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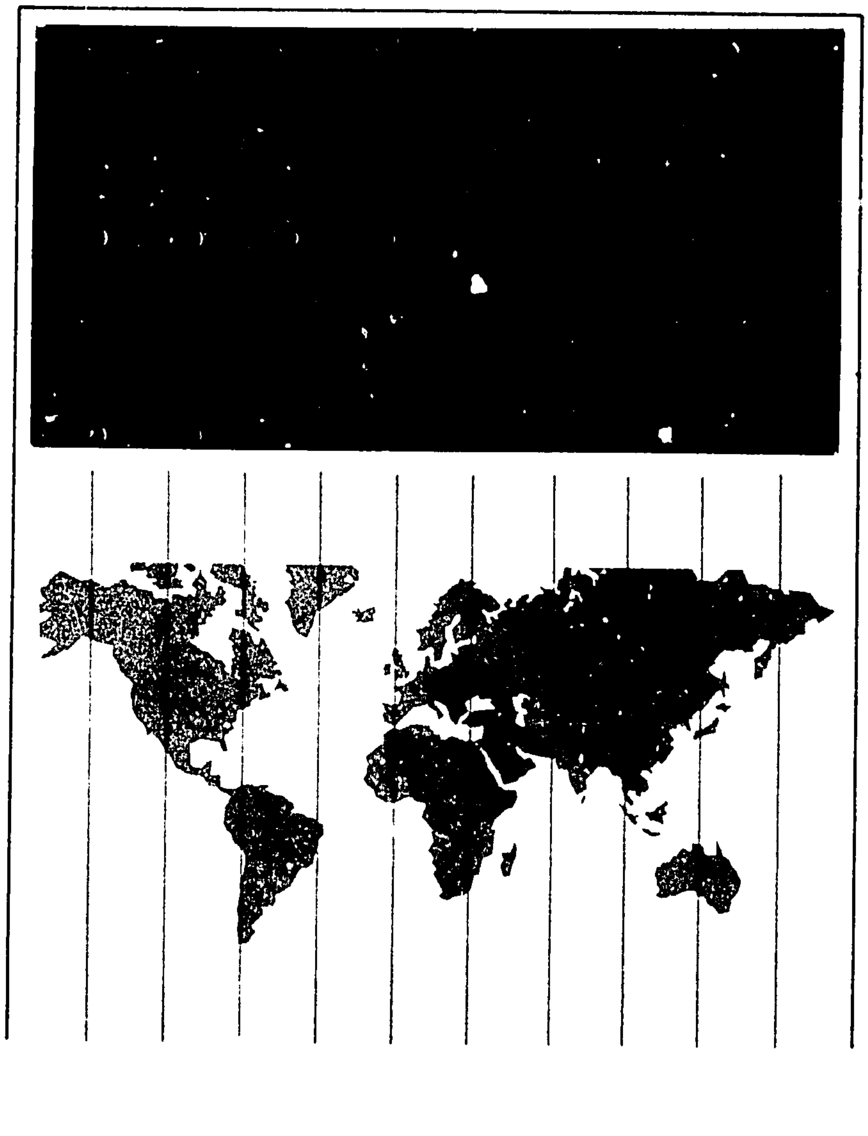
UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL



Regional Inspector General for Audit
NAIROBI

PL 480 TITLE II ACTIVITIES

IN LESOTHO

Audit Report No.
3-632-81-07

Dated
March 31, 1981

PL 480 TITLE II ACTIVITIES

IN LESOTHO

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EXECUTIVE SUMMARY

Introduction

Food assistance to Lesotho has been generous. The U.S. food aid approved program levels for Lesotho during fiscal year 1980 were valued at about $8 million. Approximately $2 million of Title II food aid was programmed through the World Food Program (WFP), while over $6 million of the Title II food was programmed for the Catholic Relief Services' Lesotho program (CRS/Lesotho) distribution. CRS/Lesotho's fiscal year 1980 program serviced nearly 200,000 recipients -- making it the fourth largest private voluntary organization (PVO) operated Title II program in sub-Saharan Africa. Only Upper Volta, Ghana, and Senegal had larger PVO Title II programs.

Scope

Our review of the Lesotho PL 480 Title II program covered CRS/Lesotho operations for the period January 1979 through September 30, 1980. The purpose of the examination was to:

- Determine the status and effectiveness of management.

- Verify compliance with applicable laws and regulations.

- Identify and report on any significant problem areas.

We reviewed official AID files and held discussions with personnel of USAID/Lesotho, the American Embassy, Maseru, Regional Food for Peace Offices in Nairobi and Lusaka, the freight forwarding agent Mitchell Cotts Ltd., inland transporters, the Government of Lesotho (GOL) Food Management Unit (FMU), and the Ministry of Agriculture's Conservation Division.

Additionally, both ports of entry at Durban and East London in the Republic of South Africa were visited. In Lesotho five warehouses, eight food for work sites, 13 pre-school clinics and one day care center were visited. At CRS/Lesotho we reviewed management procedures and controls, records and reports; and held discussions with the Director and members of his staff. All of this was done to trace the PL 480 commodities from the call forward stage to the final recipient distribution points.

Responses to the Findings

Our findings were discussed with USAID/Lesotho and CRS/Lesotho officials as they were being developed. The Lesotho PL 480 program was also discussed with Regional Food for Peace Officers (RFFPO) in Nairobi, Kenya and Lusaka, Zambia. Our final findings were given to both USAID/Lesotho and CRS/Lesotho before the joint exit conference on November 13, 1980. In addition, copies of our draft audit report were transmitted to USAID/Lesotho and the RFFPO in Lusaka. Comments from these offices have been considered and incorporated into this draft report where applicable. Most of the issues addressed in this report were known by these offices before the audit. Because of corrective actions taken by these offices and CRS/Lesotho, we eliminated three recommendations.

Conclusions and Recommendations

AID has not sufficiently monitored the CRS operations nor provided adequate technical assistance. Despite several scheduling attempts by the USAID, the current Regional Food for Peace Officer stationed in Lusaka, Zambia has only visited Lesotho once. In USAID/Lesotho's response to our draft audit report, they attributed the inadequate monitoring to insufficient manpower. However, during that visit the RFFPO agreed, as a minimum, to schedule quarterly visits accordingly we made no recommendation (pages 2 to 3).

The last call forward advice to the AID/Washington Food for Peace Office (PDC/FFP) was sent in August 1978 by the Office of Southern Africa Regional Activities Coordination (OSARAC), USAID's predecessor office. The assigned USAID/Lesotho project officer had minimal Title II program experience and was not aware quarterly advices should be sent to PDC/FFP. But even after more than two years of not receiving call forward advices from the fourth largest sub-Saharan PVO program, PDC/FFP did not remind USAID/Lesotho of its call forward responsibilities. However, Handbook 9 is silent on specifically what AID/Washington does after receiving a USAID call-forward advice. We recommended that PDC/FFP revise the call forward guidelines to clarify what AID/Washington does after receiving call forwards from field offices (pages 3 to 4).

The largest portion of the CRS/Lesotho recipients, about 71%, are pre-school children and their mothers. CRS/Lesotho's pre-school program is highly effective. Informally at the exit conference we suggested CRS/Lesotho share their excellent clinic reporting procedures with other AID Title II PVO's (pages 4 to 5).

CRS/Lesotho's informaton on Food for Work (FFW) worker selection was insufficient to determine if worker eligibility criteria were followed. Foremen and other full time FFW workers were receiving twice the part-time ration, contrary to AID regulations and their approved Operational Program Plan. With limited information on FFW activities, CRS/Lesotho is not able to assure Title II commodities are properly used. Our field inspections disclosed that FFW Title II food has been used politically and supported ineligible activities. Accordingly, we recommended that USAID/Lesotho instruct CRS/Lesotho to either immediately institute substantive program changes or discontinue the CRS/Lesotho FFW program after fiscal year 1981 (pages 5 to 8).

CRS/Lesotho's Title II commodities are landed at Durban and East London in the Republic of South Africa. The goods are railed to the South African Railways rail heads near the Lesotho border. However, logistical problems arise when two or three ships carrying Title II goods dock within a few days of each other. Rail demurrage charges are incurred when more railway cars arrive than the CRS/Lesotho overland transporters can effectively handle. We recommended that USAID/Lesotho and the RFFPO review the causes for demurrage and take appropriate action to minimize the costs to the Government of Lesotho (page 9).

In 1980, there were two cases of Title II food being stolen. Neither incident was reported to the Inspector General's Inspections and Investigations Office (IG/II). Although we reported these specific instances to RIG/II/Nairobi, we recommended that USAID/Lesotho and CRS/Lesotho institute a procedure to ensure that such future incidents are reported promptly to IG/II (pages 10 to 11).

About $34,000 in claims were filed by CRS/Lesotho against the Government of Lesotho's Food Management Unit (FMU). According to the FMU Director, FMU has no intention of paying the claims. In USAID/Lesotho's response to the draft audit report, they suggested our recommendation be changed to: "...USAID/Lesotho instruct CRS to press the GOL for reasonable restitution." However, we do not think CRS/Lesotho's continued efforts will prove effective because of the FMU Director's adamant attitude. Unless the claims issue is brought to a higher level of Government, we do not think it will be resolved. Accordingly, we recommended that USAID/Lesotho assume responsibility for the claims and press the GOL for reasonable restitution (pages 11 to 12).

AID Handbook 9 Chapter 8 Section E2 gives Mission Directors authority to compromise Title II claims or terminate claim action if no more than $10,000 is relinquished. Under USAID/Lesotho's current interpretation, the $10,000 limitation is not applied toward total claims against one party but instead against individual claims. This permits the Mission Director to terminate claims against one party for amounts substantially larger than $10,000 as long as individual claims never exceed $10,000. We do not believe this allows adequate control over claims settlement or termination action or is a correct interpretation of the handbook. We recommended that USAID/Lesotho comply with AID Handbook 9 Chapter 8 Section E2 (pages 12 to 13).

Under a September 1978 grant agreement, CRS/Lesotho was to build 30,000 square feet of additional Title II warehousing space. However, after delays in beginning construction, funds were not sufficient to build in all locations. CRS has proposed a subsequent grant amendment nearly equivalent to the original grant to build an additional 7,000 square feet of warehousing space. USAID/Lesotho, subsequently advised us that the CRS proposal had been signed. Furthermore, in reviewing the original grant agreement we found no provision to publicize that the facilities were financed by the USAID, or was reference made to AID's Standard Provisions Annex A requiring publicity. We recommended that USAID/Lesotho amend the original grant to provide for publicity (page 12).

BACKGROUND

The Kingdom of Lesotho is among the world's 30 least developed countries. Somewhat larger than the State of Maryland with about 11,700 square miles, Lesotho is landlocked by the Republic of South Africa (RSA). The country's lack of immediately exploitable resources, minimal infrastructure and rapidly deteriorating range and farm lands are all obstacles of Lesotho's economic self-sufficiency. Another constraint to self-sufficiency is the country's economic dependence upon South Africa. Higher paying jobs annually lure a substantial number of the Basotho males to RSA for employment, abandoning their traditionally farmed areas.

Although agricultural production is still the largest contributor to Lesotho's gross national product, harvest yields generally only provide 45-55 percent of the nation's food consumption requirements. Some of these shortfalls, about 90% according to USAID/Lesotho, are met by South Africa which has sufficient surpluses to meet Lesotho's demand at or below market prices. Other shortfalls, about 10% according to USAID/Lesotho, are met by the various international donors -- foreign aid accounts for about one-third of the Government of Lesotho's (GOL) gross national product. Theoretically, Lesotho has sufficient resources, in local food and in cash for commercial imports, to feed the population. However, uneven income distribution prohibits as much as 30% of the population from receiving the minimum daily requirement of calories and protein.

Food assistance to Lesotho has been generous. The U.S. Title II approved levels for Lesotho during fiscal year 1980 were valued at about $8 million. Nearly $2 million was donated through the World Food Program while over $6 million of this Title II food was programmed for CRS distribution. CRS/Lesotho's fiscal year 1980 program serviced nearly 200,000 recipients making it the fourth largest private voluntary organization operated Title II program in sub-Saharan Africa. Only Upper Volta, Ghana, and Senegal had larger PVO Title II programs. The CRS/Lesotho fiscal year 1981 AER anticipates reaching 201,000 recipients in the Maternal Child Health (MCH) and Food For Work (FFW) feeding categories, while the fiscal year 1980 AER reported 199,000 recipients in these categories.

CRS/Lesotho's USAID approved program for fiscal year 1981 increased by 127 metric tons or 1.4%. Fiscal year 1980 tonnage allocations were 9,032 metric tons for the preschool category and 6,552 for FFW. The fiscal year 1981 tonnage allocations were 9,159 metric tons for preschool and 6,552 metric tons for FFW.

CRS began the Lesotho program in January 1966 with the signing of their first country agreement, the most recent agreement was signed June 10, 1976 by CRS/Lesotho and the GOL Ministry of Finance. Under this agreement the GOL provided an initial annual grant of R25,000 or $33,750 (at the November 1980 exchange rate) with R2,500 ($3,375) annual increases up to R35,000 ($47,250) to finance CRS/Lesotho's local currency administraton costs. The GOL pays all of the CRS Title II demurrage charges, while they only pay WFP demurrage incurred at the Maseru, Lesotho point of entry.

The GOL Food Management Unit (FMU), established as part of the Prime Minister's Office in May 1978, is responsible for coordinating and controlling all donated food. The FMU provides warehousing and personnel for unloading and handling the Title II commodities, FMU warehouses are located around the Lesotho countryside in the GOL district capitals.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

AID Management

Despite the size of the USAID/Lesotho PL 480 Title II program, AID has not sufficiently monitored the CRS operations or provided adequate technical assistance. Since the dissolution of the Office of Southern Africa Regional Activities Coordination (OSARAC) on October 1, 1978, there have been three USAID/Lesotho project officers assigned to the Title II program. None of these officers were sufficiently familiar with the Title II regulations to effectively monitor the program. To compensate for the project officers minimal Title II experience, USAID/Lesotho requested assistance from AID's Regional Food for Peace Officers (RFFPO) in Nairobi, Kenya and Lusaka, Zambia.

Responding to our draft audit report, USAID/Lesotho said lack of sufficient manpower, and not experience, caused the insufficient monitoring deficiency. According to the USAID, the assigned officers had other major responsibilities limiting the amount of time they could devote to Title II program monitoring. Although we agree time constraints may have been contributing factors, the three assigned project officers' lack of prior experience with Title II programs is evidenced in deficiencies noted under the call-forward section.

The Nairobi RFFPO serviced the Lesotho program until March 25, 1980, when the Lusaka RFFPO was established. Although the Lusaka RFFPO has regional responsibility for Southern Africa, 80 percent of his time is spent in Lusaka. According to the RFFPO and his supervisor, the AID Representative for Zambia, the 80 percent time arrangement is based upon an agreement between the Ambassador and the Africa Bureau. The RFFPO's position and travel expenses are all funded by the AID's Zambia Office. Accordingly, we believe Zambia's PL 480 matters are his first priority. Although USAID/Lesotho stated that the RFFPO's funding source has nothing to do with the RFFPO's priorities, we do not believe position responsibilities and source of funding can be divorced.

Despite several scheduling attempts, the Lusaka RFFPO's first visit to Lesotho was in September 1980. The Nairobi RFFPO's last Lesotho visit was in December 1979. Because of time constraints, neither RFFPO's visit adequately addressed Title II monitoring. Considering the minimal Title II experience of the assigned USAID/Lesotho project officer and the size of the CRS/Lesotho program, we do not believe this is sufficient coverage. By recent agreement, the RFFPO/Lusaka agreed, as a minimum, to schedule quarterly visits to Lesotho. Since the first quarterly visit is scheduled for early January, we do not have any recommendation concerning the RFFPO/Lusaka's schedule. Nevertheless, we recommend the following action should be taken during the RFFPO's next visit.

Recommendation No. 1

RFFPO/Lusaka provide written guidance and advice to assigned USAID/Lesotho Food For Peace Officer on Title II monitoring and management responsibilities.

Call-Forwards

According to Title II regulations, once the cooperating sponsor notifies the USAID of its quarterly call forward requirements, the USAID should advise the AID/Washington Food for Peace Office (PDC/FFP) of program needs. The notification should affirm that the Title II food is not a disincentive to local production and can be adequately stored. The last call forward advice to PDC/FFP was sent in August 1978 by the Office of Southern Africa Regional Activities Coordination (OSARAC).

As previously noted, since OSARAC's dissolution and USAID/Lesotho's opening (October 1, 1978), there have been three USAID project officers assigned to Title II program activities. However, none of these officers were sufficiently familiar with Title II regulations to adequately monitor the program. All of the assigned officers had minimal experience with Title II programs and accordingly did not know quarterly advices should be sent to PDC/FFP.

Similarly, AID/Washington did not follow proper call forward procedures. Even after more than two years of not receiving call forward advices from the fourth largest sub-Saharan PVO program, PDC/FFP did not remind USAID/Lesotho of its call-forward responsibilities. Since January 1979, nearly 29,000 metric tons were authorized for delivery without USAID/Lesotho's required approval.

AID Handbook 9 is silent on specifically what AID/Washington does after receiving a USAID call-forward advice. During another Title II audit in May 1980, the Regional Food for Peace Office (RFFPO) in Nairobi told us the Handbook was being revised and that a new Chapter 7 would have a more comprehensive description of call-forward procedures. Accordingly, we did not make a recommendation at that time. On January 19, 1981, after audit field work for the Lesotho program was completed, the revised handbook was issued. However, it also does not specify what PDC/FFP does after receiving the field offices call-forward advices. Since the revised regulations did not clarify the procedure, we think it is time for a formal recommendation.

Recommendation No. 2

PDC/FFP establish procedures, and include in Handbook 9, relating to AID/W actions after receiving or failing to receive field office call-forward advices.

In four instances (the first and second quarters of fiscal year 1979, the third quarter of fiscal year 1980, and the first quarter of fiscal year 1981), CRS did not advise USAID/Lesotho of its call-forward requirements. Instead CRS/Lesotho sent the call-forward requirements directly to CRS/New York headquarters. More than 12,500 metric tons of Title II food was called forward without USAID/Lesotho having been notified. This issue was discussed with CRS and the USAID during the RFFPO's September 1980 visit and our exit conference. The CRS/Lesotho Director agreed to correct the oversight and adhere to proper call-forward procedures. Accordingly, we have no recommendation at this time.

Aside from these bureaucratic matters, CRS/Lesotho's call forward procedures are appropriate. Immediately before making a call forward, the GOL FMU warehouses in eight locations around Lesotho are physically inventoried and warehouse records inspected and adjusted. Upon return to the Maseru office, the CRS staff computes the quantities needed by location. The quarterly requirements are projected using the prior quarters' useage rates less the amounts on hand and in transit. This procedure, which began the first quarter of fiscal year 1981, should assure realistic call-forwards are made.

Pre-School Program

The largest portion of the CRS/Lesotho recipients, about 71%, are pre-school children and their mothers. The program services over 140,000 recipients in 155 locations around Lesotho, including 69 clinics or hospitals and 86 outstations at the village level. Under an AID centrally funded grant in mid-1978, CRS/Lesotho was selected as one of the three CRS country programs to implement a Growth Surveillance System (GSS). GSS is, in part, a method of measuring and monitoring a child's nutritional status based upon age and weight. We believe CRS/Lesotho's use of GSS, which requires constant monitoring and field visits by the CRS/Lesotho pre-school staff, as well as other reporting controls predating GSS have made the pre-school program highly effective.

CRS/Lesotho's recipient distribution centers submit a set of reports entitled "Monthly Return Reports". These reports provide information concerning commodity status, attendance and commodity issuances, number of immunizations and clinic financial status. Late reports are followed up by letters and visits which can lead to the temporary suspension of a clinic's quarterly food allocation if reporting and operational problems are not satisfactorily rectified. Physical inventories and attendance records are inspected during the pre-school supervisors' visits. These reporting and clinic visiting procedures adequately determine if rations, commodity use and attendance guidelines are being properly followed.

Visits to 14 pre-school program sites disclosed a lack of clinic Title II food storage space. Most of the clinics visited did not have sufficient space to store the food and conduct clinic operations. Commodities were frequently stored in the same room as the cooking demonstrations and nutritional lectures. Aside from the safety hazard to the recipient children, the food could not be properly stacked for first-in, first-out issuances. Consequently, food at the bottom of the stack could take a year or more to be used.

With few exceptions, CRS/Lesotho requires the clinics to collect their entire quarterly allocation within two months after receiving authorization. Many clinics, to save on high transportation and handling costs, collect the entire quarterly allocation at one time. Consequently, many clinics with considerable food commodities on hand operate in unusually cramped quarters. Thus, nutritional lectures and cooking demonstrations (encouraged by CRS/Lesotho) must be held outside, and cannot be held during inclement weather.

When discussing this issue at the exit conference, the CRS/Lesotho Director said the problem should be resolved within the next one or two quarters. Formerly clinics were allocated three months rations plus two months rations in reserve. A recently revised CRS/Lesotho allocation procedure will only authorize clinics to pick up three months' rations -- all reserves are to be kept in the FMU warehouses. Since the newly initiated procedure should alleviate the storage situation, we have no recommendation.

Food For Work

In Lesotho, food for work (FFW) activities are approved by either the Ministry of Agriculture (MOA) or the Ministry of Rural Development (MinRuDev). The few special FFW activities approved by CRS/Lesotho are negligible compared to those approved by MOA and MinRuDev.1/ Approved activities are forwarded to the GOL's Food Management Unit (FMU) to determine whether the

1/ Our limited scope review, covering April to June 1980 completed FFW tickets, showed that the CRS/Lesotho approved FFW activities represented only 2% of the FFW workers receiving CRS FFW rations.

activity will receive CRS or World Food Program (WFP) rations. CRS and WFP were the only donor organizations supplying food for GOL FFW activities. Although CRS and WFP retain veto power over blatantly unacceptable activities, neither organizations' approval is necessary before an activity can receive Title II rations.

The FMU issues a quarterly circular which shows type of activity, number of authorized workers and the donor supplying rations. Using this circular, CRS/Lesotho distributes color coded quarterly work tickets to MOA and MinRuDev. In turn, these tickets are distributed to the individual project sites to record worker attendance and ration allocations. Used tickets are returned to CRS/Lesotho for their retention. Typical GOL FFW activities are soil conservation, road and bridge construction and fish pond construction.

The primary information CRS receives on the FFW activities are the FMU quarterly circulars, FMU warehouse stock reports and periodic ministerial work progress assessments. However, the circulars and assessments do not provide adequate information to determine if the activities are eligible under the applicable FFW regulations. AID's Handbook 9, Chapter 10 states in pertinent part:

> "The following types of information are to be stressed in agricultural/economic and community projects:
>
> (1) Project targets and objectives.
> (2) Geographical location...and the general categories of work.
> (3) Estimated number of man-days required for completion by types or categories of activities.
> (4) Estimated number of persons to be employed and monthly average of work-days per worker.
> (5) Estimated number of workers and estimated number of dependents who will receive food.
> (6) Estimated costs of projects, including separate estimates of the cost of labor, materials, and tools.
> (7) Non-U.S. Government inputs and self-help measures.
> (8) Methods of control and distribution of commodities at project site.
> (9) Estimated quantity of each commodity for:
> (a) Distribution as compensation in kind.
> (b) Work and for free distribution, in the case of land reform and settlement projects."

When reviewing CRS/Lesotho's files, we did not find information on estimated labor-days required, number of dependents, activity costs, non-U.S. Government inputs, or activity food requirements.

With limited information on FFW activities, CRS/Lesotho was not able to assure that Title II commodities were properly used. Our field inspections disclosed that FFW Title II food had been used politically and supported ineligible activities. We inspected 8 FFW sites out of 16 ongoing during the April-June 1980 period. We found that in 100% of the sites visited, Title II food had been used to support ineligible activities and/or participants. For example, an activity designed to construct five fish ponds had been ongoing for about four years and used the equivalent of 2,400 labor-months in Title II rations. Only one of the five fish ponds was completed, the other four were in various stages of construction. Also, the completed pond was on a high ranking GOL official's property. If CRS/Lesotho had known the proposed fish pond locations prior to FMU food allocations, they could have either vetoed the site or requested justification concerning the public benefit. Either of these alternatives would have satisfied FFW regulations. However, since CRS/Lesotho did not have the information, appropriate action could not be taken.

Generally, Village Development Committees select FFW workers from village registration rolls. Field investigation further disclosed that the workers' selection was not necessarily based upon financial status but upon position on the registration rolls. In two villages we found villagers had to pay registration fees to be included on the registration rolls. CRS/Lesotho's information on the FFW worker selection process was insufficient to determine if worker eligibility criteria were followed.

In all eight instances we found the village selection committee members and/or FFW activity foremen selected themselves for full-time employment. As full-time employees, they worked two 15 day work periods instead of one 15 day work period as the part-time workers. Consequently, these people received twice the ration of the part-time workers. This violates AID FFW Regulations as well as the USAID approved CRS/Lesotho Operational Program Plan -- Handbook 9 Chapter 10 states:

> "...Normally, commodities are not used to pay 100 percent of compensation if workers are employed full time over an extended period. Usually, 50 percent of the compensation in commodities is the maximum."

Since CRS/Lesotho did not have statistics on full and part time FFW workers, we could not assess the extent of the violation.

With few men in the participating FFW villages, a majority of the FFW workers are women. Since most villages have sizable CRS pre-school feeding programs, there is a significant risk of duplicating recipients. Field inquiries disclosed that almost every FFW site and pre-school clinic had mothers participating in both programs. Again, we could not determine the magnitude of programs' duplication because of limited information at CRS/Lesotho.

Field investigation also disclosed that frequently the number of FFW workers authorized by FMU to receive food rations and the number actually receiving Title II commodities were different. A limited scope review of fiscal year 1980's third quarter FFW tickets showed that CRS/Lesotho issued 28,900 tickets while only 26,470 were completed and returned. Some of the 2,430 difference can be attributed to work periods beginning in one quarter and ending in another. However, we could not verify the number of individuals who received Title II food, because the FFW foreman, rather than the worker, generally signed all the work tickets.

CRS/Lesotho's end-use checks did not disclose any of these aforementioned problems because they had only one end-use checker, and he had not been adequately trained. Although the CRS/Lesotho standardized end-use check form is a five page document, the end-use checker during his field visits did not, as a normal practice, verify the actual number of workers, dependents or recipient eligibility. Generally, CRS/Lesotho management did not review the completed end-use check forms. Consequently, CRS/Lesotho did not comply with Title II regulations concerning end-use checks.

Over 1,000 FFW workers were assisting on a USAID/Lesotho financed technical assistance conservation project. However, USAID officials had not made any end-use checks or evaluated the FFW workers effectiveness. With minimal monitoring by CRS/Lesotho and none by USAID/Lesotho, the FFW activities have not received the necessary monitoring attention.

At the exit conference we were told that, because of their concerns on program productivity and the long-term objectives of the U.S. food aid program and the role of the FFW program in that strategy, USAID/Lesotho had scheduled a special in-depth evaluation. In USAID/Lesotho's response to the draft audit report they advised us that the evaluation was completed in December 1980. Originally, we recommended terminating the FFW category after fiscal year 1981 and reprogramming the food into the more effective maternal child health program. However, considering USAID/Lesotho's comments and the Mission's desire to implement substantive program changes, we recommend the following.

Recommendation No. 3

USAID/Lesotho (a) instruct CRS/Lesotho to immediately make substantive program changes to improve FFW monitoring, effectiveness and productivity, or (b) consider discontinuing the FFW Title II CRS/Lesotho program if substantive changes are not initiated before the end of fiscal year 1981.

Transportation

CRS/Lesotho's Title II commodities are landed at Durban and East London in the Republic of South Africa. Approximately 40% are landed at Durban and 60% at East London. With Mitchell Cotts, Ltd. as the forwarding agent for both locations, the goods are railed by South African Railways (SAR) to various rail heads near the Lesotho border. The goods are then off-loaded from the rail cars by an overland transporter and trucked to the eight FMU warehouse locations around the Lesotho countryside. Once the goods reach the warehouses, each clinic and FFW activity is reponsible for collecting their Title II food allocations.

Logistics problems have arisen because Lesotho is landlocked and requires complicated delivery arrangements. Commodities are rarely stored at the ports, instead SAR gives them priority as relief goods and generally off-loads the Title II food directly from ships into rail cars for the intended destinations. Logistics problems occur when two or three ships carrying Title II goods dock within a few days of each other. Excessive rail demurrage charges against the GOL are incurred when more railway cars arrive than the CRS/Lesotho overland transporters can effectively handle.

Although the GOL FMU pays the commodity demurrage charges, CRS/Lesotho has taken an active interest in minimizing the expense. In fact, this was one of the more important issues discussed by CRS and Mitchell Cotts, Ltd. management during our port visits. The discussions disclosed that the underlying cause of the problem had not been fully explored. Possible causes discussed were the scheduling of ships from the U.S., the SAR's shunting schedule, the contracted overland transporters hesitancy to hire additional laborers, and the overland transporters sometimes conflicting business priorities.

During our discussions with Mitchell Cotts we learned of the following example of demurrage charges that could have been avoided. In December 1979, Mitchell Cotts had to store Title II food for about a month because one of the contracted overland transporters had other priorities and would not accept any deliveries. The FMU Director said FMU had paid over R 25,000 or $33,750 to SAR for demurrage during the GOL fiscal year 1981 (April 1, 1980 to March 31, 1981). Nevertheless, until the cause of the problem is specifically identified, it cannot be resolved. Even though AID is not directly involved in the demurrage charges, we believe AID should help CRS/Lesotho minimize these costs to the GOL.

Recommendation No. 4

USAID/Lesotho instruct CRS/Lesotho to (a) thoroughly review the causes for demurrage, and (b) with the RFFPO take action in the best interests of the U.S. Government and the Government of Lesotho.

Claims

During our audit period, January 1, 1979 through September 30, 1980, CRS filed claims valued at R59,790.43 ($80,717.08) against the SAR, R25,900.17 ($34,965.22) against FMU, and R14,056.07 ($18,975.69) against pre-school program clinics. Both SAR and most pre-school clinics pay the claims, while FMU does not. SAR makes restitution both in cash and in kind. SAR determines the magnitude of actual losses by offsetting CRS claimed losses against reported surpluses. After reconciling the quantities, by commodity, SAR pays CRS/Lesotho for the actual value lost. Pre-school clinics make individual arrangements with CRS/Lesotho management for payments, or are placed on temporary suspension.

Between January 1979 and September 1980, CRS/Lesotho turned over claims proceeds valued at R9,753.74 ($13,167.54) to the American Embassy for deposit with the Commodity Credit Corporation. Over $95,000 are still outstanding in claims against SAR and the FMU. Although SAR does not settle CRS/Lesotho's claims immediately, restitution is made. However, this has not been the case for claims against FMU.

According to the FMU Director, FMU has no intention of paying the CRS/Lesotho claims. FMU believes the claimed losses were mainly warehouse personnel accounting errors. They attribute these errors to complicated accounting procedures and a minimally skilled staff. The FMU Director also argued that because the losses represent less than two percent of the 1980 deliveries and FMU accountants accept a five percent loss rate, the claims should be written off and not pursued.

Although the percentage of losses are minimal, Title II claims regulations are based on dollar value and not percentage. AID Regulation 11 states:

> "...That the cooperating sponsor may elect not to file a claim if the loss is less than $300 and such action is not detrimental to the program."

Regulation 11 also states:

> "Any proposed settlement for less than the full amount of the claim must be approved by the USAID or Diplomatic Post prior to acceptance."

However, we do not believe settling for no payment should be accepted as a settlement.

AID Handbook 9 Chapter 8 Section E2 provides guidance to Missions for handling claims against third parties. It authorizes Missions to assume collection responsibilities and to approve settlement for less than the full amount, subject to the limitations in Chapter 8 Section D5. Section D5 states:

> "A Mission Director or Chief of Diplomatic Mission can compromise a claim which does not exceed $20,000 if, pursuant to the compromise, he/she relinquishes no more than $10,000 of such claim; or, he/she may suspend or terminate collection action for claims not exceeding $10,000."

Under current interpretation, the USAID/Lesotho Director can terminate action on all the CRS claims against FMU, since individually they do not exceed $10,000. However, we do not believe this action would encourage FMU to upgrade the accounting skills or warehousing practices of its staff. Additionally, we do not believe this is an accurate interpretation of the regulations. Accordingly, we recommend the following.

<u>Recommendation No. 5</u>

The USAID/Lesotho Director, RFFPO/Lusaka and the Regional Legal Advisor (a) review the individual claims against FMU, and (b) press the GOL for restitution for those claims having sufficient documentation.

The FMU Director said since 1978 there have only been two cases of warehouse misuse of CRS Title II commodities. In both cases the involved employees were dismissed and in one case the goods returned. However, neither incident was reported to the AID Inspector General's Office of Inspections and Investigations (IG/II) as required by AID Handbook 24 Attachment 3F.

<u>Recommendation No. 6</u>

USAID/Lesotho (a) instruct CRS/Lesotho to formally report the two Title II thefts, (b) USAID/Lesotho submit these reports along with a report on the extent of the USAID's investigations to IG/II, and (c) USAID/Lesotho establish a IG/II reporting procedure to ensure future incidents are reported promptly.

Under AID's current interpretation of AID Handbook Chapter 8 Section D5, the $10,000 limitation is not applied toward total claims outstanding against one party. Instead the limitation is applied against each individual claim. Hypothetically this permits a Mission Director to terminate claim action against one party for amounts substantially larger than $10,000 as long as individual claims never exceed $10,000.

We believe the $10,000 limit should be applied toward total claims outstanding against one party rather than individual claims. In our opinion, the current interpretation does not allow adequate control over claims settlement or termination action. Changing the interpretation to apply the dollar limit toward total outstanding claims would encourage speedy mission settlement and enhance claims management. Accordingly, we recommend the following.

Recommendation No. 7

PDC/FFP instruct field offices to apply the $10,000 claims termination and compromise criteria to cumulative claims outstanding against one party.

New Warehouse Construction

In September 1978, USAID/Lesotho awarded CRS/Lesotho an Operational Program Grant (OPG) for $250,000 to build additional Title II warehousing space. Under the Grant Agreement 30,000 square feet in six locations were to be constructed around Lesotho. CRS was advanced the entire grant in two traches. The first tranche ($195,000) was disbursed July 13, 1979, and the second ($55,000) January 18, 1980.

Because of delays in receiving and approving bids and designs, the $250,000 was not sufficient to build in all six locations. Only three warehouses in two locations have been completed. In USAID/Lesotho's response to our draft audit report they advised us that the fourth warehouse's construction had begun and was 30% complete. They also stated, when all four warehouses are complete they will total 23,000 square feet. USAID and CRS officials attribute the failure to build nearly 25% of the warehousing space to poor initial estimates and spiralling construction and material costs. We agree that there was little USAID/Lesotho could have done to build all 30,000 square feet. The USAID advised us that subsequent to the audit a CRS/Lesotho proposal for a grant amendment of $245,000 to build 7,000 square feet at two additional locations was signed and construction related activities started.

When inspecting the three completed warehouses we did not find any signs or other public evidence that the facilities were built with USAID funds. The original Grant Agreement did not include publicity provisions nor reference to Standard Provisions Annex A which requires publicity. As AID regulations require publicity for capital projects unless specifically waived, we recommend the following.

Recommendation No. 8

USAID/Lesotho (a) amend Grant Agreement Number 78-632-28 to include publicity provisions for all the AID financed warehouses, and (b) mark completed warehouses and insure appropriate publicity is received.

EXHIBIT A

LIST OF ACRONYMS

AER	Annual Estimate of Requirements
AID	Agency for International Development
CRS	Catholic Relief Services
FFW	Food For Work
FMU	Food Management Unit
GOL	Government of Lesotho
GSS	Growth Surveillance System
MCH	Maternal Child Health
MinRuDev.	Ministry of Rural Development
MOA	Ministry of Agriculture
OPG	Operational Program Grant
OSARAC	Office of Southern Africa Regional Activities Coordination
PDC/FFP	Office of Food For Peace
PVO	Private Voluntary Organization
RFFPO	Regional Food For Peace Officer
RIG/II/Nairobi	Regional Inspector General for Inspection and Investigations
RSA	Republic of South Africa
SAR	South African Railways
WFP	World Food Program

LIST OF RECOMMENDATIONS

List of Recommendations (contd)

PL 480 TITLE II ACTIVITIES

IN LESOTHO

LIST OF REPORT RECIPIENTS

Field Offices:

USAID/Lesotho	5
RFFPO/REDSO/EA	1
RFFPO/Zambia	2
RLA/Swaziland	1

AID/Washington:

Deputy Administrator	1
AA/AFR	5
AA/LEG	1
AFR/DR	1
AFR/SA	1
DS/DIU	4
FM	1
GC	1
IDCA/LPA	1
IG	1
PDC/FFP	5
PDC/PVC	5