

~~662-987-491801~~

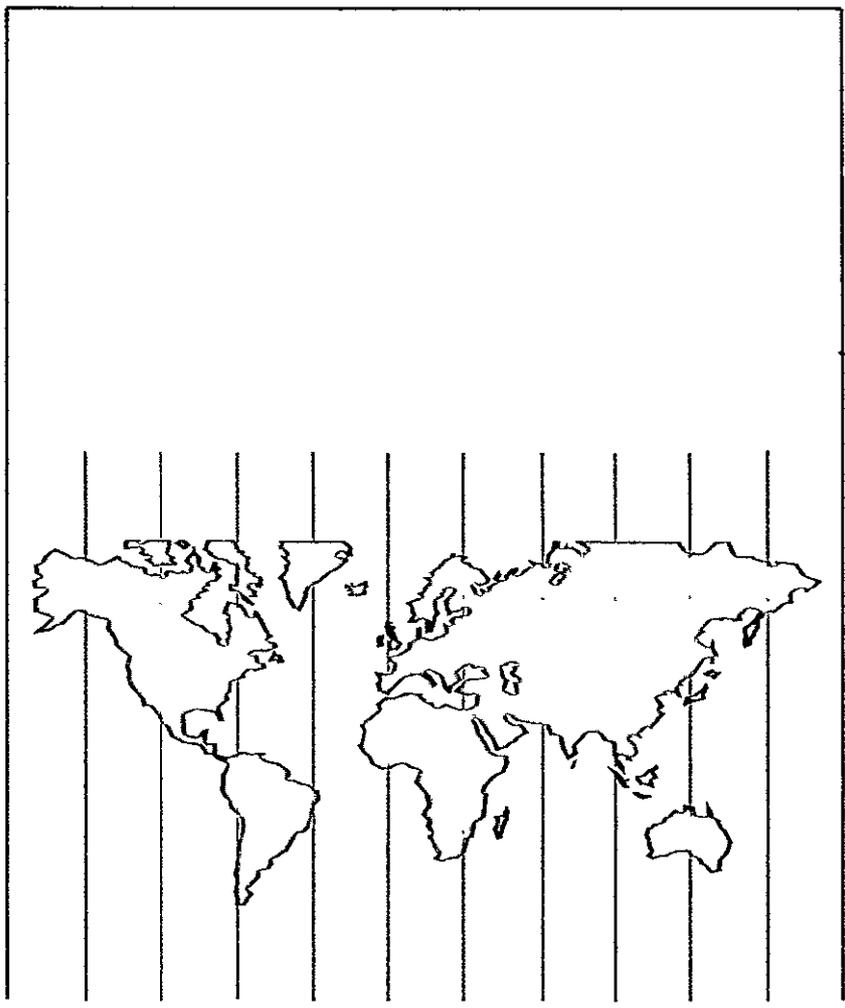
662-PL-02

PD-AAE-163

100-561

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
NAIROBI

CATHOLIC RELIEF SERVICES

PL 480 TITLE II, FOOD PROGRAM

REPUBLIC OF THE SEYCHELLES

Audit Report No. 3-637-81-13
July 29, 1981

CRS/SEYCHELLES PL 480 TITLE II PROGRAM

TABLE OF CONTENTS

	<u>Page No.</u>
EXECUTIVE SUMMARY	i
BACKGROUND	1
FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	3
Warehousing Facilities	3
Distribution of Food Commodities	5
Management Reporting	6
Program Management	7
Exhibits:	
A - Comparison of Commodities Programmed, Received and Distributed	
B - Summary of Commodity Losses	
C - List of Report Recommendations	
LIST OF REPORT RECIPIENTS	

EXECUTIVE SUMMARY

Introduction

The Republic of the Seychelles is an Indian Ocean archipelago of 92 islands inhabited by some 66,000 English and French/patois-speaking people. Located some 1,000 miles east of Kenya and slightly south of the Equator, is the principal island of Mahe, where the capital, Victoria, and 86 percent of the country's population are located.

In 1964 Catholic Relief Services (CRS) entered into an agreement with a local counterpart organization, Union Chretienne Seychelloise (UCS), to provide PL 480 Title II commodities and other assistance to the Seychelles. While not a party to the agreement, the then British colonial government issued a memorandum of understanding in which it undertook to provide duty free entry, transportation and storage facilities for the U.S. commodities imported under the program.

In January 1979, CRS/Seychelles' Program Director assumed the Title II program responsibility from UCS. He is assisted by one supervisor, one secretary and three field workers. For FY 1981, the program was designed to benefit 17,800 recipients with commodities totaling 2,085,600 pounds, valued at \$642,365.

The purpose of this audit was to evaluate the PL 480 Title II program in the Republic of the Seychelles, and to determine related CRS management effectiveness. The audit covers the period from October 1, 1978 through March 31, 1981. Previous audit reports pointed out chronic management deficiencies of the CRS program operations. We noted that CRS has made considerable improvement in management practices since the issuance of our Audit Report No. 3-637-78-24, dated June 27, 1978. However, the audit did discover and report commodity shortages which caused the Government of Seychelles (GOS) to investigate. The investigation uncovered a sophisticated theft ring that managed to steal approximately 350 bags of rice and 760 gallons of cooking oil. The matter is still under investigation. In order to prevent such theft in the future we have made various recommendations to overcome administrative and operational deficiencies found during our audit:

- More warehouse space is needed to eliminate present overcrowding in warehouses and permit easy access for physical inventories (page 3).

- Record keeping procedures need to be established by CRS to document and account for commodities (page 3).

- Physical inventories should be taken by Government of Seychelles (GOS) stores, on a regular basis, and reconciled with accountability records (pages 3 to 5).

- End-use checks should be made by CRS on a regular basis covering the port, warehouses and distribution centers (page 6).

- Procedures and internal controls should be established to insure the accuracy and completeness of CRS management reports (pages 6 and 7).

Regardless of the noted operational problems, we concluded that the PL 480 Title II commodities were used effectively to combat malnutrition and to assist the country's school lunch and preschool feeding programs.

BACKGROUND

The Seychelles is an archipelago of 92 islands off the East African coast, stretching from a point 1,000 miles due east of Kenya and south to Farquhar Island, approximately 100 miles northeast of Madagascar. Port Victoria, the principal town (and capital of the Republic of Seychelles); is located on Mahe Island. About 86 percent of the country's population, or 66,000, reside in Mahe. The most recent economic analysis (made by REDSO/EA in 1977) found that the agricultural potential of the Seychelles is not great; and that the country can never be expected to become self-sufficient in food production, especially in foodgrains.

In 1964, the Union Chretienne Seychelloise (UCS), a Catholic lay organization active in Seychelles, appealed to Catholic Relief Services (CRS) for assistance, including the provision of food commodities. At that time, the UCS in conjunction with the colonial government's Department of Education, was conducting a school feeding program reaching approximately 1,000 public and parochial school recipients. In addition, there was also felt a need to provide food supplements to approximately another 1,500 orphans, nursery school children and needy families. That November, an agreement was concluded between CRS and the UCS. Concerning the UCS request for food assistance, the agreement reads that CRS will..."for its food assistance program, request from the Government of the United States, not only the food needed, but also the ocean freight necessary to bring such food from the United States to the Seychelles at no cost to either the Government of the Seychelles or the Union Chretienne or any other agency or person in the Seychelles...."

Since its inception 14 years ago, the UCS-CRS Title II program has reflected in microcosm, changes in the USG's priorities covering the application of humanitarian food aid. The recipient levels in the original annual estimate of requirements were approved at 4,000 school feeding and 100 summer camp recipients, plus a small number of individual health care, family feeding and welfare cases which were phased out a year later. Presently, the number of recipients total 18,256 -- 39 schools with 11,427 recipients, 31 creches (day care centers) with 1,259 recipients, and 23 maternal child health (MCH) clinics with 5,570 recipients. The schools, day care centers and clinics are located on the islands of Mahe, La Digue, and Praslin.

The school feeding program has been operated by the Ministry of Education for many years. CRS has assisted the Ministry by providing commodities, such as oil, rice, and milk, which is complemented by the provision of fish, chicken, and local vegetables by the Ministry. Further, the Ministry of Education maintains a central kitchen in Victoria to service the urban schools with hot lunches. Outlying schools receiving Title II commodities purchase condiments and prepare their own lunches.

The goals of the MCH program are:

- To educate parents (of the recipients) in the role proper nutrition plays in the health of their children and on the progress of the nation.

- Economically, to enable parents to provide adequate nutrition for their children.

- To improve the nutritional status of children in order that they take full advantage of opportunities offered in early life.

- To contribute towards decreased mortality and morbidity rates.

In order to promote and implement a program aimed at mitigating and preventing malnutrition in pre-school age children and to educate mothers in health and nutrition, the Public Health Division of the GOS Ministry of Health has been implementing a MCH program. At monthly clinics and day care centers, Public Health personnel assess each participating child's health status. An indicator card which plots the child's rate of weight gain against a desired weight curve for his/her particular age is retained by the mother, in order that she see a visual relationship between health and proper nutrition.

The CRS PL 480 commodity approvals have increased over the years as follows (see Exhibit A):

	<u>Number of Recipients</u>	<u>Commodities (in pounds)</u>	<u>CCC plus Ocean freight</u>
Fiscal Year 1979	<u>11,700</u>	<u>1,213,432</u>	<u>\$299,335</u>
Fiscal Year 1980	<u>12,300</u>	<u>1,263,240</u>	<u>\$374,762</u>
Fiscal Year 1981	<u>17,800</u>	<u>2,085,600</u>	<u>\$642,365</u>

Although the program for FY 1981 was designed to benefit 17,800 recipients, our review showed that as of March 31, 1981, the program was feeding a total of 18,256 recipients. This was due to new school's being opened, and the Government's intent to provide school lunches for all students.

To implement its program, CRS/Seychelles employs a program director, secretary, MCH supervisor and three MCH field workers.

Purpose and Scope

The overall purpose of our audit was to determine the effectiveness of the PL 480 Title II program in the Republic of the Seychelles.

We held discussions with responsible program officials and examined records and supporting documents on file with REDSO/EA Regional Food for Peace Office in Nairobi and CRS/Seychelles in Victoria. Site visits were made at the port, warehouses, central kitchen and clinics.

The audit covered the period from October 1, 1978 through March 31, 1981.

Prior Audit Recommendations

Our last Audit Report No. 3-637-78-24 was issued on June 27, 1978, and covered the period from April 1976 through May 1978. CRS' last internal audit report was dated December 6, 1978 and covered the period from October 1, 1976 through September 30, 1978. Progress had been achieved in implementing the related recommendations; however, when considered necessary we have reiterated corrective action in this report.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Warehousing Facilities:

To enhance the accuracy of accountability records, physical inventories must be taken periodically and reconciled to commodity records. Further, adequate warehouse space is required so that commodities can be stacked to permit easy access for physical count.

We inspected the three warehouses in which CRS stores its commodities (one Ministry of Agriculture warehouse, and two Ministry of Health warehouses). The warehouses were well secured with two padlocks on each door, commodities were stored on pallets, and the warehouses seem to be rat and bird-proof. However, commodities were stacked to the ceiling in each warehouse due to the lack of adequate space. This situation precluded taking accurate physical inventories. In response to this observation, CRS advised the GOS that additional warehouse space was needed.

When we visited the Ministry of Education warehouse where CRS stored its rice, we found a difference of 50 bags or 5,000 pounds of rice between the warehouse tally sheet (893 bags), and the shipping ledger P/L 133 (943 bags).

When analysing this difference, we noted that five quarterly inventories for the period from September 30, 1979 through September 30, 1980, were based on estimates because of the crowded warehouses.

At first, the Program Director said that the 50 bag difference was due to an issuance voucher which had not been posted to the accountability records. However, during the exit conference, the Program Director stated that there was no unposted issuance voucher, and that the 50 bags of rice could have

been transported from the port to a different warehouse. The Program Director indicated that follow-up would be made immediately. The follow-up was to include a physical inventory of the warehouse, and a reconciliation with the accountability records which had not been done because the commodities were stacked to the ceiling.

When responding to our draft audit report, Embassy/Victoria stated:

"Following the departure conference between the AID Auditor, CRS Seychelles Director, and Charge, the CRS Director checked on the 50 bags of rice missing from the warehouse, and in the process discovered criminal fraud in the distribution of the foodstuffs from the hospital. His investigation spotted a loss of at least 252 bags of rice from the hospital. He immediately notified in writing the Ministry of Health official responsible, and the Charge notified the principal secretary to the President, the Commissioner of Police, and the Minister for Planning and Development. The GOS investigation has now uncovered a sophisticated theft ring involving staff personnel of the Ministry of Health as well as lower-level truck drivers and laborers. A total of 350 bags of rice now appear to have been stolen, along with at least 760 gallons of cooking oil. The investigation is continuing.

Embassy/Victoria wishes to commend auditor for spotting the initial discrepancy in recordkeeping which led to the discovery of the fraud and theft in the Seychelles CRS program.

Embassy expects GOS to pursue the investigation with vigor ... President Rene himself expressed chagrin at the theft and noted that the Americans themselves had uncovered the operation. Seychelles had previously enjoyed an enviable reputation for receiving foreign assistance and handling it without corruption. This track mark on Seychelles' record has shown President Rene and his officials that proper recordkeeping, accountability, and supervision are required. Embassy will report further developments as appropriate."

Upon receipt of this information AID's Regional Office of Inspections and Investigations (RIG/II/Nairobi) was notified, and Embassy/Victoria was requested to keep us and RIG/II/Nairobi advised.

RECOMMENDATION NO. 1

Embassy/Victoria ensure that CRS follows through with its request to the GOS for additional warehouse space.

Distribution of Food Commodities

We visited seven Maternal Child Health (MCH) clinics out of the total of 23 clinics and observed the issuance of food to recipients. Food is picked up daily from the GOS store by GOS trucks for delivery to the various clinics. Each truck has a crew of three GOS employees and one CRS employee. The CRS employee is responsible for collecting the fees and issuance of the receipts to the recipients, while the GOS employees issue food to those recipients having receipts and to those authorized to receive food free. When the distribution is completed, the GOS employees report the amount of food issued to the CRS employee, who in turn reports the amount to the GOS storekeeper. The storekeeper posts the reported issues to its monthly commodity control report and submits a copy of this report to CRS each month.

We compared the reported issues made to recipients at seven clinics (Port Glaud, Beoliere, Anse Aux Pins, Anse Boileau, La Misere, English River, and Anse Etoile) over a period of seven days, with the receipted plus free issues; and found discrepancies as follows:

	Pounds			
	<u>Oil</u>	<u>Rice</u>	<u>Milk</u>	<u>Total</u>
Reported issues	1,009	4,200	2,894	8,103
Receipted plus free issues	<u>947</u>	<u>3,036</u>	<u>2,853</u>	<u>6,836</u>
Unaccounted losses	<u>62</u>	<u>1,164</u>	<u>41</u>	<u>1,267</u>

(If the unaccounted losses at these seven clinics were mathematically extrapolated to include all 23 clinics, losses in the period of one year would exceed 140,000 pounds with a value of more than \$40,000.)

We observed that the reported issues and the receipted plus free issues were not reconciled, nor did the storekeeper take physical inventories to confirm the month-end balances shown in the commodity control reports.

The differences occurring between "reported issues" and "receipted issues" point to the need for regular reconciliations and physical inventories. Desirably, the GOS should establish procedures whereby physical inventories are taken quarterly and reconciled to the GOS accountability records.

RECOMMENDATION NO. 2

Embassy/Victoria ensure that CRS (a) reviews the differences between reported issues and receipted issues, and (b) has the GOS establish appropriate reconciliation and inventory controls.

Additional control would be achieved by having the program's conditions and procedures periodically reviewed by end-use checkers. Although the Program Director and CRS supervisor make periodical visits to the schools and clinics, their visits are management oriented visits which are concerned with overall operation of the activity; their visits are not the same as that of an end-use checker, and the operating personnel know this as well. AID Regulation 11, Section 211.5(b) states that:

"Cooperating sponsors shall provide adequate supervisory personnel for the efficient operations of the program, including personnel to plan, organize, implement, control, and evaluate programs involving distribution of commodities, and, in accordance with AID guidelines, to make internal reviews, including warehouse inspections, physical inventories, and end-use checks."

The end-use checks should include, at least, a review of accountability records, inspections of facilities and commodities, observing the distribution of food, taking physical inventories and reconciling the inventories to accountability records. The end-use checks should be well documented, maintained for future use, and a follow-up system be established to insure that corrective action is implemented when required.

RECOMMENDATION NO. 3.

Embassy/Victoria ensure that CRS establishes and implements procedures, as noted in the prior paragraph, whereby end-use checks are made on a regular basis covering the port, warehouses and distribution centers.

Management Reporting

Our review of the Commodity Status Reports for the period from October 1, 1978 through December 31, 1980, revealed that these reports were not completely accurate. Losses from contaminated food were omitted as follows:

	<u>Pounds</u>	<u>Amount</u>
Fiscal Year 1979	4,900	\$ 736
Fiscal Year 1980	37,516	6,020
1st Quarter of Fiscal Year 1981	5,450	891
Total losses omitted	<u>47,866</u>	<u>\$7,647</u>

Although these losses were properly documented and the proceeds turned over to AID (see Exhibit B), they were not included in the Commodity Status Report.

We also noted that some of the inventory counts included in these reports for the period from September 30, 1979 through September 30, 1980, were based upon estimates due to inadequate warehouse space. However, once Recommendation No. 2 is implemented, the accuracy of the Commodity Status Reports should improve.

RECOMMENDATION NO. 4

Embassy/Victoria ensure that
(a) CRS include all losses in its Commodity Status Reports, and (b) to the extent possible, require these reports be based upon physical inventories rather than estimates.

Program Management

Our last Audit Report No. 3-637-78-24, dated June 27, 1978 pointed out chronic management deficiencies in CRS's operation of the PL 480 Title II program. Since then, CRS's recordkeeping, reporting, and other management practices have improved considerably since arrival of the present Program Director in January 1979. However, the discovery of theft and fraud in the program reemphasizes the need to strengthen accountability and other administrative controls as discussed in this report.

The overall management of the Seychelles' PL 480 Title II Food for Peace program is the responsibility of the Chargé d'Affaires, Embassy/Victoria, who also performs as the AID Representative. Reports and records indicate that the Chargé has good relationships with the GOS and CRS officials and has helped to effect improvements in the overall management of the program.

Also, the Regional Food for Peace Officer, located in Nairobi, continuously monitors the program by review of program and status documentation as well as performing periodic inspection visits to the Seychelles.

EXHIBIT A

CATHOLIC RELIEF SERVICES/SEYCHELLES, P.L. 480 TITLE II FOOD PROGRAM
A COMPARISON OF COMMODITIES PROGRAMMED, RECEIVED AND DISTRIBUTED
FOR THE PERIOD FROM OCTOBER 1, 1978 THROUGH DECEMBER 31, 1980

FISCAL YEAR	PLANNED PER AER'S			COMMODITIES RECEIVED			COMMODITIES DISTRIBUTED		
	NUMBER OF RECIPIENTS	POUNDS	CCC + OCEAN FREIGHT COSTS	POUNDS	CCC + OCEAN FREIGHT COSTS	PERCENT OF COMMODITIES RECEIVED TO PLANNED	POUNDS	CCC + OCEAN FREIGHT COSTS	PERCENT OF COMMODITIES DISTRIBUTED TO RECEIVED
<u>FISCAL YEAR 1979:</u>									
BULGAR	11,700	389,193	\$ 70,055	302,436	\$ 53,406	78%	264,436	\$ 47,598	87%
CSM	"	523,752	\$ 125,700	419,120	\$ 101,003	80%	275,870	\$ 66,209	66%
OIL	"	101,816	\$ 51,926	85,147	\$ 44,410	84%	78,733	\$ 40,154	92%
MILK	"	198,671	\$ 51,654	114,496	\$ 30,460	58%	74,682	\$ 19,417	65%
TOTAL	11,700	1,213,432	\$ 299,335	921,199	\$ 229,279	76%	693,721	\$ 173,378	75%
<u>FISCAL YEAR 1980:</u>									
BULGAR	12,300	-0-	\$ -0-	-0-	\$ -0-	-0-	36,000	\$ 6,480	-0-
CSM	"						132,800	\$ 31,872	
OIL	"	140,360	\$ 71,584	103,491	\$ 53,664	74%	85,259	\$ 43,482	82%
MILK	"	561,440	\$ 151,589	149,226	\$ 40,984	27%	138,646	\$ 37,434	93%
RICE	"	561,440	\$ 151,589	609,794	\$ 164,135	109%	424,803	\$ 114,697	70%
TOTAL	12,300	1,263,240	\$ 374,762	862,511	\$ 258,783	68%	817,508	\$ 233,965	95%
<u>FISCAL YEAR 1981:</u>									
						(REPRESENT 1ST QUARTER OF FISCAL YEAR 1981)			
OIL	17,800	417,120	\$ 200,218	50,430	\$ 24,216	12%	32,613	\$ 15,654	65%
MILK	"	834,240	\$ 233,587	198,408	\$ 56,648	24%	63,490	\$ 17,777	32%
RICE	"	834,240	\$ 208,560	412,737	\$ 103,835	49%	236,381	\$ 59,095	57%
TOTAL	17,800	2,085,600	\$ 642,365	661,575	\$ 184,699	32%	332,484	\$ 92,526	50%

CATHOLIC RELIEF SERVICES/SEYCHELLES - P.L. 480 TITLE II FOOD PROGRAM
SUMMARY OF COMMODITY LOSSES
FOR THE PERIOD FROM OCTOBER 1, 1978 THROUGH DECEMBER 31, 1980

EXHIBIT B

	<u>MARINE LOSSES</u>		<u>CRS WAREHOUSE LOSSES</u>		<u>CONTAMINATION LOSSES</u>		<u>TOTAL LOSSES</u>		<u>TOTAL RECEIPTS IN POUNDS</u>	<u>PERCENTI OF LOSSES TO RECEIPTS</u>
	<u>POUNDS</u>	<u>COSTS</u>	<u>POUNDS</u>	<u>COSTS</u>	<u>POUNDS</u>	<u>COSTS</u>	<u>POUNDS</u>	<u>COSTS</u>		
<u>FISCAL YEAR 1979:</u>										
BULGAR	564	\$ 102	200	\$ 36	450	\$ 37	1,214	\$ 175		
CSM	230	\$ 55	5,800	\$1,392	4,450	\$ 699	10,480	\$2,146		
OIL	2,264	\$1,155	369	\$ 188	-	-	2,633	\$1,343		
MILK	1,054	\$ 274	1,600	\$ 416	-	-	2,654	\$ 690		
TOTAL	4,112	\$1,586	7,969	\$2,032	4,900	\$ 736	16,981	\$4,354	921,199	1.8%
<u>FISCAL YEAR 1980:</u>										
BULGAR	-	-	1,750	\$ 315	1,000	\$ 93	2,750	\$ 408		
CSM	-	-	3,800	\$ 912	29,700	\$4,836	33,500	\$5,748		
OIL	829	\$ 423	1,433	\$ 731	-	-	2,262	\$1,154		
MILK	32	\$ 9	5,466	\$1,476	6,716	\$1,075	12,214	\$2,560		
RICE	7,706	\$2,081	3,400	\$ 918	100	\$ 16	11,206	\$3,015		
TOTAL	8,567	\$2,513	15,849	\$4,352	37,516	\$6,020	61,932	\$12,885	862,511	7.2%
<u>1ST QUARTER OF FISCAL YEAR 1981:</u>										
OIL	251	\$ 120	231	\$ 111	-0-	\$ -0-	482	\$ 231		
MILK	3,600	\$1,008	324	\$ 91	4,750	\$ 760	8,674	\$1,859		
RICE	2,563	\$ 641	7,100	\$1,775	700	\$ 131	10,363	\$2,547		
TOTAL	6,414	\$1,769	7,655	\$1,977	5,450	\$ 891	19,519	\$4,637	661,575	3.0%

1/

1/

2/

- 1/ These losses were properly reported to CRS's New York Office and the AID Representative for filing loss CLAIMS.
- 2/ The majority of this food was contaminated by weevils while in GOS stores. This food has been properly documented, reported to the AID Representative for approval, disposed of and all proceeds turned over to AID. However, these losses were not included in the CRS's "Quarterly Commodity Status Reports."

CRS/SEYCHELLES PL 480 TITLE II PROGRAM

LIST OF RECOMMENDATIONS

	<u>Page</u>
<u>Recommendation No. 1</u>	4
Embassy/Victoria ensure that CRS follows through with its request to the GOS for additional warehouse space.	
<u>Recommendation No. 2</u>	5
Embassy/Victoria ensure that CRS (a) reviews the differences between reported issues and receipted issues, and (b) has the GOS establish appropriate reconciliation and inventory controls.	
<u>Recommendation No. 3</u>	6
Embassy/Victoria ensure that CRS establishes and implements procedures, as noted in the prior paragraph, whereby end-use checks are made on a regular basis covering the port, warehouses and distribution centers.	
<u>Recommendation No. 4</u>	7
Embassy/Victoria ensure that (a) CRS include all losses in its Commodity Status Reports, and (b) to the extent possible, require these reports be based upon physical inventories rather than estimates.	

CRS/SEYCHELLES PL 480 TITLE II PROGRAM

LIST OF RECIPIENTS

No. of Copies

Field Offices:

U.S. Ambassador to Kenya and Seychelles	1
Charge d'Affaires, Embassy/Victoria	5
REDSO/EA	3

AID/Washington:

Deputy Administrator	1
AA/FVA	5
AA/AFR	5
AA/LEG	1
IG	1
GC	1
FM/ASD	1
IDCA/LPA	1
FVA/FFP	2
AFR/EA	1
PPC/E	1
DS/DIU	4