

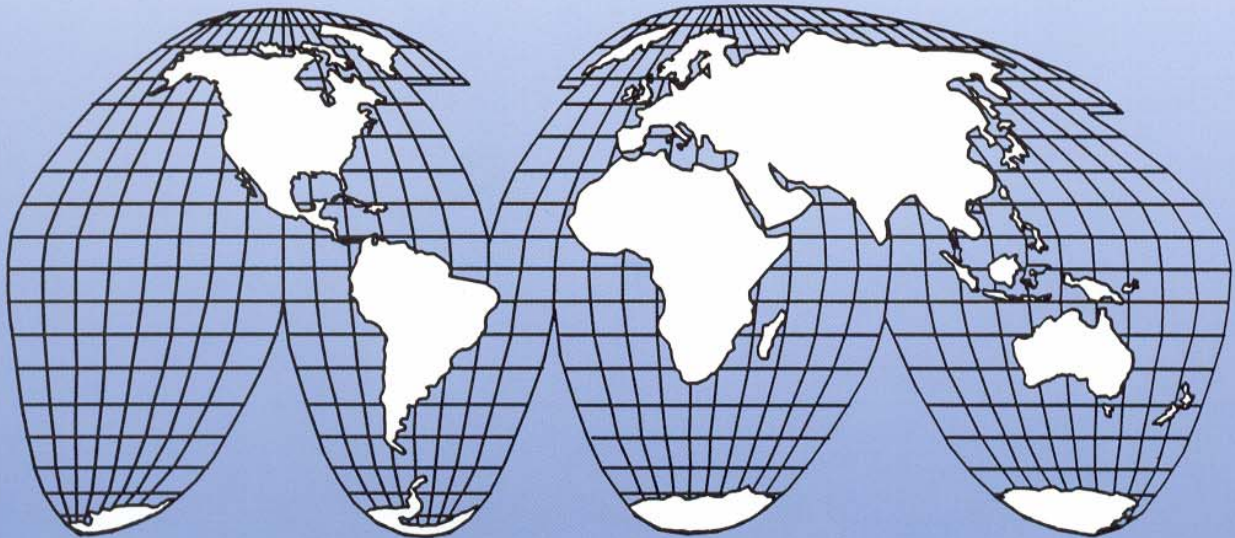
USAID

OFFICE OF INSPECTOR GENERAL

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

Audit Report No. 4-663-04-002-P

November 21, 2003



PRETORIA, SOUTH AFRICA



November 21, 2003

MEMORANDUM

FOR: USAID/Ethiopia Director, William Hamink

FROM: Regional Inspector General/Pretoria, Jay Rollins /s/

SUBJECT: Audit of USAID/Ethiopia's Distribution of P.L. 480 Title II Non-Emergency Assistance in Support of Its Direct Food Aid Distribution Program (Report No. 4-663-04-002-P)

This memorandum is our report on the subject audit. In finalizing this report, we considered management comments on the draft report and have included those comments, in their entirety, as Appendix II in this report.

This report has five recommendations. In response to the draft report, USAID/Ethiopia concurred with and included corrective action plans and target completion dates for all the recommendations. In addition, the Mission also concurred with Recommendation Nos. 1 and 3, which contained potential monetary savings totaling \$120,671. Therefore, we consider that management decisions have been reached on all five recommendations. Please provide the Bureau for Management, Office of Management Planning and Innovation with evidence of final actions in order to close the recommendations.

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

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Summary of Results

The intent of Public Law 480, which is the statutory authority for the Title II “Food for Peace” Program, is to promote food security in the developing world through humanitarian and developmental uses of food assistance. Food security is satisfied when a nation’s people have sufficient food to meet their dietary needs. (See page 5.)

The Regional Inspector General, Pretoria conducted this audit to determine if USAID/Ethiopia, through its monitoring and oversight activities, ensured that food aid commodities reached the intended beneficiaries in accordance with existing agreements. (See page 6.)

The audit showed that USAID/Ethiopia generally ensured that non-emergency and non-monetized food aid commodities reached the intended beneficiaries in accordance with existing agreements. However, the audit also identified some activities where monitoring could be improved: (a) Catholic Relief Services’ (CRS) commodity loss and claim reports dating back to 1993 needed to be resolved; (b) monitoring of Relief Society of Tigray’s (REST) commodity loss and claim reports needed to be increased; and (c) monitoring of CRS’ and REST’s warehouses and distribution centers needed to be resumed. (See pages 6-14.)

This report contains five recommendations to help USAID/Ethiopia improve its monitoring and oversight activities over CRS’ and REST’s implementation of the Title II food aid distribution program. (See pages 8, 11, and 14.)

In response to the draft report, USAID/Ethiopia concurred with all five recommendations contained in the report. The Mission included corrective action plans and target completion dates for all five recommendations. Therefore, we consider that management decisions have been reached on all five recommendations upon final report issuance. (See page 14.)

Background

The Agricultural Trade Development Assistance Act of 1954 (Public Law 480 or P.L. 480), as amended, is the statutory authority for the Title II “Food for Peace” Program. The intent of the legislation is to promote food security in the developing world through humanitarian and developmental uses of food assistance. Food security is satisfied when a nation’s people have sufficient food to meet their dietary needs.

USAID’s Title II non-emergency program in Ethiopia is administered by USAID/Ethiopia’s Food and Humanitarian Assistance Office. The Catholic Relief Services (CRS) and Relief Society of Tigray (REST) are two of the seven cooperating sponsors implementing USAID/Ethiopia’s Title II direct food aid distribution program activities, which involved the distribution of non-emergency food commodities with an estimated value of \$13 million in fiscal year 2002.

At the time of our fieldwork, in July and August 2003, CRS, together with its implementing partners, the Missionaries of Charity and the Organization for

Social Services and HIV/AIDS,¹ was managing a general relief program in several regions of Ethiopia. In fiscal year 2002, the approved quantities of USAID-donated commodities for this program included \$4.2 million in corn-soya blend, bulgur wheat, vegetable oil, lentils, rice, and wheat. The program supported welfare institutions that served the elderly, AIDS patients, lepers, orphans, physically and mentally ill, and poor mothers without family support. On the other hand, REST was managing the food for work program in the Tigray region of Ethiopia with approved quantities of USAID-donated commodities in fiscal year 2002 totaling \$4.2 million in vegetable oil and wheat. The development interventions executed through the program included reforestation, soil and water conservation, and diversion weir.

Audit Objective

This audit was one of a series of audits which the Office of Inspector General conducted worldwide of USAID's monitoring of Title II non-emergency assistance in support of its direct food aid distribution program.

The audit was conducted to answer the following question:

- Did USAID/Ethiopia, 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 beneficiaries in accordance with existing agreements?

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

Audit Findings

Did USAID/Ethiopia, 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 beneficiaries in accordance with existing agreements?

Through its monitoring and oversight activities, USAID/Ethiopia generally ensured that Title II non-emergency food aid was delivered to the intended beneficiaries in accordance with existing agreements. To maintain accountability over food commodities and help ensure that they reached the intended beneficiaries, Mission staff conducted periodic site visits to the cooperating sponsors' warehouses and distribution centers. Additionally, the Mission staff reviewed relevant documents such as commodity/recipient status reports and commodity loss reports. Furthermore, they held monthly meetings with the cooperating sponsors to discuss issues relating to Title II programs. Mission staff also interviewed beneficiaries to get their opinion on matters such as food-ration size, distribution process, and misuse of commodities.

¹ Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome

However, the audit identified the following activities where monitoring could be improved:

- Catholic Relief Services' (CRS) commodity loss and claim reports dating back to 1993 needed to be resolved;
- monitoring of Relief Society of Tigray's (REST) commodity loss and claim reports needed to be increased; and
- monitoring of CRS' and REST's warehouses and distribution centers needed to be resumed.

These activities are discussed in greater detail below.

CRS Commodity Loss and Claim Reports Dating Back to 1993 Need to Be Resolved

Contrary to Title 22 of the Code of Federal Regulations, the Mission did not regularly follow up and resolve CRS' commodity loss and claim reports in a timely manner. The problem occurred because the Mission's Food and Humanitarian Assistance Office (FHA) decreased its monitoring of CRS' commodity loss and claim reports. As a result, commodity loss and claim reports totaling approximately \$89,153¹ have not been resolved in a timely manner and have remained open for years.

Title 22 of the Code of Federal Regulations, section 211.9 (22 CFR 211) states that:

If a cooperating sponsor causes loss or damage to a commodity, monetized proceeds or program income through any act or omission or failure to provide proper storage, care and handling, the cooperating sponsor shall pay to the United States the value of the commodities, monetized proceeds or program income, lost, damaged, or misused, unless AID determines that such improper distribution or use, or such loss or damage could not have been prevented by proper exercise of the cooperating sponsor's responsibility.

USAID/Ethiopia did not regularly follow up on and resolve CRS' commodity loss and claim reports dating back to 1993, reports that they had taken over from the previous Mission management. In 2001, according to FHA's Acting Loss/Claims Officer, the Mission recognized the need to address the issue immediately and hired one employee who could spend the majority of her time on the task, in addition to handling the duties of the Resource Manager position. The Mission's action resulted in the resolution of commodity loss and claim reports valued at approximately \$1.2 million.² However, several loss and claim reports dating back to 1993 remained unresolved. The Acting Loss/Claims Officer stated that

² The amount was not audited.

considering the timeframe involved, the process has not been easy, mainly due to a lot of turnover at CRS and difficulty in finding supporting documents for claims established.

The cause of the backlog of unresolved commodity losses was attributed to FHA's decreased monitoring of CRS' commodity loss and claim reports. Due to the severity and magnitude of the drought that hit Ethiopia at the end of 1999, the Mission focused its efforts and resources on implementing Title II's emergency program, which increased in funding from \$78 million in 1999 to \$301 million in 2000 and to \$488 million in 2003.³ According to the Acting Loss/Claims Officer, this tremendous increase in funding necessitated the dedication of more staff time and effort to undertake the added responsibility. The emergency responsibilities have also meant reduced monitoring of development assistance programs in favor of the emergency program. It also had a negative impact on FHA's monitoring of CRS' commodity losses dating back to 1993. As a result, a backlog of commodity loss and claim reports totaling approximately \$89,153 has remained open for years (see Appendix III).⁴ Consequently, these reports were not resolved in a timely manner.

Adequate and regular review and follow-up of commodity loss and claim reports help guarantee the timely resolution of commodity losses. It is a structured monitoring process that the Mission can implement to prevent further backlog of unresolved commodity losses. Therefore, we recommend the following:

Recommendation No. 1: We recommend that USAID/Ethiopia develop and implement a plan of action to pursue the unresolved commodity loss and claim reports dating back to 1993, and make a determination and collect, as appropriate, \$89,153 due to the United States Government associated with commodity losses incurred by Catholic Relief Services.

Monitoring of REST's Commodity Loss and Claim Reports Needs to Be Increased

Contrary to 22 CFR 211, REST had not been submitting and processing its commodity loss and claim reports in accordance with the regulations. Additionally, tests of validation of the Mission's and REST's commodity loss tracking schedules identified discrepancies between the two schedules. These problems occurred because the Mission did not adequately and regularly monitor and review REST's commodity loss and claim reports. As a result, both the Mission's and REST's commodity loss tracking schedules were incomplete and inaccurate, and the status of the commodity loss and claim reports unknown.

³ The amounts were not audited.

⁴ The amount was not audited.

22 CFR 211.9 states:

Reasonable attempts to collect the claim shall not be less than the follow-up of initial billings with three progressively stronger demands at not more than 30-day intervals. If these efforts fail to elicit a satisfactory response, legal action in the judicial system of the cooperating country should be pursued...The cooperating sponsor shall provide the USAID or Diplomatic Post a quarterly report regarding any loss, damage or misuse of commodities, monetized proceeds or program income. The report must be provided within 30 days after the close of the calendar quarter and shall contain the following information except for commodity losses less than \$500: who had possession of the commodities...; who, if anyone, might be responsible for the loss, damage or misuse; the kind and quantity of commodities; the size and type of containers; the time and place of loss, damage or misuse; the current location of the commodities...; the action taken by the cooperating sponsor with respect to recovery or disposal; and the estimated value of the loss, damage or misuse.

REST had not been submitting its commodity loss and claim reports within 30 days after the close of the calendar quarter. This was evidenced by the fact that the Mission's commodity loss tracking schedule contained a statement that read, "Losses by REST have not been filed until lately." This statement was supported by a letter, dated July 17, 2003, from FHA requesting REST to submit loss reports using appropriate formats. Furthermore, REST's commodity status reports did not reflect the commodity losses that it had reported to the Mission.

Also, REST had not been processing its commodity loss and claim reports in accordance with 22 CFR 211. The review of REST's commodity loss and claim reports showed that REST had not been sending the required demand letters to the parties responsible for the losses. When REST was asked to submit copies of the demand letters, they could only produce one such letter.

Furthermore, the validation of the Mission's commodity loss tracking schedule against that of REST's identified discrepancies between the two schedules. Table 1 lists these discrepancies:

Table 1: Discrepancies Identified Between USAID/Ethiopia’s and REST’s Commodity Loss Tracking Schedules

CLAIM NO.	BILL OF LADING NO.	COMMODITY	ESTIMATED VALUE ⁵	RESULTS OF VALIDATION TESTS
07-RES-2001	1MEMPMEK 001	Vegetable oil	\$1,411	Estimated value is different from Claim No.04-RES-2000, but this is the correct claim for this bill of lading.
04-RES-2000	1MEMPMEK 001	Vegetable oil	\$1,445	Duplicate of Claim No. 07-RES-2001 in USAID/Ethiopia’s tracking schedule
05-RES-2001	A1002	Wheat	\$9,020	Estimated value is different from Claim No.03-RES-01, but this is the correct claim for this bill of lading.
03-RES-01	A1002	Wheat	\$10,620	Duplicate of Claim No. 05-RES-2001 in USAID/Ethiopia’s tracking schedule
09-RES-2002	LC-AID-1	Wheat	\$1,824	Loss report recorded in USAID/Ethiopia’s tracking schedule, but not in REST’s
014-RES-2002	JAC-AID-1	Vegetable oil	\$1,852	Loss report recorded in USAID/Ethiopia’s tracking schedule, but not in REST’s
012-RES-2002	01 (<i>sic</i>)	Wheat(damaged) (shortage)	\$11,141 \$23,529	Loss report recorded in USAID/Ethiopia’s tracking schedule, but not in REST’s; Report of Loss showed this was a maritime loss

The problems discussed above occurred because the Mission did not adequately and regularly monitor and review REST’s commodity loss and claim reports. In the case of REST, the responsible official delegated the task of maintaining the commodity loss and claim schedule to an employee without supervising or reviewing that employee’s work. Consequently, both the Mission and REST could not rely on their commodity loss tracking schedules because the schedules were incomplete and inaccurate.

Based on the review of the available commodity loss reports submitted by REST to the Mission, REST’s commodity losses for the period 2000 to 2002 amounted to approximately \$31,518. Furthermore, the status of the commodity loss and claim reports could not be determined because REST did not follow the procedures relating to the processing and filing of claims for commodity losses as contained in 22 CFR 211.

Regularly scheduled and adequately performed monitoring activities are good management tools that the Mission can use to help ensure that food aid commodities reach their intended beneficiaries in accordance with existing agreements. Additionally, this formal monitoring process will assist the

⁵ Amounts were not audited.

cooperating sponsors in complying with relevant laws and regulations. Therefore, we recommend the following:

Recommendation No. 2: We recommend that USAID/Ethiopia develop and implement a plan of action to increase its monitoring of Relief Society of Tigray's processing and filing of commodity loss and claim reports, and to verify the accuracy and completeness of Relief Society of Tigray's commodity loss and claim reports.

Recommendation No. 3: We recommend that USAID/Ethiopia make a determination and collect, as appropriate, \$31,518 due to the United States Government associated with commodity losses incurred by Relief Society of Tigray.

Recommendation No. 4: We recommend that USAID/Ethiopia revise its commodity loss tracking schedule to exclude duplicate claim numbers 04-RES-2000 and 03-RES-01 and that it indicate the status of all the loss claims for monitoring purposes.

Monitoring of CRS' and REST's Warehouses and Distribution Centers Needs to Be Resumed

Contrary to 22 CFR 211, the Mission did not regularly monitor the conditions in CRS' and REST's warehouses and distribution centers. This occurred because the Mission temporarily stopped conducting site visits to the cooperating sponsors' warehouses and distribution centers beginning in October 2001. As a result, conditions in some of CRS' and REST's warehouses and distribution centers could put the food commodities at risk of going to waste. In addition, one warehouse did not comply with commodity reporting requirements because it did not maintain a perpetual system of inventory records.

22 CFR 211.10(c), Inspection and Audit, implies that U.S. Government representatives, along with the cooperation and assistance of the cooperating sponsors, should inspect commodities in storage or the facilities used in the handling or storage of commodities.

22 CFR 211.5(a) requires that cooperating sponsors ensure that "...adequate storage facilities will be available in the recipient country at the time of arrival of the commodity to prevent spoilage or waste of the commodity."

22 CFR 211.10(a) requires that "cooperating sponsors and recipient agencies shall maintain records and documents in a manner which accurately reflects the operation of the program and all transactions pertaining to the receipt, storage, distribution, sale, inspection and use of commodities..."

To complement 22 CFR 211.10(a), Principle III-2 of Food Aid Management's Generally Accepted Commodity Accountability Principles (Draft) states that "commodity management organizations should maintain a perpetual system of inventory records at all management levels to record and report commodity receipts, issues, and adjustments to inventory."

Site visits were conducted to CRS' and their implementing partners' as well as REST's warehouses and distribution centers to observe and review the storage and management of non-emergency food aid commodities.



Photograph of a sister from the Missionaries of Charity (MOC) with a RIG/Pretoria auditor inside the MOC warehouse in Dire Dawa, Ethiopia. The MOC is one of CRS' implementing partners in the distribution of Title II non-emergency food aid commodities. (August 2003)

At CRS, the review covered non-emergency commodities distributed under the general relief program while at REST the review focused on the food for work program.



Photograph of stone bunds, one of the projects built by the beneficiaries of REST's food for work program in Degua Tembien, Ethiopia. Stone bunds prevent soil erosion. (August 2003)

The deficiencies identified from the site visits showed that the Mission did not monitor the conditions in the cooperating sponsors' warehouses and distribution centers. The following conditions were observed at the sites indicated:

- CRS warehouses in Dire Dawa – The inspection conducted at two warehouses revealed rodent droppings near the broken and torn bags of corn-soya blend.
- Organization of Social Services and HIV/AIDS distribution center in Nazareth – The distribution center employee did not maintain a perpetual system of inventory records.
- REST central warehouse in Mekelle – The REST official said that water seeped under the steel doors when it rained.
- REST warehouse and distribution center in Hageresalam, Degua Tembien – Two pigeons were inside the warehouse during the site visit. A ripped screen covering one of the windows allowed the pigeons to fly in and out of the warehouse.
- REST warehouse and distribution center in Edaga Arbi, Were Lehe – Bags of wheat were not stacked properly to allow access all around for easy inspection, pest control and air circulation.
- REST warehouse and distribution center in Rama, Mereb Lehe – Three mounds of food aid commodities covered with waterproofed material were stored outside the warehouse, which, according to the REST official, had structural problems.
- REST warehouse and distribution center in Hahaile, Enticho, Ahferom –Holes where the beams that support the roof pass through the walls were big enough for birds and insects to enter

the warehouse. Additionally, there were rodent droppings on the floor.

The conditions described above went uncorrected because the Mission temporarily stopped conducting site visits to CRS' and REST's warehouses and distribution centers beginning in October 2001. According to FHA's Food Program Monitor, during that time the FHA staff was busy reviewing the cooperating sponsors' Development Assistance Proposals, which were due in Washington, D.C. by March 2002. After that, the staff went back to implementing Title II's emergency program to address the drought problem in Ethiopia (see page 7, CRS Commodity Loss and Claim Reports Dating Back to 1993 Need to Be Resolved).

If the above conditions remain uncorrected, they could result in the food aid commodities being spoiled or wasted due to rodent and insect infestation, water seepage, or condensation in the case of the commodities that were improperly stacked. Regarding the warehouse in Nazareth that did not maintain a perpetual system of inventory records, CRS' financial records did not reflect the current status of commodity inventory balances, issuances and value.

In summary, USAID/Ethiopia did not monitor the conditions in CRS' and REST's warehouses and distribution centers on a regular basis because the Mission temporarily stopped conducting site visits beginning in October 2001. This resulted in conditions where food aid commodities could become spoiled or wasted through infestation, water seepage, or condensation. Therefore, we recommend the following:

Recommendation No. 5: We recommend that USAID/Ethiopia develop and implement a plan of action to resume site visits to the warehouses and distribution centers managed by Catholic Relief Services and Relief Society of Tigray, and correct the weaknesses noted in their warehouses and distribution centers.

At the end of the site visits, the responsible REST officials said that they had enrolled three of their officials to attend the Food Aid Rules and Regulations workshop to be held in Addis Ababa, Ethiopia, from December 1 to 5, 2003. The workshop will be facilitated by the Association of Private Voluntary Organizations Financial Managers, which is based in Norwalk, Connecticut.

Management Comments and Our Evaluation

In response to the draft report, USAID/Ethiopia concurred with all five recommendations contained in the report. The Mission included corrective action plans and target completion dates for all five recommendations. Therefore, we consider that management decisions have been reached on all five recommendations upon final report issuance.

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

The Regional Inspector General, Pretoria conducted this audit in accordance with generally accepted government auditing standards. The audit was one of a series of worldwide audits led by the Office of Inspector General's Performance Audits Division (IG/A/PA) in Washington, D.C. The audit was conducted to determine if USAID/Ethiopia, through its monitoring and oversight activities, ensured that P.L. 480 Title II non-emergency assistance programmed for direct food aid distribution programs was delivered to the intended beneficiaries in accordance with existing agreements. The audit covered the review of Title II non-emergency food aid commodities delivered to the intended beneficiaries under the general relief and food for work programs in fiscal year 2002 and the first 11 months of fiscal year 2003. Regarding the commodity loss and claim reports, we included in our review commodity losses dating back to 1993, which remained unresolved at the time of our fieldwork, to determine if the causes for the commodity losses denoted that possible abuse or illegal acts were committed.

In planning and performing the audit, we judgmentally selected two out of seven cooperating sponsors, which distributed approximately \$13 million in non-emergency food commodities in fiscal year 2002, for review. Selection criteria used was the value of commodities shipped to and the type of program implemented by the cooperating sponsors in fiscal year 2002. We selected Catholic Relief Services (CRS) because it received \$4.2 million of food aid commodities under the general relief program. Relief Society of Tigray (REST) was selected on the basis of the \$4.2 million of food aid commodities that it received under the food for work program. We tested and assessed the Mission's, CRS' and REST's significant management controls over the receipt, delivery, storage, and distribution of Title II commodities. In this regard, we examined documents such as annual estimate of requirements, call forwards, commodity and recipient status reports, commodity loss reports and tracking schedules, reporting of results data, and the systems in place for tracking the receipt, storage, delivery and distribution of food aid commodities.

We conducted the audit at USAID/Ethiopia, located in Addis Ababa, Ethiopia, from July 28 to August 27, 2003. Fieldwork included site visits to CRS' and REST's warehouses and distribution centers in Dire Dawa, Nazareth, Mekelle, Degua Tembien, Were Lehe, Merib Lehe, and Ahferom, Ethiopia.

Methodology

To answer the audit objective, we obtained and reviewed relevant P.L. 480 Title II program documents such as development assistance program proposals, annual estimate of requirements, call forwards, commodity status and recipient reports, and commodity loss reports. Furthermore, we reviewed waybills and other transportation records, inventory records, and commodity distribution records in relation to our review of controls over the receipt, storage, and delivery of food aid

commodities. We also reviewed monitoring reports prepared by the Mission, CRS and REST. Additionally, we tested the Mission's, CRS' and REST's management controls over commodity losses by validating the Mission's commodity loss tracking schedule against CRS' and REST's commodity loss tracking schedules.

During the site visits to CRS' and REST's country offices, we assessed the management controls by reviewing the organizational charts, position descriptions, and commodity loss reports. Furthermore, we reviewed the documents, records, and forms used by cooperating sponsors to maintain accountability over program commodities as they move from port to warehouse to distribution center and, ultimately, to beneficiary. We also reviewed documentation on beneficiary participation and commodity distribution to identify any problems relating to food aid distribution that might exist. Lastly, we interviewed responsible Mission, CRS, and REST officials and staff.

For criteria, we used Title 22 of the Code of Federal Regulations, Section 211; Food Aid Management's Generally Accepted Commodity Accountability Principles (Draft); the General Accounting Office's Standards for Internal Control in the Federal Government; and USAID's Automated Directives System Series 200, Programming Policy.

A defined materiality threshold for this audit was not relevant because the audit focused on the adequacy of the Mission's monitoring of the P.L. 480 Title II non-emergency food aid program.

Management
Comments



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MEMORANDUM

For: Regional Inspector General/Pretoria, Jay Rollins

From: USAID/Ethiopia Director, William Hammink /s/

Subject: USAID/Ethiopia Comments on the October 10, 2003 Draft Audit Report of Ethiopia's P.L. 480 Title II Non-Emergency Assistance in Support of Its Direct Food Aid Distribution Program

During July and August of 2003, the Office of the Inspector General conducted a world wide audit of USAID's monitoring of Title II non-emergency assistance in support of its direct food aid distribution program. The audit was conducted to answer the question: "Did USAID/Ethiopia, 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 beneficiaries in accordance with existing agreements?"

The purpose of this memo is to comment on your draft report on the subject audit. The audit findings were summarized as follows:

"Through its monitoring and oversight activities, USAID/Ethiopia generally ensured that Title II non-emergency food aid was delivered to the intended beneficiaries in accordance with existing agreements. To maintain accountability over food commodities and help ensure that they reached the intended beneficiaries, Mission staff conducted periodic site visits to the cooperating sponsors' warehouses and distribution centers. Additionally, the Mission staff reviewed relevant documents such as commodity/recipient status reports and commodity loss reports. Furthermore, they held monthly meetings with the cooperating sponsors to discuss issues relating to Title II programs. Mission staff also interviewed beneficiaries to get their opinion on matters such as food-ration size, distribution process, and misuse of commodities."

However, the audit identified activities where monitoring could be improved. Areas suggested for improvement are listed in bold below and a description of action taken or

actions planned by USAID and the relevant cooperating sponsor is provided under each area suggested for improvement.

Catholic Relief Services' (CRS) Commodity loss and claim reports dating back to 1993 need to be resolved.

- **Recommendation No. 1: We recommend that USAID/Ethiopia develop and implement a plan of action to pursue the unresolved commodity loss and claim reports dating back to 1993, and make a determination and collect, as appropriate, \$89,153 due to the United States Government associated with commodity losses incurred by Catholic Relief Services.**

The report explains that “USAID/Ethiopia did not regularly follow up on and resolve CRS’ commodity loss and claim reports dating back to 1993...” “In 2001,...the Mission recognized the need to address the issue immediately and hired one employee who could spend the majority of her time on the task... The Mission’s action resulted in the resolution of commodity loss and claim reports valued at approximately \$1.2 million.”

Mission Position: The Mission concurs with the recommendation.

Explanation/Course of Action: Resolving CRS’s commodity loss and claim reports remains a priority for USAID/Ethiopia’s Food and Humanitarian Assistance Office. Since the receipt of the draft audit report on October 10, 2003, the USAID/Ethiopia Food for Peace Officer and Commodity Manager have met with CRS management to discuss this issue and to put an action plan in place to resolve outstanding claims.

At the first meeting between CRS and USAID/Ethiopia staff, discussions revealed that waiver requests had been submitted for all outstanding claims against which CRS has been unable to receive compensation for losses. The waiver requests had previously been reviewed by the RLA who had identified missing documentation or insufficient explanation for each waiver request. The RLA explained at a subsequent meeting with USAID/Ethiopia staff that at the time of the audit, the missing documentation required to issue waivers had not yet been produced by CRS. The USAID Regional Legal Advisor specified the requirements for waiver requests and explained in detail specific gaps in their previous requests.

The USAID/Ethiopia Commodity Manager has developed an action plan to resolve the outstanding CRS claims. First, the Commodity Manager is working with CRS to again review relevant documentation to compile a list of missing documents and actions concerning the loss and claim reports. CRS has promised to resubmit each waiver request with sufficient and complete supporting documentation by December 31, 2003. Following CRS’s submission, the Commodity Manager will work with the RLA to fully document and approve waivers as appropriate and submit them to the USAID Mission Director. The above mentioned actions will enable USAID/Ethiopia to resolve all outstanding claims.

Expected Closure: The Mission expects CRS to submit all relevant claims paperwork by December 31, 2003. The Mission expects that claims will be resolved by March 31 2003.

Monitoring of Relief Society of Tigray's (REST) commodity loss and claim reports needed to be increased.

- **Recommendation No. 2: We recommend that USAID/Ethiopia develop and implement a plan of action to increase its monitoring of the Relief Society of Tigray's processing and filing of commodity loss and claim reports, and verify the accuracy and completeness of the Relief Society of Tigray's commodity loss and claim reports.**

Mission Position: The Mission concurs with the recommendation.

Explanation/Course of Action: Upon receipt of the draft audit report on October 10, 2003, USAID/Ethiopia communicated the audit recommendations to REST and discussed issues of timely and accurate submission of loss and claim reports and commodity status reports. REST subsequently submitted an action plan for their commodity managers at headquarters to provide on-the-job training to warehouse personnel and food monitors to enhance their competence in warehouse management, commodity accounting and inventory, quality control, familiarization with USAID 22 CFR 211 guidelines and management of commodity status, recipient status and loss and claim reports. In addition to the in house on-the-job training, three members of their headquarter management team will attend a Food Aid Rules and Regulations workshop, facilitated by the Association of Private Voluntary Organization Financial Managers (APVOFM), to be held in Addis Ababa from December 1-5, 2003. which will address commodity loss and claim management. REST has also agreed to review and evaluate commodity records to provide the current status of commodity inventory reports and to evaluate their commodity tracking system.

USAID/Ethiopia's Commodity Manager is in the process of reviewing REST's past commodity loss and claim reports to verify their accuracy. This exercise is expected to be completed by December 31, 2003. Furthermore, USAID plans to increase its future monitoring of REST's processing and filing of commodity loss and claim reports. To increase this monitoring, USAID/Ethiopia commodity management staff will regularly monitor REST's future submissions with more attention to detail. In addition, USAID/Ethiopia commodity management staff will arrange monthly meetings with REST to review loss and claim reports, to evaluate their commodity tracking and accounting systems, and to identify actions required. Monthly meetings will begin in January 2004 after the review of past loss and claim reports has been completed.

Expected Closure: A plan of action to increase monitoring of Relief Society of Tigray's processing and filing of commodity loss and claim reports will be implemented by January 31, 2004.

- **Recommendation No. 3: We recommend that USAID/Ethiopia make a determination and collect, as appropriate, \$31,518 due to the United States Government associated with commodity losses incurred by Relief Society of Tigray.**

Mission Position: The Mission concurs with the recommendation.

Explanation/Course of Action: USAID/Ethiopia has communicated to REST the immediate need to make a determination and collect \$31,518 due to the United States Government associated with commodity losses incurred by REST. REST has agreed to review its outstanding losses and claims and will submit required paperwork for their collection or waiver by December 31, 2003. The USAID/Ethiopia commodity manager will work with REST to ensure that all relevant documentation accompanies any waiver requests submitted to USAID.

Expected Closure: The Mission expects REST to submit all relevant claims paperwork by December 31, 2003. The Mission expects that claims will be resolved by March 31, 2004.

- **Recommendation No. 4: We recommend that USAID/Ethiopia revise its commodity loss tracking schedule to exclude duplicate claim numbers 04-RES-01 and 03-RES-01 and that it indicate the status of all the loss claims for monitoring purposes.**

Mission Position: The Mission concurs with the recommendation.

Explanation/Course of Action: The USAID/Ethiopia Commodity Manager is currently reviewing all documentation to verify the accuracy of the submitted loss and claim reports. REST has resubmitted an amended loss and claim report tracking schedule for FY 2000-2002 which rectifies duplicate loss reports. USAID has also corrected duplicate loss reports in its system. USAID will revise its tracking system to include a column to indicate the status of all loss claims.

Expected Closure: USAID/Ethiopia has already revised its commodity loss tracking schedule to exclude duplicate claim numbers 04-RES-01 and 03-RES-01. USAID/Ethiopia expects to revise its commodity loss tracking schedule to indicate the status of all the loss claims for monitoring purposes by January 31, 2004.

Monitoring of CRS' and REST's warehouses and distribution centers needed to be resumed.

- **Recommendation No. 5: We recommend that USAID/Ethiopia develop and implement a plan of action to resume site visits to the warehouses and distribution centers managed by Catholic Relief Services and Relief Society of Tigray, and correct the weaknesses noted in their warehouses and distribution centers.**

Mission Position: The Mission concurs with the recommendation.

Explanation/Course of Action: The audit report explains that “regularly scheduled and adequately performed monitoring of activities are good management tools...” However, due to the drought emergency in Ethiopia and the massive increase in Title II emergency food commodities reaching over 1 million MT for CY 03, USAID focused much of its commodity management on emergency food. The Mission strongly believes that monitoring of non-emergency development program activities is equally important and focus in this area will be increased.

The Mission has developed the following plan of action to place development food aid monitoring activities back on track. First, the Mission is currently interviewing candidates for two food monitor positions. Subsequent to the hiring and training of the new monitors, the USAID/Ethiopia Food and Humanitarian Assistance Office will schedule warehouse visits of each cooperating sponsor every three months to ensure proper management of food commodities and distribution of commodities to intended beneficiaries. Food and warehouse monitoring will be substantially improved with the planned (February 2004) implementation of a Lot Quality Assurance Sampling (LQAS) monitoring system which will track commodity management monitoring indicators through its statistical sampling conducted on handheld computers.

Upon receiving the draft audit recommendations, both CRS and REST submitted their own plan of action to rectify commodity management and warehousing problems identified in the report. REST recognizes the need for warehouse upgrading and has planned to repair and maintain warehouses in Mekelle and other program areas. The planned warehouse upgrading will both expand the current capacity and increase its quality. Repair and maintenance of warehouses is scheduled to be completed by the end of November 2003. As mentioned under recommendation 2, REST will begin on-the-job training in warehouse management and will send three senior staff members to a training that will discuss proper warehouse management.

Likewise, CRS is planning on-the-job training for warehouse staff to improve warehouse management results. Three senior CRS food monitors assigned to Dire Dawa, Tigray, SNNPR and Oromiya regions will travel to CRS warehouses to provide warehouse managers with training on store handling systems, commodity accounting, control ledger procedures, quality control, pest control, disposal of unfit commodities, and commodity status and recipient status reports (CSR and RSR) management. CRS is planning to

improve their in house food monitoring by scheduling more supervisory visits to distribution and warehouse sites of their implementing partners.

Expected Closure: USAID/Ethiopia will implement its plan of action to resume site visits to the warehouses and distribution centers managed by CRS and REST by February 1, 2004, after the hiring and training of new food monitors currently in process.

Catholic Relief Services' Commodity Loss and Claim Reports Dating Back to 1993

LOSS REPORT NO.	LOSS REPORT DATE	COMMODITY	ESTIMATED VALUE (USD) [Not Audited]	NATURE OF LOSS
261/93/ILTL3	03/24/93	Wheat grain	\$8,696	Short delivery
325/93/ILTL1	05/26/93	Wheat grain	\$9,740	Bags spoiled by rain water
326/93/ILTL1	05/26/93	Wheat grain	\$1,460	Rain water and short delivery
327/93/ILTL	05/26/93	Wheat grain	\$4,180	Infestation
77/96/PTL1	06/03/96	CSB (corn-soya blend)	\$5,296	Port interior
41/97/PTL2	02/28/97	Wheat grain	\$686	Port interior
50/97/PTL1	02/28/97	Rice	\$4,231	Port interior
51/97/PTL1	02/28/97	Pinto beans	\$2,506	200 bags missing
52/97/PTL1	02/28/97	Vegetable oil	\$1,520	Port interior
53/97/PTL1	02/28/97	CSB	\$5,721	Port interior
54/97/PTL1	02/28/97	CSB	\$3,922	Port interior
29/98/PTL3	04/28/98	Bulgur wheat	\$1,393	Missing
57/98/PTL3	07/27/98	Wheat grain	\$952	Port interior
92/99/WHL2	06/30/99	Wheat grain	\$1,088	Reconstitution
93/99/WHL2	06/30/99	Wheat grain	\$558	Reconstitution
97/99/WHL2	06/30/99	Wheat grain	\$559	Reconstitution
103/99/PIL2	06/30/99	Vegetable oil	\$7,303	Port interior
33/2000/WHL2	03/07/00	Wheat grain	\$2,790	Reconstitution
36/2000/WHL2	03/07/00	CSB	\$604	Reconstitution
91/2000/WHL2	03/02/00	CSB	\$22,492	Infestation
53/2001/WHL2	01/17/01	Vegetable oil	\$502	Leakage
89/2001/WHL2	03/26/01	Bulgur wheat	\$660	Torn bags
16/2002/WHL1	01/15/02	CSB	\$972	Infestation
36/2002/CTR1	07/25/02	Vegetable oil	\$778	Spilling
35/2002/CTR3	06/14/02	Wheat grain	\$544	Infestation
Total:			\$89,153	

Source: USAID/Ethiopia's Tracking Schedules (Year 1993-2001 and Year 2002)