According to the grant agreement, that sum was contingent upon the successful conclusion of the project; in this case, of course, the project had never been properly started, much less

[23] *OMB Circular A-110*, "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organization," "Reports and Records," page 40, and Subpart D, "After the Award Requirements," pages 47 and 48.

successfully completed. Before it would release the funds, FAS requested the semiannual logistics and monetization reports it should have received much earlier. Only then did FAS learn the story of the kwanza's devaluation, the loss of grant funds, and the resulting failure to accomplish food aid goals as envisioned in the grant proposal it had approved. FAS did not release the remaining $7,643.

On July 26, 2001, FAS met with Winrock to discuss the status of this agreement. Winrock had received more than $1.9 million in USDA goods and funds, and had incurred expenses totaling $528,872. Thus, more than $1.4 million remained unaccounted for (see table 2 below). Though much of this sum was lost during the kwanza's devaluation and Winrock's subsequent dispute with Tondo Limitada, that loss was caused by Winrock's disregard of the financial terms specified in its grant agreement.

Table 2—Winrock's FY 1998 FFP Agreement in Angola: Program Funding and Expenses (Source: FAS files and FAS analyst.)

Line Item Description	U.S. Dollars	
Monetization Proceeds	$1,887,851	
CCC-donated administrative funds	$43,310	
Total		**$1,931,161**
Administrative Expenses	$288,373	
Program Expenses	$206,261	
Legal Fees	$34,238	
Total Agreement Outlays		**$528,872**
Total of Not Accounted For		**$1,402,289**

During the July 2001 negotiations, Winrock submitted a project closeout proposal valuing its completed program activities at $40,000. In a January 2003 letter, it offered "to fund the final project activities, totaling $40,000, from its own accounts in order to bring the core project activities to completion." OIG concluded that this offer—just 3 percent of the lost sum—was insufficient when compared to the $1.4 million in grant funding still unaccounted for.

Winrock's conduct in Angola was characterized by serious violations of its agreement with FAS and by a marked lack of transparency. Winrock did not obtain the Angolan Government's recognition; it did not establish a local bank account to deposit monetization proceeds and make program disbursements; it did not limit its holdings of kwanza; it did not timely submit its logistics and monetization reports; and it did not notify FAS of adverse circumstances affecting its ability to fulfill its project. Given its disregard for its obligations to FAS and USDA, we conclude that Winrock should be held responsible for the loss of this $1.4 million in food aid.

2. Loss of Grant Funds in the Ivory Coast—

In March 1999, FAS signed an agreement with Winrock to conduct a FFP program in the Ivory Coast. This agreement, referred to as ALFALFA II, was a continuation of a FY 1997 agreement, ALFALFA I. According to the terms of ALFALFA II, CCC provided 15,000 MT of brown rice for monetization, while Winrock agreed to help retain the present market share of U.S. brown rice in the Ivory Coast and to extend that market to Burkina Faso and Mali. Again, in its proposal, Winrock assured FAS that it was a viable and efficient agent in the Ivory Coast, that it possessed a well equipped and professionally staffed office in Abidjan—that country's largest city—and that it would exercise careful control over grant funds.

However, in March 2000, USDA learned that Winrock's Abidjan employees had alleged that the Abidjan regional director and accountant had committed fraud, waste, and abuse while implementing this agreement. These allegations included the diversion of program funds for personal use, bribery, kickback schemes, nepotism, forgery, misuse of program-registered vehicles (including the conversion of one vehicle into a race car), sexual misconduct, and the use of program funds for improvements at the regional director's home. In April 2000, Winrock dispatched a team of auditors to Abidjan. Those auditors later confirmed that the Winrock financial manager in Abidjan had violated procedures for handling cash and that there were other serious management issues in the Abidjan office relating to human resource policies, excessive expenses, and project reporting.[24] Even though the auditors observed that these conclusions were arrived at "in a context where internal control and local business practices make it extremely difficult to prove fraud," Winrock required that its regional manager either resign or be fired. FAS requested a full copy of this report, but Winrock declined to provide the report, claiming that it concerned matters internal to the company.

A second team of Winrock's auditors visited Abidjan in December 2000 to conduct an audit evaluating the reliability of the company's financial information for the first year of the food aid agreement's operation. The auditors' January 2001 report cited numerous serious internal control weaknesses and poor accounting practices. In addition, the Abidjan staff had failed to pay taxes and social security contributions for staff, consultants, and service providers to the Ivorian Government. While the auditor's report cited specific problems with individual financial transactions and data, the report

[24] A limited review was performed by Winrock's auditors, Deloitte Touche Tohmatsu, from April 17 – 26, 2000. The auditors emphasized that the procedures performed did not constitute an audit in accordance with international standards, and that no assurance had been provided on any financial information relating to Winrock's Abidjan Office at any date, nor could their engagement be relied upon to disclose all fraud, errors, or illegal acts.

did not include an overall assessment of Winrock's financial information for Alfalfa II's first year of operations. Although Winrock generally agreed with the audit's recommendations to improve its internal controls, OIG found no evidence that corrective action was taken, that a remedial audit was conducted, or that the food agreement's second year of operations was audited.

In July 2003, FAS officials completed their final evaluation of the agreement's implementation and prepared an agreement assessment to close the file. In the assessment, the FAS analyst cited Winrock's inaccurate reports that often included irrelevant and misleading information. The analyst prepared a spreadsheet comparing the amounts of funding in the agreement for project activities to the program expenditures reported by Winrock in its logistics and monetization reports. The analysis showed that a total of $3,425,000 was provided for the project; however, Winrock had reported only $2,651,413 in project expenditures. Thus, Winrock could not account for $773,587 in monetization proceeds (see table 3 below).

Table 3 – Winrock Ivory Coast Food for Progress Agreement: Comparison of Project Budget to Actual Expenditures

Winrock Project Activities FCC-681-9/386-00 Ivory Coast (Including Mali, Senegal, & Benin	**Original Agreement Funding**	**Project Outlays in Winrock Monetization Reports**	**Difference Between Original Agreement and Winrock Monetization Reports**
Ivorian Government	**$1,000,000**	**$399,500**	**($600,500)**
Women's Leadership	**$1,325,000**	**$1,205,831**	**($119,169)**
Training Center	**$260,000**	**$276,939**	**$16,939**
Agriculture and Small Enterprise	**$360,000**	**$316,700**	**($43,300)**
Renewable Energy	**$220,000**	**$212,365**	**($7,635)**
Agro-forestry and Natural Resources Management	**$260,000**	**$240,078**	**($19,922)**
Total Project Activities	**$3,425,000**	**$2,651,413**	**($773,587)**

(Source: FAS files and FAS analyst.)

The FAS analyst ended the assessment by stating that the Ivory Coast agreement was plagued with problems, and that Winrock's internal management appeared at times to lack the ability to provide effective agreement oversight. The analyst recommended that this agreement and Winrock's Angolan agreement be reviewed more fully. Since questions surrounding Winrock's conduct in the Ivory Coast led to questions about the company's integrity, the analyst also concluded that CCC should not fund any future Winrock agreements.[25]

FAS did not follow its analyst's recommendations to conduct further review of Winrock's agreement implementation before closing out the Ivory Coast agreement. FAS closed out the ALFALFA II agreement in August 2003 before closing out the earlier related ALFALFA I agreement, even though the earlier agreement had also been recognized as problematic. As of the end of our audit, ALFALFA I had not been closed out.

Winrock is responsible for the loss of $1,402,289 in Angola and $773,587 in the Ivory Coast. To date, FAS has taken no steps to recover these funds—Winrock's 1998 Angola agreement remains open, and FAS closed out the Ivory Coast agreement in 2003 without seeking recovery. The closeout letter, in fact, praised Winrock for its "transparency" concerning the allegations of fraud, despite Winrock's decision not to provide FAS the full report of the first internal audit performed in response to Winrock employees' allegations of contract fraud, kickback schemes, and false reports of program activities. The limited review[26] of these allegations by Winrock's auditors had identified serious management issues relating to human resource policies, excessive office expenses, and project reporting.

Federal regulations, however, provide that the closeout of an award does not affect the right of a Federal agency to disallow costs and recover funds on the basis of a later audit.[27] Given Winrock's conduct, we conclude that FAS should follow CCC regulations and seek the recovery of $2.2 million in lost grant funds.

Recommendation 7

Amend CCC regulations governing eligibility requirements for cooperating sponsors applying for foreign food donation programs to require that cooperating sponsors provide evidence of successful prior in-country grant operations or documentation to CCC to certify that legal recognition has been obtained from the host country governments where grant programs will be implemented. This documentation must be provided before CCC finalizes a contract to award a food aid grant. Then establish controls to implement the amended regulations.

[25] FAS did not follow its analyst's recommendations, as evidenced by its approving Winrock's 2002 FFP agreement with Indonesia.
[26] In a brief letter to FAS, the Winrock auditors reported they performed only procedures agreed upon with Winrock. Their audit was not performed in accordance with international standards and could not be relied upon to disclose all frauds, errors, or illegal acts.
[27] *OMB Circular A-110*, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," Subpart D 72, "Subsequent Adjustments and Continuing Responsibilities," page 47.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS can agree to a concept that focuses on registration or experience, and FAS will draft and submit amended regulations by the end of FY 2006 that will address this issue. As part of the amended regulations, FAS will require PVOs to demonstrate past in-country experience or registration within the country.

OIG Position. We agree with the management decision.

Recommendation 8

Amend CCC regulations to require PVOs and other cooperating sponsors to provide evidence that they have opened separate bank accounts in-country for deposit of monetization proceeds and disbursement of local funds to conduct program operations prior to shipping CCC-donated commodities provided for monetization. Then establish controls to implement the amended regulations.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS cannot agree to this specific recommendation. Requiring separate bank accounts would contradict OMB circulars and Section 3015 of the departmental regulations. PVOs normally try to minimize the number of bank accounts and use sophisticated accounting systems to ensure proper allocation of funds to grants. PVOs incur costs in opening multiple accounts and could face great risk in managing and safeguarding the funds. However, the regulations could be amended to require that PVOs maintain separate accounting of proceeds so that the funds and interest can be allocated to individual grants. FAS will draft and submit amended regulations by the end of FY 2006 that will require PVOs to maintain sufficient accounting procedures to be able to identify proceeds and interest with specific awards.

OIG Position. We cannot agree with the management decision for this recommendation because the proposed amendment will not address the underlying issues we identified.

During our audit, OIG reviewed the selected PVOs’ accounting systems for USDA grant funds. The PVOs generally received numerous grants from USDA and several other agencies. They maintained master banking accounts within the United States for grant funds and unique accounting codes to identify each grant. OIG did not identify problems with this practice.

However, our audit did identify problems in PVOs' local banking practices in foreign countries. PCI deposited funds obtained from monetizing CCC-donated commodities in a common account in Honduras with several other entities. Within a short timeframe, PCI was unable to identify how much of the account balance belonged to PCI or how much interest was accrued on its funds. Winrock did not open a local banking account at all in Angola, but instead arranged for the buyer of the CCC-donated commodities to retain the funds and pay Winrock's program expenses. This led to the eventual loss of most of the local currency (kwanza).

FAS officials believe that requiring in-country bank accounts would contradict Departmental Regulation (DR) 3015 and the related OMB Circular. The regulation and circular establish standards governing the use of banks and other institutions as depositories of grant funds, and do state that agencies may not require separate accounts for individual grants. However, they also require grant recipients to deposit grant funds in insured, interest-bearing accounts wherever possible. We do not believe that these requirements were meant to be applicable to grant operations in foreign countries where economic and financial infrastructures are still in the developmental stage and currencies are frequently unstable. Both OMB Circular A-110 and the DR acknowledge the need for granting exceptions in unusual circumstances, and provide means by which agencies can apply more restrictive requirements.

Based on the conditions we documented in the report, we continue to believe that grant funds provided for operations in foreign countries are at great risk when not deposited in separate PVO bank accounts. Additional accounting procedures will not protect monetization proceeds at risk of loss because the proceeds were either held by the PVO or foreign buyers outside normal banking channels or were commingled with multiple foreign entities in joint accounts. If FAS believes that requiring such accounts – as provided for in the agency's current regulations – conflicts with DR 3015, then the agency should seek an exception as noted above.

To reach management decision, FAS officials need to provide us with a time-phased plan that will prevent reoccurrences of these banking-related problems in foreign countries. If FAS officials believe that it is necessary to obtain an exception to DR 3015 and OMB Circular A-110 in order to require this, then the response should include the agency's plans to accomplish this.

Recommendation 9

Establish agency policies and procedures to direct FAS staff in initiating recovery actions or claims in accordance with CCC regulations against cooperating sponsors at fault in losses of commodities or monetization proceeds.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS agrees with this recommendation. FAS developed and approved such procedures for the claims process in December 2005. Training on these approved policies and procedures will be provided to all staff members during FY 2006.

OIG Position. We agree with the proposed current action. To reach a management decision, FAS needs to provide us with a copy of the specified policies and procedures.

Recommendation 10

Fully implement the performance-based review system and apply it to Winrock and all other PVOs to determine whether the PVOs' prior performance justifies the award of new food aid agreements. Document the review process and maintain the documentation for audit review.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS will continue to include summaries of past performance in its closeout letters. FAS may be able to use this objective in looking at the PVOs' past performance. FAS will identify problems during program implementation to allow PVOs to correct any problems. An "issues letter" has been created to serve as an interim notification to PVOs of problems known by USDA. The issues letter will notify the PVO of problems and provide suggestions for rectifying the problems. This interim step in the review process will precede the closeout letter. If, after repeated notification efforts, a PVO is neither responsive nor takes corrective action in response to problems raised in the issues letter, FAS will document the situation and consider any new proposal from that PVO in light of the unresolved past issues. Effective immediately, a copy of each letter will be placed in the applicable program folder along with a master copy for future reference.

OIG Position. In March 2002, FAS informed OIG that it had instituted a new performance-based review as part of the approval process for all PVO food aid proposals. The review would assess a PVO's demonstrated capabilities and track record in managing USDA food aid programs. Organizations who failed to provide required documents and/or maintain sufficient transparency would receive low performance ratings that decreased their chances of receiving additional grants. However, our current audit revealed that the review system did not function as designed in the case of Winrock.

We accept management decision on the current recommendation based on FAS' use of the new "issues letter" to strengthen its performance review process by documenting problems with PVOs' performance and providing notice to PVOs that unresolved issues may impact the award of future agreements.

Recommendation 11

Verify that PCI obtained its proper share of grant funds and accrued interest from the commingled bank account, and accurately reported these funds to FAS.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS agrees with this recommendation. Before the end of FY 2006, FAS will meet with PCI and confirm that the proper share of proceeds and interest was allocated to the USDA grant.

OIG Position. We agree with the management decision.

Recommendation 12

Conduct a detailed review of Winrock's monetization program and administrative expenses for the FY 1998 Angola FFP agreement, and recover from Winrock any misused or unaccounted funds, potentially totaling as much as $1,402,289.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS has reviewed the agreement, records, and financial reports related to Winrock's FY 1998 monetization program in Angola, and accounted for all of the funds. In short, although the buyer breached its sales contract with Winrock by not paying funds to Winrock, the buyer did pay much of the proceeds directly to recipient agencies in kwanza. These recipient agencies have submitted validating reports. The rest of the funds were lost due to a devaluation of the kwanza; these funds never were paid to Winrock. * * *

1. FAS found no evidence that having official recognition from the Angolan government would have ensured that Winrock received payment from the buyer. FAS has reason to believe that Winrock's situation is largely a case of nonperformance on the part of the buyer. * * *

2. FAS agrees that Winrock was slow in reporting. * * * However, while slow reporting, or the lack thereof, could be considered a technical violation of the agreement and even poor performance on the part of the PVO, it is not a basis for a claim.

3. FAS agrees that a portion of the proceeds was lost due to devaluation. In order for the * * * CCC to initiate a claim as a result of a failure by a PVO to carry out a provision of the agreement, CCC must have suffered a loss. In this instance, Winrock's loss of proceeds was due to devaluation and non-performance by the buyer, not to any violation that led to financial damage to CCC. * * * FAS found that Winrock exercised reasonable judgment in guarding the program funds in this situation and has not found evidence of negligence or omission. Angola is a difficult country to work in and was in the middle of a civil war at the time of the program. * * *

* * * * * * * *

FAS is satisfied with Winrock's multiple legal attempts to get the money and has received documentation verifying these efforts. * * * Winrock tried to retrieve the funds and did eventually notify USDA.

OIG Position. We will not be able to agree with the agency's position on this recommendation because it does not take into account the fact that Winrock: (1) misrepresented itself as a viable agent capable of carrying out its program in Angola when it was not; (2) mismanaged its grant operations there; (3) repeatedly violated CCC regulations and the terms of its agreement; and (4) did not timely report to FAS in accordance with OMB regulations when it encountered major problems that prevented the implementation of its agreement.

Civil war has been the norm in Angola since its independence from Portugal in 1975. A peace accord was reached between the Government and the National Union for the Total Independence of Angola in 1994. A national unity Government was installed in April of 1997, but serious fighting resumed in late 1998.[28] Thus, the environment in Angola was unstable and conditions for investment were not ideal.

When Winrock signed its food aid agreement with CCC in August of 1998, its management recognized the unstable conditions in Angola and stated in its agreement that because of the danger of devaluation of the local Angolan currency, Winrock would not at any one time have in its possession more than one month's worth of spending needs in the local currency (kwanza).

In its November 1998 commodity contract with Tondo Limitada, Winrock agreed to accept 43 percent of the proceeds in U.S. dollars, and 57 percent in the local currency (kwanza). Thus, in spite of its concerns about local currency devaluation, Winrock agreed to accept the majority of the monetization proceeds in kwanza. Winrock also agreed to let the buyer make installment payments for the commodities. (Other PVOs OIG reviewed were careful to obtain monetization proceeds from foreign buyers prior to releasing the commodities.)

The fact that Winrock could not obtain recognition from the Angolan Government was central to its failure to successfully implement its agreement. Without recognition, Winrock could not open a local bank account to deposit payments from Tondo Limitada or make routine program disbursements. Winrock allowed Tondo Limitada to keep the monetization proceeds obtained from the sale of the commodities and make disbursements on Winrock's behalf for program activities. The lack of Government recognition also prevented Winrock from renting office space and hiring local staff. Therefore, Winrock relied on its subrecipient agency, World Vision. World Vision was already established in Angola and had a good relationship with the Government. Even though Winrock was not itself recognized by the Government, it understood the importance of Government recognition. Winrock used Government recognition as selection criteria for choosing subrecipient agencies to implement its programs.

After the May/June 1999 currency devaluation, Winrock and Tondo Limitada disagreed on the currency exchange rate, and Tondo Limitada defaulted on its payments. Once again, because of its lack of recognition by the Angolan Government, Winrock soon exhausted its efforts to recover any money from Tondo Limitada in the Angolan courts.

Finally, in violation of regulations[29] requiring Winrock to notify FAS of material problems impairing its ability to meet the objectives of its grant, Winrock did not notify FAS of its predicament, or the risk of loss of the sales

[28] Central Intelligence Agency, The World Factbook—Angola.
[29] *OMB Circular A-110*, "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations."

proceeds after Winrock ceded control to Tondo Limitada. In fact, Winrock did not provide FAS information about its agreement failure until FAS requested the information nearly 2 years later. Had Winrock notified FAS of its inability to obtain the Angolan Government's recognition and establish a local bank account, FAS could have transferred the agreement to Winrock's subrecipient, World Vision, and possibly mitigated some of the losses of the monetization proceeds.

Because of Winrock's apparent negligence, disregard of its agreement terms, and repeated violations of Federal regulations, OIG continues to believe that FAS should recover the contract value of the lost monetization proceeds.

To reach a management decision, FAS officials need to provide us with a response in which they either agree to pursue collection from Winrock, or provide the agency's justification for not pursuing any collection against Winrock in light of the facts presented above. Also, for any monetary amounts determined to be collectible, FAS needs to provide a copy of the bill for collection sent to Winrock.

Recommendation 13

Refer Winrock's FY 1997 ALFALFA I and FY 1999 ALFALFA II agreements to FAS' Compliance Review Staff for a detailed review to:

- obtain a copy of Deloitte Touche Tohmatsu's April 2000 audit report and assess the extent of monetary losses related to fraudulent activities,
- vouch claimed project expenses to source documents,
- determine the allowability of the $2,651,413 in expenses claimed by Winrock for the ALFALFA II agreement, and
- ensure payroll taxes and social security contributions were remitted to the host country government.

Then seek recovery from Winrock for any claimed expenses determined to be unallowable according to the agreements.

Agency Response. In its January 18, 2006, response, the agency stated that:

> By the end of FY 2006, CRS will conduct a review of Winrock's FY 1997 and FY 1999 agreements. Following this review, FAS will seek recovery of any funds as appropriate.

OIG Position. To achieve a management decision on the recommendation, we request that FAS provide a detailed report which: (1) indicates that a substantive review (supported by documentation, analytical evidence, etc.) was performed; (2) documents the criteria used to determine the allowability of the $2,651,413 in expenses claimed by Winrock for the ALFALFA II agreement; (3) documents that payroll taxes and social security contributions due to the host country government were paid; and (4) documents the criteria used by FAS to determine whether FAS will seek recovery of monetary losses due to fraud and/or claimed expenses not allowed by the agreements. Also, for any monetary amounts determined to be collectible, FAS needs to provide a copy of the bill for collection sent to Winrock.

Recommendation 14

Conduct a detailed review of Winrock's monetization program and administrative expenses under the FY 1999 FFP agreement in Ivory Coast and recover from Winrock any misused or unaccounted funds, potentially totaling $773,587.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS agrees with this recommendation. By the end of FY 2006, CRS will conduct a detailed review of Winrock's Ivory Coast program. FAS will seek to recover any unaccounted for or misused funds.

OIG Position. To achieve a management decision on the recommendation, we request that FAS provide a detailed report which: (1) indicates that a substantive review (supported by documentation, analytical evidence, etc.) was performed and (2) documents the criteria used to determine whether FAS will seek recovery of the $773,587 in unaccounted for or misused funds. If FAS agrees to collect an amount from Winrock, FAS needs to provide a bill for collection against Winrock or other documents attesting that an accounts receivable has been established.

Recommendation 15

Closely monitor all active Winrock agreements, including the FY 2002 agreement in Indonesia, until closure is achieved.

Agency Response. In its January 18, 2006, response, the agency stated that:

> FAS agrees with this recommendation. Effective immediately, all financial and semiannual reports received from Winrock under the FY 2002 agreement will be reviewed within 45 days of receipt.

OIG Position. We agree with the management decision.

General Comments

During FYs 2002 and 2003, FAS awarded food aid grant agreements to 108 PVOs and other cooperating sponsors that conducted grant operations in 169 foreign countries without screening them for connections to terrorists or terrorist organizations.[30] These grantees, subsequently, provided grant funds to other PVOs, recipient organizations, and subrecipients in foreign countries who likewise had not been screened for connections to terrorist organizations.[31] Because FAS evaluation division staff was not cognizant of its responsibilities according to U.S. counterterrorism policies, laws, and regulations, they had not implemented U.S. Government policies for screening PVOs, foreign country recipients, and subrecipients for connections to terrorism. As a result, $1.3 billion in commodities and administrative funding was at risk of financing the activities of undetected terrorist organizations.

Since the events of September 11, 2001, the administration has taken steps to disrupt the financial support networks of terrorists and terrorist organizations, as well as their subsidiaries, front organizations, agents, and associates.[32] Those steps have included measures to prevent grant funds from being diverted to individuals or entities that have been placed on the Department of Treasury's (Treasury) list of terrorists and terrorist entities. However, vetting all PVOs, foreign recipients, and subrecipients represents a formidable challenge for FAS. For the past 5 years, USAID—another agency facing a similar challenge—has been working to develop counterterrorism procedures for the PVO community.

During our fieldwork, we asked FAS evaluation division staff if they had instituted counterterrorism measures to screen PVOs applying for food aid grants, as well as their recipient and subrecipient organizations operating in-country. We learned that they were not aware of the recent progress made by Treasury and USAID in the area of counterterrorism and had not developed any counterterrorism measures. It is particularly important that FAS take action to ensure that food aid grant commodities and administrative funding are not diverted for use by terrorist organizations; as Finding 2 has demonstrated, food aid funds can be vulnerable to diversion for various purposes if FAS does not maintain sufficient oversight.

[30] We identified 169 countries from data provided by FAS in exhibits B and C—84 in FY 2002 and 85 in FY 2003. Some PVOs received grants in both years; also, there is a certain amount of overlap in that PVOs operate both individually within a specific country and regionally, as part of a consortium effort with other non-profit organizations.

[31] A recipient agent can be either a Government supported organization or a private entity located in a foreign country that receives donated commodities or commodity sale proceeds from an FAS grantee for the purpose of implementing grant program activities. These in-country recipients further distribute commodities and funding to other subrecipient groups who assist in conducting grant program operations and activities.

[32] *Presidential Executive Order* 13224 and Title 18, *United States Code*, Section 2339, "Terrorism."

In response to our concerns, USAID invited FAS officials to attend meetings of the National Security Council Taskforce in August and October 2004. After much discussion among the Federal agency officials attending the meetings, OMB determined that counterterrorism vetting requirements for nongovernmental organizations would create human resource and system infrastructure issues for the agencies. Additional funding to address these issues would not be available in FY 2005. As an alternative to completing the National Security Presidential Directive, the taskforce agreed on a proposal involving memoranda of understanding among the impacted Federal agencies, and pilot vetting programs.

In November 2004, FAS officials met with USAID officials to discuss the overall counterterrorism initiative and how the two agencies could most effectively and efficiently work together to screen nongovernmental organizations. At that meeting, FAS expressed interest in using USAID's database for vetting USDA-funded nongovernmental organizations.

FAS should continue working with USAID to develop a workable interim solution for vetting USDA-funded organizations for connections to terrorist groups. FAS should also continue participating in the National Security Council Taskforce efforts to develop a National Security Presidential Directive, and implement the directive as soon as program funds are made available.

Scope and Methodology

For FYs 2002 and 2003, FAS awarded 209 grant agreements to 108 cooperating sponsors, including PVOs, that provided 3 million MT of commodities valued at $870 million. CCC provided $416 million in transportation costs to ship the commodities to recipient countries, and $49 million in administrative funds to assist cooperating sponsors in implementing their programs. Thus, the total cost of providing the 209 grant agreements was $1.3 billion. (See exhibits B and C.) During our fieldwork at FAS Headquarters, we selected a judgmental sample of eight PVOs. The sample was structured to include a mix of:

- large and small PVOs,
- agreements with large amounts of either administrative funds or donated commodities,
- one PVO new to the FAS grant program (Jesus Alive Ministries International),
- food aid grant programs for direct distribution of commodities to needy recipients, and
- food aid grant programs providing for monetization or sale of CCC-donated commodities to obtain proceeds to be used in implementing educational and agricultural infrastructure projects.

We selected three of the eight PVOs due to allegations raised in complaints to OIG.

We conducted fieldwork at the FAS U.S. Headquarters in Washington, D.C., between January and May 2004. We then performed field reviews at the U.S. Headquarters of three of the eight PVOs, including Cooperative for Assistance and Relief Everywhere (CARE), Atlanta, Georgia; Food for the Poor, Deerfield Beach, Florida; and Winrock, Morrilton, Arkansas. Finally, we traveled to Guatemala, El Salvador, and Honduras in June and July 2004 to review the field operations of four of the eight PVOs implementing FFP, 416(b), and FFE grant programs in those countries. PVOs visited included CARE, Food for the Poor, PCI, and the Catholic Relief Service.

To accomplish our audit objectives we:

- interviewed responsible officials of the FAS Export Credits staff,
- reviewed CCC regulations for the food aid programs,
- developed a working knowledge of FAS PPDED and E&SPB procedures for reviewing grant proposals and awarding food aid grants,
- reviewed E&SPB procedures for tracking and monitoring active grant agreement operations and performing final closeout reviews of grant programs,
- reviewed FAS food aid agreement files of PVOs and cooperating sponsors, and
- reviewed FAS procedures to identify and prevent terrorist organizations from obtaining USDA program assistance.

At the U.S. Headquarters of PVOs, we reconciled PVO expenditures to logistics and monetization reports submitted to PPDED, and vouched the PVO grant expenditures to original invoices and accounting details supporting those expenditures.

During our field visits to the four PVOs in Central America, we:

- reviewed accounting records of program expenditures at the in-country offices of the PVOs;
- interviewed PVO management officials to learn how the food aid programs were carried out in-country;
- visited program sites in both urban and remote areas to observe program operations and accomplishments, and commodity warehousing facilities;
- interviewed foreign recipient and subrecipient organizations working with the PVOs; and
- interviewed program beneficiaries and recipients.

The audit was conducted in accordance with generally accepted government auditing standards.

Exhibit A – Summary of Monetary Results

Finding Number	Description	Amount	Category
2	Winrock did not use monetization funds obtained from selling CCC-donated commodities to implement its Angola agreement projects.	$1,402,289	Unsupported Costs Recovery Recommended
2	Winrock did not use monetization funds obtained from selling CCC-donated commodities to implement its Ivory Coast agreement projects.	$773,587	Unsupported Costs Recovery Recommended
Total Monetary Results		**$2,175,876**	

Exhibit B – *Scope of Food Aid Programs – FY 2002*

	FFP	Section 416(b) *	Total
SCOPE OF FOOD AID PROGRAMS IN 2002 * *			
Total Number of Agreements Signed	29	92	**121**
Number of PVO Agreements	28	40	**68**
Number of Government Agreements	1	8	**9**
Number of World Food Program (WFP) Agreements	0	44	**44**
Number of Cooperating Sponsors	21	26	**47**
Number of Countries	25	59	**84**
Total Approved MT	250,645	1,640,595	**1,891,240**
MT Monetized	194,225	1,011,335	**1,205,560**
MT Direct Distribution	56,420	629,260	**685,680**
Value of Commodities	$80,579,830	$409,773,870	**$490,353,700**
Total Transportation Costs	36,619,462	221,909,365	**258,528,827**
Total Administrative/Program Funds From CCC	6,822,400	8,964,968	**15,787,368**
Total Cost of Agreements	**$124,021,692**	**$640,648,203**	**$764,669,895**

***** Section 416 (b) numbers include programming for Global FFE.
*** *** Does not include concessional sales of food to foreign governments under Public Law 480.

Exhibit C – *Scope of Food Aid Programs – FY 2003*

	FFP	Section 416 (b)	McGovern-Dole	Total
SCOPE OF FOOD AID PROGRAMS IN 2003 * *				
Total Number of Agreements Signed	38	29	21	**88**
Number of PVO Agreements	22	17	8	**47**
Number of Government Agreements	15	4	0	**19**
Number of WFP Agreements	1	8	13	**22**
Number of Cooperating Sponsors	34	18	9	**61**
Number of Countries	31	34	20	**85**
Total Approved MT	719,950	242,140	119,320	**1,081,410**
MT Monetized	688,570	190,290	34,660	**913,520**
MT Direct Distribution	31,380	51,850	84,660	**167,890**
Value of Commodities	$164,955,177	$171,181,447	$43,117,019	**$379,253,643**
Total Transportation Costs	81,890,419	55,561,047	20,289,717	**157,741,183**
Total Administrative/Program Funds From CCC	3,406,215	0	29,804,868	**33,211,083**
Total Cost of Agreements	**$250,251,811**	**$226,742,494**	**$93,211,604**	**$570,205,909**

*** *** Does not include concessional sales of food to foreign governments under Public Law 480.

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Department of
Agriculture

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TO: Robert W. Young
Assistant Inspector General for Audit
Office of Inspector General

FROM: A. Ellen Terpstra JAN 18 2006
Administrator

SUBJECT: Response to OIG Draft Report -- "Private Voluntary Organization Grant Fund Accountability" (07016-1-At)

Thank you for providing the Foreign Agricultural Service (FAS) with the Office of Inspector General's (OIG) draft report entitled "Private Voluntary Organization Grant Fund Accountability." We appreciate the many helpful recommendations provided in this report pertaining to USDA's food assistance programs with private voluntary organizations (PVOs).

To the extent possible, OIG's recommendations will be implemented across the board in all of the food aid programs administered by FAS. In fact, FAS's efforts to implement several of these recommendations are already well underway. For example, FAS has begun to streamline areas of its food aid processes in an effort to operate more efficiently and remain in compliance with new departmental and governmental regulations for grant programs. FAS is developing guidelines and procedures for handling agreement violations and claims. Since OIG's last visit, and for the past two reporting cycles, FAS has sent out delinquency letters to PVOs that are late in submitting semiannual reports as required in the agreement and regulations.

In all, FAS takes a sober view of the recommendations provided and will work to ensure that the overall objective of its food aid programs – to use the agricultural abundance of the United States to meet the U.S. government's humanitarian and foreign policy objectives related to the achievement of global food security – is carried out with the best interests of all stakeholders in mind.

The 15 recommendations contained within the report, and FAS's responses to them, are provided as follows:

Recommendation 1a:

Establish and implement procedures to conduct detailed evaluations of all open food aid agreements with activities still underway.

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FAS Response:

FAS has evaluation procedures in place and each monitoring analyst in the Export Credits (EC) Programming Division has been provided a monitoring and evaluation handbook containing the steps involved in the agreement evaluation process. However, FAS will improve the implementation and monitoring of evaluation assignments by providing training in agreement evaluation procedures for monitoring and programming staff by the end of FY 2006. Further, one-on-one peer training will be provided.

In addition, FAS has conducted an inventory of all open agreements from FY 1998 through FY 2005. During this 8-year period, FAS signed nearly 900 food aid agreements with PVOs, the World Food Program, and foreign governments. FAS now will give priority to reviewing the reports for agreements signed after FY 2003. This will ensure that agreements with continuing activities are monitored more closely. FAS expects to have more resources available for greater review of open agreements since the number of new agreements entered into has been dropping since 2003, after the Section 416(b) food aid program declined. FAS is studying the possibility of contracting for additional resources to assist in reviewing these reports in an even more timely manner.

Recommendation 1b:

Target five to seven PVOs annually for thorough onsite reviews of PVO grant program operations and perform onsite reviews of documents supporting semiannual reports at the U.S. headquarters of PVOs.

FAS Response:

FAS will continue to perform onsite reviews of PVOs but is unable to commit to a target minimum each year. The number of PVOs visited will depend upon several unforeseeable factors, including the identification of questions or problems which are brought to light through the A-133 audit process. FAS will review the A-133 audits for all of the PVOs that have open agreements and note any findings that relate to those agreements. FAS will then follow up with the PVO on any such findings. FAS will review the findings to select PVOs for onsite reviews. FAS now requires and funds single agreement audits for all new PVOs that are implementing FAS-administered food aid programs.

In carrying out annual onsite reviews, the EC Programming Division will select and prioritize PVO programs to receive a visit. The Programming Division will meet with the Compliance Review Staff (CRS) to discuss the possibility and timeframe for each onsite review. This procedure will be repeated at the start of each fiscal year. The Programming Division will keep records of the minutes of these meetings. However,

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FAS's ability to fully implement this recommendation also will be subject to the available staffing and travel resources of CRS.

Recommendation 1c:

Develop a system to identify problematic PVO agreements and perform regular reviews of these agreements.

FAS Response:

FAS agrees with this recommendation. Agreements will now be identified as problematic when the following types of criteria are present:

- Monetization problems;
- High-risk country;
- Inconsistent reporting;
- Unexplained program delays; or
- Warnings from Post, anonymous whistle blowers, or other sources.

Once an agreement has been identified as having one or more types of the above mentioned criteria present, it will be included on a list of agreements to be considered for onsite review and given priority review status. This list will not be used as a basis to automatically preclude future grant awards or debar or suspend organizations.

Recommendation 1d:

Develop and implement a plan and timeframes to complete closeout reviews of the backlog of agreements for FY 1998 through FY 2001.

FAS Response:

FAS has taken several steps to reduce the backlog of agreements pending closeout review. First, FAS conducted an inventory of all open agreements from FY 1998 through FY 2005. During this 8-year period, FAS signed nearly 900 food aid agreements with PVOs, the World Food Program, and foreign governments. The inventory list of open agreements will now be sorted and prioritized for closeout review according to the age of the agreement, the timing of the closeout request, and the date of the submission of the final report. FAS is streamlining its procedures and policies relating to the closeouts and providing additional training to staff. These changes should allow closeouts of agreements to proceed more quickly. Barring any dramatic changes in staffing levels, FAS will give priority attention to closing 239 open agreements signed from FY 1998 to FY 2001 over the next three years.

Recommendation 1e:

Develop procedures to ensure that agreements for FY 2002 and beyond receive timely closeout reviews.

FAS Response:

FAS agrees with this recommendation and has implemented the steps previously outlined to ensure completion of the backlog of closeout reviews of FY 1998 to FY 2001 agreements. To determine which agreements are reviewed first, FAS will consider criteria such as the date of the closeout request and the year of the agreement. FAS will give priority to older agreements during the closeout process.

Recommendation 2:

Review narrative descriptions of agreement operations, commodity transactions, and all other information submitted in PVOs' semiannual logistics and monetization reports, and track any problematic issues.

FAS Response:

FAS recognizes the need for early detection of problems in agreements and the need to track problematic issues. In response to this need, FAS is exploring ways to improve the timeliness of its review of the various types of reports received each year. During FY 2005, FAS dedicated two staff members to receive reports and record their receipt. The staff members notified managers of the reports that were received, and FAS compared these submissions with open agreements. During FY 2006, a staff member will review each report and quickly note any obvious problems. The reports will be sent to analysts responsible for the geographic regions for further review, especially of the narrative sections. The review will be recorded in the inventory of agreements. FAS will look especially for final reports, incomplete reports, and issues. FAS will give priority consideration to the review of PVO reports provided under problematic agreements.

Recommendation 3:

Establish a process for meetings between the FAS evaluation and compliance personnel to refer problematic agreements for onsite reviews. Document agreement referrals and review results.

FAS Response:

FAS agrees with this recommendation. By the end of FY 2006 FAS will establish a procedure and train staff on the procedure. The procedure will involve a chain from the analyst to the branch chief to the director's office in the Programming Division of EC, then to CRS. Guidance about violations and claims will also help analysts to improve their abilities to identify problems and solutions. A copy of the list of organizations requiring additional monitoring will be shared with CRS. Meetings will be conducted as needed and a record of each meeting will be retained in the files of the Programming Division. However, the Programming Division will also continue to request that CRS review all Cooperating Sponsors on a rotating basis to ensure that less visible issues are identified.

Recommendation 4:

Develop and implement a separate process to ensure timely closeout reviews of government-to-government agreements, including steps to evaluate closeout problems to departmental officials for timely resolutions.

FAS Response:

FAS agrees with this recommendation. The reporting requirements for foreign governments are the same as those for PVOs. Therefore, by the end of FY 2006, FAS will implement similar steps as those taken to complete closeout reviews of FY 1998 to FY 2001 agreements. This will include maintaining an inventory list and prioritizing these agreements for closeout.

Recommendation 5:

In order to protect food aid data from unauthorized access and loss during routine system maintenance and future system modifications, ensure that the performance management and evaluation module and related modules in the new food aid system comply with OMB A-130 and NIST 800-37 certification and accreditation procedures.

FAS Response:

FAS agrees with this recommendation and will take reasonable steps to ensure compliance with OMB and USDA guidelines. Currently FAS is compliant with OMB A-130 and NIST 800-37 procedures. Additionally, an OMB-300 was developed for the Information Technology (IT) development of the Food Aid Information System (FAIS) (which includes enhancements to the PVO reporting module), in

September 2005. The OMB-300 was reviewed and approved by the USDA Office of the Chief Information Officer, and forwarded to OMB for review.

Recommendation 6:

Identify and implement a course of action to ensure thorough and timely reviews of food aid agreement operations.

FAS Response:

FAS agrees with this recommendation and has set a goal of closing 80 percent of agreements within 6 years of signing, starting with FY 2002 agreements. However, any reduction in FAS resources could slow down or restrain the process.

Recommendation 7:

Amend FAS regulations governing eligibility requirements for cooperating sponsors applying for foreign food donation programs to require that cooperating sponsors provide evidence of successful prior in-country grant operations or documentation to FAS to certify that legal recognition has been implemented. This documentation must be provided before FAS signs a contract to award a food aid grant. Then establish controls to implement the amended regulations.

FAS Response:

FAS can agree to a concept that focuses on registration or experience, and FAS will draft and submit amended regulations by the end of FY 2006 that will address this issue. As part of the amended regulations, FAS will require PVOs to demonstrate past in-country experience or registration within the country.

Recommendation 8:

Amend FAS regulations to require PVOs and other cooperating sponsors to provide evidence that they have opened separate bank accounts in-country for deposit of monetization proceeds and disbursement of local funds to conduct program operations prior to shipping FAS-donated commodities provided for monetization. Then establish controls to implement the amended regulations.

FAS Response:

FAS cannot agree to this specific recommendation. Requiring separate bank accounts would contradict OMB circulars and Section 3015 of the departmental regulations. PVOs normally try to minimize the number of bank accounts and use sophisticated accounting systems to ensure proper allocation of funds to grants. PVOs incur costs in opening multiple accounts and could face great risk in managing and safeguarding the funds. However, the regulations could be amended to require that PVOs maintain separate accounting of proceeds so that the funds and interest can be allocated to individual grants. FAS will draft and submit amended regulations by the end of FY 2006 that will require PVOs to maintain sufficient accounting procedures to be able to identify proceeds and interest with specific awards.

Recommendation 9:

Establish agency policies and procedures to direct FAS staff in initiating recovery actions or claims in accordance with FAS regulations against cooperating sponsors at fault in losses of commodities or monetization proceeds.

FAS Response:

FAS agrees with this recommendation. FAS developed and approved such procedures for the claims process in December 2005. Training on these approved policies and procedures will be provided to all staff members during FY 2006.

Recommendation 10:

Fully implement the performance-based review system and apply it to Winrock and all other PVOs to determine whether the PVOs' prior performance justifies the award of new food aid agreements. Document the review process and maintain the documentation for audit review.

FAS Response:

FAS will continue to include summaries of past performance in its closeout letters. FAS may be able to use this objective in looking at the PVOs' past performance. FAS will identify problems during program implementation to allow PVOs to correct any problems. An "issues letter" has been created to serve as an interim notification to PVOs of problems known by USDA. The issues letter will notify the PVO of problems and provide suggestions for rectifying the problems. This interim step in the review process will precede the closeout letter. If, after repeated notification efforts, a PVO is neither responsive nor takes corrective action in response to problems raised in the issues letter, FAS will document the situation and consider any new proposal from that PVO in light of the unresolved past issues. Effective immediately, a copy of each letter will be placed in the applicable program folder along with a master copy for future reference.

Recommendation 11:

Verify that PCI obtained its proper share of grant funds and accrued interest from the commingled bank account, and accurately reported these funds to FAS.

FAS Response:

FAS agrees with this recommendation. Before the end of FY 2006, FAS will meet with PCI and confirm that the proper share of proceeds and interest was allocated to the USDA grant.

Recommendation 12:

Conduct a detailed review of Winrock's monetization program and administrative expenses for the FY 1998 Angola FFP agreement, and recover from Winrock any misused or unaccounted funds, potentially totaling as much as $1,402,289.

FAS Response:

FAS has reviewed the agreement, records, and financial reports related to Winrock's FY 1998 monetization program in Angola, and accounted for all of the funds. In short, although the buyer breached its sales contract with Winrock by not paying funds to Winrock, the buyer did pay much of the proceeds directly to recipient agencies in kwanza. These recipient agencies have submitted validating reports. The rest of the funds were lost due to a devaluation of the kwanza; these funds never were paid to Winrock. FAS has taken into account several issues raised in this report regarding Winrock's inability to obtain official recognition from the Angolan government, Winrock's lack of reporting, and the loss of funds due to the devaluation of local currency, and has concluded the following:

1. FAS found no evidence that having official recognition from the Angolan government would have ensured that Winrock received payment from the buyer. FAS has reason to believe that Winrock's situation is largely a case of nonperformance on the part of the buyer. This is based on a similar record of non-performance on the part of the buyer under a grant agreement involving the Government of Angola. It has been FAS's experience that most foreign governments require that a PVO obtain a signed agreement before the PVO can be granted official recognition. In nearly every case, PVOs will proceed with obtaining a signed agreement and official recognition is granted by the host government. However, in this rare situation, although Winrock followed normal procedures to obtain official recognition in Angola, they were unsuccessful.

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2. FAS agrees that Winrock was slow in reporting. FAS has always required that PVOs submit semiannual logistics and monetization reports in a timely manner. This is a requirement of both the agreement and program regulations. However, while slow reporting, or the lack thereof, could be considered a technical violation of the agreement and even poor performance on the part of the PVO, it is not a basis for a claim.

3. FAS agrees that a portion of the proceeds was lost due to devaluation. In order for the Commodity Credit Corporation (CCC) to initiate a claim as a result of a failure by a PVO to carry out a provision of the agreement, CCC must have suffered a loss. In this instance, Winrock's loss of proceeds was due to devaluation and non-performance by the buyer, not to any violation that led to financial damage to CCC. FAS has never required PVOs to predict fluctuations of local currency. FAS does require that the PVO protect, to the extent possible, program funds received. Any decisions to remove or move program funds being housed in local financial institutions is subject to the PVO's judgment of the situation on the ground. Where FAS has a presence in-country, the PVO could consult with the agricultural representative or commercial officer. However, the final decision rests with the PVO. FAS found that Winrock exercised reasonable judgment in guarding the program funds in this situation and has not found evidence of negligence or omission. Angola is a difficult country to work in and was in the middle of a civil war at the time of the program. In addition, FAS does not view Winrock responsible for local currency loss due to unexpected devaluation (see following table).

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Winrock's FY 1998 FFP Agreement in Angola: Program Funding and Expenses

Description	U.S. Dollar Equivalent	U.S. Dollar Equivalent
Dollar proceeds owed to Winrock by contract	$811,776	
Kwanza proceeds owed to Winrock by contract*	$1,076,075	
CCC-donated administrative funds	$50,954	
Total Budgeted Funds		**$1,938,805**
Dollar proceeds received	$477,765	
Kwanza proceeds received	$13,662	
CCC-donated administrative funds	$50,954	
Total Funds Received		**$542,381**
Administrative expenditures	$336,121	
Program expenditures**	$206,260	
Total Agreement Outlays* **		**$542,381**

*Note Kwanza proceeds owed based on initial exchange rate Dollar balance due bdsed on official exchange rate of 12/3112000

**Program expenditures and proceeds owed to Winrock depend on the exchange rate used, and different exchange rates are used in different reports.

***Total Agreement Outlays reported by Winrock exceed Total Funds Received due to the inclusion of contributions of private funds.

FAS is satisfied with Winrock's multiple legal attempts to get the money and has received documentation verifying these efforts. Winrock's difficulties with the buyer illustrate how difficult extracting payment from the buyer could be. Though Winrock was slow in notifying USDA, these infractions indicated poor performance but do not constitute grounds for a claim or noncompliance with the agreement. Winrock tried to retrieve the funds and did eventually notify USDA.

Recommendation 13:

Refer Winrock's FY 1997 ALFALFA I and FY 1999 ALFALFA II agreements to FAS's Compliance Review Staff for a detailed review to:

- obtain a copy of Deloitte Touche Tohmatsu's April 2000 audit report and assess the extent of monetary losses related to fraudulent activities;
- vouch claimed project expenses to source documents;
- determine the allowability of the $2,651,413 in expenses claimed by Winrock for the ALFALFA II agreement; and
- ensure payroll taxes and social security contributions were remitted to the host country government.

Then seek recovery from Winrock for any claimed expenses determined to be unallowable according to the agreements.

FAS Response:

By the end of FY 2006, CRS will conduct a review of Winrock's FY 1997 and FY 1999 agreements. Following this review, FAS will seek recovery of any funds as appropriate.

Recommendation 14:

Conduct a detailed review of Winrock's monetization program and administrative expenses under the FY 1999 FFP agreement in Ivory Coast and recover from Winrock any misused or unaccounted funds, potentially totaling $773,587.

FAS Response:

FAS agrees with this recommendation. By the end of FY 2006, CRS will conduct a detailed review of Winrock's Ivory Coast program. FAS will seek to recover any unaccounted for or misused funds.

Recommendation 15:

Closely monitor all active Winrock agreements, including the FY 2002 agreement in Indonesia, until closure is achieved.

FAS Response:

FAS agrees with this recommendation. Effective immediately, all financial and semiannual reports received from Winrock under the FY 2002 agreement will be reviewed within 45 days of receipt.

If you have any questions or concerns regarding this memorandum, or if you need additional information, please contact James Gartner, FAS's Audit Liaison, on (202) 720-0517.

cc: Ernest Hayashi
Howard Albers
Beth Wong

Informational copies of this report have been distributed to:

Administrator, FAS (4)
ATTN: Agency Liaison Officer
Government Accountability Office (1)
Office of Management and Budget (1)
GAO-IAT (1)
Office of the Chief Financial Officer
Director, Planning and Accountability Division (1)