OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID'S MANAGEMENT OF P.L. 480 NONEMERGENCY MONETIZATION PROGRAMS

AUDIT REPORT NO. 9-000-07-010-P
September 27, 2007

WASHINGTON, D.C.

Office of Inspector General

September 27, 2007

MEMORANDUM

TO: Acting DCHA/FFP Director Jonathan Dworken

FROM: IG/A/PA Director Steven H. Bernstein /s/

SUBJECT: Audit of USAID's Management of P.L. 480 Nonemergency Monetization Program (Audit Report No. 9-000-07-010-P)

This memorandum transmits our final report on the subject audit. This capping report includes no formal recommendations, but all mission recommendations are included in appendix III.

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

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
www.usaid.gov

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SUMMARY OF RESULTS

This audit, performed by the Office of Inspector General's Performance Audits Division, summarizes the results of four audits of USAID's P.L. 480 nonemergency monetization activities, valued at approximately $67.9 million.[1] These activities were conducted in Haiti, Guatemala, Mozambique, and West Africa. In addition to summarizing these results, Appendix III presents mission recommendations. This report addresses USAID-wide issues identified during these audits (see page 7).

The objective of this audit was to determine whether USAID's P.L. 480 nonemergency monetization activities are achieving selected planned outputs (see pages 3).

Based on the results of the four audits, the audit concluded that only one activity (USAID/Haiti) was achieving selected planned outputs. Because USAID/Guatemala did not have any planned outputs associated with P.L. 480 monetization activities, auditors were unable to answer the audit objective for this mission. USAID/Mozambique was reportedly surpassing its planned output level; however, the auditors could not validate the veracity of that mission's results. USAID/West Africa was marginally not achieving selected planned outputs (see page 4).

This report does not have any findings with recommendations, but it does emphasize an issue related to USAID branding and marking (see page 5). Additionally, this report highlights other matters noted during the audits (see page 7).

Management had no comments on this report.

[1] The total approximate value of the missions' P.L. 480 nonemergency monetization program represents the value that the program generated to fund procurement activities; ocean freight, inland freight, and internal transport, storage, and handling costs; and cooperating sponsors' administrative costs associated with the food program.

BACKGROUND

The Agricultural Trade Development and Assistance Act of 1954, also known as Public Law 480 (P.L. 480) as amended, is the principal mechanism through which the U.S. Government implements its international food assistance initiatives. The intent of this legislation, which has been modified many times, is to promote food security in the developing world through humanitarian and developmental uses of food aid. Food assistance provided under P.L. 480 is delivered to foreign countries using three separate programs: Title I, II, and III. The bulk of this food aid is furnished under Title II and is administered by USAID to support targeted emergency relief operations and development projects. Title II projects are implemented through a variety of cooperating sponsors that include private voluntary organizations, nongovernmental organizations, and international organizations.

The objective of the Title II food program is twofold: (1) to provide food aid to vulnerable groups in emergency situations and (2) to promote developmental programs critical to long-term food security. In other words, the Title II budget supports both emergency and nonemergency activities. In addition to funding the procurement of agricultural commodities, Title II funds are used to cover ocean freight, inland freight, and internal transport, storage, and handling costs. Other resources administered under Title II include cash grants awarded to cooperating sponsors to help pay for the administrative costs associated with the food programs they conduct.[2]

USAID's Food for Peace office has primary responsibility for administering the Title II food program. Food for Peace receives, reviews, and approves proposals from cooperating sponsors, awards the grants discussed above, and manages funds for noncommodity program costs, such as ocean freight.

With USAID's approval, cooperating sponsors may either distribute the commodities directly to recipients or sell the commodities to generate foreign currency to support local development programs. The sale of U.S. agricultural commodities by cooperating sponsors (using proceeds from food assistance to fund USAID programs) is referred to as monetization. Title II monetization began in 1986 in response to repeated requests by cooperating sponsors for additional funding to cover foreign currency costs associated with P.L. 480 food distribution programs. In recognition of these needs, Congress mandated that USAID permit cooperating sponsors to monetize at least 15 percent of the total value of Title II nonemergency commodities each year.

[2] Section 202(e) of P.L. 480 authorizes the Food for Peace office to allow additional funding to the cooperating sponsors to establish new programs under Title II or, if the cooperating sponsors' Title II funding falls short, to support specific administrative costs for programs in foreign countries. Because of the limited availability of 202(e) funds, Food for Peace restricts their use to establishing new programs or supporting specific administrative costs.

AUDIT OBJECTIVE

As part of the Office of Inspector General's fiscal year 2006 annual audit plan, the Performance Audits Division conducted this multicountry audit to answer the following question:

> Are USAID's P.L. 480 nonemergency monetization activities achieving selected planned outputs?[3]

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

[3] USAID's Automated Directives System defines output as a tangible, immediate, and intended product or consequence of an activity within USAID's control. This term is distinct from "result," which USAID defines as a significant, intended, and measurable change in the condition of a host country, institutions, or other entities that will affect the host country directly or indirectly. Results are typically broader than USAID-funded outputs and require support from other donors and partners not within USAID's control.

AUDIT FINDINGS

Of the four missions audited (USAID/Haiti, USAID/Guatemala, USAID/Mozambique, and USAID/West Africa), only USAID/Haiti was achieving selected planned outputs for its third-country monetization funded activities, valued at approximately $2.4 million (the activities took place in Haiti). Because USAID/Guatemala had no planned outputs associated with P.L. 480 monetization activities, the auditors were unable to answer the audit objective for this second mission. USAID/Mozambique, the third mission, was reportedly surpassing 90 percent of its 92 selected targeted planned outputs. However, the auditors could not rely upon the veracity of these results because, among other reasons, the mission had not performed a data quality assessment of the reported data. USAID/West Africa, the fourth mission, was marginally not achieving selected planned outputs—only 17 of 22 reviewed outputs, or 77 percent, were achieved.

Regulations that govern the use of P.L. 480 monetization funds allow missions wide latitude in determining how funds may be used. Funds may be used to support a wide variety of development activities or to finance the administrative costs of the direct distribution of food aid, such as transportation and warehousing of commodities. Accordingly, comparing missions is not practical given the variations in how missions use monetization funds. Nevertheless, the audits at the four missions revealed positive measurable results, as well as findings and other matters.

Programs Showed Measurable Results - USAID/Haiti implemented its Infrastructure Improvement Program projects, which cost about $2.4 million, all financed through its third-country monetization program. The projects were small ones in which infrastructure improvements focused on community participation to increase project sustainability. Catholic Relief Services (CRS) created these projects to rehabilitate secondary and tertiary roads, bridges, markets, irrigation canals, and parks. Additionally, CRS created projects to establish systems for potable water, erosion control, and watershed management. The monetized funds financed six 6-month projects valued at approximately $400,000 each. The first project commenced in June 2005 and the last project ended in February 2006. According to mission records and verified through audit procedures, which included onsite inspections, all of the USAID/Haiti projects were completed as scheduled. These projects included rehabilitated and improving roads, irrigation, and water management systems.

At USAID/Guatemala, no development programs were funded by commodity sales and, consequently, no outputs were defined for USAID/Guatemala's monetization activities.[4] Monetization proceeds of approximately $12.7 million for fiscal years (FY) 2005 and 2006 were used to defray the mission's expenses associated with distributing food assistance under the P.L. 480 Food Security Program and, therefore, contributed indirectly to achieving the defined outputs for the Food Security Program. The proceeds were primarily used to fund administrative expenses, such as internal transportation, handling, labor, storage, and warehousing associated directly with the distribution of commodities. The proceeds were also used to provide materials for agricultural and infrastructure projects.

[4] USAID/Guatemala was selected for this audit because of its volume of monetization proceeds.

At USAID/Mozambique, the auditors were unable to determine whether the mission's P.L. 480 Title II nonemergency monetization activities were achieving selected planned outputs, because they could not verify the outputs reportedly achieved. During FY 2005, the mission's six cooperating sponsors reported on a total of 92 outputs valued at approximately $6.5 million. Collectively, they reported surpassing more than 90 percent of their targeted planned outputs, which included successes in improved farming techniques. The reported outputs could not be relied upon, however, because the mission had not performed a data quality assessment. Limited data testing performed during the audit identified some problems by tracing the reported FY 2005 output data to source documents. Nevertheless, the audit team observed that many monetization activities were conducted and, after speaking with the benefactors of these activities, determined that monetization had successfully improved Mozambicans' lives by increasing crop yields and household incomes, improving diets, and shortening the annual period of food insecurity.

USAID/West Africa's P.L. 480 nonemergency monetization activities were valued at about $9.4 million (for FY 2005 and FY 2006). The activities implemented by CRS and Africare in Burkina Faso were not achieving selected planned outputs related to agriculture. Only 17 of 22 reviewed outputs, or 77 percent, were achieved. The outputs not achieved were related to microfinance and education. Several outputs were achieved by both cooperating sponsors, demonstrating a positive impact in Burkina Faso. Moreover, the audit found that the program activities were well managed and supervised by the USAID/West Africa Food for Peace staff.

As detailed above, USAID's P.L. 480 monetization programs have made some worthy accomplishments, but the audits found that some of the missions' operations could be improved.

P.L. 480 Activities Should Be Better Publicized

Summary: Although USAID's Automated Directives System (ADS) 320 entitled *Branding and Marking* normally requires USAID projects be permanently marked as U.S. assistance, the P.L. 480 monetization programs funded at two USAID missions were not branded with the USAID logo. This failure occurred because P.L. 480 program regulations on branding and marking are inconsistent with USAID regulations. Consequently, the objectives of USAID's branding campaign, such as enhancing the visibility and value of USAID's foreign assistance, will not be met.

USAID's ADS 320 references the Graphics Standards Manual published in January 2005 with specific objectives. According to the Manual, the objectives for USAID's standard logo are as follows:

- Enhance the visibility and value of USAID's foreign assistance
- Better link communications to U.S. foreign policy, national security, and the American people

- Improve the impact and consistency of communications across bureaus, sectors, missions, and programs

In addition, P.L. 480 monetization programs are not subject to USAID's standard marking requirements because all P.L. 480 programs are regulated under Title 22, Part 211 of the U.S. Code of Federal Regulations entitled *Transfer of Food Commodities for Food Use in Disaster Relief, Economic Development and Other Assistance*. As a result, some missions conducting P.L. 480 monetization programs will not meet the objectives sought by the Agency's branding and marking requirements. The former regulations (22 *CFR* pt. 211) are not consistent with the regulations for marking requirements contained in USAID's ADS 320. Consequently, USAID's P.L. 480 programs are not subject to USAID's branding requirements.

At two of USAID/Haiti's Infrastructure Improvement Program projects, the implementer's subgrantees had not placed permanent USAID markings on the rehabilitated roads or on an irrigation canal that had been improved using USAID monetization funds. In one case, a Haitian individual told auditors that he believed that an irrigation project in his community had been funded by the United Nations. As a proactive measure, USAID/Haiti and its subgrantees plan to place permanent markings, at a minimal cost, at these two projects and at future projects. Similar conditions were found at USAID/Mozambique, where development projects involving agriculture were not marked.

According to an official from USAID's Food for Peace office, the P.L. 480 regulations are being modified in their entirety and are expected to include modifications that will be consistent with USAID's branding requirements. According to the official, however, the new regulations may not take effect for another 2 years. As a proactive measure, Food for Peace has made the branding guidelines available on USAID's Web site to prospective cooperating sponsors. Moreover, it now requires prospective cooperating sponsors that submit multiyear proposals to include language stating that prospective projects must be marked in accordance with USAID branding and marking guidelines.

Because the Food for Peace office is taking proactive steps to ensure that future P.L. 480 projects comply with USAID's branding requirements, we are not making a formal recommendation at this time. This audit report is emphasizing this problem, however, because audits at two missions revealed unmarked USAID projects. Consequently, the risk exists that the objective of furthering U.S. foreign policy in countries where these programs operate will not be met and that neither the U.S. Government nor the American people will receive credit for the provision of public resources to achieve the objectives of enhancing the visibility and value of USAID's foreign assistance.

Figure 1. An irrigation improvement project was not marked as a USAID-funded project. The project was financed through a third-country monetization program with funds generated in Peru. *Source:* Photograph taken in Les Cayes, Haiti, in May 2006 by an Office of Inspector General/Washington auditor.

Other Matters

All four missions at which audits were performed had audit findings; however, some of the findings were not directly related the P.L. 480 monetization issues, but rather to generic USAID program operational requirements. At USAID/Guatemala, the audit identified issues that related directly to the P.L. 480 monetization program. For example, this mission's program depended heavily on sales of only one commodity, thereby increasing risks related to this commodity's declining supply or demand. In another example, this audit found that the mission could benefit from a more competitive sales approach by seeking approval to move to a market-basket approach. Following a more competitive sales approach, the mission could sell additional commodities or sell to a third country, as well as recover program costs from losses that were the buyer's responsibility.

At USAID/Mozambique, the audit found that the mission (1) had not performed data quality assessments to ensure that reported results were reliable and (2) had not properly documented site visits or verified a sample of the recipients of USAID funds. At USAID/West Africa in Burkina Faso, the audit found that the mission (1) had not developed a plan to address a cooperating sponsor's internal cash flow problem to mitigate the effects of not achieving planned outputs and (2) had not required the cooperating sponsors to develop procedures for verifying reported data with source data. In another audit at USAID/Haiti, the mission (1) had not completed a Strategic Plan that was approved and (2) had not prepared the associated Performance Management Plan. A Strategic Plan represents an agencywide commitment to a set of Strategic Objectives and Intermediate Results to be accomplished by an operating unit. A Performance Management Plan indicates how management intends to achieve the objectives listed in the Strategic Plan.

Among the missions, the audit noted differences in the manner in which the USAID mission programs at Haiti, Guatemala, Mozambique, and West Africa used monetization funds. At the USAID missions in Haiti, Mozambique, and West Africa, the cooperating sponsor used significant portions of the funds for development programs. For example, the mission used the funds to improve roads and irrigation canals in agricultural sections of Haiti. USAID/Guatemala, however, used the majority of its funds to support administrative expenses, such as internal transportation, handling, labor, storage, and warehousing associated directly with the distribution of commodities. USAID/Mozambique and USAID/West Africa used significant portions of their monetized funds for projects that included microfinance, education, and agriculture.

How a mission uses P.L. 480 monetization funds depends on the needs of the mission. In accordance with the P.L. 480 regulations, missions may use funds for program development or for administrative expenses related to the direct distribution of commodities. In this regard, USAID published a field manual in October 1999 as a guide for cooperating sponsors and which is still in use by missions. USAID's Monetization Field Manual - A Guide for Title II Cooperating Sponsors states, in part, the following:

> Monetization is a necessary mechanism for generating the cash needed to cover the administrative and programmatic costs associated with food security programs. The growth of monetization has been attributed by many to the decline in foreign assistance resources. The amount of USG [U.S. Government] cash resources available to private voluntary organizations and cooperatives to cover costs associated with distributing food aid commodities and to implement development programs overseas has spiraled downward in recent years. Those PVOs [private voluntary organizations] and cooperatives who work in the field of food security have been able to compensate, to some extent, for the shortage of dollar funding by monetizing Title II agricultural commodity resources. The foreign currency proceeds generated through monetization are used to cover a wide range of costs, both administrative and programmatic.

Given the range of options available, USAID missions are not expected to use monetization proceeds in a manner consistent from mission to mission or from year to year. Furthermore, if U.S. Government resources are expected to continue declining,[5] missions would be expected to increase the monetization of commodities, as well as to defray associated costs. As a result, the uses of the funds for development programs would also be expected to increase into the near future.

The pressure to increase monetization proceeds should be balanced by another factor—that is, the need to reduce harm to local production or markets. An oversupply of

[5] An analysis from the Center for Global Development indicated that the President's foreign aid budget for 2008 showed that development assistance traditionally implemented by USAID will shrink by a third to a little over $1 billion in 2008.

commodities can potentially drive down the selling prices for commodities produced locally. According to USAID's P.L. 480 Title II Policies and Program Guidelines dated May 2006, the Office of Management and Budget in recent years has directed USAID to reduce levels of monetization. The Guidelines state that the Office of Food for Peace, in accordance with the directives, will scrutinize all proposed monetization activities and approve only those that address the underlying causes of food insecurity. Proposals that call for 100 percent monetization of commodities will not be approved because of the potential adverse impact on local markets.

Given these challenging circumstances, USAID will need to find a proper balance to increase monetization to meet increasing development demands, with fewer U.S. Government resources, and without harming local markets or production.

Figure 2. A pineapple growers' association member shows a pineapple grown by the association. These farmers grow pineapple off-season through techniques introduced by USAID/Mozambique's monetization program.
Source: Photograph taken in Nantuto, Mozambique, in October 2006 by a Regional Inspector General/Pretoria auditor.

EVALUATION OF MANAGEMENT COMMENTS

Management had no comments on this report.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General conducted audits at four USAID missions in accordance with U.S. Government generally accepted auditing standards. These audits were designed to answer the following question: are USAID's P.L. 480 nonemergency monetization activities achieving selected planned outputs?

In conducting these audits, the audit team assessed the effectiveness of USAID's internal controls with respect to the nonemergency monetization activities, valued at $67.9 million, through September 30, 2006. The team identified such internal controls as the monitoring of monetization activities, approvals of commodity call forwards, and the management of funds and reporting of data by the cooperating sponsors.

This report summarizes the results of audit work conducted at USAID offices in Washington, D.C., and at selected overseas USAID missions. The audit fieldwork was conducted from March 2006 through June 2007 in the following locations:

- Washington, D.C.—conducted at USAID's Food for Peace headquarters from March 2006 through June 2007.

- Haiti—conducted at the USAID mission and at various P.L. 480 monetization sites and offices in Washington, D.C., from May 2 through June 29, 2006.

- Guatemala—conducted at the USAID mission and cooperating sponsors' offices from August 8 through August 23, 2006.

- Mozambique—conducted at the USAID mission and cooperating sponsors' offices from September 26 through October 18, 2006.

- West Africa—conducted at the USAID/West Africa Regional Food for Peace office in Senegal and cooperating sponsors' offices in Burkina Faso from September 28 through October 3, 2006.

Methodology

To answer the audit objective, the auditors interviewed officials from USAID/Washington's Food for Peace office. The team examined relevant laws and regulations relating to USAID's P.L. 480 monetization activities, including (1) P.L. 480; (2) Title 22, Part 211 from the U.S. Code of Federal Regulations; (3) USAID's Automated Directives System 320, Branding and Marking; and (4) USAID's Monetization Field Manual. The audit team interviewed officials from USAID's field missions in the selected countries, as well as officials of the cooperating sponsors. The team examined these missions' pertinent documentation, such as Strategic Plans, Annual Reports, and Performance Management Plans. The team examined documentation from the cooperating sponsors, including Development Activity Proposals, field visit reports, Bellmon Analyses that indicate monetization's impact on local markets, and financial reports showing the receipts and distributions of funds. In addition, the audit team conducted site visits to cooperating sponsors' offices and other activity sites.

The team judgmentally selected key outputs for each selected partner and compared those output percentages with the audit threshold criteria to determine whether planned outputs were achieved.

The materiality threshold for this audit was as follows: If 90 percent of the selected outputs achieved at least 90 percent of the intended output level, the audit objective would be answered positively. If 80 to 89 percent of the selected outputs achieved 90 percent of the intended output level, the audit objective would be answered positively but with a qualification. If less than 80 percent of the selected outputs achieved 90 percent of the intended output level, the audit objective would be answered negatively.

MANAGEMENT COMMENTS

Management had no comments on this report.

AUDIT RECOMMENDATIONS

Mission	Recommendations
Haiti	• Complete the 2007/09 Strategic Plan and the associated Performance Management Plan • Obtain the approval of the Latin America and Caribbean Bureau for the 2007/09 Strategic Plan
Guatemala	• Seek approval from the Office of Food for Peace to move to a market-basket approach by (1) selling additional commodities, (2) working with a major grain trader, or (3) selling to third countries • Seek approval from the Office of Food for Peace to move its monetization program to an open and competitive approach by relaxing the financial payment requirements so that other buyers can enter the market, replacing the existing commodity, adding other commodities, or taking other measures to move in that direction • Enforce the contract stipulating that the buyer accepts the survey report issued and agrees to the transfer of the oil title at the point of delivery, or change the contract so that the title passes at some other point • Obtain evidence that the cooperating sponsors have reimbursed the program for $252,589 in losses that were the responsibility of the buyer • Ensure that the cooperating sponsors assert *force majeure* as a defense to the claim from the buyer, recover $40,680 from the buyer, and return the amounts recovered to the program • Work with the cooperating sponsors to negotiate with the Government of Guatemala to permit the cooperating sponsors to retain the taxes paid by the buyer as host country contributions to the program, or negotiate further increases in the Government of Guatemala's cash contributions in future monetization agreements

Mozambique	• Perform a data quality assessment for its P.L. 480 nonemergency monetization program • Communicate to mission staff the importance of, requirement for, and mechanism for properly documenting, field site visits, including the sample verification of data reported by the recipients of USAID funds
West Africa/Burkina Faso	• Require its cooperating sponsor, Africare, to develop a plan for addressing the internal cash flow problems to mitigate the effect on achieving planned outputs • Require both cooperating sponsors, Catholic Relief Services and Africare, to develop procedures for verifying reported data with source documentation, documenting key assumptions and calculations, and maintaining documentation to support results and other data reported to USAID • Require Catholic Relief Services to develop a system that will enable it to determine whether the schools within its school feeding program are visited at least twice per year, as required, and that information indicating frequency of visits and issues encountered during the visits is readily available

WORLDWIDE AUDIT REPORTS ISSUED

The following reports were issued as part of the worldwide P.L. 480 nonemergency monetization program audit and are listed chronologically and are available on the USAID Web site at http://www.usaid.gov/oig/public/aud_usaid.htm.

Report No. 9-521-06-010-P, Audit of USAID/Haiti's Management of P.L. 480 Nonemergency Monetization Program, September 26, 2006.

Report No. 1-520-07-002-P, Audit of USAID/Guatemala's Management of P.L. 480 Nonemergency Monetization Program, November 27, 2006.

Report No. 4-656-07-003-P, Audit of USAID/Mozambique's Management of P.L. 480 Nonemergency Monetization Program, December 22, 2006.

Report No. 7-624-07-001-P, Audit of USAID/West Africa's Management of P.L. 480 Nonemergency Monetization Program in Burkina Faso, February 22, 2007.

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue NW
Washington, DC 20523
Tel: (202) 712-1150
Fax: (202) 216-3047
www.usaid.gov/oig