

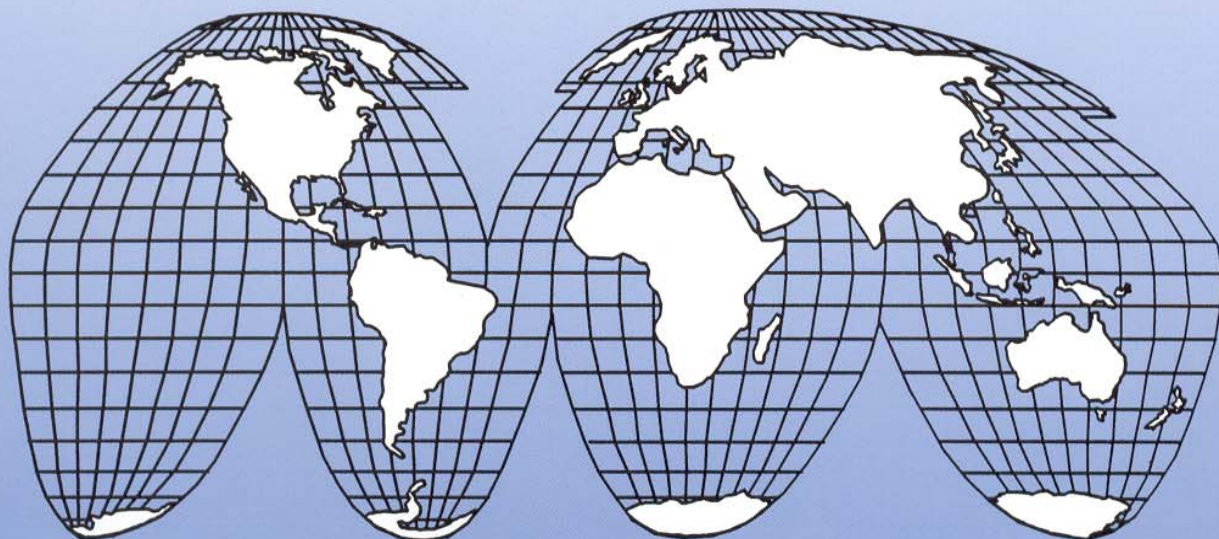
USAID

OFFICE OF INSPECTOR GENERAL

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

Audit Report Number 9-687-03-010-P

September 24, 2003



Washington, D.C.



September 24, 2003

MEMORANDUM

FOR: Mission Director, USAID/Madagascar, Stephen M. Haykin

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

SUBJECT: Audit of USAID/Madagascar's Distribution of Public Law 480 Title II Non-Emergency Assistance in Support of Its Direct Food Aid Distribution Program (Report No. 9-687-03-010-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 in their entirety as Appendix II.

The report contains four recommendations for corrective action. Two of the recommendations are procedural in nature and the remaining two involve potential monetary savings. Based on your written comments in which you concurred with the recommendations and provided a description of planned actions to address our concerns, we consider that management decisions have been reached on all four recommendations. Moreover, we also noted that you concur with the reported potential savings of \$45,645 related to commodity spoilage losses. Information related to your final action on these recommendations should be provided to USAID's Office of Management Planning and Innovation.

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

[This page left intentionally blank]

Table of Contents

Summary of Results 5

Background..... 5

Audit Objective 6

Audit Findings..... 7

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

 Improvements Needed in Performance of Site Visits..... 7

 Improvements Needed in Review of Commodity Requests Received From Cooperating Sponsors..... 11

 Improvements Needed in Review and Followup of Reported Commodity Losses 14

 Management Comments and Our Evaluation..... 19

Appendix I - Scope and Methodology..... 21

Appendix II - Management Comments 23

[Page left intentionally blank]

Summary of Results

For the areas reviewed, we determined that USAID/Madagascar was monitoring activities under its Public Law 480 Title II non-emergency assistance program to ensure that food aid was being delivered to the intended beneficiaries. However, in order to more effectively monitor its activities and identify potential problems, the Mission needs to strengthen its procedures in certain areas. Specifically, the Mission needs to improve its procedures for performing site visits, reviewing commodity request reports, and following up on commodity losses. (See page 7.)

Site visits were not being performed on a regular basis and were often limited in scope to inspecting warehouse conditions with no review or analysis of inventory and commodity distribution records. Without a comprehensive program of field visits to food distribution sites and warehouse facilities, the Mission is forced to rely on cooperating sponsors to inform it of their Title II activities. As a result, various issues of importance to food assistance in Madagascar have gone unnoticed and unaddressed by USAID/Madagascar. (See pages 7 through 10.)

In addition, the Mission's procedures for reviewing cooperating sponsors' commodity requests did not adequately ensure that the quantities of commodities requested were appropriate in relation to all aspects of the Title II program. Reviews of call forwards (used to request commodities) focused on the cooperating sponsors' ability to distribute and store the requested commodities, but did not compare these amounts with projected program participation levels. Program success is jeopardized when program commodities are insufficient or unavailable to support the size of the program. (See pages 11 through 13.)

USAID/Madagascar also did not consistently review program commodity losses in order to assign responsibility for those losses and recoup the value of the lost or damaged commodities. Although commodity losses due to such events as theft had been readily resolved, those due to commodity spoilage had not been accorded independent or timely Mission review of the circumstances to determine the responsible party. (See pages 14 through 19.)

This report includes four recommendations to address the above problem areas. The Mission concurred with the audit recommendations and acknowledged the need to strengthen its internal procedures in certain areas to more effectively monitor commodity and program activities. Based on the Mission's response, we consider that management decisions have been reached on all four recommendations.

Background

The Agricultural Trade Development and Assistance Act of 1954 (Public Law 480), as amended, is the statutory authority for the Title II Food for Peace Program (FFP). 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 Madagascar is administered by USAID/Madagascar's Office of Health, Population and Nutrition. The Cooperative for Assistance and Relief Everywhere (CARE) and Catholic Relief Services (CRS) participate as cooperative sponsors in the implementation of USAID/Madagascar's Title II direct food aid distribution program activities. These FFP-supported activities are under the Mission's strategic objective to reduce high levels of child mortality and malnutrition.

At the time of our fieldwork, in January 2003, CARE was managing a Food for Work (FFW) project located primarily in the vicinity of Antananarivo—the capital of Madagascar. Approved quantities of USAID-donated commodities for this project in fiscal year 2002 included \$1.27 million in cornmeal, corn-soya blend, navy beans, lentils, and vegetable oil. CARE's FFW project primarily involved labor-intensive activities to rehabilitate irrigation canals to alleviate flooding during cyclones and the rainy seasons, as well as to rehabilitate urban infrastructure, such as sidewalks along these canals.

In addition, CRS was operating two direct food distribution programs including a General Relief project and a Maternal/Child Health (MCH) project. The General Relief project was being implemented in several regions of the country with approved quantities of USAID-donated commodities in fiscal year 2002 totaling \$187,100 in bulgur and vegetable oil. The MCH project was being implemented in the same regions with approved quantities of USAID-donated commodities in fiscal year 2002 consisting of \$1.89 million in corn soya blend, bulgur, and vegetable oil. It should be noted that this MCH project was being phased out in fiscal year 2003 and replaced with a FFW program to be implemented in some—but not all—of the same regions of the country as the MCH project.

Audit Objective As part of its fiscal year 2003 audit plan, the Office of Inspector General's Performance Audits Division conducted this audit to answer the following objective:

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

This audit was the pilot for a series of audits conducted worldwide of USAID's non-emergency direct food aid assistance. As such, the audit specifically did not address other food aid programs such as emergency food aid or monetized food assistance.

Appendix I describes the audit's scope and methodology.

Audit Findings

Did USAID/Madagascar, through its monitoring and oversight activities, ensure that Public Law 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 areas reviewed, we determined that USAID/Madagascar was, indeed, monitoring activities under its Title II non-emergency assistance program to ensure that the food aid furnished under this program was delivered to the intended beneficiaries. The Mission, however, needs to strengthen its procedures in certain areas in order to more effectively monitor program activities and identify potential problems. Specifically, the Mission needs to improve its procedures for performing site visits, reviewing commodity request reports from cooperating sponsors, and reviewing commodity losses.

In performing this audit, we focused on the distribution of Title II non-emergency assistance under two programs: the Maternal/Child Health (MCH) program implemented by Catholic Relief Services (CRS) and a Food for Work (FFW) program managed by the Cooperative for Assistance and Relief Everywhere (CARE). In reviewing USAID/Madagascar's oversight of these two programs, we determined that the Mission was providing coverage over both. For example, the Mission appeared to be maintaining regular contact with the two cooperating sponsors, receiving quarterly commodity status and loss reports, performing site visits to some of the activity sites, and receiving and reviewing annual results reports. We also noted that during several site visits the Mission's food security personnel performed detailed inspections of warehouse facilities used to store Title II food commodities and were instrumental in bringing about improvements in the overall conditions and security safeguards in place at several distribution sites. In addition to the monitoring performed at the mission level, we verified that the Mission's cooperating sponsors had procedures in place for accounting for and monitoring the receipt, storage and distribution of Title II commodities to the beneficiaries.

However, the audit did find that the level of oversight was not always adequate and identified a series of problems within the program that the Mission either was not aware of or had not taken adequate action to address. These monitoring deficiencies are associated with (1) insufficient numbers of site visits and the need to expand the scope of site visits that are performed, (2) inadequate review of commodity requests received from cooperating sponsors, and (3) inadequate review and tracking of reported commodity losses.

Improvements Needed in Performance of Site Visits

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. Nevertheless, USAID/Madagascar was not performing site visits on a regular basis, and those visits that were made were often limited to inspecting warehouse conditions—with no review or analysis of inventory and commodity distribution records. This situation occurred because the Mission's monitoring procedures did not specify the frequency and scope of these visits. Without a comprehensive program of field visits to food distribution sites and warehouse facilities, the Mission is forced to rely on information furnished by the cooperating sponsors on their Title II activities. As a result, various issues of importance to food assistance in Madagascar—such as those discussed below—have gone unnoticed and unaddressed by USAID/Madagascar.

Inclusion of Additional Commodity Furnished by Another Donor - CARE/Madagascar initiated a deviation from its USAID-approved Title II activities by substituting locally produced rice for Title II commodities, and there is no evidence USAID/Madagascar staff were aware of this change or had approved it. If any site visits had been made to this new program, Mission officials would have been aware of this substitution and been able to determine whether corrective action was necessary.

CARE's initial round of work activities under its FFW Program, involving the distribution of Title II non-emergency commodities, commenced in September 2002 and continued through December 2002. During this period, CARE elected to modify the food ration distributed to its beneficiaries to include some locally purchased rice that had been furnished by the French donor agency. This rice was originally intended for an emergency activity but was delivered too late for that activity. With the inclusion of the rice, CARE reduced the quantity of Title II commodities in the food ration so as to maintain the caloric value of the new ration at a level comparable to that of the approved ration, allowing it to "stretch" the Title II food so that it could be distributed over a longer period to more beneficiaries. At the time of our visit to CARE's central warehouse in Antananarivo, in January 2003, CARE still had approximately 50 metric tons of this rice in its inventory and at least some of it was observed to be infested with insects. CARE officials reported that the rice would be distributed the following month in connection with non-FFP emergency relief activities.

When this was brought to their attention during the audit, USAID/Madagascar food security officers indicated that they were unaware that rice had been included in the FFW ration and claimed CARE never advised the Mission of this nor obtained prior approval. CARE/Madagascar disputed this and claimed *verbal* approval was obtained for this decision. Regardless, given the fact that the inclusion of the rice from another donor in the food ration represented a departure from the food mix authorized under CARE's USAID-approved Development Project Proposal (DPP), CARE should have obtained approval *in writing* from USAID/Madagascar. Inclusion of non-program commodities of questionable

quality in USAID's Title II activities could have highly adverse consequences for the success and reputation of the program.

We also learned that USAID/Madagascar staff had not performed any site visits to CARE's distribution sites during the initial round of FFW distributions of non-emergency assistance (September 2002 – December 2002). This occurred, in part, because the Mission, rather than conducting visits on a regular basis, often scheduled these visits in conjunction with field trips by the Regional Food Security Officer when he visited the Mission or when the Mission Director was interested in viewing an activity. Since this FFW project represented a new activity and was taking place in the capital city, we would have expected at least one site visit to observe the distributions and ensure that they were proceeding smoothly. Had such a visit been made, it would have been apparent to the Mission that rice was being distributed with the other Title II commodities and alerted them to the issue.

USAID Uninformed of Major Transfer of Commodities Between Districts - CRS/Madagascar undertook a major geographical reallocation and shifting of Title II commodities without the knowledge of USAID/Madagascar. The audit disclosed that in late September 2002, CRS transported nearly all of the remaining stock in its Fianaratsoa district warehouse—approximately 74 metric tons of commodities—to its district warehouse in Tamatave for distribution in that district in October 2002. These commodities had only arrived in Fianaratsoa one month before and were part of a shipment intended to provide Title II commodities to that district for three months. CRS/Fianaratsoa officials explained that the Tamatave District desperately needed the commodities and they expected that the commodities would be replaced in Fianaratsoa in early October from new shipments arriving in country through the port in Tamatave. The officials could not explain why new commodities arriving in early October could not have been taken directly from the port in Tamatave to CRS's warehouses in Tamatave—thereby negating the need for this commodity transfer. Transport of commodities to Fianaratsoa is difficult with the country's poor roads, periodic unavailability of transport vehicles, and Fianaratsoa's location in the center of the country.

CRS officials explained that the Fianaratsoa District Office was supposed to have ensured that all of its distribution centers had substantial inventories on hand for October's distribution before its warehouse was emptied and the commodities transported back across the country. However, some of the distribution centers inexplicably had no commodity inventories at the end of September and others did not have enough for their October distribution. It should also be noted that centers in neighboring Antsirabe district enroute from Fianaratsoa to Tamatave also had insufficient stocks of program commodities in September 2002 as these rerouted commodities were transported through this district back to Tamatave.

Ultimately, new supplies of vegetable oil were not received in Fianaratsoa until late October and soy fortified bulgur (SFB) and corn soya blend (CSB) did not

arrive until late November (and were not distributed to the centers until early December). As a result, at least several Fianaratsoa district centers were severely impacted by the absence of commodities to distribute in October and November while their allotted share of program commodities were being distributed in Tamatave in October. It should be noted that Tamatave later received new shipments of Title II commodities in November 2002.



Photograph of stacks of soya-fortified bulgur stored in a CRS warehouse. (Fianaratsoa, Madagascar, January 2003)

CRS never informed USAID/Madagascar of this major realignment of program resources although both claimed to be in close communication about the implementation of the Title II program in Madagascar. When told about the commodity transfer, USAID food security personnel expressed surprise at its size and stated that the Fianaratsoa district was one of the poorest districts in Madagascar. CRS officials point out that there is no requirement to inform USAID when such a realignment of commodities occurs. Nevertheless, it is difficult to understand how an event having such a major impact to the program—and clearly indicating commodity pipeline problems—would not be considered of interest to USAID. Furthermore, we believe the Mission could have been in a better position to detect this realignment during its site visits had it performed some analysis of the inventory records while inspecting conditions at CRS and partners' warehouses.

CRS correctly pointed out that it (or its partners) had paid all in-country transportation costs, including the cost of moving these commodities. But given the fact that CRS's new Food for Work program is expected to include USAID funding for in-country transportation, it is imperative that the Mission be aware of similar

transfers of commodities in the future since such transfers could result in unnecessary USAID-funded expenses. (See Recommendation No. 1 on page 13.)

Improvements Needed in Review of Commodity Requests Received From Cooperating Sponsors

USAID Handbook 9, Chapter 9C(2)(a), prescribes the procedures cooperating sponsors are to follow in requesting commodity shipments and requires that these requests (i.e., call forwards) be submitted to the USAID Mission for review and clearance. USAID/Madagascar's procedures for reviewing call forwards, however, were limited in scope and focused on the cooperating sponsors' ability to distribute and store the requested commodities and did not compare requested amounts with projected participation levels. Program success is jeopardized when commodities are insufficient or unavailable to support the size of the program.

During the audit, we noted a sharp discrepancy between the level of beneficiary participation and the amount of commodities called forward by CRS/Madagascar for the first quarter of fiscal year 2003 (October - December 2002). The quantity of commodities called forward for this quarter—requested in April 2002—was calculated to provide enough food for the Maternal/Child Health Program (MCH) for approximately 26,584 beneficiaries per month. MCH participation rates, however, had sharply escalated from approximately 24,000 in March 2002 to 51,461 in September 2002. CRS/Madagascar's country representative explained that this sharp increase was unexpected and was primarily due to the country's political crisis, which pushed more and more people into the ranks of the malnourished as it progressed. Reportedly, the extent of the problems caused by the political crisis was not foreseen in April 2002 and CRS officials were stunned by the eventual doubling of the number of beneficiaries during this period.



Photograph of CRS Maternal Child Health beneficiaries waiting to receive rations. (Fianaratsoa, Madagascar, January 2003)

Undoubtedly, Madagascar's political crisis was a major contributor to the increased level of program participation, but our analysis of available documentation indicates that this acceleration in the program was planned and an integral part of the program strategy rather than an unexpected surprise.

For example, CRS internal correspondence between April and July 2002 documented a major push by the cooperating sponsor to add more villages, hire more health workers, augment rations, and extend the participation by those already in the program. The stated goal of this push was eliminating commodity inventories by September 2002 and increasing program participation—despite the political crisis creating a natural promotion of the program.

This correspondence, however, does not indicate how CRS planned to transition the expanded program going into October 2002 at which time the commodity supply would no longer be able to support the large beneficiary numbers. In April 2002, CRS submitted a call forward request (requesting commodities scheduled to arrive in October 2002) which included information on the projected disposition in the intervening months of existing commodity inventories and commodities already enroute to Madagascar. We determined that this call forward projected distribution levels totaling an average of almost 35,000 MCH beneficiaries per month from April to September 2002—a sharp increase from the March 2002 level of 24,000¹. It is difficult to see how the request in the April 2002 call forward—enough to feed only 26,584 beneficiaries starting in October 2002—would be sufficient without having to resort to drastic action to reduce program participation at the start of fiscal year 2003. In short, information in the call forward shows a total disconnect between projected beneficiary levels and the quantities being requested as illustrated in Figure 1.

¹ A much higher participation rate was also necessary for CRS/Madagascar to meet its annual MCH target of an average of 28,475 beneficiaries per month—as was its stated intention. Program participation would have had to escalate sharply in April-September 2002 to offset the 16,000 to 24,000 level experienced in the first half of fiscal year 2002. Rather than being an unexpected surprise, the rapid increase in program participation was actually CRS's goal if it was to meet its annual target.

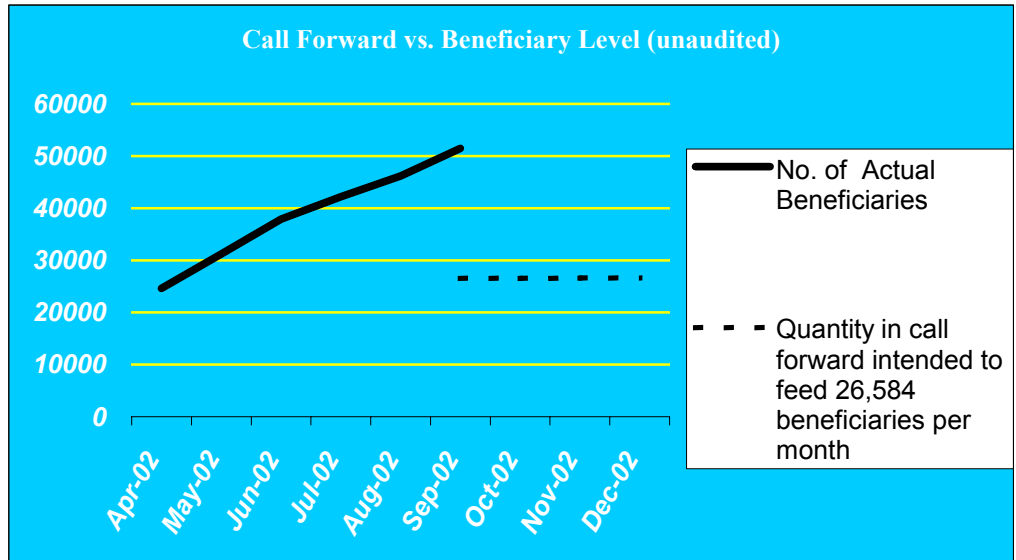


Figure 1: Chart illustrating the disparity of the April 2002 call forward compared with the sharply increasing program size as reported by CRS.

Although USAID/Madagascar reviewed and approved the CRS call forward and even asked questions concerning CRS's ability to use preexisting stockpiles of commodities, there is no evidence that the Mission analyzed in any detail the data in the call forward or noted the discrepancy in CRS's call forward request between the level of program participation they were creating and the quantity of commodities being requested to support the program. This occurred because the Mission's monitoring procedures did not require that such an analysis be performed. While there was an obvious need in this case to use preexisting stocks of commodities as quickly as possible, USAID had a duty to ensure CRS had a logical plan for a smooth transition to a smaller program in fiscal year 2003—the final year of the program. Without such a plan, the program faced the need to abruptly turn away large numbers of beneficiaries and, in some cases, suddenly close some of its distribution centers as a result of having insufficient Title II commodities.

Recommendation No. 1: We recommend that USAID/Madagascar develop a formal food assistance monitoring plan that includes procedures for: (a) specifying the frequency of site visits based on assessed risk and expanding the scope of work done to include gaining an understanding of pertinent commodity inventory control and distribution procedures, as well as an examination of records at the site and testing a sample of recorded entries; and (b) requiring the submission and review of data supporting call forward requests and the analysis of this data to ascertain whether quantities requested are considered reasonable.

Improvements Needed In Review and Follow-up of Reported Commodity Losses

USAID/Madagascar's systems and procedures for reviewing commodity losses to ensure that recovery claims are filed and for tracking these losses need to be revised to ensure that the U.S. Government's interests are protected as required by Regulation 11. For example, rather than independently reviewing commodity losses stemming from factors such as spoilage, the Mission largely leaves such reviews to cooperating sponsors to research and explain. In addition, the Mission's tracking system for commodity losses only tracks losses for which the cooperating sponsors have elected to file claims rather than all losses over \$500. As a result, some commodity loss claims are not being prepared or pursued, and others are not being resolved in a timely or satisfactory manner.

Commodity Losses Not Properly Reviewed - USAID/Madagascar has not consistently reviewed program commodity losses in order to assign responsibility for the losses and recoup the value of the lost or damaged commodities. Although commodity losses due to theft had been readily resolved, losses due to commodity spoilage—as described below—had not been accorded independent or timely Mission review of the circumstances to determine the responsible party.

CRS/Madagascar filed commodity loss reports associated with two different shipments—packing lists for (PL) 613 and 609—where portions of the shipments of corn-soya blend (CSB) were found to be unfit for consumption before all the CSB could be distributed. CSB has a shelf life of approximately 12 months. As shown in the table below (Figure 2), loss reports filed by CRS for these two shipments from March to August 2002 consisted of a total of 100,465 kilos (100.5 metric tons) valued at \$45,645. At the time of our audit in January 2003, the resolution of responsibility for these losses was still pending.

Commodity Loss Reports Filed by CRS/Madagascar (unaudited)					
PL 613			PL 609		
Month	No. of kilos	Value	Month	No. of kilos	Value
March 2002	6,170	\$2,766	April 2002	2,090	\$1,022
August 2002	78,010	\$34,912	August 2002	14,195	\$6,945
Total	84,180	\$37,678	Total	16,285	\$7,967

Figure 2: CRS/Madagascar reported commodity losses stemming from spoilage totaling 100,465 kilos of corn-soya blend valued at \$45,645 from March to August 2002.

Our review of CRS commodity inventory and distribution records indicated that the losses were clearly a direct result of CRS commodity mismanagement. In the

case of PL 613, CSB from that shipment remained in the warehouse in the port city of Tamatave for over 7 months after its arrival in Madagascar while that warehouse, following first-in, first-out (FIFO), issued inventory from a previous shipment of CSB to the various distribution sites in the Tamatave district. During many of these same months, five other district warehouses around the country had no CSB in stock and could easily have distributed CSB from PL 613 to beneficiaries in their districts. In addition, when these outlying districts finally did receive more CSB, it was from shipments that had recently arrived in Madagascar instead of from the aging PL 613 stock. As a result, 11 months after the arrival of PL 613 CSB in Madagascar, CRS began to see evidence of spoiling. A timeline depicting distribution of PL 613 from port delivery to reporting of commodity loss is presented in Figure 3.

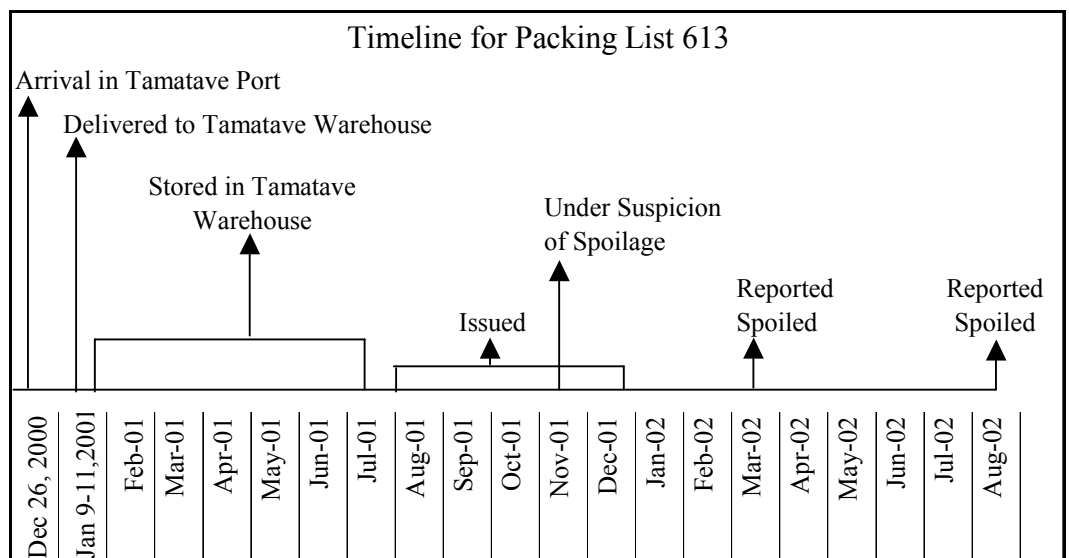


Figure 3: A timeline of packing list 613 is shown above to emphasize the length of time from the arrival of the corn-soya blend on December 26, 2000, until it was distributed in August 2001. The commodity was partially distributed from August to December 2001 even though suspicion of spoilage was reported in the month of November. In March 2002, CRS/Madagascar filed a commodity loss report to USAID/Madagascar, and an additional report was filed in August 2002.

In the case of PL 609, the CSB arrived in the port of Majunga, where there was still CSB remaining from a prior shipment. Problems with the administration of the program in that district (the partner in this district has since been changed) had resulted in a major drop in participation levels from the anticipated 2,500 beneficiaries per month (when the call forward for PL 609 was made) to eventually less than 700. Although it was clear there was a severe surplus of commodities from the date of arrival, no plan of action was implemented to transfer these commodities elsewhere or to expedite their use in some other manner. As a result, 14 months after arrival, the remainder of this CSB shipment was found to be spoiled. A timeline depicting distribution of PL 609 from port delivery to reporting of commodity loss is presented in Figure 4.

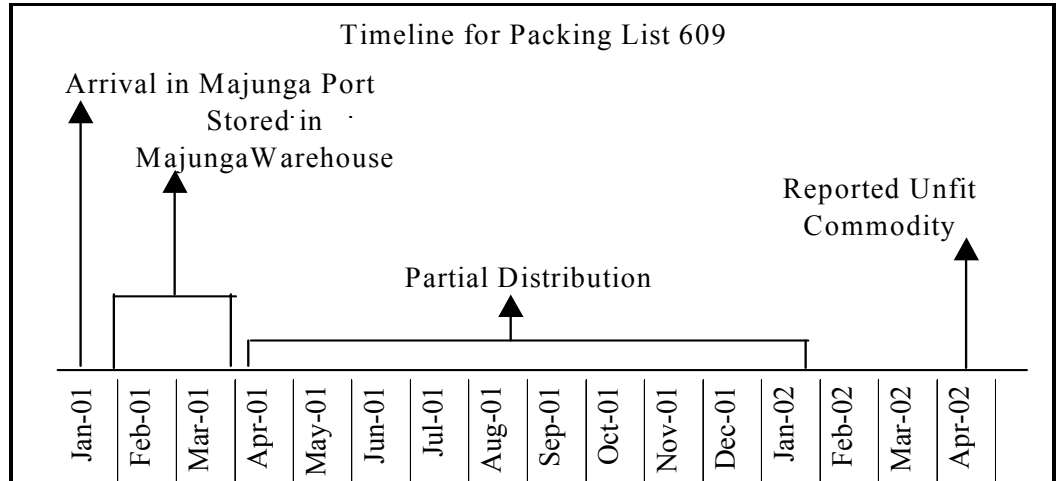


Figure 4: A timeline of packing list 609 showing the delay and gradual distribution of corn soya blend (CSB). The shipment was received on January 22, 2001 and stored in Majunga warehouse from February 2001 to April 2002. The commodity was partially issued to distribution centers from April 2001 to January 2002. A considerable quantity of the CSB was never issued to distribution centers, and in April 2002, CRS/Madagascar filed an initial loss claim and reported the commodity as unfit for human consumption.

USAID Regulation 11, Section 211.9 (d), calls for the cooperating sponsor to pay for the value of commodities if the cooperating sponsor causes loss or damage to a commodity. The USAID mission has the authority and responsibility for determining the validity or propriety of claims against cooperating sponsors including determining whether the loss or damage could have been prevented. In recent months, USAID has secured reimbursement for losses due to theft from unsecured warehouses where responsibility is fairly easy to assign.

However, our review of commodity loss report records show no evidence of an independent Mission analysis of commodity records or investigation into the two significant losses due to spoilage. While there had been much discussion about the losses between CRS and USAID/Madagascar, the Mission relied on CRS to review the circumstances surrounding each loss and provide an explanation. We believe this occurred because the Mission was unclear as to the extent of review required on its part to determine the validity of the two loss claims. As a result, these cases remained open and unresolved months after they had been filed.

In our exit discussion, CRS/Madagascar officials agreed that these two cases were the result of CRS commodity mismanagement and stated that corrective measures have been implemented since these losses occurred. CRS now has a "national orientation" for their program and can/will shift inventories from district to district as needed, whereas before it was more "district focused." CRS officials reported they have implemented measures to more intensively manage or monitor aging commodities though this could not be confirmed at the time of the audit since there were only minimal commodity supplies in the country. CRS's

acceptance of responsibility should allow prompt collection by USAID/Madagascar for the value of the commodities.

Inadequate Tracking of CRS's Commodity Losses - USAID/Madagascar's tracking system for Title II commodity losses does not ensure all losses over \$500 are reviewed and restitution collected as appropriate for those losses.

Regulation 11, Sec. 211.9 (f) requires cooperating sponsors to provide USAID missions 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: (1) who had possession of the commodities, (2) who might be responsible for the loss, damage or misuse, (3) the kind and quantity of commodity, (4) the contract number, and (5) an estimated value of the loss. Information in the quarterly report may be provided in tabular form to the extent possible. Sec. 211.9 (e) also requires the cooperating sponsor to file a claim against liable parties for the value of the lost, damaged, and misused commodities and provide USAID with a copy of any claim for restitution in connection with these commodity losses during the reporting period. If the loss is the responsibility of the cooperating sponsor, under Sec. 211.9 (d) the sponsor must pay the U.S. Government the value of the commodities unless USAID determines the loss could not have been prevented. Claim amounts paid by cooperating sponsors and third parties in the country of distribution shall be deposited with the U.S. Government.

Chapter 10 D.2.b. of USAID Handbook 9 (which provides interim policy guidance that will eventually be included in the Automated Directive System) states that it is the responsibility of the USAID mission to review the reports of loss, damage and improper distribution submitted by the cooperating sponsors, including the actions being taken by the cooperating sponsors for restitution or rectification, such as claims against third parties.

CRS/Madagascar provides USAID/Madagascar with a quarterly commodity status report that contains tabular information on all commodity losses occurring during the quarter. CRS also submits individual commodity loss claim reports for losses in excess of \$500 as required by Regulation 11. A claim number is assigned by CRS to every commodity loss claim report. Each such report contains information as required by Regulation 11. The Mission uses a tracking worksheet to monitor the status of commodity loss claim reports filed by CRS.

For the period of July 2001 to September 2002, we noted that the CRS Quarterly Commodity Status Report listed nine commodity losses (each over \$500) for which a claim was never filed and which were not reflected in USAID/Madagascar's commodity loss claim report tracking worksheet. Mission staff reported they only track commodity losses associated with an individual claim report filed by CRS, such as the reports filed for the two spoilage losses

discussed on pages 12 to 15 of this report. Thus, if CRS never filed a claim report for an individual loss, the Mission never followed up on it. Details of the nine commodity losses without individual claims are presented in Figure 5.

Figure 5: Details of commodity losses in excess of \$500 reported by CRS where no commodity loss claim report was prepared.

Commodity Losses Without Claim Report (unaudited)					
Period covered	Commodity	Loss Location	Quantity net kg.	Value in U.S.\$	Notes
4th Q FY 02	CSB	In-Country	1,272	549	¹
4th Q FY 02	SFB	In-Country	2,150	913	²
4th Q FY 02	OIL	Center	948	824	³
4th Q FY 02	OIL	Center	772	671	³
3rd Q FY 02	CSB	Center	3,975	1,976	³
3rd Q FY 02	CSB	Center	3,975	1,715	³
2nd Q FY 02	CSB	Center	11,335	5,545	⁴
1st Q FY 02	CSB	Center	1,103	540	⁴
4th Q FY 01	SFB	Center	1,441	589	⁴

Notes:

¹ A local transport company lost the commodities and CRS reported that it was reimbursed through a “discount” to be applied on future transport costs (local transport costs are borne by CRS). The value of the discount was \$549 (3,349,320 Malagasy francs). Because a commodity loss claim report was not filed, USAID/Madagascar had no knowledge of the “discount” CRS received for the loss of USAID commodities. The reimbursement should have been remitted to the U.S. Government.

² According to CRS, this was actually a vessel loss and had been referred to CRS/Baltimore for action. USAID/Madagascar never noted the loss in the quarterly report to follow up on whether this was spoiled commodities as originally reported or a vessel loss as now claimed by CRS.

³ CRS officials reported that these commodity losses were actually inter-diocese transfers of commodities and erroneously identified in their reporting system as losses. USAID/Madagascar never noted these losses as reported in the quarterly report and did not follow up or investigate these cases to determine whether they were transfers or commodity losses.

⁴ These commodity losses were not covered by a loss claim report. CRS officials stated that they neglected to report these losses and will be submitting respective claim reports to the Mission.

In summary, USAID/Madagascar has not always been properly tracking commodity losses because it tracks only those claims filed by CRS for each commodity loss in excess of \$500 instead of reviewing or using the quarterly commodity status report provided by CRS. As a result, some claims are not being filed against the parties responsible for lost or damaged program commodities, and the corresponding reimbursements are not being collected by the Mission. In addition, even when loss claim reports are filed, the circumstances and causes of the losses are not always adequately investigated by USAID/Madagascar.

Recommendation No. 2: We recommend that USAID/Madagascar make a determination and collect, as appropriate, the value of commodity spoilage losses reported by Catholic Relief Services associated with packing list shipments 609 and 613, totaling \$45,645.

Recommendation No. 3: We recommend that USAID/Madagascar revise the Mission's commodity loss tracking procedures to require follow up on all commodity losses over \$500 reported in quarterly commodity status reports.

Recommendation No. 4: We recommend that USAID/Madagascar make a determination and collect, as appropriate, the value of commodity losses where Catholic Relief Services did not file a commodity loss claim report.

Management Comments and Our Evaluation

In response to our draft report, USAID/Madagascar concurred with each of the four audit recommendations included in the report and provided a plan of action for each recommendation. Specifically, in response to Recommendation No. 1, Mission management agreed to develop and implement a formal food assistance monitoring plan. This monitoring plan is expected to include procedures that specify the frequency of site visits based on assessed risk while expanding the scope of monitoring work to include the collection and analysis of inventory and commodity distribution data. In addition, the Mission plans to develop a site visit plan which will include procedures for selecting the sites to be visited and a methodology for tracking commodities from the warehouse to the end user. With regards to the second subpart of this recommendation, relating to the Mission's review of the commodity (Call Forward) requests, the Mission is establishing procedures requiring the submission and analysis of data supporting all future Call Forward requests received from its Cooperating Sponsors. In a letter sent to CRS/Madagascar (CRS/M) in September 2003, the Mission requested that Call Forward requests now be accompanied by supporting documents, including a commodity procurement schedule, a commodity pipeline analysis and a narrative summary comparing the requests, each quarter, against approved levels. The Mission plans to extend this same request to all Cooperating Sponsors.

In response to Recommendation No. 2, the Mission concurred that the commodity losses associated with PL 613 and PL 609, valued at \$45,645, were lost through spoilage and agreed to make a determination on these losses. The Mission stated that it was in the process of collecting additional information on the losses in order to verify several inconsistencies in the information provided by CRS/M. The Mission plans to meet with CRS/M in early October 2003 to address these discrepancies and finalize its determination as to whether the losses could have been prevented. While we understand the Mission's need to review the validity and propriety of CRS/M's explanations in reaching this final determination, we wish to point out that CRS earlier acknowledged, during an exit conference with the auditors in January 2003, that the two cases cited under this recommendation were the result of CRS commodity mismanagement. We believe that this acceptance of responsibility should also be taken into account in making your final determination. We applaud the Mission in its latest efforts to address this matter and urge prompt action to prevent further delays in the resolution of these two cases—dating back to March/April 2002—and bring this matter to closure.

In response to Recommendation No. 3, the Mission agreed to implement our recommended action and is in the process of establishing an improved Mission Commodity Management Tracking System. As part of this system, the Mission will conduct regular analytical reviews of Cooperating Sponsors' and partners commodity records to ensure that commodity losses are being properly tracked and match the data contained in the Mission's commodity tracking records. To further ensure that these records are complete and reliable, the Mission sent a letter to CRS/M in September 2003 requesting periodic information, including itemized information on all food commodity losses regardless of value. The Mission plans to request similar data from all Cooperating Sponsors under the program.

In response to Recommendation No. 4, the Mission agreed to make a determination on the value of commodity losses where CRS/M did not file a commodity loss claim report and is in the process of finalizing this determination. Of the nine commodity losses identified by our audit, the Mission determined that seven were either already paid, involved marine losses, or represented food transfers between diocese. The Mission is performing further analysis on the remaining two losses which still need to be resolved and involve losses that CRS/M requested to be written off.

Based on USAID/Madagascar's comments and planned actions to address our recommendations, we consider a management decision to have been reached with regard to each of the four recommendations.

USAID/Madagascar's response—presented as Appendix II—also contained two attachments that have not been incorporated into this report. Since both of the attached documents are adequately described in the Mission's response, they are not being presented in their entirety in this report.

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

The Performance Audits Division of the Office of Inspector General conducted this audit in accordance with generally accepted government auditing standards. The audit was performed at USAID/Madagascar in Antananarivo, country headquarters offices of the Cooperative for Assistance and Relief Everywhere (CARE) and Catholic Relief Services (CRS) in Antananarivo, and at selected food distribution centers and warehouses in three regions of the country. Fieldwork was conducted in Madagascar between January 7 and January 31, 2003.

The purpose of this audit was to determine how the Mission and selected cooperating sponsors—CARE and CRS—provide accountability over USAID-donated commodities and monitor program activities and compliance with program requirements. The audit focused on CARE's Food for Work (FFW) program and CRS's Maternal/Child Health (MCH) program. At the time of our fieldwork, activities under the FFW project were located primarily in the vicinity of Antananarivo—the capital of Madagascar. Approved quantities of USAID-donated commodities for this project in fiscal year 2002 included \$1.27 million in cornmeal, corn-soya blend, navy beans, lentils, and vegetable oil. During the same fiscal year, CRS's MCH project, which was being implemented in several regions of the country, was authorized to distribute \$1.89 million in USAID-donated commodities consisting of corn-soya blend, bulgur, and vegetable oil.

The scope of this audit included an examination of management controls associated with the systems used by the Mission and its cooperating sponsors to monitor the distribution of food aid under the program. The areas examined included the review of commodity requests (i.e., call forwards), reporting of distribution data or results, review and tracking of commodity losses, field visits to storage facilities and distribution sites, and the systems in place for tracking the receipt, storage and distribution of Title II commodities. With regards to the tracking of program commodities, the audit—using inventory records, commodity distribution records, and transport manifests—included analyses to trace selected quantities of USAID-donated commodities from the port of entry in Madagascar to warehouses and distribution centers and finally to program beneficiaries.

The audit specifically did not cover emergency food aid, food provided through the World Food Program, or monetized food assistance. The audit was directed at the fiscal year 2001 and 2002 programs, as well as the current fiscal year 2003 program.

Methodology

In order understand USAID/Madagascar's direct food aid distribution program as it relates to the audit objective, we held numerous discussions with (1)

USAID/Madagascar officials, (2) CRS/Madagascar and CARE/Madagascar officials, (3) employees and volunteers of CRS/Madagascar and CARE/Madagascar's program partners, and (4) program beneficiaries.

In addition, we also performed the following steps:

- Reviewed applicable laws, regulations, and USAID policy and guidance related to the audit objective.
- Reviewed approved CARE and CRS program documents for the proposed controls over the movement and distribution of commodities.
- Interviewed responsible Mission, CARE and CRS personnel—both at the headquarters and field levels—concerning the organization and control systems for the areas of:
 - (1) planning the overall program;
 - (2) controlling the physical movement and distribution of commodities;
 - (3) reviewing and approving of nutrition and Food for Work projects; and
 - (4) accumulating and reporting statistical information on program results.
- Performed site visits to selected commodity warehouse facilities and food aid distribution sites and interviewed cooperating sponsor personnel, partners and beneficiaries regarding the program.
- Reviewed information on commodity losses and commodity loss claims to determine whether the Mission and cooperating sponsors have taken appropriate action to seek recovery for damaged, missing, and spoiled commodities.
- Reviewed food aid program accomplishments reported by the Mission and compared them with supporting documentation submitted by CARE and CRS.
- Tested the reliability of computer-generated data obtained from CRS's automated system, including beneficiary participation levels and the quantities of commodities distributed at each program distribution center.

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 the level of monitoring provided over the program.

**Management
Comments**



**United States Agency for International Development
USAID/Madagascar
Antananarivo/Madagascar**

MEMORANDUM

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

FROM : Acting Mission Director, Stephen M. Haykin /s/

SUBJECT : Mission comments to OIG Draft Audit Report (9-687-03-00x-P).
Audit of USAID/Madagascar's Distribution of Public Law 480 Title II
Non-Emergency Assistance in Support of its Direct Food Aid
Distribution Program.

DATE : September 18, 2003.

=====

Please find attached the Mission response to the OIG Draft Audit Report.

We would like to thank the OIG Auditors for visiting our Mission and for helping us improve our monitoring and control systems for the Title II Program. We are pleased that for the areas reviewed, the auditors found that USAID Madagascar was monitoring activities under the Title II non-emergency assistance Program to ensure that the food aid furnished under the Program was delivered to the intended beneficiaries. The Mission, however, understands that there is a need to strengthen its internal systems and procedures in certain areas in order to more effectively monitor commodities and program activities with an aim to efficiently identify and resolve problems.

It should be noted that the period of the Audit review was a year of unprecedented challenges for Madagascar and the Mission. During FY2002, the Mission faced a complex political crisis and, under ordered departure of non-essential personnel, worked to mitigate a humanitarian crisis and the effects of an off-season cyclone (Kesiny). Apart from these man-made and natural disasters the Mission was fully engaged in the process of developing its new five year Integrated Strategic Plan (ISP), while supporting DCHA/FFP on the review and approval of new Title II Development Assistance Programs for FY 2004-2008.

The OIG findings and recommendations will help the Mission put in place a solid foundation for an accurate Commodity Tracking System and improve overall program monitoring. The timing of OIG recommendations is excellent as the DAPs will begin in 2004. The Mission has begun to take action to implement the recommendations. The findings also point to the importance for CRS Madagascar and other Cooperating Sponsors to maintain strong reliable, transparent tracking, reporting and management systems. The Mission has met with CRS Madagascar and other Cooperating Sponsors to discuss findings and begin working collaboratively towards the implementation of the Audit recommendations.

Attached you will find our response to the Draft Audit Report. Thank you again for your time and thoughtful recommendations. We look forward to receiving the Final Audit Report.

USAID/Madagascar

USAID/Madagascar response to OIG Draft Audit Report (No. 9-687-03-00x-P)

This is the USAID/Madagascar response to the OIG Draft Audit Report (No. 9-687-03-00x-P). The response states USAID/Madagascar's position regarding the findings and provides a plan for corrective action.

OIG Audit Findings:

1. Improvements Needed in Performance of Site Visits

USAID/Madagascar Response:

The Mission fully agrees with this finding and concurs that a more thorough site visit and monitoring plan will improve the USAID/Madagascar's oversight of the Title II program.

USAID/Madagascar has focused on improving the overall management and technical support to the Cooperating Sponsors and on increasing Mission monitoring responsibility, based on DCHA/FFP suggested "10 Management Criteria" over the past two years. This included the development of site visit schedules and a Spot Check audit checklist/program for warehouse monitoring. However, USAID/Madagascar faced serious challenges in implementing the Site Visit and Spot Check schedule in FY 2002, due to the political crisis from December 2001- July 2002 that made travel impossible.

Corrective Actions Planned or Taken:

- *Develop and implement a systematic site visit and formal food assistance monitoring plan. The plan and site visit methodology will be developed within 6 months start up date of the DAPs.*

USAID/Madagascar recognizes the need to improve the frequency and rigor of these visits for full analysis of commodity distribution all along the chain. Once the new 2004-2008 Development Assistance Programs (DAPs) have established their baseline information on numbers of beneficiaries, tonnages of food for distribution, and geographic location of activities, the Mission will develop a systematic site visit plan. This will include an adequate sample of randomly selected sites, and a methodology to track food commodities from the main warehouse to the end users, by type of program activity (food for work, emergency response, food for distribution, etc.). The Mission's improved site visit system will also include closer monitoring of the record-keeping and reporting procedures at each program activity site (in cooperation with CRS Madagascar). To accomplish this, USAID/Madagascar staff will need to familiarize themselves with the types of records and documents used at each level -- Cooperating Sponsor (CS) Head Quarters to distribution site. The increased frequency and improved rigor in the methodology of conducting site visits will enable the Mission to identify potential vulnerabilities, and problems and will increase the transparency of the commodity shipping and distribution process.

The Mission's formal food assistance monitoring plan will include procedures that will specify the frequency of sites visits based on assessed risk, and will expand the scope of work of the monitoring to include the collection and analysis of data regarding commodity stocks, inventory movements and

distribution. The monitoring plan will also include thorough examination of records at selected sites and interviews with key informants all along the commodity distribution chain—from port to distribution site.

USAID/Madagascar is evaluating the advantages and costs of utilizing a quality assurance commodity tracking package called LAIER that could facilitate Mission commodity management and tracking.

2. USAID Uninformed of Major Transfer of Commodities between Districts

USAID/Madagascar Response:

USAID/Madagascar agrees with the Audit findings; USAID/Madagascar staff was not aware of CRS/Madagascar (CRS/M) decision to switch location of the commodities. As noted above, the Mission agrees that more rigorous and regular site visits will pinpoint distribution issues and problems such as this. It should be noted that due to the political crisis and response to other emergencies, it was almost impossible for USAID/Madagascar personnel to conduct field monitoring due to security and transportation restrictions during this period of time.

Corrective Actions Planned or Taken:

- ***Request complete documentation from Cooperating Sponsors regarding transfers of commodities. This request was sent in an official letter September 18, 2003(attachment 1)***

In its official September 18th letter, the Mission has requested that CRS/Madagascar document any significant commodity transfers through a memo to DCHA/FFP with a copy to USAID/Madagascar. The Memo should document the date of transfer, amount of commodities transferred and justification. In addition, the Mission requested that these movements of commodities be reported in a consolidated manner in yearly CRS/M CSR4 report.

- ***Detect and verify commodity transfers during systematic site visits***

As noted above under the corrective action for Finding number 1, the Mission's systematic site visit plan will include a sample of randomly selected sites and will be conducted on a regular basis. During the visits specific questions and document reviews will be directed at commodity transfers. The site visits will help the Mission to detect and verify the movement of commodities and will allow the Mission to cross check CS reporting and justification of commodity transfers.

3. Improvements Needed in Review of Commodity Requests Received From Cooperating Sponsors

USAID/Madagascar Response: The Mission agrees with the findings of the Audit. USAID/Madagascar recognizes the need to improve the analysis of the CSs Call Forward requests vis-à-vis their program beneficiary needs and has already taken action to begin responding to this recommendation.

Corrective Actions Planned or Taken:

- ***Request complete documentation from Cooperating Sponsors regarding commodity requests in relation to program activities (September 18, 2003). Mission comparative analysis of documentation (prior to each call forward).***

The Mission sent an official letter, cleared by DCH/FFP/CBO on September 18th, 2003, to CRS/Madagascar requesting that they provide with each Call Forward, a life of activity commodity requirement work sheet, a commodity procurement schedule, and a commodity pipeline analysis. In

addition, the letter requests that CRS prepare a narrative summary to accompany the pipeline analysis, that will include a comparison of the commodity requests, each quarter, in relation to the levels of food and numbers of beneficiaries and activities approved in the DAP as modified in subsequent Detailed Implementation Plan and CSR4 reports. (see attachment # 1). The Mission will extend this same official request to all Cooperating Sponsors.

The Mission will conduct a through analysis of the documents to compare Call Forward requests with the numbers of beneficiaries to identify potential discrepancies or disconnect between the tonnage of food requested and number of targeted beneficiaries for the time period specified for the distribution. If discrepancies are found, the Mission will alert the CS in writing with a request to provide the Mission with an adequate explanation and/or their proposed corrective action. In addition, the systematic site visits (see below) will serve to verify the Mission's analysis of the documents.

- ***Systematic site visits to verify appropriateness of commodity requests***

The Mission's site visit methodology will include a quality assurance commodity tracking system that will be used to evaluate the linkage between the amount of food requested and the corresponding number of beneficiaries by program activity all along the chain, from port to distribution center. Site visit information will also be used to inform the Missions document analysis.

OIG Audit Recommendations:

Recommendation No. 1: We recommend that USAID/Madagascar develop a formal food assistance monitoring plan that includes procedures: (a) specifying the frequency of site visits based on assessed risk and expanding the scope of work done to include gaining an understanding of pertinent commodity inventory control and distribution procedures as well as an examination of records at the site and testing a sample of recorded entries; and (b) requiring the submission and review of data supporting call forward requests and the analysis of this data to ascertain whether quantities requested are considered reasonable.

USAID/Madagascar Response: The mission fully agrees with this recommendation.

Corrective Actions Planned or Taken:

The Mission's planned corrective actions are described under the above "Response to Findings" numbers 1, 2, and 3 and will serve to implement this recommendation.

Recommendation No. 2: We recommend that USAID/Madagascar make a determination and collect, as appropriate, the value of commodity spoilage losses reported by Catholic Relief Services associated with packing list shipments 609 and 613, totaling \$45,645.

USAID/Madagascar Response: The Mission concurs with the auditors that commodities valued \$45,645 associated with PL 603 and PL 609 were lost through spoilage. The Mission takes this recommendation very seriously and is in the process of collecting additional information on the food losses.

Corrective Actions Planned or Taken:

The Mission is in the process of verifying several inconsistencies in the information provided by CRS regarding PL 603 and 609 losses. The Mission will meet with CRS/Madagascar the week of October 1 to address these discrepancies in order to finalize its determination. The Mission will promptly send its recommendation to DCHA/FFP regarding the validity and propriety of the CRS/M explanations and our determination as to whether or not the losses could have been prevented.

Recommendation No. 3: We recommend that USAID/Madagascar revise the Mission's commodity loss tracking procedures to require follow up on all commodity losses over \$500 reported in quarterly commodity status reports.

USAID/Madagascar Response: The Mission fully agrees with OIG recommendation.

In part, the deficiencies in the Mission tracking system were related to inadequate and untimely data from CRS/M. To resolve this issue, USAID/Madagascar sent an official letter (dated September 18, 2003 cleared by DCHA/FFP/CBO) requesting pertinent periodic information including itemized information on all food commodity losses regardless of value. In the letter, the Mission also suggested that CRS/M request from DCHA/FFP an extension for the 30-day limit on the quarterly commodity reports. This will provide the time necessary for CRS/M partners to provide complete commodity loss information for CRS/M reporting so that the Mission (and CRS/M) have complete and reliable commodity loss information. The Mission will send a similar letter to all Cooperating Sponsors (CSs) working with food commodity distribution under their new 2004-2008 DAPs.

Corrective Actions Planned or Taken:

USAID/Madagascar is establishing an improved Mission Commodity Management Tracking System. The system will be in place 6 months after the start-up of the new DAPS.

As a part of the Mission Commodity Management Tracking System, USAID/Madagascar will conduct regular visits to CS's and partners offices to review and evaluate their commodity management system. During these visits, the Mission will ensure that all CSs and partners follow procedures for commodity losses as detailed in Section 211.9 of Regulation 11 regarding the Liability for Loss, Damage, or Improper Distribution of Commodities. The Mission will also conduct regular analytical reviews of CS's and partners commodity records and will ensure that commodity losses are being tracked appropriately and that these match the Mission's commodity tracking records.

The Mission is committed to work with the CSs towards the creation and implementation of a transparent commodity tracking system that will meet CSs and the Mission's monitoring requirements and improve timely reporting and determination of loss responsibility. The Mission is also committed to establishing internal procedures to expedite resolution of commodity losses

In addition, REDSO/FFP and DCHA/FFP/CBO visits will be scheduled to assist the Mission in the review and resolution of claim losses during their TDYs.

Recommendation No. 4: We recommend that USAID/Madagascar make a determination and collect, as appropriate, the value of commodity losses where Catholic Relief Services did not file a commodity loss claim report.

USAID/Madagascar Response: The Mission agrees with this recommendation.

Corrective Actions Planned or Taken:

The Mission is finalizing its determination regarding the commodity losses where CRS/M Relief Services did not file a commodity loss claim report (see attachment # 2). The attached table shows the status of the commodity losses presented in the OIG draft report. Out of the nine commodity losses, seven were either already paid, were marine losses, or were incorrectly coded and were actually food transfers between diocese. Documentation that supports this information is on file in USAID/Madagascar. Two losses will require further USAID/Madagascar analysis and subsequent determination of the appropriateness for the write-off request. It is expected that the Mission will resolve these two claims by November 2003.