

**Audit of USAID/Guatemala's Distribution of
P.L. 480 Title II Non-Emergency Assistance in
Support of Its Direct Food Aid Distribution
Program**

Audit Report No. 1-520-03-008-P

September 26, 2003

San Salvador, El Salvador

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September 26, 2003

MEMORANDUM

FOR: USAID/Guatemala Mission Director, Glenn E. Anders

FROM: Regional Inspector General/San Salvador, Steven H. Bernstein

SUBJECT: Audit of USAID/Guatemala's Distribution of P.L. 480 Title II Non-Emergency Assistance in Support of Its Direct Food Aid Distribution Program (Report No. 1-520-03-008-P)

This memorandum is our report on the subject audit.

Your comments on the draft report were considered in preparing this report. They are included for your reference in Appendix II.

This report contains two recommendations for your action. A management decision has been reached on both of them. The Office of Management Planning and Innovation will make a determination of final action after the recommendations have been completely implemented.

Once again, thank you for the cooperation and courtesy extended to my staff during the audit.

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Summary of Results

As part of its fiscal year 2003 audit plan, the Regional Inspector General/San Salvador performed this audit to determine whether USAID/Guatemala P.L. 480 Title II non-emergency assistance programmed for direct food aid distribution programs was delivered to the intended recipients in accordance with existing agreements (page 6).

The USAID/Guatemala P.L. 480 Title II food assistance was generally delivered to the intended recipients in accordance with existing agreements. However, we found that one cooperating sponsor required beneficiaries to make a payment to receive their food ration, a practice not allowed by regulation. We made two recommendations that should help USAID/Guatemala ensure that beneficiaries who do not make such contributions still receive the food (pages 7 to 8).

USAID/Guatemala agreed with the report findings and recommendations and management decisions were made on both recommendations (page 8).

Background

Promoting food security through humanitarian and developmental uses of food assistance is the aim of the USAID/Guatemala P.L. 480 Title II program. The maternal/child health program involves efforts to reduce malnutrition and morbidity in vulnerable pregnant and lactating women, as well as children less than three years of age. Food-for-work activities use P.L. 480 resources to support infrastructure improvements such as roads and water systems.

During fiscal years 2002 and 2003, direct food aid valued at an estimated \$11.2 million was or is planned to be distributed by USAID/Guatemala through four cooperating sponsors: Catholic Relief Services, Asociación SHARE de Guatemala, Save the Children Federation, and the Cooperative for Assistance and Relief Everywhere (CARE). The P.L. 480 program is primarily run by a USAID/Guatemala locally hired Foreign Service National who reports to a U.S. direct hire Food for Peace Officer.

The audit coverage was limited to the CARE maternal/child health activity and the Save the Children Federation food-for-work program, since they had the largest estimated value of food deliveries for maternal/child health and food-for-work activities, respectively. The two activities covered by the audit received an estimated \$4 million, or about 36 percent of the estimated \$11.2 million in direct food aid received during fiscal years 2002 and 2003. According to the cooperating sponsors, at the end of fiscal year

2002, the CARE maternal/child health activity was providing food rations to 17,907 families, while as of June 2003, the Save the Children Federation food-for-work activity provided food rations to 1,135 participant families.¹

Audit Objective

As part of its fiscal year 2003 audit plan, and in connection with an Office of Inspector General worldwide audit on the topic, the Regional Inspector General/San Salvador performed this audit to answer the following question:

- Did USAID/Guatemala, through its monitoring and oversight activities, ensure that P.L. 480 Title II non-emergency assistance programmed for direct food aid distribution programs was delivered to the intended recipients in accordance with existing agreements?

See Appendix I for a more detailed audit scope and methodology.

Audit Findings

Did USAID/Guatemala, through its monitoring and oversight activities, ensure that P.L. 480 Title II non-emergency assistance programmed for direct food aid distribution programs was delivered to the intended recipients in accordance with existing agreements?

The Mission, through its monitoring and oversight activities, generally ensured that the food aid was delivered to the intended beneficiaries. However, one cooperating sponsor required a payment from individuals before they receive food, in violation of Regulation 11 of the U.S. Code of Federal Regulations.

The Mission performed adequate monitoring to ensure that recipients generally received their food. Commodity call forwards were reviewed by the Mission, physical inventories (both at main warehouses and distribution centers) agreed with records, Guatemala City warehouses were in good physical condition and secure, and warehouse personnel had a good knowledge of required documentation. In addition, commodity receipt and shipment records at the central warehouses agreed with the warehouse inventory records. At the 12 communities, 2 regional distribution centers, and 2 central warehouses visited, commodity receipt and distribution records agreed with inventory records. Finally, personnel from the cooperating sponsors, a sub-recipient, and USAID were aware of their responsibilities under the program.

¹ Save the Children Federation's road and water system projects were active for only a few months. The number of participant families often changed, as projects were completed and new projects were added.

However, contrary to Regulation 11 of the U.S. Code of Federal Regulations, one cooperating sponsor required the payment of voluntary contributions from individuals receiving food aid under its maternal/child health program.—As a result, beneficiaries that did not pay such a fee did not receive their food rations.

Beneficiaries That Do Not Make Voluntary Contributions Should Still Receive Food

The Cooperative for Assistance and Relief Everywhere (CARE), one of USAID/Guatemala's four P.L. 480 cooperating sponsors, required its P.L. 480 maternal/child health program participants to pay a monthly contribution of 10 to 12 quetzals (approximately \$1.26 to \$1.52) in order to receive their food rations. The Mission was unaware of this practice.

This practice of requiring contributions is contrary to Part 211 of Title 22 of the U.S. Code of Federal Regulations, also known as USAID Regulation 11. Section 211.5 (f) states that “Commodities shall be distributed free of charge except as provided in paragraphs (j) and (k) of this section or as otherwise authorized by AID/W, *but in no case will recipients be excluded from receiving commodities because of inability to make a contribution to the cooperating sponsor for any purpose.*”² [Emphasis added].

CARE officials explained that they were aware that these contributions are supposed to be voluntary. Nevertheless, they told us that all participants in all regions throughout Guatemala must pay this nominal fee—without exception—in order to offset the costs associated with the transportation of commodities from ports to the warehouse, regional community centers and communities. CARE stated that these expenses are substantial. Costs include payments to shipping companies and community laborers, and payments for supplies such as bags, oil pumps, and weighing scales.

Further, officials asserted that fees cannot be made voluntary because if one individual in a community did not have to pay the required fee, word of this would quickly spread throughout the community. Consequently all program participants would demand to be exempt from paying the fee and no money would be collected to defray expenses.

As a result of this practice, individuals who would otherwise be eligible to receive commodities were denied food aid. Auditors observed two instances of individuals denied food aid during field visits, but could not

² The exceptions in paragraphs (j) and (k) of 22 CFR 211.5 are not relevant to our audit, as they pertain to monetization programs and the use of monetized proceeds and program income.

estimate how many individuals were affected over the course of the program since records of participants refused food because they did not make the voluntary contributions were not kept. Nevertheless, this practice could adversely impact the program's expected results related to improving health and reducing malnutrition.



Photograph of Auditor Chris Marotta interviewing food aid recipients in Semau, Guatemala, June 2003

Recommendation No. 1: We recommend that USAID/ Guatemala notify the Cooperative for Assistance and Relief Everywhere in writing that they cannot refuse food to participants that do not make voluntary contributions.

Recommendation No. 2: We recommend that USAID/ Guatemala implement a monitoring system to ensure that cooperating sponsors do not refuse food to participants that do not make voluntary contributions.

Management Comments and Our Evaluation

In responding to the draft report, USAID/Guatemala presented steps being taken to address each recommendation. Consequently, management decisions were made on both recommendations. Mission comments are included in their entirety in Appendix II.

**Scope and
Methodology****Scope**

We audited USAID/Guatemala's P.L. 480 Title II activities in accordance with generally accepted government auditing standards. We conducted the audit in Guatemala from June 2, 2003 through June 27, 2003 at the offices of USAID/Guatemala, the Cooperative for Assistance and Relief Everywhere (CARE) (Guatemala City and Copán offices), Save the Children Federation (Guatemala City office) and its sub-recipient *Alianza para el Desarrollo Juvenil Comunitario* (ADEJUC) (Santa Cruz office and Nebaj sub-office); the central warehouses of CARE and Save the Children Federation near Guatemala City; and 13 judgmentally selected communities.

The audit covered P.L. 480 Title II activities from October 1, 2001 to June 26, 2003. In fiscal years 2002 and 2003, direct food aid valued at an estimated \$11.2 million was or is planned to be distributed.

The audit was not designed to include food aid that is monetized³ nor emergency food aid. USAID/Guatemala P.L. 480 activities consist of both maternal/child health and food-for-work activities. The audit coverage was limited to the CARE maternal/child health activity and the Save the Children Federation food-for-work program, since they had the largest estimated value of food deliveries for maternal/child health and food-for-work activities, respectively. The two activities covered by the audit received an estimated \$4 million, or about 36 percent of the estimated \$11.2 million in direct food aid received during fiscal years 2002 and 2003.

As of June 2003, the CARE maternal/child health activity had 201 distribution centers, and the Save the Children Federation activity had 107 completed and 13 active food-for-work projects.

We assessed the Mission's risk exposure and management control effectiveness for ensuring that the Mission monitored food aid assistance to ensure that it reached the target beneficiaries. To accomplish this, we interviewed USAID/Guatemala, CARE, Save the Children Federation and ADEJUC officials and reviewed the following management controls: 1) the Mission's self-assessment of its adherence with the Federal Managers' Financial Integrity Act of 1982 in its October 2002 report, 2) the Mission's review of cooperating sponsors' Development Activity Plans, 3) the Mission's receipt of quarterly Commodity Status and Recipient reports from its cooperating sponsors, 4) the Mission's review of Call Forwards, and 5) the Mission's and cooperating sponsors' visits to sites.

³ Some development food aid is monetized, or sold, on private markets, with the proceeds used by cooperating sponsors to fund development activities.

Appendix I

We also considered prior audit findings that could affect the Guatemala P.L. 480 activities.

Methodology

To answer the audit objective, which dealt with whether the Mission, through its monitoring, ensured that direct food aid reached the intended recipients, we conducted interviews of USAID/Guatemala and cooperating sponsor officials, reviewed records at USAID/Guatemala and other locations, and performed site visits.

Specifically, we interviewed USAID/Guatemala and cooperating sponsor officials to determine their responsibilities for controls, procedures, policies, and regulations regarding the P.L. 480 Title II program.

To identify the flow of commodities from the port of entry to the intended recipients, we obtained and reviewed relevant USAID/Guatemala and cooperating sponsor design documents and progress reports. We also reviewed official correspondence files at USAID/Guatemala, determining if losses occurred through examination of the commodity status reports, and reviewing supporting documentation to determine if loss and damage claims were filed and pursued by the cooperating sponsors.

At both the CARE and Save the Children Federation central warehouses, we reviewed a sample of commodity inventory records and traced the quantities of both incoming and outgoing food aid. We also determined whether the food in warehouses was well protected from the weather, rodent or insect infestation, and theft, and whether commodities at warehouses were distributed on a first-in/first-out basis.

We visited a judgmentally⁴ selected sample of six CARE community distribution sites, two CARE regional distribution centers, and six Save the Children Federation food-for-work projects. In addition, we visited the CARE and Save the Children Federation central warehouses.

During site visits, we performed interviews of community members. We also reviewed records regarding beneficiaries served, commodities received, used or distributed, and commodities held in storage to determine their actual quantity. We then compared these totals to the center's records to determine if any discrepancies existed. Finally, we inspected the community storage facilities to determine whether they were secure and adequate to keep the commodities in good condition. For food-for-work activities, we also observed project progress.

⁴ We did not perform a statistical sample, since our audit was not designed to project any results to the universe.

Appendix I

Our audit objective focused on assessing the level of monitoring provided, which is a qualitative, not quantitative, assessment. Given the nature of the audit objective, we did not propose a materiality threshold level on our audit program.

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**Management
Comments**

UNITED STATES GOVERNMENT
MEMORANDUM

Date: September 17, 2003

**Reply to
Attn of:** Steven H. Bernstein
RIG/A/San Salvador

From: Glenn Anders
USAID/Guatemala Director

Subject: Audit of USAID/Guatemala Distribution PL 480 Title II Non-Emergency Assistance in Support of its Direct Food Aid Distribution Program Report No. 1-520-03-00X-P

In general, we concur with the findings and recommendations of the Audit and are taking specific actions to implement such recommendations.

The following are the Mission proposed actions in addressing each of the recommendations contained in the draft audit report:

RECOMMENDATION 1:

We recommend that USAID/Guatemala notify the Cooperative for Assistance and Relief Everywhere (CARE) in writing that they can not refuse food to participants that do not make voluntary contributions. Upon issuance of this letter, USAID/G-CAP will request closure of this recommendation.

PROPOSED CORRECTIVE ACTION:

USAID/G-CAP will notify CARE in writing of its responsibilities to comply with the requirements of Regulation 11 in regard to not refusing food to participants that do not make voluntary contributions. This notification will be done no later than October 20, 2003.

Upon submission to RIG/SS and MPI of the above letter, we will request closure of this recommendation.

RECOMMENDATION 2:

We recommend that USAID/Guatemala implement a monitoring system to ensure that cooperating sponsors do not refuse food to participants that do not make voluntary contributions.

PROPOSED CORRECTIVE ACTION:

The above recommendation will be implemented through the following:

Modify our field trip questionnaire for PL 480 Title II food programs to include the following two topics: A) adequacy of treatment by Cooperating Sponsors e.g. are beneficiaries provided the allowed share of commodities, and if not why?, and; B) do the records of the Cooperating Sponsors reflect commodity delivery to beneficiaries who are not capable of paying their required contribution, if yes how many?

Upon submission to RIG/SS and MPI of the modified field questionnaire, we will request closure of the recommendation.

We appreciate the professionalism and openness of the RIG/SS auditors during the performance of subject task.