



USAID
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Inspector General

**IMPLEMENTATION OF FOOD ASSISTANCE PROGRAMS
LESSONS LEARNED
FROM AN OFFICE OF INSPECTOR GENERAL PERSPECTIVE**



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EXECUTIVE SUMMARY

As the U.S. Agency for International Development (USAID) prepares to significantly expand food assistance programs across the world, it is particularly important for the Agency to reflect upon both the successes and challenges of past implementation efforts.

The Office of Inspector General has conducted a review of audits and investigations involving food aid programs over the past 8 years and is providing this report to share trends and lessons learned with current program implementers.

The review found four systemic issues that should be addressed in future food security programs: (1) management and oversight controls, (2) an inability to obtain appropriate data from implementing contractors to make decisions about the effectiveness of programs, (3) diversion of funds and other illicit acts, and (4) recovering losses once they are discovered.

This report contains details about the circumstances surrounding each of these issues, and it provides suggestions to improve the implementation of future food assistance programs.

We hope that the report is beneficial to program implementers, and we look forward to working with USAID as it addresses the critical issue of providing food assistance in the months and years ahead.

INTRODUCTION

As the U.S. Agency for International Development (USAID) prepares to expand its food assistance programs in light of recent natural disasters and economic and health-related crises worldwide, the Office of Inspector General (OIG) is providing this report to highlight problems uncovered during audits and investigations of programs implemented under Public Law (P.L.) 480.

Providing other nations with food assistance is a high priority of the administration, as President Bush has supported substantial funding increases for these programs. Food assistance will likely continue to be a priority of the administration and Congress in future years. It is OIG's responsibility to work with USAID to minimize the risk of food assistance funding being subject to misappropriation or waste.

This report summarizes significant findings from audits and investigations conducted from 2000 to 2008 and possible opportunities to improve program effectiveness for implementers of USAID food assistance programs.

By providing this information to USAID as it endeavors to address the new challenges that lie ahead, OIG hopes to help USAID to work proactively to prevent fraud, waste, and abuse in its food assistance programs.

REVIEW OF AUDITS AND INVESTIGATIONS

Between 2000 and 2008, the Office of Inspector General conducted 19 audits and 8 investigations of USAID programs implemented under P.L. 480. These activities, which primarily covered programs in Africa and the Latin America and Caribbean region, identified several recurring programmatic issues.

SIGNIFICANT AUDIT FINDINGS

Data Quality — Data quality problems were found in just over one-third of the audits conducted. In several instances, missions had not conducted quality assessments of data related to food assistance programs, and incomplete and inaccurate results had been reported to Washington. In the April 2008 audit in Rwanda, for example, the report cited several factors that contributed to problems with data quality, including lack of validation by cooperating sponsors, inconsistent monthly reports from feeding centers, limited data review by mission staff, and staff reductions at the mission.

Beneficiaries — In some cases, beneficiaries were denied food if they did not pay a nominal fee to cover administrative expenses. In others, feeding centers provided food rations to people who did not meet the age requirements stipulated in the subagreements. In the case of the P.L. 480 program in Guatemala, which was audited in September 2003, one sponsor was

requiring payments from recipients—in violation of Federal regulations—before they received food.

Cost Efficiencies — Several audits found practices that led to potentially higher costs that could have been avoided (e.g., relying on one buyer in food monetization programs versus open and competitive sales, and delays in obtaining import permits and licenses that led to increased storage and insurance costs). Personnel costs of a cooperating sponsor in Haiti, identified in a 2001 audit, ranged up to 73 percent of its operating budget. This same audit found that transportation costs had not been reviewed to determine whether internal or contracted transportation would have been more cost-effective. In addition, the audit found that storage and distribution costs were extremely high and that a review was needed to determine whether operations could be consolidated.

Site Visits — In approximately 40 percent of the audits conducted, problems were identified with either the frequency of or the procedures for conducting site visits. Site visits performed by the missions were limited in scope, were not performed systematically, or were not properly documented. In a February 2007 audit in Burkina Faso, the contractor did not know whether the schools in its school feeding program were being visited twice a year as required because no system existed to track those visits. OIG noted that the program was vulnerable to theft of the donated commodities.

Loss Claims — Missions did not track, review, or follow up on loss claims to ensure collection. At the time of the audits included in this review, more than \$340,000 in loss claims were outstanding and had not been resolved.

Cost Recovery — Missions did not have processes in place to measure actual cost recovery of monetized commodities. USAID policy requires that cooperating sponsors strive to achieve at least full cost recovery with each monetization transaction. Sales prices for monetized commodities determine the amount of resources that will be available for activities aimed at achieving food assistance impact. Accordingly, the difference between the costs associated with the purchase and transport of the commodity and the amount of proceeds generated represents the amount of resources not available for programming. In this respect, cost recovery benchmarks act as a measure of accountability, ensuring that monetization resources are used efficiently.

LISTING OF P.L. 480 AUDIT REPORTS 2000–2008

The following chart provides a summary of all P.L. 480 audits conducted during the review timeframe and their findings:

Mission/Report	Description of Findings	Types of Findings
USAID/Rwanda 4-696-08-003-P (April 30, 2008)	Feeding centers gave USAID-provided food rations to people who did not meet age requirements in subagreements.	Beneficiaries
	The performance management plan did not incorporate the mission's direct food aid distribution program.	Performance management plan
	Reported accomplishments did not meet data quality standards for integrity, precision, and reliability.	Data quality
Summary Report of Worldwide Audits 9-000-07-010-P (September 27, 2007)	Subgrantees did not use the USAID brand on projects funded with USAID monetization funds.	Branding
USAID/Burkina Faso 7-624-07-001-P (February 27, 2007)	A cooperating sponsor did not take action to help ensure that planned outputs were achieved.	Lack of action
	Reported results were not accurate or adequately documented.	Data quality
	A cooperating sponsor did not track monitoring visits.	Site visits
USAID/Mozambique 4-656-07-003-P (December 22, 2006)	The mission did not perform data quality assessments for its monetization program.	Data quality
	Site visits were not documented.	Site visits
USAID/Guatemala 1-520-07-002-P (November 27, 2006)	Only one commodity was monetized, rather than using a market basket approach.	Reliance on one commodity
	One large buyer was used, rather than open and competitive sales.	Lack of competition
	The contract, which shifted responsibility for losses from seller to buyer, was not enforced.	Contract not enforced
	Damages were not recovered from shipping company.	Damages not recovered
	Taxes retained by the host country could have been used to increase host country contributions.	Host country contributions
USAID/Haiti 9-521-06-010-P (September 28, 2006)	The strategic plan and performance management plan were not updated.	Performance management plan and strategic plan
Summary Report of Worldwide Audits 9-000-04-002-P (March 31, 2004)	The review of commodity loss claims was inadequate.	Loss claims
	Tracking schedules for commodity loss claims were inaccurate.	Loss claims
	Site visits were limited in scope and were not performed systematically.	Site visits
	Beneficiaries were denied food or required to pay.	Beneficiaries

Mission/Report	Description of Findings	Types of Findings
USAID/Ethiopia 4-663-04-002-P (included in summary report) (November 21, 2003)	The mission did not follow up to resolve a partner's commodity loss and claim reports.	Loss claims
	Commodity loss claims were not adequately reviewed.	Loss claims
	Partners' warehouses were not adequately monitored.	Site visits
USAID/Haiti I-521-04-001-P (October 20, 2003)	Personnel costs ranged from 48 percent to 73 percent of the cooperating sponsors' local operating budget. The high costs reduced the amount of available resources that could be used elsewhere. A personnel management survey should have been performed to determine the proper levels of staffing needed by each cooperating sponsor.	High personnel costs
	No formal review had been conducted to determine whether internal transportation or contracted transportation was more cost effective.	Transport costs
	Food storage and distribution costs were extremely high and varied among the cooperating sponsors. A review was needed to determine whether a duplication of efforts existed or consolidation of operations would be cost-effective.	Food storage and distribution costs
	Although there were general discussions, no specific agenda or plan was set for formal coordination, especially on administrative issues such as transport, food storage, personnel, and administrative maintenance.	Coordination
USAID/Ghana 7-641-04-001-P (included in summary report) (October 15, 2003)	Site visits were selected on a haphazard basis. No criteria, such as the type of food aid provided, the dollar value of the assistance, or the size of the beneficiary population, were used for the selection.	Site visits
	Data quality assessments were not conducted on the information reported in the annual report to Washington.	Data quality
	The mission did not follow up on the collection of outstanding claims for losses of P.L. 480 commodities.	Claims for losses
USAID/Guatemala I-520-03-008-P (included in summary report) (September 26, 2003)	Beneficiaries "voluntarily" paid a nominal fee to cover some of the administrative expenses before receiving benefits. However, some beneficiaries who had not paid a fee were refused benefits.	Beneficiaries
USAID/Madagascar 9-687-03-010-P (included in summary report) (September 24, 2003)	The mission was not performing site visits on a regular basis, and the visits that were conducted were often limited to inspecting warehouse conditions, with no review or analysis of inventory and commodity distribution records. If site visits had been conducted regularly, the mission would have avoided the following situations: <ul style="list-style-type: none"> • P.L. 480 commodities were substituted for locally produced rice. 	Site visits

Mission/Report	Description of Findings	Types of Findings
	<ul style="list-style-type: none"> The mission was unaware of commodity transfers among districts. 	
	The mission's advance requests for commodities were reviewed, but reviews were limited in scope and did not take into consideration the projected participation levels.	Commodity requests
	There was no followup action on the commodities loss claims. There was inadequate tracking of commodity losses.	Loss claims
Survey of Principal Processes 9-000-03-001-S (May 23, 2003)	No findings.	
USAID/India 5-386-02-003-P (August 29, 2002)	Recordkeeping problems were identified. Food labels did not specify that the food was donated by the United States. Some commodities were not stored properly.	Recordkeeping, branding, and poor storage conditions
	Food was detained by the host government because of concerns about genetic modification.	Increased storage and insurance costs
USAID/Haiti I-521-02-006-P (January 28, 2002)	Sites for inspection were not randomly selected.	Site visits
USAID/Peru I-527-00-002-P (May 5, 2000)	Reported results were inaccurate.	Data quality
	Data quality was not assessed on indicators.	Data quality
	There were no targets for USAID's results from P.L. 480 funds.	Targets
	Pending loss claims were not yet resolved.	Loss claims
USAID/Peru I-527-00-003-P (May 5, 2000)	There was no plan for the number of site visits to be conducted by Foreign Service national staff.	Site visits
	Nine of fifteen results reported by cooperating sponsors were inaccurate. The mission did not ensure that sponsor had effective procedures to check reliability of results. The mission needed to verify results reported for 2000 and 2001.	Data quality
USAID/Washington (site visits to Kenya and Uganda) 9-000-00-002-P (March 29, 2000)	USAID did not have a process in place to measure actual cost recovery.	Cost recovery
	USAID did not have a system in place to track actual cost recovery.	Cost recovery
USAID/Guatemala I-520-00-001-P (January 21, 2000)	Cooperating sponsors' quarterly loss reports were inconsistent.	Loss reports
	No formal assessments was conducted on the storage, care, and handling of commodities by participating organizations.	Assessments on storage and handling

SIGNIFICANT INVESTIGATIONS

Over the past 8 years, OIG has conducted several investigations of alleged fraud related to USAID's food assistance programs. The following issues were identified in two recent investigations, which the Agency should address as it implements food assistance programs in the future.

Insufficient Management Controls — OIG is concerned about overall management controls put in place by contractors to ensure that subcontractors are not diverting resources. Although actions have now been taken as a result of our investigations to put more stringent oversight procedures in place, there still may be other opportunities for fraud in future implementation efforts.

Incomplete and Delayed Reporting of Losses — Initial reports of losses to OIG, which were made almost a year after the prime contractor was notified about the discrepancies, did not include estimates of the cost of the missing commodities. Four months later, OIG was notified that nearly \$900,000 worth of commodities had been diverted, thereby delaying the discovery of the seriousness of these losses.

Significant Percentages of Commodities Being Diverted — In one instance, more than 90 percent of commodities were not delivered to their intended beneficiaries. According to an independent auditor hired by the contractor, most of the beneficiary lists appeared to be fictitious and some distributions were reported to have been made to nonexistent locations.

Falsification of Documents — Investigative efforts by USAID OIG and Immigration and Customs Enforcement identified particular supervisors employed by a subcontractor who directed the creation of fictitious names and the use of employees' own thumbprints on beneficiary lists in order to create the illusion of proper distribution of food. Employees interviewed said they believed that most of the documents in the company's distribution files were fabricated, and they said that they were instructed to sign for deliveries that were missing as much as 50 percent of the commodities.

Attempted Bribery — OIG investigators learned that a former security guard associated with a subcontractor had witnessed company employees documenting false quantities of food being loaded onto delivery trucks and had been offered a bribe to remain quiet about the activities. The former guard suspected that commodities were being sold on the black market.

Attempted Intimidation of Implementing Personnel — When one contractor initiated an internal investigation into suspected commodity diversion, the contractor's staff members received phone calls and text messages attempting to intimidate them, in some cases threatening death if the investigation continued. In this instance, the threats are being investigated by local authorities.

CONCLUSION AND AREAS FOR EXAMINATION

Although the examples provided in this report reflect only a portion of our work in this area, we feel that they can effectively be applied to food assistance programs worldwide. Greater attention to oversight and preventing fraudulent schemes involving food aid will be essential as USAID prepares to implement programs with both existing and supplemental funding. In light of the types of problems identified in OIG's audits and investigations, USAID might want to consider the following suggestions to avoid recurring issues:

Security and Control Policies — Conduct an assessment of overall security and control policies for Food for Peace programs to determine if there any improvements that could be implemented globally to reduce the risk of fraudulent activity.

Competition and Efficiency — Expand competition for food distribution services and review contractor operations to determine whether activities can be conducted more efficiently.

Contractor Responsibility — Hold contractors responsible for preventing loss of funds and commodities by developing specific requirements (e.g., through bonding or by requiring security and internal management procedures as part of the contract) to be placed on contractors through the procurement process.

Continuing Oversight — Conduct frequent area site visits to detect and discourage thefts of commodities and ensure that the visits are random and unannounced.

Performance Data — Take steps to verify the performance data being received from cooperating sponsors.

Recovery of Funds — Routinely follow up on loss claims to recover funds and put procedures in place to ensure that cooperating sponsors achieve full cost recovery on monetization transactions.

These are just a few of the areas that USAID might examine as future food assistance programs are implemented throughout the world. The Office of Inspector General hopes that the report is beneficial to program implementers and looks forward to working with USAID as it addresses critical issues related to food assistance in the months and years ahead.