

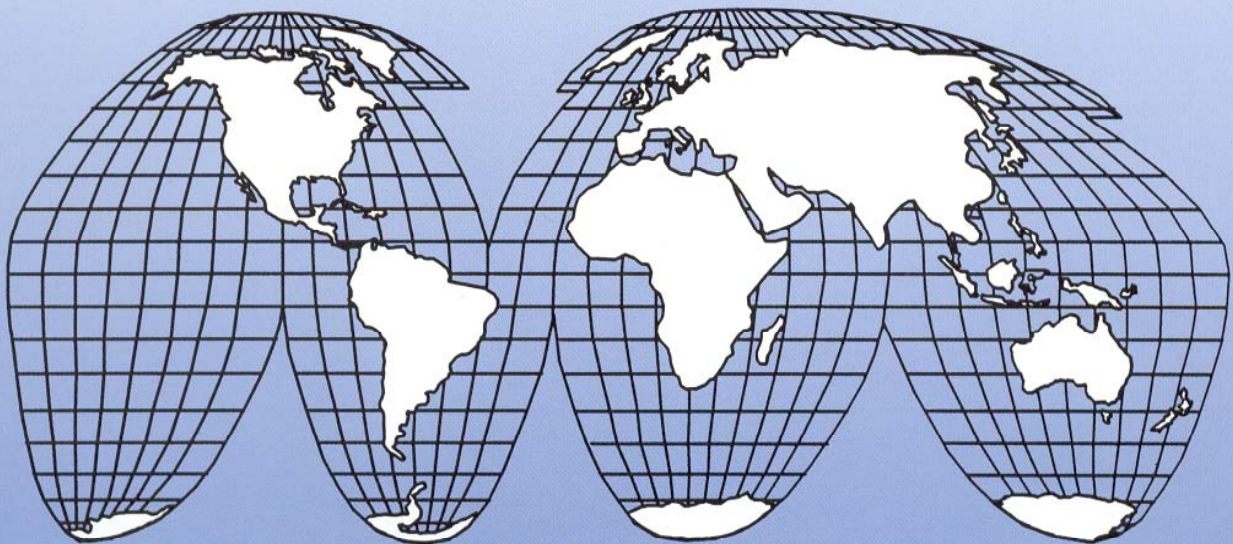
USAID

OFFICE OF INSPECTOR GENERAL

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

Audit Report Number 9-000-04-002-P

March 31, 2004



Washington, D.C.



March 31, 2004

MEMORANDUM

FOR: Lauren Landis, DCHA/FFP Director

FROM: Nathan S. Lokos, IG/A/PA Director /s/

SUBJECT: Audit of USAID's Distribution of P.L. 480 Title II Non-Emergency Assistance in Support of Its Direct Food Aid Distribution Program (Audit Report No. 9-000-04-002-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on our draft report and have included them as Appendix II.

The report contains one recommendation for corrective action. In your written comments, you concurred with the recommendation and provided evidence that appropriate action has been taken to address our concerns. Therefore, we consider that final action has been taken with regards to this recommendation.

I want to express my sincere appreciation for the cooperation and courtesies extended to my staff during the audit.

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Summary of Results

This report summarizes the results of fieldwork for four audits conducted at selected USAID operating units (i.e., missions) by the Office of Inspector General's (OIG) Performance Audit Division in Washington, D.C. and three of the OIG's Regional Inspector General offices. The audits were designed to determine whether the selected missions, through their monitoring activities, were ensuring that Title II non-emergency assistance programmed for direct food aid distribution activities was being delivered to the intended beneficiaries in accordance with existing agreements with cooperating sponsors. (See page 6.)

For the activities reviewed, all four of the selected missions were found to be monitoring their respective Title II non-emergency programs to ensure that food aid was being delivered to the intended beneficiaries. Missions, for example, were maintaining regular contact with the cooperating sponsors and generally conducting periodic field visits to their warehouses and distribution sites. In addition, records showed that missions for the most part were receiving required reports from the cooperating sponsors for review. Nevertheless, the audits identified several areas for improvement that prompted audit recommendations. Those areas fall into four main categories:

- ***Follow-up and Review of Commodity Losses:*** Missions were not always adequately following up and reviewing commodity loss claims to ensure claims were reviewed and resolved in a timely manner. (See page 7.)
- ***Tracking of Commodity Losses:*** Schedules maintained by missions for tracking commodity loss claims were not always accurate. (See page 11.)
- ***Performance of Site Visits:*** Site visits were not always performed on a regular or systematic basis and, at times, limited in scope. (See page 13.)
- ***Voluntary Contributions:*** A cooperating sponsor required beneficiaries to make "voluntary" contributions in exchange for their food rations and, in some cases, denied food to those who were unable to pay. (See page 15.)

In addition to the mission-specific corrective actions, there is also corrective action that the Bureau of Democracy, Conflict and Humanitarian Assistance's Office of Food for Peace (DCHA/FFP) can take to strengthen the monitoring of all Title II non-emergency programs. This report recommends that DCHA/FFP:

- issue guidance to its missions reminding them of the need to follow up and review commodity loss claim reports on a regular basis. (See page 10.)

DCHA/FFP concurred with the recommendation and provided evidence that it had issued guidance to missions addressing the auditors' concerns. Based on its response, we consider that final action has been taken on this recommendation.

Background

The Agricultural Trade Development and Assistance Act of 1954, also known as P.L. 480, is the statutory authority for the Food for Peace Program and the principal mechanism through which the U.S. Government implements its international food assistance initiatives. The intent of this legislation, which has been amended many times, is to promote food security in the developing world through humanitarian and developmental uses of food assistance. The bulk of the food aid provided under P.L. 480 is furnished under the Title II program in the form of (1) emergency and (2) development (or non-emergency) assistance.

This audit focused on the program's non-emergency, non-monetized¹ assistance which is used to mitigate food insecurity by promoting development projects that enhance household nutrition or increase agricultural production. This assistance is furnished through direct distribution programs—such as the Food for Work, Maternal/Child Health, General Relief, and School Feeding programs—and implemented through cooperating sponsors that include private voluntary organizations, non-governmental organizations and international organizations such as the United Nations World Food Program (WFP)².

In recent years, the food aid area has received increased attention from both the Executive and Legislative branches as evidenced by recent GAO audits as well as by the issuance of *The President's Management Agenda* which cited the reform of food assistance programs as one of the Administration's 14 priority initiatives. In light of this interest, the OIG performed a worldwide audit at selected USAID missions to determine whether USAID was adequately monitoring distribution activities to ensure that U.S. food aid is feeding targeted beneficiaries.

Audit Objective

The Office of Inspector General (OIG) conducted several audits as part of a worldwide audit of the distribution of P.L. 480 Title II non-emergency food assistance. (See Appendix III.) This report summarizes the results of these audits which were performed at USAID missions in four locations.³ Specifically, this worldwide audit was designed to answer the following question:

Did selected USAID operating units, through their monitoring and oversight, 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 scope and methodology.

¹ Some Title II assistance is monetized, or sold, with the proceeds used for development activities.

² The USAID/OIG does not audit WFP programs.

³ The four locations were Madagascar, Guatemala, Ghana and Ethiopia.

Audit Findings

Did selected USAID operating units, through their monitoring and oversight, 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?

For the activities reviewed, we determined that all four of the selected USAID operating units (i.e., missions) were monitoring their respective Title II non-emergency assistance programs to ensure that the food aid furnished under each was being delivered to the intended beneficiaries.

For example, mission staff appeared to be maintaining regular contact with the cooperating sponsors, meeting on at least a periodic basis to discuss various aspects of the Title II program while also conducting site visits to their warehouses and distribution centers. Additionally, records on file at the missions showed that the missions were generally receiving and reviewing required reports from the cooperating sponsors, including commodity call forward requests, commodity and recipient status reports, commodity loss claims reports and the cooperating sponsors' annual results report. The audit also verified during field visits that the cooperating sponsors had procedures in place for accounting for the receipt, storage and distribution of Title II commodities and observed the distribution of these commodities to the intended beneficiaries in each country.

However, the audits of the four missions identified several areas where the monitoring of program activities could be strengthened. For example, three of the four missions were not adequately following up and reviewing reported commodity losses. Moreover, two of these missions were not properly tracking such losses. In addition, site visits at two of the missions were not being performed on a regular basis and, in some cases, were too limited in scope. Additional monitoring was also needed at one mission to ensure that cooperating sponsors did not continue to deny food rations to program participants who were unable to pay a "voluntary" contribution. These areas are discussed below.

Procedures for Reviewing Commodity Losses Should Be Strengthened

Although commodity losses⁴ were generally being reported to missions by cooperating sponsors, three of the four missions audited were not adequately following up and reviewing those losses to ensure that commodity loss claims were processed in a timely manner and the U.S. Government's interests were protected as required by Regulation 11. For example, some reviews involved insufficient work to ascertain the propriety of the loss claims while other reviews were either deferred or not being performed at all. This was often due to a lack of

⁴ Commodity losses include losses resulting from damage, spoilage and theft that occur during transportation or storage once the food has reached the intended country.

understanding of the review process or a lack of available staff to allocate time to this task, particularly when faced with other priorities. This has resulted in a backlog of unresolved loss claims, some dating back to 1993, that are awaiting recovery and possible restitution to the U.S. Government.

Chapter 10 D.2.b of USAID's Handbook 9 (which provides interim policy guidance that will eventually be included in the Automated Directive System) assigns responsibility to USAID missions for reviewing reports of commodity loss or damage reported by cooperating sponsors. As part of this review process, missions are responsible for following up on reported commodity loss claims and urged to meet regularly with the cooperating sponsors to review the status of outstanding claims. Missions are also responsible for determining the validity or propriety of each commodity loss claim, including whether the loss or damage could have been prevented. If the cooperating sponsor is found to be responsible for the loss, USAID Regulation 11, Section 211.9(d) requires the cooperating sponsor to pay the U.S. Government for the value of any commodities lost or damaged, unless USAID determines that the loss could not have been prevented by proper exercise of the cooperating sponsor's responsibility.

Unfortunately, commodity losses were not always receiving proper and timely reviews. At three of the four locations audited, USAID missions were not adequately following up and reviewing commodity loss claims to ensure that these claims were processed and resolved in a timely manner. In Ghana, for instance, the Mission maintained a spreadsheet for tracking reported commodity loss claims, updating it based on new claims, but was not following up with cooperating sponsors to determine the status of the claims.



Photograph of preschool children receiving Title II food assistance under a school-feeding program in Ghana. (Langbinsi, Ghana, July 2003)

USAID/Madagascar, on the other hand, was not sufficiently reviewing reported commodity losses, particularly those from spoilage, to ascertain the underlying cause and determine the responsible party. In examining documents relating to two major commodity losses in 2002 involving the spoilage of 100,465 kilograms of food, the audit found no evidence that USAID/Madagascar had performed an independent analysis of the commodity or inventory records. While there had been much discussion between the Mission and the cooperating sponsor about the two losses, the Mission relied on the cooperating sponsor to research the circumstances surrounding each loss and provide an explanation. In Ethiopia, meanwhile, the Mission made a concerted effort to follow up on its loss claims, starting in 2001, but had claims filed prior to that year that were still unresolved.



Photograph of sacks of soya-fortified bulgur being stored at a warehouse in Madagascar. (Fianaratsoa, Madagascar, January 2003)

Commodity losses were not receiving adequate follow up and review, in part, because mission staff were unclear as to what was expected of them under Regulation 11. Staff at USAID/Ghana, for example, were unaware of the steps they needed to perform in order to follow up on reported commodity loss claims. USAID/Madagascar, meanwhile, was unclear as to the extent of review work required on its part to determine the validity of loss claims stemming from spoilage, often relying on the cooperating sponsor to research the circumstances surrounding these types of losses (rather than conducting its own independent analysis). Efforts to monitor and review reported losses were also sometimes deferred for an indefinite period due to other priorities. For example, when Ethiopia was hit with a major drought at the end of 1999, the Mission was forced to focus its efforts and staff time on implementing its emergency assistance program, reducing the monitoring of its development program, including efforts to follow up and resolve some of the Mission's older commodity loss claims.

This lack of coverage over commodity losses has resulted in a backlog of unresolved loss claims—including some that have remained outstanding for years—which are not being resolved in a timely manner, thereby delaying the recovery of funds due to the U.S. Government. For example:

- USAID/Ghana’s tracking records listed \$254,715 in unresolved commodity loss claims dating back to 1998.
- USAID/Ethiopia was found to have \$89,153 in unresolved commodity loss claims, including some dating as far back as 1993.

In addition to the above, the audit in Madagascar identified losses that were initially reported in March and April 2002, yet continued to remain unresolved at the time the report for that audit was issued in September 2003—18 months later. The reported losses involved 100,465 kilograms (100.5 metric tons) of corn-soya blend, valued at \$45,645, which were deemed unfit for consumption due to spoilage. At the time of the audit, in January 2003, a determination to assign responsibility for these losses was still pending with efforts by the Mission to reach a resolution appearing to be stalled due, in part, to the Mission’s reluctance to investigate the losses. After a review of the cooperating sponsor’s commodity inventory records, however, the audit revealed that these losses were clearly a direct result of commodity mismanagement by the cooperating sponsor. Records, for example, showed that the cooperating sponsor failed to take appropriate steps to ensure that inventory stocks were rotated out of the warehouses in a timely manner so as to avoid having food being stored beyond its 12-month shelf life.

To address the above issues and ensure that missions perform regular follow-up and adequate review of commodity loss claims, we recommend the following:

Recommendation No. 1: We recommend that the Bureau of Democracy, Conflict and Humanitarian Assistance’s Office of Food For Peace issue guidance to overseas operating units’ Food Security Officers on the need to follow up on commodity loss claim reports on a regular basis, perform sufficient review of the claims to determine responsibility for the commodity losses and ensure that unresolved claims are reviewed and addressed in a timely manner.

Audits also found that missions were not always adequately tracking commodity losses or performing regular site visits and identified one case where food was being denied to program participants who did not pay a “voluntary” contribution. While these findings are discussed in the remainder of this report, the report does not contain formal recommendations addressing those issues since the findings did not represent systemic problems among the countries audited and have been addressed individually by the missions involved.

Procedures for Tracking Commodity Losses Should Be Strengthened

Contrary to USAID policy, mission procedures were not always adequate to ensure that all reported commodity losses over \$500 were being properly tracked for monitoring purposes. This occurred because some missions were not properly maintaining the schedules used to track reported commodity losses. As a result, these records were not always accurate, thereby preventing the mission from effectively monitoring and following up on all open commodity loss claims.

Regulation 11, Sec. 211.9 (f) requires cooperating sponsors to provide USAID missions with a quarterly report listing any loss, damage or misuse of commodities totaling \$500 and above. The report must be provided within 30 days after the close of the calendar quarter and contain information such as: who had possession of the commodities, who might be responsible for the loss, damage or misuse, the kind and quantity of commodity, the contract number and an estimated value of the loss.

In addition, Chapter 10 D.2.b. of USAID Handbook 9 assigns responsibility to the USAID mission for reviewing the reports of commodity loss, damage and improper distribution submitted by the cooperating sponsors, including the actions taken by the cooperating sponsors for restitution or rectification. As part of this review process, missions are required under the Chapter to establish a system for following up on reported losses and claims. Specifically, the Chapter suggests the use of a ledger system for tracking reported losses along with regularly scheduled meetings with cooperating sponsors to review the status of outstanding claims.



Photograph of Maternal/Child Health beneficiaries waiting to receive their food rations at a distribution center in Madagascar. (Fianaratsoa, Madagascar, January 2003)

In Madagascar, for example, the Mission received a quarterly commodity status report from the cooperating sponsor containing information, in tabular form, on all commodity losses incurred during the period along with individual loss claims (for losses over \$500) with a separate claim number assigned to each claim. Once it received the report, the Mission posted these claims to a commodity loss claim worksheet for tracking purposes and for facilitating follow up and review.

The missions audited, however, did not always ensure that their records for tracking commodity losses over \$500 were accurate and complete. For example:

- In Madagascar, the audit identified nine commodity losses (each over \$500) totaling \$13,322 that had been reported by Catholic Relief Services (CRS/Madagascar) in its Quarterly Commodity Status Reports, covering the period from July 2001 to September 2002. These losses were not listed in the Mission's commodity loss tracking worksheet nor had a loss claim been filed for any of them.
- In Ethiopia, the audit found that a tracking schedule maintained by USAID/Ethiopia contained duplicate entries for two reported losses and did not indicate the status of outstanding loss claims.

These deficiencies existed, in part, because the missions involved were not always recording commodity loss data reported by cooperating sponsors and not properly maintaining the schedule used to track these losses. Mission staff in Madagascar, for example, stated that they only recorded and tracked those commodity losses associated with a commodity loss claim and were not checking to ensure that claims had been filed for all losses (over \$500) reported in the Quarterly Commodity Status Reports. In Ethiopia, the audit found that the Mission was not maintaining the tracking schedule for one of its cooperating sponsors on a regular basis since the Mission had not been ensuring that the cooperating sponsor reported its commodity losses in a timely manner. This was evidenced by a statement found in the schedule indicating that recorded claims had not been filed until recently (just prior to the audit) when the Mission started to collect loss reports requested from the cooperating sponsor for the period 2000 through 2002.

Without accurate and current records, missions are not able to effectively track all reported commodity losses (over \$500) and ensure that these losses are reviewed in a timely manner and restitution collected as appropriate.

To address this problem, the auditors recommended that the missions develop improved procedures for tracking reported commodity losses. These procedures included ensuring that the Mission's commodity loss tracking system covered all reported losses over \$500 (and were not limited to only those for which a claim had been filed) and periodically verifying the accuracy of the loss data posted to the tracking schedule against the cooperating sponsor's records.

Procedures for Performing Site Visits Should Be Strengthened

Although site visits were being performed at some missions as part of their monitoring of program activities, two of the four missions audited were not conducting these visits on a regular basis as required by USAID policy. This occurred, in part, because the missions were not conducting the visits under a structured monitoring plan and did not have written procedures specifying the frequency and scope of their site visits. As a result, these missions were less likely to identify potential problems affecting program activities in the field.

USAID Handbook 9, Chapter 9D states that mission oversight—essential to good food aid management—should include, among other things, procedures for performing regularly scheduled visits to distribution centers and warehouses. Site visits represent an important component of monitoring because they provide mission staff with an opportunity to personally observe the implementation of the program and identify issues and problems that can affect the program's success.

Two of the four missions audited were not performing their site visits on a regular basis, thereby reducing the effectiveness of these visits. For example:

- Staff at USAID/Madagascar were not performing site visits on a regular basis and often scheduled these site visits in conjunction with visits by the Regional Food Security Officer or when the Mission Director was interested in viewing a particular activity. In addition, these visits were often limited in scope, focusing on the inspection of warehouse conditions, with no analysis of the inventory and commodity distribution records.
- USAID/Ethiopia, in response to other priorities, temporarily stopped performing site visits to the warehouses and distribution centers of two cooperating sponsors beginning in October 2001 and had yet to resume these visits at the time of our audit fieldwork in August 2003.

Site visits were not being regularly and properly conducted, in part, because Mission monitoring procedures did not specify the frequency and scope of its site visits. Furthermore, officials at USAID/Ethiopia stated that staffing constraints played a role. For instance, site visits in that country had to be temporarily halted in October 2001 when Mission staff were busy performing their annual review of the cooperating sponsors' proposals prior to their submission to Washington, D.C. Even after this review was completed, staff continued to be occupied, shifting their focus back to the Mission's emergency food assistance program to address the drought crisis that was taking place within the country—resulting in further delays in the performance of site visits under the non-emergency food program.

By not performing site visits on a regular basis and under a structured monitoring plan, missions will be less likely to identify problems in the field and forced to rely increasingly on information furnished by the cooperating sponsors on their

activities. This reliance limits each mission's monitoring of program activities, allowing issues of potential importance to go unnoticed and unaddressed. Two such examples were identified in Madagascar.

- **Commodities Provided by Another Donor:** During the September 2002 initial distribution of non-emergency assistance under a Food For Work (FFW) program operated by the Cooperative for Assistance and Relief Everywhere (CARE) in Madagascar, CARE elected to include locally produced rice furnished by another donor in the activity's food ration in addition to the Title II commodities. Since this represented a deviation from the food mix originally authorized in CARE's proposal, prior Mission approval should have been obtained. While USAID/Madagascar officials claimed CARE never advised them of the rice or obtained prior approval, had a field visit been made to a distribution site during the initial round of activities, the distribution of the rice would have been apparent to the Mission and alerted them to the issue. The need to perform such visits was further underscored during a field visit to CARE's central warehouse in January 2003, at which time the auditors observed that some of the sacks of rice being stored there were becoming infested with insects. While CARE officials provided assurances that the rice would not be distributed in any FFP activities, it demonstrates how such issues—if allowed to go unnoticed or unaddressed—can have potentially adverse consequences on the success and reputation of the program.

- **Transfer of Commodities Between Districts:** USAID/Madagascar was also unaware of a major transfer of Title II commodities between districts undertaken by CRS/Madagascar under its Maternal/Child Health Program. Audit fieldwork disclosed that in late September 2002, CRS transported nearly all of the remaining stock in one of its district warehouses—approximately 74 metric tons of food commodities—to another district whose inventories were running low, causing severe food shortages at several distribution centers in the district from which the food was transferred. Although USAID/Madagascar was never informed of this transfer by CRS, we believe the Mission would have been in a better position to detect the transfer—a clear indication of commodity pipeline problems—during its site visits had it expanded its scope of work and included some analysis of inventory records while inspecting conditions at CRS warehouse facilities.

To assist missions in using site visits to more effectively monitor their programs and identify potential problems, the auditors recommended that missions develop a monitoring plan which includes procedures addressing the specific deficiencies identified at each mission. Since these recommendations were directed individually to the missions in their respective audit reports, this report does not contain a recommendation re-addressing this issue.

Food Denied to Beneficiaries That Did Not Make Voluntary Contributions

Beneficiaries receiving Title II food assistance under a Maternal/Child Health (MCH) program in Guatemala were required to pay a monthly “voluntary” contribution in order to receive their food rations and, in some cases, denied this food if the participants were unable to make this contribution.

This practice is contrary to USAID Regulation 11, Section 211.5(f) which states that “Commodities shall be distributed free of charge except as provided in paragraphs (j) and (k) of this section⁵ 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.*” [Emphasis added.]



Photograph of an infant being weighed at a Maternal/Child Health distribution center in Ghana. (Bongbini, Ghana, July 2003)

Under the MCH program in Guatemala, operated by CARE/Guatemala, program participants were required to pay a monthly contribution of 10 to 12 quetzals (approximately \$1.40) in exchange for their food rations. CARE officials explained that they were aware that these contributions were supposed to be voluntary. Nevertheless, they stated that all participants throughout the country had to pay the nominal fee—without exception—in order to offset the costs associated with transporting the commodities to the warehouse, regional community centers and communities. The officials claimed that these operational expenses were substantial and included payments to shipping companies and community laborers, as well as payments for supplies, such as bags, oil pumps and weighing scales.

CARE officials further asserted that fees cannot be made voluntary because if one participant did not have to pay the required fee, word of this would quickly spread

⁵ The exceptions in paragraphs (j) and (k) of 22 CFR Section 211.5 do not relate to this audit, as they pertain to monetization programs and the use of monetized proceeds and program income.

throughout the community and prompt other participants to demand to be exempt from paying the fee—resulting in no money being collected to defray expenses.

As a result of this practice, individuals who would otherwise be eligible to receive Title II commodities under the program are being turned away and denied this food if they do not make the required contribution. During a field visit, audit staff observed two instances where participants were refused food for this reason. The audit, however, could not estimate how many individuals were affected over the course of the program since records of the number of people denied food as a result of not making the contribution were not being maintained. Nevertheless, we believe the cooperating sponsor should desist from this practice since it violates Regulation 11 and could adversely impact the program’s ability to achieve its objective of improving health and reducing malnutrition.

To address this problem, the auditors recommended that USAID/Guatemala advise the CARE country representative that CARE cannot refuse food to individuals who do not make the voluntary contribution. In addition, the report indicated that the Mission needed to institute monitoring procedures to ensure this practice does not continue in the future.

**Management
Comments and
Our Evaluation**

In response to our draft audit report, the Bureau of Democracy, Conflict and Humanitarian Assistance’s Office of Food for Peace (DCHA/FFP) provided written comments that are included in Appendix II. In its response, DCHA/FFP concurred with the audit recommendation contained in the report and described action taken to address this recommendation. As evidence that this action had been completed, DCHA/FFP also furnished a copy of a cable recently issued to overseas operating units providing guidance to address the auditors’ concerns regarding the follow up and review of commodity loss claims. Based on this action, we consider that final action has been taken with regards to this recommendation.

Scope and Methodology

Scope

The audits discussed in this report were conducted by the Office of Inspector General's Performance Audit Division in Washington, D.C. (lead office) and the Regional Inspector General offices in El Salvador, Senegal and South Africa in accordance with generally accepted government auditing standards. The audits were performed in four countries: Madagascar, Guatemala, Ghana and Ethiopia.

In carrying out these audits, work was performed at the USAID mission offices in Antananarivo (Madagascar), Guatemala City (Guatemala), Accra (Ghana), and Addis Ababa (Ethiopia) and at the headquarters and field offices of the cooperating sponsors (CSs) and other implementing partners whose activities were selected for review. Fieldwork also included site visits to selected ports, warehouse facilities and food distribution sites within each country.

The purpose of this worldwide audit was to determine whether selected USAID missions and their CSs were monitoring and providing accountability over USAID-donated food commodities to ensure that Title II non-emergency assistance programmed for direct distribution programs had been delivered to the intended beneficiaries. The work in each selected country included looking at the movement of commodities from the port to the warehouses and distribution sites. The audit also included a review of management controls for monitoring distribution operations in the field. This review involved examining documents on file at the mission, such as the commodity status and loss reports, and ascertaining whether the mission maintained regular contact with the CSs and the frequency of site visits.

The fieldwork for these audits was conducted in:

- **Madagascar** – Antananarivo and various sites within Tamatave, Antsirabe and Fianarantsoa districts from January 7 to January 31, 2003.
- **Guatemala** – Guatemala City, Copán, Santa Cruz and Nebaj, from June 2 to June 27, 2003.
- **Ghana** – Accra and sites in the country's Northern, Central, Eastern, Greater Accra, Ashanti and Brong Ahafo regions from July 11 to July 25, 2003.
- **Ethiopia** – Addis Ababa, Dire Dawa, Nazareth, Mekelle, Degua Tembien, Were Lehe, Merib Lehe and Ahferom from July 28 to August 27, 2003.

The audit focused primarily on distribution operations relating to selected activities in the four countries. Approved quantities of USAID-donated commodities received under these activities in fiscal year 2002 included \$34.4 million in cornmeal, corn-soya blend, beans, lentils and vegetable oil. The audit specifically did not cover (1) Title II emergency assistance, (2) food aid distributed through the U.N. World Food Program and (3) non-emergency assistance provided for monetization purposes.

Methodology

This worldwide audit was based on the results of fieldwork performed at USAID missions in four countries. These countries were judgmentally selected based on the level of Title II non-emergency assistance received, prior audit coverage, types of development activities and other considerations.

To accomplish the audit objective, we initially gained an understanding of each country's direct food aid distribution program through discussions held with USAID mission officials, cooperating sponsors and their implementing partners and program beneficiaries. Based on these discussions, write-ups were prepared to document our understanding of different aspects of the commodity arrival, storage, distribution and reporting processes.

In reviewing each mission's management controls for monitoring food aid distribution activities, we examined a variety of documents on file at the mission, including correspondence, project proposals, trip reports, quarterly commodity status reports, commodity loss reports/claims and program results reports.

In addition, we also performed the following steps:

- Reviewed applicable laws, regulations, USAID policy and guidance, and written mission procedures related to the audit objective.
- Interviewed responsible mission officials and cooperating sponsor personnel, both at the headquarters and field level, concerning the following areas:
 - familiarity with the program, including types of records maintained;
 - procedures for monitoring and controlling the receipt, storage, movement and distribution of commodities;
 - frequency and scope of site visits and basis for selecting locations; and
 - process for accumulating and reporting data on program results.
- Performed site visits to selected ports, storage facilities and distribution sites where inventory records were examined and, in some cases, tested against existing inventory levels; also inspected storage facilities to determine whether appropriate safeguards were in place to protect stored commodities.
- Reviewed information on reported commodity losses to determine whether the mission tracked reported losses and reviewed the status of outstanding loss claims and whether the mission and cooperating sponsor took appropriate action to seek recovery for damaged, missing and spoiled commodities.

A materiality threshold was not established for this audit since it was not considered to be applicable given the qualitative nature of the audit objective which focused on assessing mission monitoring over program activities.

**Management
Comments**



**U.S. Agency for International Development
Bureau for Democracy, Conflict and Humanitarian Assistance
Office of Food for Peace
Washington, DC 20523-7600**

March 19, 2004

MEMORANDUM

TO: IG/A/PA, Director, Nathan S. Lokos

FROM: DCHA/FFP/D, Lauren R. Landis /s/

SUBJECT: Audit of USAID's Distribution of P.L. 480 Title II Non-Emergency Assistance in Support of its Direct Food Aid Distribution Program (Audit Report No. 9-000-04-00X-P)

This memorandum contains FFP comments in response to the subject report on the audit conducted by IG/A/PA on the worldwide P. L. 480 Title II Non-Emergency Direct Distribution programs.

FFP thanks you and your staff for this report and the effort that went into researching and preparing the document. FFP recognizes the value that this report provides in affirming the positive efforts of the field missions in monitoring Title II activities, while outlining specific steps that FFP can take to assist the missions to improve their operational oversight of Title II non-emergency distribution programs.

FFP concurs with the recommendation that the Bureau of Democracy, Conflict and Humanitarian Assistance's Office of Food for Peace issue guidance to overseas operating units reminding Food Security Officers of the need to follow up on commodity loss claim reports on a regular basis, perform sufficient review of the claims to determine responsibility for the commodity losses and ensure that unresolved claims are reviewed and addressed in a timely manner.

In response to the recommendation, FFP has issued a world-wide mission cable reminding missions of their responsibility to track and monitor the loss reports and follow up regularly on claims to ensure timely resolution and recovery of losses. Please see the copy of the cable (State 060421) attached. In addition, FFP will add a training segment on commodity loss monitoring and tracking to its Food Aid Management Course (FAMC) which is offered each year to FFP field and headquarters staff. This training will help to ensure that FFP officers understand their role and responsibilities in commodity management and enhance their knowledge and skills in monitoring, tracking and resolution/recovery of Title II commodity losses.

Cc: DA/DCHA, Roger Winter
DAA/DCHA, Garrett Grigsby

Clearances:

FFP/PT, A. Crumbly _____ Date _____
FFP/POD, J. Drummond _____ Date: _____
FFP/DP, P.E. Balakrishnan _____ Date _____
FFP/EP, D. Weller _____ Date _____
FFP/D, L. Landis _____ Date _____

**Reports
Issued on
Selected
Operating
Units**

Report No. 9-687-03-010-P, “Audit of USAID/Madagascar’s Distribution of P.L. 480 Title II Non-Emergency Assistance in Support of its Direct Food Aid Distribution Program,” September 24, 2003

Report No. 1-520-03-008-P, “Audit of USAID/Guatemala’s Distribution of P.L. 480 Title II Non-Emergency Assistance in Support of its Direct Food Aid Distribution Program,” September 26, 2003

Report No. 7-641-04-001-P, “Audit of USAID/Ghana’s Distribution of P.L. 480 Title II Non-Emergency Assistance in Support of its Direct Food Aid Distribution Program,” October 15, 2003

Report No. 4-663-04-002-P, “Audit of USAID/Ethiopia’s Distribution of P.L. 480 Title II Non-Emergency Assistance in Support of its Direct Food Aid Distribution Program,” November 21, 2003

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Summary of Selected Audit Recommendations

Recommendations	Madagascar	Guatemala	Ghana	Ethiopia
Commodity Losses – Follow-up and Review: Develop and implement procedures requiring the follow-up on all commodity losses (over \$500).	X		X	
Commodity Losses – Follow-up and Review: Make a determination and collect, as appropriate, the value of reported commodity losses (over \$500) relating to unresolved loss claims.	X		X	X
Commodity Losses – Tracking: Make a determination and collect, as appropriate, nine reported losses (over \$500) that were not recorded to the mission’s commodity loss tracking schedule.	X			
Commodity Losses – Tracking: (1) revise the commodity loss tracking schedule to exclude duplicate claims identified during the audit and indicate the status of all unresolved commodity loss claims for monitoring purposes; and (2) develop and implement procedures to verify the accuracy and completeness of the cooperating sponsor’s commodity loss reports.				X
Site Visits: Develop a monitoring plan that contains procedures (1) specifying the frequency of site visits and expanding the scope of work to include gaining an understanding of commodity inventory and distribution procedures as well as examining records and spot-checking a sample of recorded entries (Madagascar); and (2) providing a plan of action to resume site visits to the cooperating sponsors’ warehouses and distribution centers (Ethiopia).	X			X
Voluntary Contributions: (1) Notify the cooperating sponsor that it cannot refuse food to program participants that do not make a voluntary contribution and (2) implement a monitoring system to ensure compliance.		X		

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