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AUDIT REPORT

REVIEW OF EMERGENCY FOOD ASSISTANCE PROVIDED TO NICARAGUA

USAID/NICARAGUA

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**REVIEW OF EMERGENCY FOOD ASSISTANCE
PROVIDED TO NICARAGUA
USAID/NICARAGUA**

PREFACE

The United States Government has suspended its assistance program to the Government of Nicaragua for an indefinite period. The field work and exit conference on this audit were completed before the assistance program was suspended. Therefore, the report has been issued and many of the recommendations we have made should be implemented now. Further, we believe that all the recommendations should be implemented before the United States Government provides any substantial amount of new assistance to the Government of Nicaragua.

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USAID/NICARAGUA**

EXECUTIVE SUMMARY

Introduction

In July 1979, the United States Government initiated a program of emergency food assistance to Nicaragua. Other friendly nations also assisted Nicaragua with food donations. The conditions requiring the emergency assistance resulted from severe civil strife in Nicaragua. On July 19, 1979, the Government in Nicaragua was overthrown and its President was replaced by a five person board.

The United States Government's emergency food assistance program to Nicaragua was carried out under five projects involving the procurement and distribution of 121,772 metric tons of commodities costing around \$30 million. Program commodities consisted of corn, rice, vegetable oil, cereal soya milk, wheat flour, non-fat dry milk, beans and sorghum. Commodities were provided through an international organization, government to government activities, and a private voluntary organization. The food was provided for free distribution to the victims of the civil strife. Funds were also provided to purchase food grains in Nicaragua for distribution and to help stabilize food grain prices.

Scope

This audit covered the period from July 1979, to December 31, 1980. Our review was directed toward an evaluation of the receiving, storing, handling, distributing and use of program commodities, as managed by the Nicaraguan Government, an international institution and the private voluntary organization. Also, USAID/Nicaragua's monitorship of the program was evaluated.

Conclusions and Recommendations

The United States Government emergency food assistance program to Nicaragua achieved its overall objective of providing needed food to the Nicaraguan people. However, the government to government project, one of the five segments of the program, fell far short of achieving its food distribution objectives. At December 31, 1980, the project was 13 months behind schedule and only 2,744 of the 12,567 metric tons of food received had been distributed to recipients. The Government of Nicaragua lacked adequate logistics, administrative capabilities, trained personnel and experience in food distribution projects. A summary of each of the five segments of the program is presented below.

International Committee of the Red Cross

The International Committee of the Red Cross distributed over 3,300 metric tons of P. L. 480, Title II commodities. A required final report

showing the quantity and location of food distributed, and the number of recipients receiving food had not been prepared. The report's information is needed to evaluate the impact of the food assistance program (page 6).

Government to Government Project

The three-month government to government program was far behind schedule. As of December 31, 1980, 16 months after the program began in September 1979, only 2,744 of the 12,567 metric tons of food received had been distributed. The main reasons for distribution delays were the Government lacked trained personnel, inadequate transportation and the Government's inability to expand its food-for-work program. (After the civil war, the exodus of Nicaraguans had drained the country of thousands of professionals, technicians and managerial and administrative personnel.) Program objectives need to be redefined (page 7).

Inventory control procedures had not been established at the National Supply Center, Ministry of Social Welfare and at the Corinto Regional Warehouse to ensure effective control of commodities. A well defined distribution plan had not been prepared to ensure effective utilization of program commodities (page 8).

The Ministry of Social Welfare had engaged in food distribution activities which were in conflict with P.L. 480, Title II regulations. Commodities had been sold, exported, exchanged, loaned and given to unauthorized recipients. In addition, some of these sale/exchange transactions might result in windfall benefits of \$253,640 to the Government of Nicaragua (page 9).

CARE's School Feeding Project

Commodities (1,043 metric tons) that were received for carrying out a school feeding program had not been fully utilized. The distribution of food to schools was delayed because the Nicaraguan Government suspended classes to permit students and teachers to assist in carrying out a national literacy campaign. Other delays were attributed to lack of kitchen facilities at the school level and to organizational and budgetary problems (page 16).

Although the project requires that an evaluation be made to measure the impact the food will have on the school children, no procedures had been established to gather statistical information (page 19).

Emergency Cash Transfer Grant

The Nicaraguan implementing agency purchased \$1 million of grains with funds that were allocated for procuring supplies and equipment. Although the Mission approved the transaction, AID/Washington was not informed of the change in the use of the funds. Mission personnel explained the funds were used for another purpose because the supplies and equipment were to be furnished by the European Economic Community (page 20).

Commodity Sales Agreement, P.L. 480, Title I

Port facilities need to be improved to assure commodities are physically accounted for. The port at Corinto did not have adequate weighing scales to account for the grains received in bulk. Grains were weighed at inland processing factory sites. Claims for losses totalling \$40,000 could not be claimed because the grains were not accounted for at the port (page 23).

A reconciliation of Title I accounts on commodities transactions had not been made because required procedure had not been established. Consequently, United States Government billings had not been reconciled to the local currency equivalent amounts deposited in the Central Bank. We found a difference of \$43,765 between the U.S. Dollar billings and the proceeds accruing to the Government of Nicaragua from the sales of commodities (page 25).

Government reporting to USAID/Nicaragua needs improvement. The two commodity reports prepared and completed by the Government of Nicaragua contain conflicting data on the quantities of commodities received. We noted there was a difference of 163 metric tons of wheat (valued at \$32,500) between the two reports (page 25).

A National literacy campaign project financed with P.L. 480, Title I sales proceeds of \$2.6 million was approved by USAID/Nicaragua without considering other international donors' contributions. The \$2.6 million generated for the campaign were not used as envisioned because the other international donors' contributions reduced the need for Title I sales proceeds. Literacy campaign funds totalling \$2.1 million were not used and should be made available for reprogramming (page 26).

General

CARE and the Government of Nicaragua had not established a publicity program to give public recognition that the commodities have been donated by the people of the United States. Some community leaders and food recipients were not aware the food was a donation from the people of the United States and others felt the food came from Cuba, Russia or friendly countries (page 29).

USAID/Nicaragua's monitoring of projects activities was not too effective because of the lack of cooperation and communication with Government of Nicaragua officials. This resulted in commodities not being effectively used. Mission personnel claimed that initial monitoring, especially field inspections, was hindered by the political and unstable conditions existing in Nicaragua. Conditions have improved but additional changes should be made (page 30).

We have made 23 recommendations addressing the major deficiencies discussed in this report (Appendix A).

BACKGROUND

The United States Government initiated a program of emergency food assistance to Nicaragua in July, 1979. Other friendly nations also assisted Nicaragua with food donations. The conditions requiring the emergency assistance resulted from civil strife in Nicaragua. On July 19, 1979, the Government in Nicaragua was overthrown and its President was replaced by a five person board.

United States assistance was provided under five emergency projects involving the procurement and distribution of 121,772 metric tons of commodities costing about \$30 million. The five projects were:

<u>Project 1/</u>	<u>Metric Tons Received or Purchased</u>	<u>Cost of Food In US Dollars (000 omitted)</u>
International Committee of the Red Cross Food Distribution Public Law 480, Title II	4,237	\$ 1,670
Government to Government Food Distribution Public Law 480, Title II	12,567	3,743
CARE's School Feeding Public Law 480, Title II	1,043	554
Emergency Cash Transfer Grant for Grain Purchases Economic Support Funds	33,725	6,000
Commodity Sales Agreement Public Law 480, Title I	<u>70,200</u>	<u>17,600</u>
Total	<u>121,772</u>	<u>\$29,567</u>

1/ Detail on each project provided in EXHIBIT A

International Committee of the Red Cross Project

The United States Government's emergency food assistance to Nicaragua was initiated through the International Committee of the Red Cross. On July 17, 1979, Transfer Authorization (TA) 524-xxx-000-9602 was issued which authorized the acquisition and shipment of commodities to Nicaragua for free distribution to victims of the civil strife. The International Committee of the Red Cross determined what commodities and quantities were needed and deliveries were made based on these determinations. Because of the urgent needs, commodities provided under other P.L. 480, Title II agreements to Costa Rica, Guatemala, Panama and El Salvador were gathered up and shipped to Nicaragua as well as

commodities being shipped directly from the United States to Nicaragua. The commodities taken from other countries were replaced with commodities financed with TA 9602 funds.

A total of 4,237 metric tons of food costing about \$1.7 million (exclusive of transportation costs) was provided to Nicaragua under TA 9602. By July 31, 1980, the International Committee of the Red Cross and its counterpart, the Nicaraguan Red Cross, had distributed 3,325 of the 4,237 metric tons received. The remaining 912 metric tons were transferred to the Government of Nicaragua for free distribution.

Government to Government Project

To further alleviate the food shortage in Nicaragua, the United States Government agreed to provide emergency food assistance program under Transfer Authorization (TA) 524-xxx-000-9603 issued on August 30, 1979, to the Government of Nicaragua. TA 9603 provided for the purchase and delivery of 13,000 metric tons of food with an estimated value of \$3.3 million, exclusive of transportation costs.

The commodities were to benefit some 600,000 victims of the civil strife in Nicaragua, especially those in the Managua area. Food was to be distributed free of cost during a 3 month period (September to November 1979) within the distribution channels specified in the Nicaraguan Ministry of Social Welfare's plan of operations. Nicaraguan officials were to decide which recipients were to receive the commodities. Each person selected was to receive approximately one pound of vegetable oil, two pounds of non-fat dry milk and seven and one-half pounds of cereals.

TA 9603 provided for the delivery of 5,000 metric tons of wheat which was to be turned over to the Government to be disposed of within Nicaragua in accordance with the Government's wishes. The value of the wheat was established at \$865,000. Corn and/or rice of an equal value were to be provided for free distribution to the victims of the civil strife by the Ministry of Social Welfare.

Empresa Nicaraguense de Alimentos Básicos, the Government of Nicaragua marketing organization, received 4,641 metric tons of wheat with an estimated value of \$834,944 (excluding ocean transportation cost). The wheat was sold to the country's three flour mills for a total price of \$810,992.

On May 28, 1980, TA 9603 was amended to provide for the exchange of up to 845 of the 2,000 metric tons of non-fat dry milk received for an equal value of corn, rice, or beans, or a combination of the three commodities. The value of the milk was established at \$327,860. In addition, this amendment authorized the Government to sell 3,750 of the 5,000 metric tons of yellow corn (75 percent). The value of the yellow corn was established at \$124 per metric ton. The proceeds from the sale of the yellow corn were to be deposited in a special account and were to pay for local distribution, transportation, storage, and fumigation costs of P.L. 480, Title II commodities.

CARE's School Feeding Project

CARE's school feeding project, initiated under an agreement signed on February 29, 1980, was to assist the Government of Nicaragua in establishing an efficient delivery mechanism for the introduction of a school feeding program in approximately 335 schools. About 51,000 primary school children were to receive food in the departments of Masaya and Esteli. The United States Government had provided 1,043 metric tons of P. L. 480, Title II commodities with an estimated value of \$554,352 as of December 31, 1980. About 2,270 metric tons of food valued at \$1.4 million should be delivered during the life of the project.

The school feeding project was originally approved as an emergency two-year response to critical educational and nutritional programming needs. Since the physical infrastructure at the school level was known to be deficient, USAID/Nicaragua approved a complementary Outreach Grant of \$213,500 to create a warehousing capability at the regional level.

Concerns were expressed about inadequate school-level facilities, such as, storage and cooking facilities, lack of potable water and latrine facilities. At the conclusion of our audit, CARE was negotiating an agreement with the Nicaraguan Ministry of Education for the construction of wells, kitchens, and latrines at the primary school level in the departments of Masaya and Esteli. Until these facilities are completed, the school feeding program will continue to be implemented with sub-par physical facilities at the school level.

Emergency Cash Transfer Grant for Grain Purchases

AID entered into Grant Agreement No 524-K-601 on September 30, 1979 with the Government of Nicaragua to provide an emergency cash transfer of \$8 million for reconstruction and rehabilitation activities. The civil strife strained the country's financial resources and left Nicaragua's economy in shambles. The \$8 million emergency cash transfer was to provide immediate budgetary support for critical reconstruction and rehabilitation activities and to provide much needed foreign exchange to help maintain economic stability and ameliorate balance of payment problems.

Local currency generated by the grant was to be used to support a grain stabilization program (\$6 million) and a shelter program (\$2 million). The local currency generated was to finance the purchases of rice, sorghum, beans, corn, supplies and equipment for the grain stabilization program as well as construction materials and contract services to repair or replace homes that were damaged or destroyed in the civil war. Utilization of local currency for the grain stabilization program was managed by the Empresa Nicaraguense de Alimentos Básicos and for the shelter program by the Ministry of Housing.

More than 400,000 small farmers were to benefit from the grain stabilization program. Also, about 250,000 of the urban poor population were to be able to buy grains at reasonable prices.

As of April 30, 1980, local currency generations equivalent to \$6 million had been used to buy grains from local farmers. The proceeds were being recycled and incorporated into Empresa Nicaraguense de Alimentos Básicos working capital to support its grain operations.

Commodity Sales Agreement, P. L. 480, Title I

An agreement for the sale of agricultural commodities under the provisions of Title I of the Agricultural Trade Development and Assistance Act (Public Law 480) was signed on August 31, 1979, between the United States and Nicaraguan Governments. The agreement, as amended, provided for the sale of 70,200 metric tons of food (wheat 60,000 and vegetable oil 10,200) with a maximum export market value of \$17.6 million. The proceeds from the sale of commodities in Nicaragua were to be used to finance self-help measures which contribute directly to the development of rural areas and enable the poor to actively participate in increasing agricultural production through small farm agriculture. Sale proceeds could also be used to finance activities related to the reconstruction and recovery program, particularly in the agricultural sector.

As of October 31, 1980, the Empresa Nicaraguense de Alimentos Básicos had received 68,508 metric tons of commodities with an invoiced value of \$17.4 million. USAID/Nicaragua informed us that all programmed commodities had been received by December 31, 1980.

The Nicaraguan Government received the equivalent of \$17.6 million in local currency from the sale of commodities imported under the P.L. 480, Title I agreement. As of December 31, 1980 the Government of Nicaragua had programmed \$15.8 million of \$17.6 million for self-help activities:

<u>Activity</u>	<u>Amount In US Dollars (000 omitted)</u>
National Literacy Campaign	\$ 2,600
Refugee Support Program/Rehabilitation and Improvement of Roads	230
Rural Education Development	2,500
Julio Buitrago Complex Housing	5,000
Component Training Centers	470
Rural Infrastructure Development	<u>5,000</u>
Total Programmed	<u><u>\$15,800</u></u>

The remaining \$1.8 million was being considered by the Government for rural water systems and nutrition activities projects.

Activity agreements had been signed for the first two projects. The remaining projects were in various stages of planning.

Scope

We made an initial audit of the United States Government emergency food assistance program to Nicaragua covering the period from July 1979, through December 31, 1980. The principal objectives of our audit were to determine if commodity distribution targets were accomplished; whether sales proceeds were being used as programmed, and to assess program management by USAID/Nicaragua, the cooperating sponsors and counterpart organizations.

Our examination was made in accordance with generally accepted auditing standards and included a review of the records and files of the projects; discussions with officials of USAID/Nicaragua, cooperating sponsor, counterpart institutions and individual recipients; field trips to selected program areas in the departments of Chinandega, Matagalpa, Esteli, Managua and Masaya; and such other auditing procedures as we considered necessary.

Our field inspections included:

- 11 regional warehouses to evaluate the storage and handling of program commodities.
- 9 processing plants including branch plants to determine whether P.L. 480, Title I bulk commodities were properly received, processed and distributed.
- 13 primary schools to evaluate cooking and storage facilities as well as commodity utilization.
- 19 food for work project sites to evaluate community efforts and support of the program.
- the Managua Central Market (Mercado Oriental) to determine if P.L. 480, Title II commodities were being sold.
- the Corinto Port to evaluate its facilities and observe offloading of bulk commodities under the P.L. 480, Title I sales program.

Our review was made between September 1980 and February 1981. Audit findings and recommendations, in draft, were provided and USAID/Nicaragua for review and comment. Its comments were considered and incorporated in the final report as appropriate.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

International Committee of the Red Cross

A completion report describing emergency food distribution activities had not been prepared by the International Committee of the Red Cross. The completion report was required by Transfer Authorization No. 524-xxx-000-9602 dated July 17, 1979. The final completion report was needed so an evaluation of the impact of the emergency food assistance provided could be made.

Section 7(b) of TA 9602 required the International Committee of the Red Cross to provide a final report to the U.S. Embassy which included the quantity of commodities distributed as well as the location and number of recipients that actually received the food. The International Committee of the Red Cross depended on the Nicaraguan Red Cross for this report, but personnel turnover at the national level has delayed its preparation. USAID/Nicaragua was assigned the monitoring responsibilities for activities under TA 9602 but in our opinion was not forceful enough in persuading compliance with the reporting requirements.

During the period July 17, 1979, to July 31, 1980, the International Committee of the Red Cross distributed 3,325 metric tons of P.L.480, Title II commodities with an estimated value of \$1,279,000:

<u>Commodity</u>	<u>Metric Tons</u>	<u>U.S. Dollars</u>
Rice	1,303	\$ 429,000
Corn	1,090	143,000
Vegetable Oil	597	593,000
Corn Soya Mil,	249	88,500
Wheat Flour	46	10,000
Non-Fat Dry Milk	40	15,500
 Total	 <u>3,325</u>	 <u>\$1,279,000</u>

Although USAID/Nicaragua tabulated food distribution data from monthly distribution reports (not required by the transfer agreement) submitted by the International Committee of the Red Cross, the tabulated report only showed quantities received and distributed by type of commodities. But information on the location and number of recipients was omitted because early reporting by the International Committee of the Red Cross lacked such information. It appeared that USAID/Nicaragua did not consider the location and number of recipients useful as it never requested and tabulated such information.

The tabulated food distribution reports prepared by USAID/Nicaragua were transmitted to the Food for Peace Office in AID/Washington for its evaluation and use. Again, the missing information on the location and number of recipients was never questioned by the AID/Washington office, giving the impression it was not needed.

We believe the information on the location and number of recipients is important for evaluating the social and humanitarian impact of the emergency

food assistance program. Also, this information is needed to determine whether only the victims of the civil strife participated in the emergency food assistance program as required by Section 6 A of TA 9602. Some areas in Nicaragua, such as along the Atlantic Coast, were not directly affected by the civil strife and food distribution was to be based on actual need determined by the International Committee of the Red Cross. While we have no indication that food was distributed to recipients other than those intended, data on location and number of recipients is needed in order to reach an accurate conclusion. Thus, such information, as a minimum, should have been requested by USAID/Nicaragua upon completion of the emergency food distribution program on July 31, 1980.

When we discussed the reporting situation with officials of the International Committee of the Red Cross, they recognized the importance of reporting such information and agreed to prepare the final report as required by the transfer authorization.

Recommendation No. 1

USAID/Nicaragua should ensure that the International Committee of the Red Cross prepares and submits to the U.S. Embassy a final report describing the emergency food distribution activities under TA 524-xxx-000-9502.

Government to Government Project

Activities under Transfer Authorization No. 524-xxx-000-9603 between the Governments of Nicaragua and the United States have fallen far short of the intended objectives. Limited distributions of food have been accomplished; commodities have been sold, exported, exchanged, loaned and given to unauthorized recipients; and reporting on food for work projects was inadequate. Substantial improvements in the implementation and monitoring of this project were needed.

Program Implementation

Since the beginning, the P.L. 480, Title II Government to Government project has been plagued with implementation problems which have delayed project progress and accomplishments.

The program was to distribute 13,000 metric tons of food during the period September to November 1979. As of December 31, 1980 the program was 13 months behind schedule and only 2,744 of the 12,567 metric tons of food received in country had been distributed to recipients. The main reasons for the non-use of the commodities were the Government of Nicaragua did not have the administrative and logistics capabilities to meet the demands of the program. It appeared also that the continuing flow of commodities from other countries either resulted in those commodities being substituted for P.L. 480,

Title II commodities or the total commodities received were in excess of emergency needs.

USAID/Nicaragua personnel indicated the distribution delays were due to the Ministry's inexperienced staff, inadequate transportation, and the Nicaraguan Government's inability to expand the food-for-work program as the Government had no experience in carrying out food-for-work activities. Also, USAID/Nicaragua felt that food needs were over estimated by the Nicaraguan Government.

The Ministry of Social Welfare, through its implementing group the National Supply Center, experienced staff and logistics problems. Ministry officials admitted that inexperienced personnel and logistics deficiencies had prevented the program from getting momentum.

✓ Administrative and Logistics Capabilities

The lack of qualified personnel resulted in lax procedures for inventory control as reliable figures had not been established for commodity arrivals and stocks on hand by the National Supply Center. At the time of our audit, the quantities of commodities received were being determined and inventory control procedures were being established by the National Supply Center.

The National Supply Center lacked overall inventory control procedures for controlling program commodities. For instance, delivery orders had not been numbered, resulting in little or no control. The Corinto Regional Warehouse, which was to control the receipt and distribution of commodities arriving from Corinto Port, had not maintained inventory control records. Therefore, exact quantities of commodity arrivals and distribution had not been established. The absence of effective inventory controls at the National Supply Center and Corinto Regional Warehouse prevented us from determining whether there had been any commodity losses and/or shortages.

Section 6 A of the transfer authorization indicated that a plan of operations for the distribution of the food had been prepared. However, we found that no well defined distribution plan had been prepared, thus, the food may have been distributed to ineligible recipients or used for unauthorized purposes. An inexperienced staff and personnel turnovers were blamed for the absence of a distribution plan. Subsequent to the completion of our audit field work, USAID/Nicaragua advised us that the Ministry of Social Welfare had submitted a distribution plan. However, USAID/Nicaragua found the plan to be too general and lacking information such as activity description, duration and location. Also, the number of recipients was not given.

Inadequate transportation was another factor contributing to delays in commodity distributions. We were told by officials of the Ministry of Social Welfare that budgetary constraints had prevented the Ministry from providing adequate transportation support to the program until July 1980 when \$961,989 were made available to pay for transportation and storage costs. However, the funds had not been used and USAID/Nicaragua claimed the nonuse of the funds was due to the lack of guidance and instruction within the

Ministry of Social Welfare. Subsequent to our audit field work, USAID/Nicaragua told us the Ministry of Social Welfare had submitted a budget for 1981 allocating funds for transportation. At the exit conference on this audit, we were advised that proper guidance and instructions had been given to ensure the use of the funds by the Ministry of Social Welfare.

Warehousing was also a serious problem hindering progress. Although the Ministry had been operating with 18 warehouses throughout the country, officials of the Ministry of Social Welfare told us that most of the facilities were inadequate for proper storage and handling of commodities. The warehouses lacked ventilation, needed repair of floors, and lacked pallets for commodity protection. Warehouse personnel did not follow proper stacking methods.

USAID/Nicaragua told us that these deficiencies existed mainly in regional warehouses as the three central warehouses in Managua, where the bulk of the commodities were being stored, were adequate. Our visits to the central and departmental warehouses supported this conclusion.

Officials of the Ministry of Social Welfare were cognizant of the warehousing problems and efforts were being made to improve the storage facilities by using program funds (\$961,989) available for that purpose. The warehousing deficiency, coupled with the transportation problems, had resulted in food deteriorating. During our review we found 27 metric tons of food that were unfit for human consumption.

Considering the Ministry of Social Welfare was fully aware of the administrative and logistics problems and since action was being taken to correct deficiencies in the areas of transportation, warehousing and inventory records, no recommendation is being made.

Unauthorized Sales, Export, Exchange, Loan and Distribution of Commodities

The Ministry of Social Welfare engaged in activities which were in conflict with P.L. 480, Title II requirements. Commodities had been sold, exported, exchanged, loaned and given to unauthorized recipients. These transactions required advanced approval by either USAID/Nicaragua or AID/Washington. We believe the main reason for these transactions were the lack of knowledge of P.L. 480 regulations and inexperience of Nicaraguan Government officials with this type of program. Although USAID/Nicaragua provided guidance, the Government of Nicaragua did not respond to the instructions.

Sale of Commodities

Between November 1979 and June 1980, the Government of Nicaragua sold, without prior AID approval, 5,845 metric tons of food (5,000 of yellow corn and 845 of milk) for \$1,649,830.

TA 9603 and AID's P.L. 480, Title II regulations prohibit the sale of commodities unless advanced approval has been granted by either USAID/Nicaragua or AID/Washington. Early in calendar year 1980, USAID/Nicaragua detected the sale of food and reported the situation to the

Food for Peace Office in AID/Washington for evaluation and guidance. In January 1980, a two person team from the Food for Peace Office, AID/Washington, conducted a field review of program activities. In March 1980, the team recommended approval of the sale of 75 percent of the yellow corn and 845 metric tons of milk.

Yellow Corn

In October 1979 the Government of Nicaragua received 5,000 metric tons of yellow corn, having an estimated value of \$620,000, for free distribution by the Ministry of Social Welfare. Empresa Nicaraguense de Alimentos Básicos sold the 5,000 metric tons of yellow corn for \$718,640 (\$143.30 per metric ton). The yellow corn was sold to processing plants and the public in Nicaragua (4,800 metric tons for \$687,840) and to food processors in Costa Rica (200 metric tons for \$30,800). We were advised by Nicaraguan officials that the majority of the people for whom the yellow corn was intended to be distributed free did not consider it to be an acceptable commodity for human consumption. Therefore, the yellow corn was sold. The sales were transacted during December 1979 without the required advanced approval by either USAID/Nicaragua or AID/Washington.

An amendment to the transfer agreement in May 1980 retroactively authorized the Government of Nicaragua to sell up to 75 percent of the 5,000 metric tons of yellow corn at \$124 per metric ton. The sales proceeds (\$465,000) were to be deposited in a special account to be used for financing local transportation, handling, storage and fumigation costs of program commodities. The remaining 25 percent of the yellow corn was to be distributed free to civil strife victims by the Ministry of Social Welfare. However, this was not possible since all of the yellow corn had already been sold.

The Government of Nicaragua had the potential of realizing substantial windfall benefits from the sale of the yellow corn. As of February 28, 1981, we estimate that the Government's windfall benefits were \$253,640 (sales proceeds \$718,640 less \$465,000). The Ministry of Social Welfare had not reported what costs had been incurred and paid from the sales proceeds of the yellow corn.

The Ministry of Social Welfare through Empresa Nicaraguense de Alimentos Básicos sold for export to Costa Rica 200 metric tons of yellow corn for \$30,800 without the required approval by either USAID/Nicaragua or AID/Washington. The Costa Rican company importing the yellow corn was engaged in the processing of food for human consumption.

In conversations with government officials, we learned they were not aware that AID's P.L. 480, Title II regulations prohibited the sale of commodities. In our opinion, USAID/Nicaragua shared the responsibility for this shortcoming, as the contents of AID's regulations were not made known to the Nicaraguan officials implementing the program. On October 6, 1980, USAID/Nicaragua delivered, at our request, a copy of AID Regulation 11 to Ministry officials.

The proceeds from the sale of 4,800 metric tons of yellow corn (\$687,640) had not been transferred to the Ministry of Social Welfare. The proceeds from the export sales (\$30,800) were deposited in the Ministry of Social Welfare's special bank account. The sales proceeds were to be used for program purposes and none had been used at the time of our audit.

Since activities have not been carried out in accordance with the amended transfer authorization, we believe that the transfer authorization should be further amended to regularize the activities, and to provide a basis for USAID/Nicaragua to effectively monitor activities.

Recommendation No. 2

USAID/Nicaragua should amend Transfer Authorization No. 524-xxx--000-9603 to provide for the sale of 5,000 metric tons of yellow corn.

Recommendation No. 3

USAID/Nicaragua should request the Ministry of Social Welfare to refund all money realized from the sale of P.L. 480, Title II commodities that exceeds the value of replacement food and funds reserved for paying project costs.

Recommendation 4

USAID/Nicaragua should determine whether funds allocated to pay for transportation, fumigation and other costs are in excess of project needs.

Non-Fat Dry Milk

During the first 5 months of calendar year 1980, the Ministry of Social Welfare sold to processing plants in Nicaragua 845 metric tons of the non-fat dry milk for \$931,190. These sales were made without AID's prior approval.

The Ministry of Social Welfare received 2,000 metric tons of non-fat dry milk on September 8, 1979. The milk had a value of \$930,870 and was for free distribution to the victims of the civil strife. The transfer authorization provided that any other use of the milk by the Nicaraguan officials must have prior AID approval.

Because of the civil strife in Nicaragua, there was an acute shortage of milk as well as other foods. Also, the country lacked the foreign currencies required to meet the requests of the milk industry to import powdered milk to meet the local needs. Therefore, 845 metric tons of the non-fat dry milk imported under TA 9603 was sold to milk processing plants by the Ministry of Social Welfare. The proceeds from the sale of the milk (the

equivalent of \$931,190 in local currency) were deposited in the Ministry of Social Welfare's special bank account. The plan was to use the proceeds to pay transportation and other agreed upon costs. At the time of our review, none of the proceeds had been used.

The Ministry of Social Welfare did not request AID's approval before it sold the milk. However, after reviewing the situation the Food for Peace Office in AID/Washington approved the sale of the milk and on May 28, 1980, TA 9603 was amended to regularize the sale. USAID/Nicaragua officials said the overriding reason for approving the transaction was due to the extreme urgent need for milk in the country and more people would benefit from the milk provided.

TA 9603, as amended, provided for up to 845 metric tons of non-fat dry milk to be turned over to the Government of Nicaragua for disposal in accordance with its wishes. The value of the non-fat dry milk was to be replaced by an equal value of corn, rice, beans or a combination of the three commodities to be distributed free to the victims of the civil strife.

Exchange of Commodities

Under TA 9603, as amended, the Government of Nicaragua was authorized to dispose of 5,000 metric tons of wheat and 845 metric tons of non-fat dry milk. These commodities were to be replaced by an equal value of white corn, rice or beans for free distribution to the victims of the civil strife. As of December 31, 1980, only part of the replacement commodities had been provided.

Empresa Nicaraguense de Alimentos Básicos received and sold a total of 4,641 metric tons of wheat to three flour processing mills for the equivalent of \$810,992. As reported above, the 845 metric tons of non-fat dry milk was sold for the equivalent of \$931,190. Thus, replacement commodities with a value equivalent to \$1,742,182 should have been provided for free distribution.

The Government of Nicaragua's reports as of December 31, 1980, showed that only part of the replacement commodities had been delivered to the Ministry of Social Welfare for project use. The reports show that a total of 1,336 metric tons of replacement commodities had been provided with an equivalent value of \$585,000. All of the replacement commodities should have been provided before December 31, 1980. We were advised by Empresa Nicaraguense de Alimentos Básicos personnel that the replacement grain delivery schedules to the Ministry of Social Welfare were not met because of its policy to meet the demands by the general public before complying with other commitments.

Recommendation No. 5

USAID/Nicaragua, in conjunction with the Ministry of Social Welfare and the Empresa Nicaraguense de Alimentos Básicos, should establish firm commitment procedures to settle

the sales and exchange transactions in accordance with the governing agreements to ensure effective utilization of program commodities.

Recommendation No. 6

USAID/Nicaragua should review the sales proceeds deposited in a special bank account to ensure that these funds are properly utilized.

Loaned Commodities

The Ministry of Social Welfare loaned P.L. 480, Title II commodities to the Empresa Nicaraguense de Alimentos Básicos and to the Agrarian Reform Institute for public sale. No AID approval had been requested for these transactions as required by AID's P.L. 480, Title II regulations.

In December 1979 the Ministry of Social Welfare agreed to loan 356 metric tons of vegetable oil to the Empresa Nicaraguense de Alimentos Básicos for marketing purposes. The main reason for this action was the shortage of cooking oil prevailing in the country. In January 1980 USAID/Nicaragua detected the unauthorized loan of the vegetable oil. By that date only 78 metric tons of vegetable oil had been delivered to the Empresa Nicaraguense de Alimentos Básicos. USAID/Nicaragua requested the Ministry of Social Welfare to suspend deliveries of the vegetable oil. On August 31, 1980 the Empresa Nicaraguense de Alimentos Básicos returned 78 metric tons of vegetable oil to the Ministry of Social Welfare.

On July 7, 1980 the Ministry of Social Welfare agreed to loan the Agrarian Reform Institute 289 metric tons of program commodities. The loan was to provide food pending the arrival of commodities under the World Food Program's project. We identified during our audit 80 metric tons of P.L. 480, Title II food that had been delivered to the Agrarian Reform Institute. We discussed the transaction with USAID/Nicaragua officials who said they were not aware of it and agreed to discuss the matter with Ministry officials to obtain corrective action.

Recommendation No. 7

USAID/Nicaragua should officially notify the Ministry of Social Welfare that P.L. 480, Title II food cannot be provided on a loan basis without prior AID approval and to settle the commodity loan transaction with the Institute of Agrarian Reform.

Distribution of Commodities to Unauthorized Programs

The Ministry of Social Welfare distributed commodities to ineligible recipients. We identified projects and programs where 308 metric tons of food were distributed which were not within the framework of TA 9603 or which had been specifically prohibited by AID's P.L. 480 regulations. For

instance, commodities had been distributed to people on food-for-work projects on the Atlantic coast. This area was not affected by the civil strife. USAID/Nicaragua had not approved the food-for-work projects. Section 6 A of TA 9603 provided that "All commodities listed herein will be used for direct free distribution to victims of the recent civil strife in Nicaragua especially in the Managua area".

Commodities were distributed to teachers and students (brigadistas) participating in the national literacy crusade, (an AID financed project with P.L. 480, Title I sales generations). Food distribution to the national literacy campaign was made through the Empresa Nicaraguense de Alimentos Básicos and Municipalities. The Ministry of Social Welfare provided 165 metric tons of food valued at \$77,563 to the national literacy campaign.

We found that Cuban teachers and doctors received part of the Title II commodities distributed. An official of the Ministry of Social Welfare told us that 874 Cuban teachers participated in the Ministry's food distribution program but inadequate accounting records at the National Supply Center prevented us from determining what quantity of food was distributed to the Cuban teachers and doctors. However, we did identify about four metric tons of commodities with a value of \$2,416 that had been distributed to Cuban personnel. (Exhibit B.)

Although TA 9603 was silent regarding whether Cubans could receive P.L. 480, Title II commodities, Section 6 A of the agreement provided that food distribution was only for victims of the civil strife. Cubans were not victims of the civil strife. The United States Government specifically prohibited assistance to Cuban activities in two documents. First, Section 5.7(b) of Activity Agreement No. 524-L-001, prohibits financing any program activity sponsored by Cubans. Second, Section 536(k) of the Special Central American Assistance Act of 1979 (Public Law 96-257-May 31, 1980) prohibits assistance to Cuban teachers: "None of the funds authorized under this chapter may be used for assistance for any school or other educational instrumentality or facility which would house, employ or be made available to Cuban personnel".

Nicaraguan officials also made distributions to child development centers, youth development centers, rehabilitation centers (prisons), and other special cases. We found no evidence that these programs had been approved by USAID/Nicaragua. AID's P.L. 480, Title II regulations provide for such approvals by stating that "Emergency projects by definition are considered to be temporary and short term in nature, usually less than nine months. While longer term 'emergency needs' may arise from such conditions as drought, crop failure, civil strife, or continued influx of refugees and displaced persons, these situations are to be approached on a case-by-case basis, and as soon as possible converted from an emergency nature to more regularized social or economic development activities."

On February 26, 1981 the Ministry of Social Welfare, cognizant of the problems affecting the handling and distribution of program

commodities, informed USAID/Nicaragua that Regional Directors had been instructed to ensure that AID commodities are distributed to the most needy of the Nicaraguan people.

In our opinion, the Government to Government project has been implemented without focussing on any defined purpose and objective. The scope of the project, which was originally designed to meet the food needs of the victims of the civil strife, especially in the Managua area during a 3-month period, has been expanded by the Government without USAID/Nicaragua consultation and approval. The project, as implemented, was supporting unauthorized activities and feeding ineligible recipients. However, USAID/Nicaragua was cognizant of the majority of the implementing problems discussed in this report. What we are emphasizing here is the need to define program objectives if available resources are to be effectively utilized. We believe the Government to Government project should be redefined as the emergency situation no longer exists to ensure that program commodities are properly distributed and used for approved purposes.

Recommendation No. 8

USAID/Nicaragua should redefine the Government to Government project objectives to ensure better utilization of commodities.

Recommendation No. 9

USAID/Nicaragua should advise the Ministry of Social Welfare that food deliveries to Cuban officials are not authorized and should be discontinued.

Recommendation No. 10

USAID/Nicaragua should require an accounting from the Ministry of Social Welfare of all P.L. 480, Title II commodities provided to Cuban officials and obtain a refund for the value of these commodities or require replacement with commodities of an equal value.

Reporting Food-for-Work Projects

Food-for-work projects developed under the emergency program have not been reviewed and approved by Mission officials. The Mission did not know whether the projects being implemented were designed to remedy the effects of the civil strife.

At the time of our audit, monthly reports on food-for-work projects had not been prepared by the Ministry of Social Welfare. However, after our visit to the Ministry in October 1980, monthly reports were prepared that indicate the projects' location, type of work, quantity and kind of food being distributed and the number of families that were receiving the commodities.

Mission officials did not know the status of the food for work projects. This information was needed so project progress and achievements could be monitored. The monthly reports need to be revised to show, in addition to the information now being reported, project progress, as well as starting and completion dates.

Recommendation No. 11

USAID/Nicaragua should request the Ministry of Social Welfare to submit proposed food-for-work projects for prior review and approval.

Recommendation No. 12

USAID/Nicaragua should request the Ministry of Social Welfare to revise its monthly reports on food-for-work projects to show progress and achievements.

CARE's School Feeding Project

Program Implementation

Since its beginning, CARE's school feeding project has had various implementation problems which adversely affected program performance. Food distribution at the school level was delayed and facilities for food preparation and storage have not been constructed, thus hindering the effectiveness of the project. However, Mission officials believed that the school feeding project had functioned very well in spite of inadequate facilities.

The school feeding project, initiated under an agreement signed on February 29, 1980, between CARE and the Nicaraguan Government of National Reconstruction, was being carried out in the Departments of Esteli and Masaya. These Departments suffered major damage during the recent civil strife. Although accurate statistics were not available, the feeding project was expected to benefit around 51,000 students annually in about 335 primary schools. To this end, approximately 2,270 metric tons of food valued at \$1.4 million were to be provided by CARE over a 2 year period. Because of the emphasis placed on the education sector by the National Reconstruction Government, the number of primary schools constructed as well as the student population has increased. The duties and responsibilities of the implementing institutions -- CARE, Ministry of Social Welfare, and Ministry of Education are detailed in the basic agreement.

The first year of the school feeding project was to start in March 1980 and end in December 1980. Program commodities were scheduled for arrival in February and March 1980 for the first cycle and in July and August 1980 for the second cycle. The commodities arrived as originally planned. However,

distribution of the food was not started until October 6, 1980 because classes were suspended during the period of March to October 1980 so a Government sponsored literacy campaign program could be carried out.

CARE was to provide 1,136 metric tons of food, kitchen utensils and equipment, 2 regional warehouses, 2 stake trucks with drivers and general supervision of the project. By October 6, 1980, CARE had fulfilled its commitments.

The Ministry of Social Welfare was responsible for receiving the commodities, transporting them to regional warehouses for storage and then distributing the commodities to the schools. The Ministry was to maintain accounting control of the commodities and to prepare monthly distribution reports. We found the Ministry had been meeting its program obligations.

The Ministry of Education was responsible for implementing the program at the school level. The Ministry, among other things, was to provide storage and kitchen facilities at the schools for proper utilization of the commodities. Because of financial problems and organizational difficulties the Ministry had not provided storage and kitchen facilities to the schools which lacked such structures. CARE began negotiating with the Ministry of Education in March 1980 to carry out a program for construction of 75 kitchens, 75 wells and 225 latrines at schools lacking such facilities. An agreement had not been signed at the conclusion of our audit in March 1981 because Government approval had not been received to construct the water wells.

✓ In October 1980, we discussed with CARE and USAID/Nicaragua officials the lack of storage and kitchen facilities. In these discussions, it was agreed that food distribution would be made only to schools having storage and kitchen facilities adequate to prevent the possible misuse of program commodities. However, for political reasons the Government distributed food to all schools participating in the project regardless of whether storage and kitchen facilities were in place. Government officials informed us that food distribution had to be made in order to honor the promises made to the communities. This was done because the previous regime continually made promises but did not fulfill them. The Government expected the communities to support the project by preparing and safeguarding the commodities.

Visits made to schools, subsequent to our discussions with Government officials, disclosed that communities were interested in and were supporting the project. Food had been prepared at private homes where kitchen facilities were not available at the schools. Labor and materials were provided by the communities for constructing storage and kitchen facilities. At the conclusion of our audit, CARE's Director advised us that most schools now had kitchen facilities constructed by the community and CARE would continue to work with Government officials to improve facilities and install new kitchens in the schools lacking cooking facilities.

✓ Regulatory Provisions

Regulatory provisions regarding audit rights, program publicity and disposition of containers contained in AID's Regulation 11, were not clearly stated in the basic agreement between CARE and the Government of Nicaragua.

The basic agreement of February 29, 1980, between CARE and the National Reconstruction Government of Nicaragua, did not include clearly defined provisions regarding AID's audit rights, host country publicity program, and disposition of empty containers. Although Section III.F. of the basic agreement indicated that management of the program shall be carried out in accordance with P.L. 480, Title II regulations, specific requirements were not spelled out in the basic agreement. Government officials and a CARE field supervisor were unaware of the provisions of the P.L. 480, Title II regulations.

A CARE field supervisor (foreign national) requested the adjournment of a meeting attended by AID auditors and Government officials. The CARE field supervisor alleged that AID auditors lacked the authority to review activities under the CARE/Government basic agreement. The purpose of the meeting was to discuss program implementation activities. The incident was immediately reported to the USAID/Nicaragua Mission Director who discussed and corrected the matter with CARE management.

Officials of the Ministry of Social Welfare and the Ministry of Education informed us that a publicity program indicating the commodities had been donated by the people of the United States had not been developed at the school level. They said general publicity by radio and television broadcasts had been given on the CARE food program. These officials felt publicity at the recipient level was detrimental to the revolutionary ideas and concepts of the National Reconstruction Government and would be contrary to the Sandinista national anthem's phrase, "the Yankee is the enemy of humanity." We found in our field inspections recipients were not aware that the United States had made contributions to the food program. Some community leaders told us the food came from Cuba or Russia. In another section of the report we discuss the need establishing of an adequate publicity program.

✓ No instructions or controls had been established for disposing of empty containers. Empty containers were given free of charge to community people notwithstanding their commercial value. Instead of giving the empty containers to community people the Government should consider selling the containers and using the proceeds to pay program costs, such as transportation, storage (including the improvement of storage facilities and the construction of warehouses), handling, insect and rodent control, rebagging of damaged or infested commodities and other program expenses. Most of these costs were being paid by AID's Outreach Grant No. AID/SOD/PDC-G-0324.

We were informed the unit price for an empty bag in the local market ranged from the equivalent of fifty cents to two dollars. If we consider these unit prices and the fact that about 16,550 empty bags will become available for disposal during the first year of operation, funds of between \$8,225 and \$33,300 would accrue to the Government from the sale of containers. CARE's Director agreed that the proceeds from the sale of containers could be used to pay for program expenses. However, the Director was reluctant to begin selling the containers because the program was for only 2 years and the costs to implement a sales program would probably equal the sales proceeds.

✓ Regional Warehouses

Two regional warehouses, with an estimated storage capacity of 1,000 metric tons each, lacked sanitary facilities, drinking water connection, and office space. CARE's field supervisor told us the butler type building design did not include installation of sanitary facilities to avoid humidity from water pipes. Warehouse employees complained about the lack of basic facilities and questioned the rationale for not including such basic requirements in the building designs. Warehouse personnel were using neighboring homes to take care of their basic human needs.

We discussed the need to improve the warehouses with CARE and USAID/Nicaragua officials. They agreed construction of these facilities should have been included in the original design, but were inadvertently omitted. The original plans and specifications for the warehouses were reviewed by USAID/Nicaragua.

Although the warehouses were operational (used for storing CARE's commodities) in the Departments of Esteli and Masaya, we believe their operation would be improved with the installation of sanitary and drinking water facilities and office space for warehouse personnel. At the close of our audit, the CARE Director informed us that a contractor had been hired to install sanitary and drinking water facilities and office space. Work had started and the improvements were to be completed in March 1981.

Program Evaluation

The school feeding project lacked baseline data information to measure the nutritional impact the P.L. 480, Title II commodities will have on school children.

The overall purpose of the school feeding program was to improve the children's health, vigor, learning capacity, and nutritional status. Due to the absence of baseline information for measuring or comparing program progress and accomplishment, the Government of Nicaragua will not be able to make a sound evaluation of program.

The USAID/Nicaragua's Health Sector Assessment in 1976 highlighted extensive malnutrition as one of the fundamental health problems facing Nicaragua. The seriousness of the nutritional problem among rural and lower socio-economic groups appears well established. This situation was aggravated with the recent civil strife, especially in the Departments of Esteli and Masaya.

CARE designed the food program addressing the needs of the primary schools in Esteli and Masaya Departments. The objectives of the program were to serve as a primordial stimulus to encourage children to return to school and maintain consistent attendance and to improve the nutritional intake of primary level school age children.

We believe the children should have been measured and weighed when the program started in October 1980 so that data would be available for comparison and evaluation purposes. Since the school feeding program is continuing until December 31, 1981, the collection of baseline data would be useful for measuring nutritional impact. Thus, students' weight and height data should be collected so that statistical information would be available to evaluate the program in December 1981.

Mission officials agreed that the school feeding project should be evaluated. However, because of changes in staffing, the Mission does not have the expertise to carry out the evaluation. Therefore, AID/Washington's Food for Peace Office would have to provide guidance on how to proceed in gathering and compiling statistical information for evaluating the impact the food project.

Recommendation No. 13

The Food for Peace Office, AID/Washington should provide USAID/Nicaragua the expertise and guidance to evaluate the school feeding project.

Emergency Cash Transfer Grant

Questionable Use of Grant Funds

The Empresa Nicaraguense de Alimentos Básicos, with the approval of USAID/Nicaragua, used \$1 million for grain purchases even though this amount had originally been allocated for the procurement of supplies and equipment. We found no evidence that the transaction had been approved by AID/Washington. We believe approval from AID/Washington should have been obtained because the procurement of the supplies and equipment was a provision of the project paper, grant authorization and grant agreement. In our opinion, shifting the funds from one purpose to another was a major change in the basic emergency cash transfer grant agreement and should have received prior approval.

The \$8 million emergency cash transfer grant no. 524-K-601, dated September 30, 1979, was to provide immediate budgetary support for critical reconstruction and rehabilitation activities and to provide much needed foreign exchange to help maintain economic stability and ameliorate balance of payment problems. Local currency obtained by the exchange of dollars provided by the grant at the Central Bank of Nicaragua was to be used to support a grain stabilization program of \$6 million, and a shelter program of \$2 million. Two activity agreements were signed to implement these programs. (Our review did not cover the shelter program.)

The \$6 million for the grain stabilization program was to finance the purchase of rice, sorghum, beans, corn, supplies and equipment and was managed by the Empresa Nicaraguense de Alimentos Básicos. According to the grant agreement, the local currency obtained from \$5 million was for the purchase of commodities and the local currency from the remaining \$1 million was for the

purchase of supplies and equipment. However, in implementation letter no. 1 dated November 13, 1979, USAID/Nicaragua reported that its current understanding was that all funds (\$6 million) would be used for grain purchases. This major change was made even though the first paragraph of the implementation letter stated that nothing in the implementation letter should be construed as modifying the basic agreement or any of its provisions. Further, we found no evidence that the change in use of funds was reviewed or approved by AID/Washington.

By April 1980, the local currency obtained from the exchange of the entire \$6 million had been used to buy grains from local farmers. These purchased grains were then sold to the general public and the proceeds realized had been recycled into the implementing agency's grain operation.

Officials of USAID/Nicaragua and the Empresa Nicaraguense de Alimentos Básicos explained the overriding reason for using the local currency obtained for the \$1 million for grain purchases rather than the purchase of supplies and equipment was because the European Economic Community was to finance a \$1.7 million repair, maintenance, construction and equipment purchase program. This was coupled with the urgent need to buy the current grain harvest to avoid losses to small farmers and to prevent duplication of equipment purchases.

The European Economic Community program called for the repair and reconstruction of 100 silos, the procurement of motor vehicles (trucks and jeeps) and the construction and equipping of workshops. An official of the European Economic Community told us the 100 silos had been repaired and reconstructed at a cost of \$434,487; motor vehicles (trucks and jeeps) costing \$726,000 had been procured; and the constructing and equipping of workshops at a cost of \$536,320 was to be completed by June 1981.

The European Economic Community program fell short in correcting all basic operating deficiencies. Apparently the actual needs were not accurately established because of the emergency situation. The Director of the implementing agency's maintenance department told us that 12 of the 100 silos in the program still needed to be repaired and supplied with equipment to become operational.

We were advised that basic equipment for measuring humidity and foreign matters in the grain was not available. Quality and condition of the grain was measured based on sight, smell and touch. The Director of the implementing agency's quality control department told us that this equipment deficiency might result in grain losses totalling 20 percent of the overall operations. If we consider the \$6 million grain operation financed with local currency obtained under grant agreement 525-K-601, grain losses could reach \$1.2 million.

After completion of our audit field work, a USAID/Nicaragua official told us that the Empresa Nicaraguense de Alimentos Básicos had developed a list of equipment and financing was being sought to procure the needed equipment.

Recommendation No. 14

USAID/Nicaragua should justify, and receive AID/Washington's approval and then amend grant agreement no. 524-K-601 to shift the funds allotted for the procurement of supplies and equipment to grain purchases as the funds were used for that purpose.

Progress Reports

Reporting to USAID/Nicaragua needed to be improved to show the actual results of grain operations.

Progress reports prepared by the Empresa Nicaraguense de Alimentos Básicos and submitted to USAID/Nicaragua included information only on the operation of the \$6 million grain fund. The information was based on estimated figures because the Empresa Nicaraguense de Alimentos Básicos accounting system did not provide for reporting only on the \$6 million grain operation.

The progress reports, among other things, included actual figures on grain purchases and inventories. However, grain sales were calculated by adding the beginning inventory and purchases and deducting the ending inventory to arrive at the proceeds from grain sales. By using this method the report was not presenting a fair situation of the grain fund operations. Because of the partial reporting on grain operations, USAID/Nicaragua was not aware that Empresa Nicaraguense de Alimentos Básicos had been operating at a loss since November 1979.

We believe, USAID/Nicaragua should have requested reporting on overall grain operations rather than requesting partial information on the grain fund transactions. By this means, USAID/Nicaragua would have been able to better evaluate the overall grain program, especially profit and loss trends.

We discussed the reporting situation with USAID/Nicaragua officials and they agreed that reporting was incomplete. However, they indicated the reporting was designed mainly to demonstrate how the original \$6 million was spent. We agree reporting to USAID/Nicaragua was adequate to monitor original utilization of the \$6 million. However, information on overall grain operations would have been more useful in evaluating the progress of the overall grain stabilization program which was one of the objectives of grant agreement no. 524-K-601.

Recommendation No. 15

USAID/Nicaragua should require the Empresa Nicaraguense de Alimentos Básicos to report on its overall grain operations.

Evaluation

Empresa Nicaraguense de Alimentos Basicos was to evaluate the grain stabilization program carried out under the grant agreement within 60 days after the completion of the project. The evaluation had not been carried out because Empresa Nicaraguense de Alimentos Básicos lacked the expertise to evaluate the project.

The need for a technical evaluation of the grain stabilization program is most important if it is recognized that the program is facing decapitalization. During the first 11 months of operations, Empresa Nicaraguense de Alimentos Básicos lost the equivalent of about \$10 million. The head of the purchasing department told us, and we agree, that the objective of the grain stabilization program had generally been achieved but at a very high cost. In reality, Empresa Nicaraguense de Alimentos Básicos had been subsidizing the prices of basic grains.

At the exit conference, USAID/Nicaragua told us the stabilization program was being evaluated by Empresa Nicaraguense de Alimentos Básicos with USAID/Nicaragua's staff support.

Recommendation No. 16

USAID/Nicaragua should ensure that Empresa Nicaraguense de Alimentos Básicos completes the evaluation of the grain stabilization program.

Commodity Sales Agreement, P.L. 480, Title I

Port Facilities

Facilities at Corinto Port need to be improved to ensure proper handling of P.L. 480, Title I commodities. The lack of weighing scales prevented Empresa Nicaraguense de Alimentos Básicos from weighing commodities at the port. Instead, commodities were weighed at processing factories where facilities were available. The commodities were unloaded from ships directly onto trucks and railroad cars and transported 20 to 180 kilometers to the processing factories, where losses/shortages were established.

The lack of weighing facilities at the Corinto Port prevented Empresa Nicaraguense de Alimentos Básicos from filing insurance claims of \$39,915. This amount represented wheat losses/shortages of 200 metric tons that had been calculated at the processing factories. Since the commodities were not weighed at the port, insurance companies disclaimed any responsibility for the losses/shortages established at the processing factories.

The agreement of August 31, 1979 between the Governments of the United States and Nicaragua for the sales of agricultural commodities under P.L. 480, Title I, as amended, provided for bulk sales of 60,000 metric tons of wheat valued at \$10.6 million and 10,200 metric tons of vegetable oil valued at \$7 million. As of December 31, 1980, Empresa Nicaraguense de Alimentos Básicos had received all of the programmed commodities.

Bulk commodities discharged at Corinto Port under the P.L. 480, Title I Sales program were handled by the Corinto Port Authority, the Government consignee and the private processing factories.

The Port Authority has a liquid cargo terminal with pipelines to move about 800 metric tons of liquid cargo daily from vessels to a nearby tank farm. However, the vegetable oil was discharged directly from the ship to railroad tank cars for inland transportation to four oil processing factories. Apparently, the tank farm was not suitable for storing edible oil at the time of unloading. The vegetable oil was weighed at the factories and was stored in tanks at the factory sites. No transportation losses were reported.

The Government consignee, Empresa Nicaraguense de Alimentos Básicos, supported the unloading operating at the port by providing four old vacuators. At the time of our audit, only one vacuator was in operating condition. According to a wheat processing plant manager, the other three vacuators had been inoperative for some time. We were told that the vacuator situation had deteriorated to a point where ships were unloading the commodities with their own vacuators. On October 31, 1980 we observed a vessel discharging wheat using its own vacuator. On October 7, 1980, USAID/Nicaragua had reported up to six vacuators were available for wheat discharging at Corinto Port.

The processing plants provided train and truck transportation for the vegetable oil and wheat. Inland transportation of oil presented no significant problems because it was transported in well maintained railroad tank cars. Transportation losses were incurred in transporting the bulk wheat from Corinto Port to processing factories. As of June 30, 1980, the losses were estimated to be 200 metric tons valued at about \$40,000. It was assumed that most of the losses were due to spillage from the trucks and holes in the railroad cars.

A new weighing scale at Corinto Port had not been used since its installation in May 1979, reportedly, because technical personnel were not available to operate the machine (the civil strife in Nicaragua prompted an exodus of technician and professional to other countries). Also, port authority officials told us the weighing scale was inoperable due to spare parts problems.

The port authority lacked storage silos to receive, store and distribute bulk commodities. It also lacked operable vacuator machines for discharging bulk grain from ships. A plant manager for a flour factory told us that a project had been developed around 4 years ago to provide the Corinto Port Authority with storage silos and vacuators. However, because of the civil strife the project was delayed. We discussed this issue with the Vice-Minister of Interior Commerce and he indicated that he was unaware of the storage silo and vacuator project. The Vice-Minister stated that research would be done on the subject as the need for improved port facilities was evident and the situation should be corrected.

Recommendation No. 17

USAID/Nicaragua should request the Government of Nicaragua to repair and operate the new weighing scales owned by the port authority to facilitate the filing of insurance claims for commodity losses at the port.

Recommendation No. 18

USAID/Nicaragua should request the Government of Nicaragua to repair and maintain the vacuators owned by Empresa Nicaraguense de Alimentos Básicos.

Reconciliation of Accounts

A reconciliation of P.L. 480 Title I accounts for commodity transactions had not been made because procedures had not been established as required by the sales agreement. Consequently, amounts billed (advice of payments or acceptance of draft) by the U.S. Government had not been reconciled with the amount of local currency deposited in the Central Bank.

Article III, Section E of the P.L. 480, Title I sales agreement provided that "The two governments shall each establish appropriate procedures to facilitate the reconciliation of their respective records on the amount financed with respect to the commodities delivered during each calendar year". These procedures were not established by the Nicaraguan Government because of the lack of expertise and staff limitations.

As of June 30, 1980, the U.S. Government had billed the Nicaraguan Government \$10,211,845 (dollar disbursements) for commodity shipments, while the local currency generated on these commodity transactions reportedly amounted to the equivalent of \$10,255,610. Although the difference between the U.S. dollar disbursement and the proceeds accruing to the government from the sale of commodities was only \$43,765, the need for establishing reconciliation procedures remains valid. Therefore, we believe USAID/Nicaragua, in conjunction with the Government of Nicaragua, should establish and implement procedures for reconciling and adjusting the P.L. 480, Title I accounts.

When we discussed the reconciliation situation with USAID/Nicaragua and Government of Nicaragua officials, they agreed procedures should be established and implemented. At the exit conference, USAID/Nicaragua told us that procedures had been established and were being implemented. In view of the action taken no recommendation is necessary.

Reporting

The commodity reports submitted to the United States Government by the Nicaragua Government on P.L. 480, Title I commodity transactions contained

conflicting data on quantities of commodities received. The main reason for this reporting deficiency was the absence of a basic document containing reliable information.

The commodity reports were prepared from information received from Port Authority and processing plants. In preparing the commodity reports, the outturn reports prepared by the Port Authority should have been considered as the basic information document from which the commodity arrival information was compiled. However, the outturn reports were not reliable because they were based on estimated weights (measurements taken at the vessel chambers were based on gauge and calculating tables) as the port lacked weighing facilities.

The Empresa Nicaraguense de Alimentos Básicos prepared Quarterly Status reports and Shipping and Arrival reports for submission to USAID/Nicaragua. The Quarterly Status reports included the quantity and value of commodities received. The Shipping and Arrival reports prepared for the U.S. Department of Agriculture, included information on the quantity of commodities loaded and unloaded at ports. The quantities reported as received did not agree. As of June 30, 1980, the Shipping and Arrival reports showed that 38,372 metric tons had been received while the Quarterly Status reports indicate that the Government had received 38,210 metric tons of wheat, a difference of 162 metric tons with an estimated value of \$32,500.

The differences reported in quantities received were discussed with USAID/Nicaragua and Government of Nicaragua officials who agreed that procedures should be established to avoid conflicting information between the Quarterly Status reports and the Shipping and Arrival reports.

Recommendation No. 19

USAID/Nicaragua should require the Government of Nicaragua to submit accurate reporting on commodities received under the P.L. 480, Title I Program.

National Literacy Campaign Project

A national literacy campaign project was selected for financing with P.L. 480, Title I sales proceeds and was approved by USAID/Nicaragua without considering other donors' contributions.

The agreement was signed on July 3, 1980, about 3-1/2 months after the project started. By that date, most of the commodities provided by other donors had been received by the project. Consequently, the P.L. 480, Title I funds allotted for the campaign were not used as originally envisioned because other donors contributions had already been used to finance project costs.

After the War of National Liberation, the Government of Nicaragua set literacy as a major goal for 1980. To meet the 1980 goal, a national literacy campaign was initiated on March 24, 1980 with nearly 69,000 literacy trainers, which included 874 Cuban teachers. The campaign was designed to reach an estimated

800,000 people in rural and urban areas. The first phase of the campaign was successfully completed on August 24, 1980 and about 406,000 persons were reportedly taught the rudiments of reading and writing.

On July 3, 1980, USAID/Nicaragua signed Activity Agreement No. 524-PL-001 with the Government of Nicaragua to use the equivalent of \$2.6 million generated from the sale of P.L. 480, Title I commodities to pay for basic food commodities (rice, beans, corn, salt, vegetable oil, sugar), laundry soap and reasonable distribution costs for 69,000 literacy trainers, including 874 Cuban teachers, and the families with whom the trainers were living. The Ministry of Education was to provide Empresa Nicaraguense de Alimentos Básicos a listing of the commodities and delivery locations one month in advance to allow sufficient time to program deliveries. The Ministry of Education was to purchase up to the equivalent of \$2.6 million in basic commodities with funds provided under the agreement. In kind contributions to the project by other donors were also to be channeled through the government enterprise.

The provision of food to 874 Cuban teachers participating in the literacy campaign project appears to defy the spirit of Section 5.7(b) of the activity agreement. That section provides that goods and services financed under the agreement would not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in AID's Geographic Code 935. Cuba is not included in AID's Geographic Code 935.

The estimated cost of food given to Cuban teachers under the project totalled \$40,790. The literacy campaign program was financed by international donors and by the Government of Nicaragua itself; therefore, we could not determine the source of financing for the food given to the Cuban teachers.

During the period March 3, 1980 to September 6, 1980, Empresa Nicaraguense de Alimentos Básicos billed the Ministry of Education the local currency equivalent of \$3,213,415 for the cost of program commodities delivered for use in the literacy crusade. This amount included costs of commodities and services provided by international donors and the Nicaraguan Government. Since the amount billed exceeded the agreement amount of \$2.6 million by \$613,415, the Ministry of Education was in the process at the time of our review of requesting that the agreement be amended to finance the cost overrun.

Our analysis of commodities invoices and related documentation at the Ministry of Education indicated that \$485,457 of the \$3,213,415 billed for commodities delivered to project sites were allowable costs for reimbursement under the agreement (see Exhibit C). Although the \$3,213,415 represented legitimate costs of the literacy campaign, a large part of these costs were either offset by in-kind contributions from other international donors or were absorbed by the Nicaraguan Government. Some costs were disallowed because they were incurred outside the time frame of the agreement or were overbilled.

The European Economic Community and the Governments of Hungary and West Germany contributed 4,244 metric tons of food (rice, beans, corn and vegetable oil) valued at \$1,947,984 to the literacy campaign. The food had

been received and distributed by Empresa Nicaraguense de Alimentos Básicos. The value of these commodities was applied by the Ministry of Education to the cost of commodities delivered to the project. Although these are legitimate project costs, reimbursement under the agreement was not appropriate because the commodities were provided free of cost.

Prior to signing the activity agreement on July 3, 1980, the Government of Nicaragua provided \$300,000 to the Ministry of Education to initiate literacy campaign activities. These funds were used to pay project expenses. This amount should not be reimbursed from agreement funds because the money was a counterpart contribution to the project. The Ministry of Social Welfare donated 454 metric tons of sugar and rice valued at \$180,000 and the Ministry absorbed transportation costs of \$50,000 billed by the Government's food marketing enterprise. These costs are legitimate campaign costs, but they should not be reimbursed under the agreement because they were not paid by the Ministry of Education.

We discussed with USAID/Nicaragua and the Ministry of Education officials the validity of these costs for reimbursement under the agreement. USAID/Nicaragua officials were not aware the project was receiving support from other sources and thought that funds made available under the agreement were used to pay most of the literacy campaign expenses. Ministry of Education officials felt any project savings could be used to finance the second phase of the literacy crusade involving 60,000 to 100,000 illiterate people. In addition unused funds were to finance a literacy campaign being carried out along the Atlantic coast for persons speaking (about 35,000) indigenous languages such as Miskitu, Zumu, Rama, and Creole English.

On July 17, 1980, the International Reconstruction Fund of Nicaragua, a Government institution responsible for coordinating foreign aid for reconstruction, disbursed to the Ministry of Education the equivalent of \$2,035,385 in local currency. This was the only disbursement under the agreement and was for commodity costs billed for deliveries between March and June 1980 by Empresa Nicaraguense de Alimentos Básicos and purportedly paid by the Ministry of Education. The International Reconstruction Fund considered this payment an advance and expected submission of paid invoices by the Ministry of Education to cover the advance. We found no evidence that paid invoices were submitted.

By September 19, 1980, the Ministry of Education had paid Empresa Nicaraguense de Alimentos Básicos \$210,308 and loaned \$150,000 for unauthorized purposes, i.e., to pay for transportation costs of teachers and students (brigadistas) from the funds advanced. A total of \$1,675,077 remain in a Ministry of Education special bank account.

The handling of activity agreement funds was discussed with officials of USAID/Nicaragua and the Ministry of Education. USAID/Nicaragua officers were unaware that \$1,675,077 was on deposit in a special bank account and that funds had been used for unauthorized purposes. The Ministry of Education officials explained that agreement funds had not been used to pay activity costs because they had been waiting for a liquidation of all resources donated

to the literacy campaign and channeled through Empresa Nicaraguense de Alimentos Básicos. Also, Ministry officials told us the \$150,000 used on a loan basis would be repaid to the special bank account.

Our analysis (Exhibit C) showed that the Ministry of Education will require \$275,149 of the advanced funds to settle its account with Empresa Nicaraguense de Alimentos Básicos for the literacy campaign. After paying this amount, the Ministry of Education will have a total of \$1,549,948 remaining from the funds advanced for the literacy campaign. These funds should be refunded to the International Reconstruction Fund for reprogramming. The International Reconstruction Fund was still holding \$564,615 (\$2,600,000 less \$2,035,385 advanced) of the funds made available under the activity agreement. These funds should also be reprogrammed as they are not required for payments under the literacy campaign project.

Recommendation No. 20

USAID/Nicaragua should request the Ministry of Education to refund \$1,549,948 to the International Reconstruction Fund for reprogramming.

Recommendation No. 21

USAID/Nicaragua should request the International Reconstruction Fund to reprogram unneeded funds of \$564,615 not disbursed to the Ministry of Education.

General

Publicity Program

CARE and the Government of Nicaragua were not complying with Section 211.5(g) of Regulation 11 which calls for public recognition that commodities have been donated by the people of the United States. Neither CARE, the Ministry of Social Welfare, nor the Ministry of Education were displaying posters or other media which included information on the source of the food at project sites.

Ministry of Social Welfare officials informed us they were not aware they were required to carry out a publicity program giving public recognition to the fact that the commodities had been donated by the people of the United States. They pointed out that TA 9603, as amended, did not require establishing a publicity program and AID officials never formerly requested that a publicity program be started.

The Ministry's personnel indicated CARE's food program was given publicity through the media of television, radio and newspaper articles. However, the publicity was mainly directed toward the voluntary agency's efforts and did not clearly indicate the commodities were donated by the people of the United States.

In our visits to selected communities in the Departments of Managua and Masaya, some community leaders were not aware that P.L. 460, Title II food

came from the people of the United States. We were told by some community leaders that the food came from Cuba, Russia or friendly countries.

Recommendation No. 22

USAID/Nicaragua should require CARE and the Government of Nicaragua to implement a publicity program that complies with Section 211.5(g) of AID Regulation 11.

Monitoring

Although USAID/Nicaragua and AID/Washington personnel have been monitoring the emergency food assistance program, we found Mission monitoring of projects was not effective because of the lack of cooperation and communication by Government of Nicaragua officials. This resulted in commodities not being effectively used. Mission personnel claimed that monitoring, especially field inspections, was hindered by the political and unstable conditions existing in Nicaragua.

Early in the implementation of the program, some scheduled field trips could not be carried out because of the political situation that prohibited visiting selected projects to verify the use of commodities. Mission personnel reported that contrary to the AID - Government of Nicaragua agreement they were denied free access to storage locations and their respective records to verify the quantity of commodities on hand and the accuracy of accounting records.

USAID/Nicaragua had been monitoring the operational activities of CARE, the Government to Government project and the cash grant for grain stabilization activities. Inspection trips had been made to determine that commodities were being used in accordance with the emergency food assistance program. Field trip reports were prepared which showed that P.L. 480, Title II commodities were being sold, recipients were unaware the commodities came from the people of the United States, food had been distributed to ineligible recipients and some food had been infested.

Beginning in August 1980, weekly meetings were held between Mission and Ministry of Social Welfare personnel to discuss and follow up on problems. However, after January 1981 no meetings have been held due to changes in Ministry personnel. USAID/Nicaragua did not know when the next meeting would be held.

At the request of the Mission, a Food for Peace AID/Washington technician reviewed the program in September and October 1979. The technician reported that obtaining information from Nicaraguan sources was a tedious process, the Government was faced with many problems and that it was difficult to get persons to focus on one area of concern and remain with it. With the exception of inadequate transportation, the technician reported favorably on storage, inventory controls, use and distribution of commodities, food for work projects and reporting.

In January 1980 the AID/Washington Food for Peace technician returned to Nicaragua to review the progress of the program because of reports on the misuse of commodities and lack of food distributions. In March 1980 the technician reported there were problems hindering the distribution of commodities provided under TA 9603. The problems included inadequate reporting on the status of commodities, breakdown in communications between the USAID/Nicaragua and Government implementing agencies, slow distribution of commodities, lack of adequate transport, evidence of food infestation, and misuse of commodities.

To resolve some of the problems noted in the AID/Washington Food for Peace report, it was recommended that TA 9603 be amended to allow the sale of 75 percent of the yellow corn provided under the agreement with the proceeds being used to pay for transportation and fumigation costs. The use of the sales proceeds was to be carefully monitored by the Mission to ensure that the money was used as authorized. Sales were made and the agreement was amended in May 1980 but as of February 28, 1981, the Ministry of Social Welfare had not submitted to the Mission a report on what had been expended to improve the transport and infestation problems.

Government reports that were submitted to USAID/Nicaragua were inadequate. Reports submitted lacked information, such as, numbers and location of recipients, inaccurate fiscal data, and other information needed to evaluate the project progress. Required final evaluation reports were not submitted to the Mission. The Mission did not request that the activity reports be improved and did not follow up to assure that required final evaluation reports were submitted.

We believe AID monitoring of the program could have been more effective by providing more specific project guidance, making systematic field inspections to determine commodity usage, and requesting timely and accurate reporting on the receipt, storage and distribution of commodities. Both USAID/Nicaragua and the Food for Peace Office in AID/Washington have been unable to influence the Government of Nicaragua to fully comply with the terms of TA 9603. As a result, the agreement had to be amended to accommodate Government of Nicaragua agreement violations and questionable sale/exchange and usage of commodities.

Recommendation No. 23

USAID/Nicaragua should schedule periodic field visits to assure commodities are properly used and accounted for.

EXHIBIT A

U.S. GOVERNMENT COMMODITY ASSISTANCE TO NICARAGUA
During the Period from July 17, 1979 to December 31, 1980

	<u>Quantity Received (in metric tons)</u>	<u>Cost of Commodities (in US Dollars)</u>
<u>P.L. 480, Title II</u>		
<u>International Committee of the Red Cross</u>		
Corn	1,220	\$ 159,857
Rice	1,627	535,208
Vegetable Oil	766	761,899
CSM	453	161,067
Wheat Flour	91	20,653
NFDM	80	31,040
Total	<u>4,237</u>	<u>\$ 1,669,724</u> ✓
<u>Government to Government</u>		
Wheat	4,641	\$ 834,944
NFDM	2,000	930,870
Vegetable Oil	926	896,986
Corn	5,000	1,080,044
Total	<u>12,567</u>	<u>\$ 3,742,844</u> ✓
<u>CARE</u>		
Vegetable Oil	69	\$ 69,568
NFDM	222	106,409
Rice	752	378,375
Total	<u>1,043</u>	<u>\$ 554,352</u> ✓
<u>Grant 524-K-601</u>		
Sorghum	23,615	\$ 3,003,703
Rice	3,787	1,154,595
Beans	2,979	1,339,815
Corn	3,344	501,887
Total	<u>33,725</u>	<u>\$ 6,000,000</u> ✓
<u>P.L. 480, Title I</u>		
Wheat	60,000	\$10,600,000
Vegetable Oil	10,200	7,000,000
Total	<u>70,200</u>	<u>\$17,600,000</u>
GRAND TOTAL	<u>121,772</u>	<u>\$29,566,920</u> ✓

EXHIBIT B

**P.L. 480, TITLE II PROGRAM COMMODITIES DELIVERED TO CUBANS
TEACHERS AND DOCTORS**

<u>Date</u>	<u>Delivery Order No.</u>	<u>Corn Pounds</u>	<u>Veg-Oil Gallon</u>	<u>Non-Fat Dry Milk Pounds</u>	<u>Rice Pounds</u>	<u>Beans Pounds</u>
11/21/79	2194	400				
12/13/79	2615		4	50		
12/18/79	2648			2,000	1,200	
11/20/80	1052 ^{1/}		30			480
11/80	^{2/}	<u>1,416</u>	<u>45</u>		<u>1,239</u>	<u>708</u>
Total		<u>1,816</u>	<u>79</u>	<u>2,050</u>	<u>2,439</u>	<u>1,188</u>
Metric Tons Equivalent		<u>0.824</u>	<u>0.276</u>	<u>0.930</u>	<u>1.106</u>	<u>0.539</u>
Unit Price Per Metric Ton		<u>\$220.46</u>	<u>\$968.67</u>	<u>\$1,102.30</u>	<u>\$414.46</u>	<u>\$898.00</u>
Total ^{3/}		<u>\$181.66</u>	<u>\$267.35</u>	<u>\$1,025.14</u>	<u>\$458.39</u>	<u>\$484.02</u>

Explanatory Notes

- 1/ For 33 Cuban teachers working in Masaya.
- 2/ Data obtained from Ministry of Social Welfare's Food Delivery Program Authorization Report for November 1980.
- 3/ The total estimated cost of commodities delivered to Cuban officials was \$2,416.

EXHIBIT C

**ANALYSIS OF ACTIVITY COSTS ALLOWABLE FOR REIMBURSEMENT
NATIONAL LITERACY CAMPAIGN ACTIVITY AGREEMENT NO. 524-PL-001
All figures in U.S. Dollar equivalent)**

Total Cost of Commodities Delivered and Billed by Empresa Nicaraguense de Alimentos Básicos		\$3,213,415
Less Unallowable Costs for Reimbursement:		
Cost of commodities delivered outside the authorized agreement period (April 24, 1980 to August 15, 1980)	\$243,224	
Cost of commodities overbilled	6,750	
In-kind contribution by the European Economic Community - 13,390 cwt of beans (610 metric tons) at \$28.00 ea. Credit Note 178	374,920	
56,524 cwt of corn (2,600 metric tons) at \$10.00 ea. Credit Note 185	565,240	
In-Kind contribution by other donors 25,883 liters of edible oil (33.88 metric tons) from Hungary	27,824	
1,000 metric tons of rice from West Germany	980,000	
In-kind contribution by the Ministry of Social Welfare, Government of Nicaragua 5,000 cwt sugar (227 metric tons) at \$11.50 ea.	57,500	
5,000 cwt of rice (227 metric tons) at \$24.50 ea.	122,500	
Transportation costs absorbed by the Ministry of Social Welfare, Government of Nicaragua	50,000	
Cash contribution by the Ministry of Education through advance given to Empresa Nicaraguense de Alimentos Básicos	<u>300,000</u>	<u>2,727,958</u>
Net commodity cost allowable for reimbursement under the activity agreement		\$ 485,457
Less amount paid with advanced activity fund		<u>210,308</u>
Amount due Empresa Nicaraguense de Alimentos Básicos (cwt - means hundredweights.)		<u>\$ 275,149</u>

LIST OF RECOMMENDATIONS

Recommendation No. 1

USAID/Nicaragua should ensure that the International Committee of the Red Cross prepares and submits to the U.S. Embassy a final report describing the emergency food distribution activities under TA 524-xxx-000-9602. (Page 7)

Recommendation No. 2

USAID/Nicaragua should amend Transfer Authorization No. 524-xxx--000-9603 to provide for the sale of 5,000 metric tons of yellow corn. (Page 11)

Recommendation No. 3

USAID/Nicaragua should request the Ministry of Social Welfare to refund all money realized from the sale of P.L. 480, Title II commodities that exceeds the value of replacement food and funds reserved for paying project costs. (Page 11)

Recommendation No. 4

USAID/Nicaragua should determine whether funds allocated to pay for transportation, fumigation and other costs are in excess of project needs. (Page 11)

Recommendation No. 5

USAID/Nicaragua, in conjunction with the Ministry of Social Welfare and the Empresa Nicaraguense de Alimentos Básicos, should establish firm commitment procedures to settle the sales and exchange transactions in accordance with the governing agreements to ensure effective utilization of program commodities. (Page 12)

Recommendation No. 6

USAID/Nicaragua should review the sales proceeds deposited in a special bank account to ensure that these funds are properly utilized. (Page 13)

Recommendation No. 7

USAID/Nicaragua should officially notify the Ministry of Social Welfare that P.L. 480, Title II food cannot be provided on a loan basis without prior AID approval and to settle the commodity loan transaction with the Institute of Agrarian Reform. (Page 13)

Recommendation No. 8

USAID/Nicaragua should redefine the Government to Government project objectives to ensure better utilization of commodities. (Page 15)

Recommendation No. 9

USAID/Nicaragua should advise the Ministry of Social Welfare that food deliveries to Cuban officials are not authorized and should be discontinued. (Page 15)

Recommendation No. 10

USAID/Nicaragua should require an accounting from the Ministry of Social Welfare of all P.L. 480, Title II commodities provided to Cuban officials and obtain a refund for the value of these commodities or require replacement with commodities of an equal value. (Page 15)

Recommendation No. 11

USAID/Nicaragua should request the Ministry of Social Welfare to submit proposed food-for-work projects for prior review and approval. (Page 16)

Recommendation No. 12

USAID/Nicaragua should request the Ministry of Social Welfare to revise its monthly reports on food-for-work projects to show progress and achievements. (Page 16)

Recommendation No. 13

The Food for Peace Office, AID/Washington should provide USAID/Nicaragua the expertise and guidance to evaluate the school feeding project. (Page 20)

Recommendation No. 14

USAID/Nicaragua should justify, and receive AID/Washington's approval and then amend grant agreement no. 524-K-601 to shift the funds allotted for the procurement of supplies and equipment to grain purchases as the funds were used for that purpose. (Page 22)

Recommendation No. 15

USAID/Nicaragua should require the Empresa Nicaraguense de Alimentos Básicos to report on its overall grain operations. (Page 22)

Recommendation No. 16

USAID/Nicaragua should ensure that Empresa Nicaraguense de Alimentos Básicos completes the evaluation of the grain stabilization program. (Page 23)

Recommendation No. 17

USAID/Nicaragua should request the Government of Nicaragua to repair and operate the new weighing scales owned by the port authority to facilitate the filing of insurance claims for commodity losses at the port. (Page 25)

Recommendation No. 18

USAID/Nicaragua should request the Government of Nicaragua to repair and maintain the vacuators owned by Empresa Nicaraguense de Alimentos Básicos. (Page 25)

Recommendation No. 19

USAID/Nicaragua should require the Government of Nicaragua to submit accurate reporting on commodities received under the P.L. 480, Title I Program. (Page 26)

Recommendation No. 20

USAID/Nicaragua should request the Ministry of Education to refund \$1,549,948 to the International Reconstruction Fund for reprogramming. (Page 29)

Recommendation No. 21

USAID/Nicaragua should request the International Reconstruction Fund to reprogram unneeded funds of \$564,615 not disbursed to the Ministry of Education. (Page 29)

Recommendation No. 22

USAID/Nicaragua should require CARE and the Government of Nicaragua to implement a publicity program that complies with Section 211.5(g) of AID Regulation 11. (Page 30)

Recommendation No. 23

USAID/Nicaragua should schedule periodic field visits to assure commodities are properly used and accounted for. (Page 31)

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APPENDIX B

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