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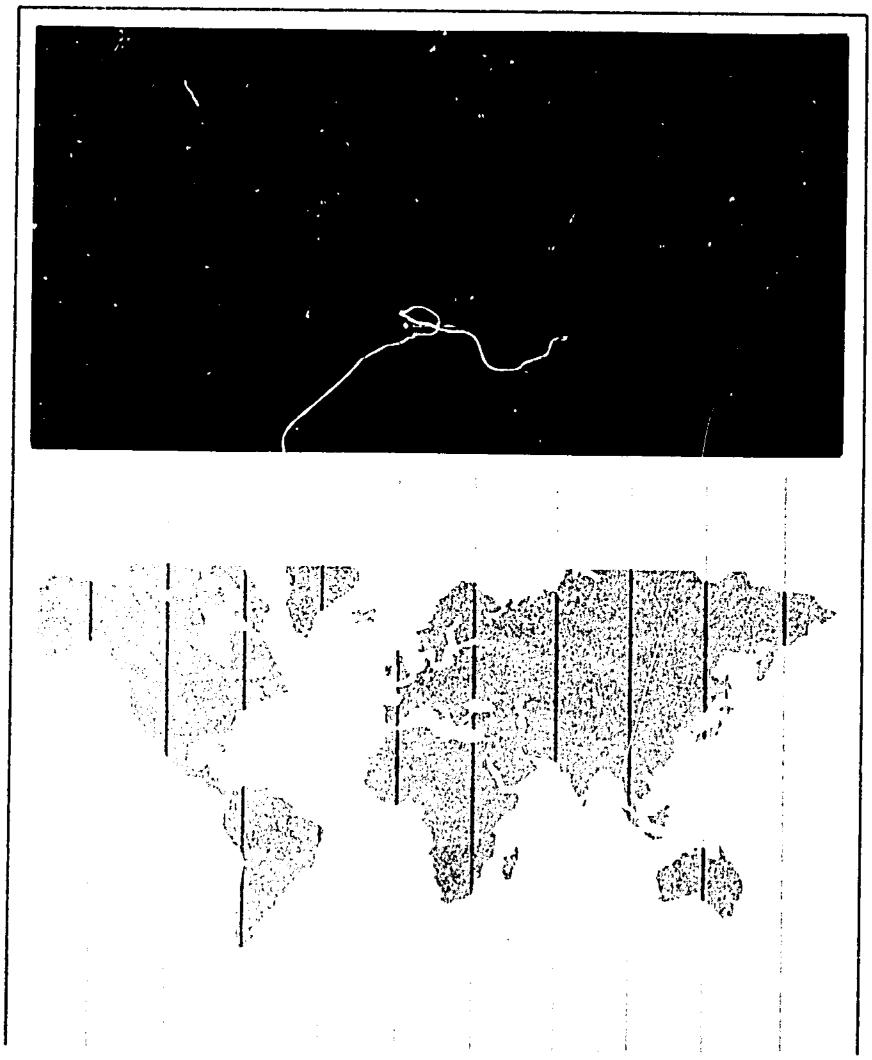

Regional Inspector General for Audit
KARACHI

CARE'S PL 480 TITLE II PROGRAM
IN INDIA

AUDIT REPORT NO. 5-386-82-7

JUNE 7, 1982

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AUDIT REPORT ON

CARE'S PL 480 TITLE II PROGRAM
IN INDIA

EXECUTIVE SUMMARY

Introduction

The United States Government (USG) has been providing PL 480, Title II assistance to India for over thirty years. Thus far, well over one and one-half billion dollars of commodities have been provided for relief requirements, to combat malnutrition and to provide for economic and community development.

The largest part of this USG supported program in India is administered by the Cooperative for American Relief Everywhere (CARE) who are currently operating a vast program designed to reach 5.5 million maternal-child health (MCH) beneficiaries and about 8.5 million children in a school feeding (SF) program. CARE's present year program involves the distribution of over 250,000 metric tons (MT) of PL 480 commodities valued at about $120 million. The commodities are being distributed through a network of 207,500 feeding centers located in fourteen Indian states.

A priority interest in conducting this audit of CARE's activities was to determine if available long-term evidence showed sufficient program impact to warrant the continued infusion of massive amounts of USG grant resources as currently planned. Our audit purpose was to (a) ascertain progress made toward achieving program objectives, (b) determine program effectiveness and compliance with regulations and (c) assess the adequacy of program planning and management. Our audit was made in accordance with generally accepted auditing standards and included such tests of records, documents and procedures we considered necessary.

Findings, Conclusions and Recommendations

Our review of available evidential matter showed that a satisfactory level of program impact has not been achieved. Even after more than thirty years of operations, evaluations show the SF and the MCH programs have made very little progress towards achieving their objectives. Various studies and other data show there has been a distinct lack of nutritional impact in the MCH program. Similarly, the SF program has had virtually no impact on increasing school enrollment or reducing the drop-out ratio. This situation has led the GOI to conclude that both the MCH and the SF programs, in general, have relied heavily on short-term strategies based on narrowly identified target groups and, therefore, have become ineffective exercises in offering food to selected groups as charity.

We also noted serious problems relating to commodity controls, claims procedures, program implementation, internal reviews, reporting, publicity, container fund accountability and monitoring. These problems occurred for various reasons including negligence, lack of management followup, poor planning and excessive program size. In addition, there has not been adequate effort by USAID or CARE to consider or arrange an orderly transfer of program responsibilities to the Host Government as required under AID policy.

In sum, after many years of costly inputs, we are currently at a point where this program's impact has been extremely limited. There are serious program management problems and there is no definitive or agreed plan for support or continuing the program solely from GOI provided resources. Thus, the existing program appears to be a never-ending process even though India has reached a level of self-sufficiency in foodgrains and, in recent years, has actually exported large quantities of foodgrains. Yet, there is strong resistance by both USAID and CARE to formulating a precise and definitive plan for transfer of all program responsibilities to the GOI. The fact that India has made remarkable progress and had already achieved foodgrain self-sufficiency in the 1970's is acknowledged but the USAID maintains a large "nutrition gap" exists which they feel justifies further U.S. assistance for an unspecified period of time.

In view of existing circumstances, we have made five recommendations calling for a determination of effective program size, better targeting of beneficiaries, nutritionally adequate rations and for negotiation of formal agreements that will provide for a progressive phase-over of the entire PL 480 Title II program to total support from indigenous resources (see pp 3 to 17).

This report includes a total of thirty seven recommendations that detail a broad range of serious problems that relate to the lack of program impact noted above:

-- Due to negligence by CARE and USAID officials, extensive losses of millions of pounds of commodities valued at millions of dollars were improperly written off each year (see pp 18 to 31).

-- Long delays occurred in the reporting of losses to USAID (see pp 31 to 32).

-- Recoveries and reporting of misuse and thefts of Title II commodities have been delayed several years (see pp 34 to 38).

-- Based on a very small sample review of 64 of the 207,500 feeding centers included in the program, we found potentially serious program implementation problems. Our tests could not all be applied at all centers in our sample but, where we could make tests, we found:

	Percent of Discrepancies
(a) Inventory differences	26
(b) Questionable use of commodities	26
(c) Feeding less than the claimed number of beneficiaries	33
(d) Feeding ineligible beneficiaries	26
(e) Feeding more than approved levels	33
(f) Inadequate attendance records	32
(g) Inadequate-unreliable stock records	36
(h) Title II commodities were issued to ineligible orphanages and leprosiriums. We noted 14 of these ineligible feeding centers in one state.	

We do not know if the above percentage of discrepancies applies to all 207,500 centers in the program but if so, the indicated problems may be quite significant. We also noted other serious program problems relating to long breaks in feeding, very limited community involvement, commodity storage problems, the lack of basic supplies and a lack of adequate cooking and eating utensils.

Overall, we felt that little progress has been made in establishing a viable institution mainly because of the excessive number of subunits in the program and the lack of community involvement. We also felt that our sample review clearly indicates that program implementation, at the field level, remains somewhat primitive in nature (see pp 39 to 49).

-- CARE's program surveillance is weak and needs substantial improvement (see pp 49 to 56).

-- CARE's record on performance of internal reviews is inadequate (see pp 57 to 61).

-- Compliance with regulations and monitoring of processed food programs requires substantial improvement. There are no phase-over plans and one program operating for 14 years (at a cost to the USG of about $29 million in its last 6 years alone) was terminated in 1981 because of the GOI's reluctance and inability to contribute more than 15% of the programmed commodities.

We reviewed one bread program where the bakery, flour stock and product were completely unsanitary, highly infested with weevils and where a prior record of this problem existed. The actual bread product distributed was badly infested with weevils. Samples of the infested bread were shown to state officials, CARE and USAID with our opinion that the bread was totally unfit for human consumption. Nevertheless, the program still operates today, about six months after our first report, and CARE has indicated it will not be terminated until June 30, 1982 (see pp 62 to 74).

-- USAID's program monitoring is unsatisfactory. Their review of CARE's internal review reports was perfunctory, they have routinely authorized the write-off of commodity losses involving millions of dollars annually, and they have not effectively monitored or taken action to ensure CARE's compliance with AID regulations relating to processing agreements. We also found inadequate monitoring techniques, reporting and follow-up. Thus, we concluded that USAID's monitoring efforts require considerable improvement to justify the manpower and funds spent on them (see pp 102 to 105).

A draft copy of this report was reviewed by USAID and CARE officials. They have objected strongly to parts of the report content; particularly to our analysis and recommendations included under our report section on Program Impact. In most cases, we have not accepted their comments but we have inserted appropriate parts of them throughout our final report or have made report changes we considered necessary.

BACKGROUND

Title II of PL 480 authorizes the donation of commodities to: (a) meet famine or other urgent or extraordinary relief requirements; (b) combat malnutrition, especially in children; (c) provide economic and community development in friendly developing areas; and (d) provide food for poor and needy persons outside the United States. The Title II food distribution program in India is currently being implemented by two voluntary agencies. Of these, CARE administers the largest program distributing about 62 percent of the commodities to about 88 percent of the recipients.

CARE began operating in India under an agreement with the Government of India (GOI) signed in March 1950. Initially, CARE channelled the distribution of Title II commodities through private entities. Since 1961 CARE has been distributing the commodities through state governments under the terms of their basic agreement and the Indo - U.S. Agreement of July 9, 1951, as amended. Earlier, the basic Indo-CARE Agreement was further supplemented by annual agreements with each state government. But for the last several years, the GOI has prohibited CARE from signing separate agreements with the states. The GOI now signs these annual agreements and provides each state with an identical List of Provisions (LOP) specifying the terms under which their programs operate. The LOP's terms become binding on the state governments.

Under the Indo - U.S. Agreement, the GOI provides duty free entry for all commodities and is responsible for their clearance, storage and transportation. The GOI has assigned this responsibility to the Food Corporation of India (FCI). Under the Indo - CARE Agreement, the state governments meet all program costs, including CARE's administration costs, and arrange for the handling, storage and despatch of commodities to distribution centers through a series of intermediate storage points at the state, district and consignee levels. They arrange these services through FCI or other contractors.

CARE has offices in 13 Indian states and a central coordinating headquarters in New Delhi. The state offices are responsible for program planning, implementation, surveillance and evaluation. The New Delhi headquarters is responsible for overall management of the program, providing policy guidance and instructions to the state offices and for maintaining contact with, and reporting to, CARE headquarters in New York and to USAID.

CARE's present program consists of: (a) a maternal and child health (MCH) feeding program for children up to age 6 and nursing mothers; and (b) a school feeding (SF) program for primary school children. Earlier, CARE also had a food-for-work (FFW) program which, according to CARE's FY 1982 Program Plan, was terminated in FY 1980 largely due to the stoppage of USG provided wheat shipments to India. CARE's approved program levels for the three fiscal years covered by our audit are as follows:

Recipients (in 000s)	FY 1979	FY 1980	FY 1981
FFW	864	30	-
MCH	6,000	5,499	5,499
SF	9,000	9,000	9,000
	15,864	14,529	14,499
Commodities (MT)	292,949	256,410	256,245
Value ($000) (including estimated ocean freight)	103,242	92,589	119,242

Of the approved levels, CARE received shipments of 592,424 MT of commodities valued at approximately $341 million (including estimated ocean freight) during FY 1979 to FY 1981. They also had available for programming purposes a sizeable commodity inventory remaining from the prior year. These commodities were imported through 7 Indian ports and distributed to beneficiaries through a network of 207,500 feeding centers in the 14 participating states.

The purpose of this interim audit was to ascertain progress made in achieving program objectives; to determine whether the program was effectively carried out in compliance with AID regulations and procedures; to assess CARE's planning, management and evaluation of the program; and to review the efficacy of USAID's monitoring actions. We also reviewed actions taken by CARE to correct the deficiencies reported in our prior Audit Report No. 5-386-78-11 dated April 25, 1978. Our audit was made intermittently during August 1981 to February 1982 and covered the period from October 1, 1978 to September 30, 1981. We reviewed USAID files and held discussions with cognizant personnel. At CARE, we examined on a selective basis the procedures, controls, records and reporting related to the Title II program commodities and container funds, and held discussions with their personnel. Our review was performed at CARE's headquarters in New Delhi and three of their 13 state offices. To observe program operations in the field, we visited 14 consignees and 64 feeding centers in the three selected states of Tamil Nadu, Uttar Pradesh (U.P.) and Orissa.

Our audit was made in accordance with generally accepted auditing standards and included such tests of records, documents and discussions as were considered necessary. Copies of our draft report were provided to USAID and CARE for comments and their responses were considered in the preparation of this final report.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

A. PROGRAM IMPACT

A priority interest in conducting this audit of CARE's management of the PL 480, Title II Program in India was to determine if available evaluations, studies, overall current program status, and other evidence accumulated over the long-term showed sufficient program impact to warrant the continued infusion of massive amounts of USG grant resources as is currently planned. CARE has been conducting a USG supported program in India since 1951 and for the last twenty years of that period their programs have been implemented through various state governments of India. Since 1951, the USG has provided well over one and one-half billion dollars of commodities for PL 480, Title II activities in India. By far, CARE has traditionally managed the largest U.S. voluntary agency program in India as is evident from their approved Title II program level for FY 1981 alone which amounted to almost $120 million.

Based on our review of available evidential matter and the current status of CARE's program, we have concluded that a satisfactory level of program impact has not been reached and that there is a major need to redirect and reduce this assistance program to a more manageable level. Given the serious problems detailed throughout this report, we believe increased emphasis must be placed on rapidly improving the quality of the program and on developing adequate control over all USG provided commodities from the time of arrival and during the period they are in the custody of the GOI or its instrumentalities. There is a clear need to develop more specific and more definite plans, supported by a formal bilateral agreement, to effect an orderly transfer of all school feeding program responsibilities to the GOI within a reasonable timeframe. There is also a clear need to finalize a formal agreement with the GOI relating to the specific steps necessary to improve the current MCH program to a performance level that is viable.

Historically, USG interest in supporting these types of programs has centered around a policy position that fairly clearly provides that resource transfers for school feeding programs and MCH programs are considered to be "seed money". In effect, the resources are provided with the expectation that support for such programs would eventually be provided totally from indigenous resources. Thus far, in terms of food transfers, the PL 480, Title II supported program in India has remained mostly a USG supported program. Over the long years, there has not been an adequate level of local food resource transfers to the

USG supported programs nor has there been adequate effort by USAID or CARE to arrange an orderly transfer of the program responsibilities to the Host Government.

In sum, this CARE program has been ongoing for about twenty years. It has continued to operate basically as a welfare program without clearly defined objectives, evidence of impact, or formal plans for a progressive phase-over of responsibilities to the GOI. Most of the available evaluations have indicated a lack of impact of the Title II program on their stated objectives because of a series of design and implementation deficiencies. The GOI has also stated that both the MCH and the school feeding programs in general (i.e. both Title II and those supported with local resources) have relied heavily on short-term strategies based on narrowly identified target groups and, therefore, have become ineffective exercises in offering food to selected groups as charity.

We believe these conditions have been caused mainly by: (a) a lack of specific program objectives, (b) arbitrarily establishing beneficiary levels for individual centers, (c) the extremely large number of sub-program units (over 207,000) which is not conducive to effective management, and (d) a continuing emphasis on the short-term objective of distributing food as a dole. USAID has initiated actions towards a gradual reduction of the school feeding program and a planned upgrading of the MCH program as a result of AID-sponsored evaluations. However, MCH program upgrading is still a long-term goal and there currently is no basis to form an opinion of whether or not the planned upgrading will or will not be successful. In the case of the school feeding program, current plans are to gradually reduce the program by FY 1986 to a level of 50 per cent of the FY 1981 level. According to CARE, the GOI is planning to provide about $6.3 million in 1982-83 to assume ration requirements for about 1.35 million primary children who were covered by the 1981-82 Title II program. In our opinion, this is a step in the right direction. CARE has advised that the GOI will be providing written commitment of this action.

Under the following subcaptions we have presented a synopsis of the evaluation reports made available for our review and our assessment of CARE's achievements and of their future plans for redirecting and upgrading the program.

1. Achievement of Objectives

Neither CARE or USAID planning documents provide specific statements of program objectives or indicators of progress against which to relate program accomplishments. The general objectives, as stated in CARE's program plans, are to reduce malnutrition amongst the target group and to increase or stablize enrollment and attendance in primary schools. Again, no benchmarks have been provided to enable measurement of progress towards these objectives and neither CARE or USAID program documents provide an assessment of the extent to which the objectives have been attained. To some degree, current planning for the upgraded MCH program does indicate some fairly specific program goals and evaluation procedures will be developed but their adequacy cannot be determined until a formal agreement on the future program is signed.

CARE claims that both the existing programs are generally achieving their objectives but they have offered no verifiable evidence or quantitative data to support this. CARE also states that the GOI is thoroughly persuaded of the impact of these programs, but again this statement is not supported by the GOI's assessment of the program, by other AID-sponsored evaluations or by our own observations. For instance, the GOI's Sixth Five Year Plan states that recent studies have shown that the school feeding program has not made much impact on increasing enrollment or in reducing the drop-out ratio; rather, the proportion of drop-outs has remained almost unchanged since the early 1950s. Some of the contributory reasons for this were stated to be a lack of continuity in the supply of food materials to the centers, pilferage in the channels of distributions, an absence of other benefits like health services, inadequate cooking and storage facilities at the schools, and a lack of local community involvement. Similarly, the GOI points out that several studies have shown that the MCH program's impact has been minimal because the target beneficiaries were not selected on the basis of nutritional deficiencies, the program has lacked integration with other services, it has not served the more important target group of children up to the age of three years, the program has lacked continuity and the same children were not ensured feeding for the required number of days in a year, the food was shared with other family members in a majority of cases, and community involvement was conspicuously absent. The GOI also stated that both the school feeding and MCH programs in general have relied heavily on short-term strategies based on narrowly identified target groups. This, they state, has resulted in a failure to initiate durable, long-term measures required to solve the problem of malnutrition. They concluded that adequate infrastructure for coordination, implementation and monitoring has not been developed at the field level, hence the program has lacked effective supervision. Finally, the GOI felt that, in practice, these programs have become ineffective exercises in offering food to selected groups as a dole or charity without making a contribution to improved nutritional status.

Three AID-sponsored evaluations have also been critical of the program's shortcomings and lack of impact. For instance, an evaluation made by Community Systems Foundation, Michigan (CSF) during 1979 concluded that in the case of the MCH program, the major objectives of improving health and nutritional status of the target group were largely not achieved because of the same problems as mentioned above. In the case of school feeding, the report stated that food was reaching the poor majority and, according to the teachers contacted, the program had a positive impact on attendance. But, the evaluation team also acknowledged that they were not privy to any quantitative data and thus the validity of their conclusion regarding the program's impact on attendance is questionable. In fact, a 1980 assessment of the school feeding program made by an AID/W representative on the basis of five available quantitative evaluation studies also failed to support CSF's conclusion. The report stated that the absence of adequate data and the lack of systematic evaluations of the school feeding program made it extremely difficult to draw any meaningful conclusions about the program's impact on its key objectives. Similarly, another CSF study of the MCH program in November 1980 pointed out that although the food is reaching the poor, the program has not achieved the purpose of improving nutritional impact because of poor targeting of the food supplement coupled with widespread food sharing, substitution of the supplement for other family foods, and infection or other parasitic infestation. The study reasoned that nutrition education programs are doomed to failure if they emphasize food first and then education, and that once a project has been initiated in a community, the distinction of socio-economic hardship is insufficient reason for an individual's participation in the feeding component of a nutrition project. Finally, the study concluded that since the decrease in mortality rates associated with the transition from severe to mild nutritional deficiencies is considerably greater than the move from mild nutritional deficiencies to normalcy, it is hard to justify not targeting resources to the most malnourished.

From our own review, we agree with these conclusions of the GOI and the evaluation teams. In the case of the MCH program, we found that: beneficiaries were not being selected on the basis of their nutritional status; CARE had no information about the extent to which the program was focussed on the highest risk target group, but they acknowledged that the success rate is still unsatisfactory; and little progress has been made in integrating the feeding program with health services, sanitation or nutrition education. For instance, according to data furnished by CARE, the levels of integrated programming achieved during the audit period were:

	Total MCH Beneficiaries	Beneficiaries Covered by Integrated Programming
FY 1979	6,000,000	Not Available
FY 1980	5,499,000	990,000
FY 1981	5,499,000	1,211,000

Thus, data for FY 1979 was not available and the coverage was only 18 percent and 22 percent in FY 1980 and FY 1981, respectively. In addition, CARE could not furnish us a breakdown of these figures by states stating that the differing interpretation of integrated programming makes it impossible to provide this information. Hence, we could not verify the accuracy of CARE's claim. Finally, our field visits disclosed that beneficiaries were being selected on an ad-hoc basis and food was largely being shared by them with other members of the family (including even in on-site feeding programs) which resulted in dilution of even the minimum authorized ration. The average calorie gap of 1 to 6 year old children in India is stated to be 500 calories. Against this, CARE's current ration level provides only 345 calories. Thus, the ration level is already insufficient and the further dilution by food sharing raises serious question of whether the MCH program is having any significant nutritional impact. USAID officials have disagreed with this conclusion but the situation is borne out by other data we reviewed that states (a) existing food resources are spread too thinly among too many people to expect any nutritional impact and (b) that if impact is to be achieved from existing food resources, a regretable but unavoidable reduction in beneficiaries is necessary.

CARE's program plans state that the SF program is having an impact on reducing dietary inadequacies, increasing enrollment and reducing dropouts. They, however, have not provided any quantitative details in this regard. The lack of such information at CARE and at the field locations visited by us precluded us from establishing whether or not the program has actually influenced enrollment or drop-out rates. Moreover, CARE could not furnish us specific details on other of their claims regarding program achievements. For instance, CARE told us that several states have activities or plans to provide complementary inputs like health care and nutrition education. They, however, could not identify the states. Similarly, they stated that an overwhelming majority of their SF program is for harijans, tribals and other scheduled castes. Again, they did not furnish any details and stated that they do obtain estimates but that the estimates were not authentic enough to be reported to us.

Our field visits disclosed that schools were not providing the complementary inputs of health care and nutrition education. Approved beneficiary levels at nearly all the schools visited included only a part of their total enrollment in primary classes, and in all cases the number had been arbitrarily fixed by the respective state governments. Except in Tamil Nadu, no criteria for selection of eligible beneficiaries was followed. In only one of the three states visited (Tamil Nadu) were the schools maintaining a list of the children covered by the program. In the other two states (U.P. and Orissa) the schools did not have any such identification but were feeding all the children who were present on any day. Thus, the children were not getting even the minimum authorized ration which disproves CARE's claim that schools having partial coverage were confining their feeding to children in the lower economic and nutritional status only. Hence, given all these discrepancies, it is our view that there is little evidence that the school feeding program, as presently operating, is either effective in promoting school attendance or in providing adequate nutritional supplements.

Overall, we concluded that both the MCH and SF programs were operating as food dole programs, and that CARE has been more concerned with feeding as many people as possible rather than effectively and selectively using PL 480 food resources to combat malnutrition and other developmental problems. We believe that the lack of specific measurable program objectives, weak management, misplaced emphasis on covering a large number of beneficiaries country wide, insufficient efforts on the part of CARE to insist that the program be better targeted and integrated with other services, and USAID's lack of participation in programming discussions with the GOI are responsible for the shortcomings mentioned above. If the program's primary purpose is to maintain commodity distribution levels, we believe this objective is being generally realized. But, if the purpose is to combat malnutrition, we found little evidence that this was being achieved.

In answer to our questions, CARE stated that we tend to focus on a strict input/output assessment, somewhat in isolation from the actual dynamics of the program. CARE felt a balanced analysis must reflect the conditions under which they function in India, and that we should realize that the objectives when the programs were initiated are not the same as those being introduced today. They stated that targetting on the most disadvantaged (or most at-risk) beneficiaries within a given community is a relatively new thrust not instantly embraced by CARE's counterparts because it demands elimination of a category of existing beneficiaries chosen under a different criteria. Finally, CARE stated that they assist only state government programs, which have been approved by the GOI, and any program demands substantial cost to the state involved. The amount of resources that a state can, or will, make available for the purpose is a large determinant in the characteristics and dimensions of each program, besides influencing many elements of performance. In whatever terms they are described, these programs are the evolution of a series of relationships established between CARE and the central/state governments, with at least the tacit blessing of AID. The states do and will increase their contributions and seek program improvements, but the pace of change is necessarily moderate.

We agree with CARE that Title II program criteria has changed over the years, and that their programming is unavoidably influenced by the resources that the GOI and state governments provide. However, we see no justification for continuing with the present dole-type feeding programs for a large number of beneficiaries country wide, and thus losing much of the nutritional impact that can be obtained from a Title II program. We believe the scarce Title II resources currently being made available can be more effectively used by increasing ration sizes and limiting the number of participants accordingly, and by directing the program to beneficiaries selected on the basis of their nutritional status and where other corollary services are available.

CARE has acknowledged the shortcomings in the MCH program for the first time in their FY 1983 program plan and the need to upgrade their planning. But, according to USAID documents, CARE also proposed a reduction in ration levels, feeding days, and a substitution of less costly foods for the more expensive but nutritious blended and fortified foods in order to offset food quantity reductions resulting from current budgetary constraints. Wisely, USAID officials did not accept CARE's proposal since it obviously would again reduce the program's nutritional impact particularly for the younger children.

2. Future Plans

MCH Program: CARE's FY 1983 program plan projects program upgrading efforts over the next seven years as follows:

FY	Total MCH Beneficiaries	MCH Beneficiaries Projected to be Covered by Upgraded Programs	%
1982	5,900,000	-	-
1983	5,900,000	500,000	8.5
1984	5,918,000	918,000	15.5
1985	6,000,000	1,300,000	21.7
1986	5,830,000	1,830,000	31.4
1987	4,800,000	2,800,000	58.3
1988	3,940,000	3,940,000	100

The plan also states that the revised program's impact will be assessed by some specified indicators of nutritional status. In addition, geographic consolidation of the program into fewer blocks is currently in progress as a part of CARE's plan to upgrade their MCH program. The consolidation process is to continue over the next six years until the program has been redirected to 1,000 or fewer blocks from the approximate 2,000 blocks now included. We believe this is a step in the right direction, but, unfortunately, CARE also indicated that if this approach is unacceptable to the GOI, they will adjust their plan accordingly. Thus, USAID should closely watch future MCH program changes to ensure that any changes do comply with PL 480, Title II and AID regulatory requirements.

In December 1979, following the CSF evaluation, USAID initiated the design of an Integrated Maternal and Child Nutrition Project (IMCN) to upgrade the CARE MCH program. The project, which was approved in principle by AID/W in May 1980, would have provided $15 million to the GOI and CARE to meet a portion of the costs involved in the upgrading efforts. Early on in discussions concerning the project there were fundamental differences between USAID's perception of the upgrading efforts needed and the positions taken by the GOI and CARE. In a meeting held on January 22, 1982, GOI officials voiced strong resistance to any of USAID's suggested modifications and CARE supported the GOI position. GOI officials indicated that they were more committed to preschool education and child development than to malnutrition and mortality reduction in contrast to USAID's almost exclusive commitment to the latter. For instance, GOI officials did not agree: (a) that malnourished children should be given first priority, (b) that a monitoring and evaluation system be established to verify the degree to which malnourished children were being covered in USAID supported project areas, (c) that there should be any outside involvement in the monitoring process, or (d) that ration sizes should be increased in USAID supported project areas because this would also require ration increases in other areas as well.

Initially, CARE reportedly was not supportive of the proposed IMCN project because: (a) the grant funds would be made available to the GOI instead of CARE since AID/W decided the IMCN project is more appropriately a bilateral project. Supposedly, this result could undermine CARE's role as manager of Title II commodities in India and thereby affect their operational understandings with the various state governments, (b) due to current budgetary constraints, the increase in ration size, quality and cost proposed in the IMCN project would reduce overall commodity availability and thereby reduce administrative revenues that CARE receives from the state governments on the basis of quantities of commodities imported, (c) they did not agree with USAID's proposed quarterly community weighing surveys to select beneficiaries for the program nor with the use of nutritional recovery as the sole criterion for graduation from the food supplementation program, (d) they were concerned about the proposed shift from a scattered location of feeding centers to the total block coverage system preferred by the GOI and USAID, and (e) they felt that the project design was too idealistic.

USAID took a position that considerable resources are necessary to upgrade the program and that the job should be done correctly from the beginning. On the second issue mentioned above, USAID's FY 1983 annual budget submission included concerns over repeated CARE proposals to reduce per capita rations and the number of feeding days, as well as to substitute less costly commodities for the more expensive but more nutritious foods. USAID stated that this change in the commodity mix would further direct the CARE MCH program to older children who are not at risk. USAID felt that this development would be opposite the direction stated in the country development strategy to reach India's youngest children who are nutritionally most vulnerable. USAID officials were also concerned that the average CARE MCH program ration was already below the Title II suggested levels, and far below the rations recommended by U.S. and Indian nutritionists for interventions attempting to reduce severe and moderate malnutrition among the younges children who are most at risk.

Since completion of our audit field work and draft report, USAID has advised us that the fundamental differences referred to above appear to have been bridged in exchanges of letters between USAID and the Ministry of Social Welfare in March. Moreover, they stated that "since the January 22 meeting, the GOI and USAID have agreed to consider malnourished children 0-3 as a priority group, to establishment of an independent monitoring system to verify progress in reaching these children, and on ration size and commodity mix." They also said that CARE's initial resistance to the project, as expressed above, no longer exists according to a March 24 meeting and a March 26, 1982 letter received from the CARE Director. CARE has also made it clear to USAID staff orally that it does not desire to receive funds from the dollar portion of the project.

We agree that USAID's comments and copy of CARE's letter do indicate that progress is being made in resolving the issues surrounding the IMCN project but a definitive formal agreement has not yet been signed. Also CARE's March 26 letter referred to above is not all that clear that they have accepted USAID's proposals. For example, CARE has stated they "will accept those modifications mutually agreeable to GOI and ourselves." Thus, in our view, USAID should closely monitor future program implementation to ensure maximum possible progress. We also believe that MCH program upgrading should be given a high degree of priority, particularly since all parties concerned have apparently accepted a reasonably common basis to improve the program. To accomplish this purpose, we believe the program should be restricted to states and centers who will make the necessary effort and resources available to achieve the upgraded project goals relating to targetted beneficiaries, health and educational inputs, and an adequate ration size to effectively combat malnutrition.

Recommendation No. 1

The Director, USAID/India, in collaboration with AID/W, should determine what level of MCH programming can be effectively managed in India and still ensure a rapid transition to upgraded programming that would target on the highest risk group of children and mothers selected on the basis of established nutritional criteria. Based on this determination, the Director should take action to: (a) limit the future provision of PL 480 Title II commodities to quantities commensurate with revised program levels, (b) negotiate a time-bound plan for the upgradation of the MCH program, and (c) develop a monitoring and evaluation system for determining progress made against revised program targets.

Recommendation No. 2

The Director, USAID/India, in collaboration with AID/W and CARE, should conclude a formal agreement with the GOI to provide for: (a) upgraded MCH programming in accordance with the determinations made as a result of Recommendation No. 1, and (b) a reasonable transfer of MCH program responsibilities and costs to indigenous sources based on an agreed and specific timeframe. If a reasonable basis for host-country assumption of all MCH program responsibilities cannot be negotiated in the near future, the Director, in collaboration with AID/W, should determine whether USG support to the MCH program in India should be terminated.

School Feeding Program: USAID's development assistance strategy in India does not have education as an objective. Consequently, in following AID/W instructions to integrate PL 480 programs and development assistance into an overall and coherent country development strategy, USAID has been involved in assessing the impact of the SF program. As a result, USAID officials have concluded that there is insufficient positive evidence of SF's impact or its relationship to Mission goals. Nevertheless, USAID has included the Title II SF program under the rubric of fertility and mortality reduction and is looking at the assumption that extending female education will have an impact on reduction of fertility. USAID planned to engage a consultant from the Population Council, New York to assess the fertility impact of various AID-supported activities in India, including primary education. This analysis of education-fertility relationships will be supplemented by an assessment of the relationship between SF programs and primary school enrollments which is underway. At the same time, USAID recommended a gradual phase-down of 50 percent of the SF program during the next 3 to 5 years, accompanied by a concentration of the residual program in the poorest rural areas. AID/W concurred with USAID's phase-down plan and an orderly phase-out thereafter. AID/W staff also recommended that if no evidence of the SF program's contribution to reduced population growth rates can be found prior to FY 1983, USAID should begin phase-out (or over to the GOI) of all projects to conclude their termination by FY 1986. CARE, however, continues to assign a high priority to SF because they believe it integrates well with the GOI's plan of universalizing education.

Nonetheless, in accordance with their strategy, USAID has instructed CARE to reduce the SF levels by 10 percent a year until they are one-half of the FY 1981 levels. USAID wanted the phase-down to begin in April 1982, the start of next Indian fiscal year, with an initial cut in beneficiaries from 9 million to 8.1 million. In contrast, CARE wanted it to begin from U.S. FY 1983. Accordingly, CARE submitted their FY 1982 AER directly to their New York headquarters recommending that the level of 9 million beneficiaries be maintained for FY 1982. However, AID/W only approved a level of 8.5 million beneficiaries as recommended by USAID (the average for the year based on the different periods covered by the GOI and U.S. fiscal years).

Thus, there is a fundamental conflict in priorities between USAID and CARE regarding the necessity to continue the SF program. CARE continues to promote their SF program on the basis that they feel it addresses all the issues mentioned in AID/W's FY 1981 AER guidelines. However, we noted one significant issue that requires the SF program to be geared towards states where 85% of the non-enrolled primary school age children reside but where CARE's FY 1982 program failed to provide an acceptable response. CARE feels there are several problems in this area. For instance, they have indicated they are not allowed to operate in some states because of political sensitivities (Kashmir) and that their intention to increase coverage in two problem states (U.P. and Madhya Pradesh) was prevented because AID/W rejected their request to increase SF beneficiaries by 1.5 million. CARE has other means to address this problem area but they did not say why they could not accomplish the reprogramming within the existing approved levels through inter-state program level adjustments. For instance, in Madhya Pradesh (M.P.) the CARE SF program covers only 364,000 beneficiaries whereas in states highly conscious of education (Kerala and Tamil Nadu, both of which have reached 100% enrollment per the GOI's Sixth Five Year Plan), CARE's program plan shows coverage of 1,891,000 and 2,150,000 beneficiaries. When queried on this, CARE told us that changes cannot be made by them alone, and that they depend on a state's ability to contribute more of its resources as well as to perform good programming at a higher level, as deduced from its past performance. CARE also stated that they will make inter-state adjustments as they deem appropriate, and these (adjustments) are in favor of better performing states rather than the reverse.

USAID informed us that CARE will be required to phase over to focus on the problem states as we suggested or CARE may face even more stringent cuts in their SF program. We were also advised that the issue of female SF enrollment will be covered in an ongoing impact evaluation of the SF program that is expected to be completed in September 1982. USAID then plans to reappraise their SF policy and revise their strategy on the basis of the results of the impact evaluation. Thus, several actions are underway regarding the SF program's future direction and scope but we continue to believe more specific action and timeframes should be established to determine the linkages between female SF enrollments and fertility reduction, as well as to determine how the SF program should be refocused to those states where school enrollments are low.

Recommendation No. 3

The Director, USAID/India should establish a reasonable date for starting the planned evaluation of the linkage between female education, school feeding and reduced population growth.

Recommendation No. 4

The Director, USAID/India, should ensure that CARE's FY 1984 program plan provides for a refocussing of PL 480 Title II commodities for school feeding to the poorest areas where school enrollment is lowest within those states where Title II assistance is being provided.

3. Transfer of Program Responsibilities

The CARE Title II program has been ongoing for over 20 years but there has been no effort by USAID or CARE to arrange an orderly transfer of all program responsibilities to the GOI. AID Handbook 9 states that one of the major purposes of the program is to assist in the establishment of the school feeding as a permanent institution supported totally by indigenous resources. The other Title II programs should also be similarly phased over. When queried on this, CARE told us that in several states indigenous food inputs have been increasing over the years into ongoing programs or into independent extensions of these. They stated that actual replacement of CARE commodities is only beginning to appear, but no programs have so far been phased-over to the GOI nor does a time-bound plan exist for this.

Although India continues to be amongst the twenty least developed countries in terms of per capita GNP, it has made remarkable progress in the field of agriculture since independence. Foodgrain production has increased from about 55 million tons in 1950-51, when the Title II program started, to about 130 million tons in 1980-81, and India has reportedly become self-sufficient in food grains despite their phenomenal population growth during this period. Moreover, India has consistently maintained large quantities of foodgrains as a buffer stock. India has not imported foodgrains since 1977 except last year when a quantity of about 2.5 million tons of wheat was imported from the U.S. and Australia due to depletion of buffer stocks during 1980. Contributory factors to the depletion of 1980 buffer stocks were stated to be poor procurement locally, an increased public distribution and distributions for the national rural employment program. During 1980, the GOI also repaid a Soviet Union wheat loan of two million tons and this further depleted wheat stocks.

Given India's remarkable progress toward foodgrain self-sufficiency, and since there are no USAID development assistance programs in the education sector nor is SF considered a priority by AID, there appear to be compelling reasons for a concerted effort to transfer all SF responsibilities to the GOI on a reasonable basis that would achieve progressive host country inputs and continuation of the program in future years.

USAID has not agreed with the above conclusion. They point out that for the programming of Title II resources, the relevant fact is not India's "foodgrain self-sufficiency", but the large remaining nutrition gap. They agree that the "market gap" (self-sufficiency in foodgrains) in India had been closed in the late 1970s but that the "nutrition gap" (estimated to average about 10% below minimum levels) remains and that this latter gap reflects the true dimension of food needs for India's population.

In support of their position, USAID pointed out a 1981 World Bank* report that indicates "the precarious nature of the foodgrain situation" in India. In our review of the report, we noted that the Bank points this out in a positive manner in relation to India's significant achievements in managing the 1979 drought induced foodgrain situation. We also noted that the same report acknowledges that "recent supply and demand developments suggest a reduced and possibly eliminated need to import large quantities of foodgrains, and if present trends continue, India could become a significant food-grain exporter." In fact, the report later shows that during 1978, 1979 and 1980 India actually exported 1,830,000 tons of wheat and 556,000 tons of rice. Apparently this export trend is continuing as indicated by a U.S. Embassy report which shows India exported another 600,000 tons of rice in 1981 and a May 1982 news article that indicates India has offered to sell 100,000 tons of wheat to Bangladesh.

Yet, USAID continues to maintain that "as long as a large nutrition gap remains, Title II food is an appropriate assistance tool." While this may be true, we also believe it is necessary to relate our Title II food inputs to India's exports of foodgrains. For example, during the years covered by this audit, CARE received a total 592,424 tons of PL 480 commodities (see page 2) whereas the GOI exported over four times that amount of just wheat and rice during 1978 to 1980. Thus, we believe the overall situation deserves much more scrutiny particularly in view of India's exports of agricultural commodities, our increasing budgetary constraints, the competing demands world-wide for our dwindling Title II resources, and the fact that the India program has been ongoing

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*World Bank Report No. 3401, Economic Situation and Prospects of India, 4/15/81.

for over 20 years. Due to the indefinite nature of USAID's present plans, plus the exceptionally long history of this program and the lack of any real evidence of program impact, we believe it is reasonable to ask the GOI to establish a firm position on future program continuation.

Recommendation No. 5

The Director, USAID/India, in collaboration with AID/W and CARE, should promptly negotiate a formal plan with the GOI that provides for a progressive phase-over of the current school feeding program to a program implemented entirely with indigenous resources. The plan should consider progressively transferring 20 percent of the programming responsibilities each year starting in FY 1983. If the GOI does not plan to support the program with indigenous resources, the Director should consider a more rapid phase-out of total USG support during FY's 1983 and 1984.

USAID and CARE Objections to Report Section A - Program Impact

Both USAID and CARE have strongly objected to our analysis, conclusions and the recommended action covered in this section. CARE has objected to all five recommendations whereas USAID has agreed with recommendation four if it was made effective beginning in Indian fiscal year 1983-84.

USAID mainly objects to our recommendations on the basis that such recommendations involve program policy and go beyond the scope of audit responsibilities unless we can point out where USAID clearly is not complying with Agency policy guidance. In this regard, we believe the report speaks for itself --- there has been no compliance with policy requirements to phase this type of program over to the GOI. We wonder how long USAID and CARE wish to delay formal deliberations in this area. Should the USG continue providing PL 480 commodities for another twenty or thirty years or has India made sufficient progress in foodgrain self-sufficiency to warrant a progressive phase-over of current PL 480 inputs to a program implemented entirely with indigenous resources? In sum, we believe our analysis and conclusions are sound and we have therefore retained all five recommendations.

B. LOSSES/DAMAGES

1. Inland Losses/Damages

CARE and USAID officials have, in our opinion, been negligent in the methods and procedures they have followed in determining the collectibility of losses of PL 480, Title II commodities. CARE's records for and controls over reporting of losses were generally adequate but we found that considerable delays were occurring in CARE's reporting of losses to USAID, and no effective action was being taken to obtain collections from those responsible for the majority of losses of Title II commodities. As a result, millions of pounds of commodities were being written-off each year as uncollectible losses even though available information did not justify such action.

We found these conditions at all three of the state programs reviewed by us. Accordingly, to determine whether the same conditions existed program-wide, we selected another 30 losses involving large quantities of commodities valued overall at almost $950,000. Our review established that the problems of delayed reporting and improper write-off of losses exist in the total CARE program. Our observations are summarized below and details on 28 additional examples of losses valued at $310,432 that were improperly written-off are furnished in Exhibit A.

(a) Losses Written-off as Uncollectible: We found that port interior, railway transit, warehouse and other losses were being routinely treated by both CARE and USAID as uncollectible despite the fact that justifications furnished were not adequate to warrant the write-offs. The cases reviewed by us showed that: port interior losses were treated as uncollectible even though they had occurred due to large scale pilferage and inadequate storage conditions at the port transit sheds, or negligence of the port authorities or clearing agents; marine losses were improperly classified as port interior losses because the surveyors could not submit their ex-tackle report on time or for other unspecified reasons; railway transit losses were written-off even though the shortage or damage was duly acknowledged by the railways; and warehouse losses were treated as uncollectible even though the commodities had been stolen and police cases were pending in a court of law.

In U.P., there were 81 cases of losses involving a total value of $69,997, each over $300, that were written-off as uncollectible during the audit period. We reviewed 9 of these cases valued at $24,089 and found that the justifications provided were not adequate to warrant the write-off. For instance, in 3 of the 9 cases the losses, involving 28,800 lbs. of commodities costing $4,917, occurred due to inadequate storage facilities, prolonged storage, or failure to follow first-in-first-out inventory procedures for issuing stock. These losses were written-off despite the fact that CARE state officials had reported the deficiencies during their previous visits, and CARE's own manual provides that such storage losses would be collectible. Commenting on this, CARE stated that their decision to waive collectibility in these three cases was in the best interest of the USG and the children participating in the program, who are most affected by losses and would not gain any benefit from money collected from such losses. We find this comment illogical, irrelevant and contrary to AID Regulation 11 which states that cooperating sponsors may elect not to file a claim if the loss is less than $300 and such action is not detrimental to the program. All these losses were over $300 each.

In the case of Orissa, there were 249 cases of losses of $300 or more during the audit period. These losses involved 2.6 million pounds of commodities valued at $531,217 as follows:

Loss Status	Number of Cases	%	Poundage	%	Value($)	%
Collectible	8	3	61,249	2	6,257	1
Uncollectible	241	97	2,530,187	98	524,960	99
	249		2,591,436		531,217	

Thus, only 3 percent of the losses having only one percent of the total value resulted in collectible claims, and the remaining 97 percent were all treated as uncollectible. We reviewed 28 of these uncollectible losses involving 1.5 million pounds of commodities valued at $310,432. Again, we found that the write-offs were all unjustified. In the State of Tamil Nadu we only reviewed six losses but it was again found that the write-off of the losses was unjustified.

The USAID Controller was also concerned over the write-off of large quantities of Title II commodities and he withheld approval of the Claim Uncollectible Reports (CURs) for a long time. He finally approved the CURs in December 1981 as recommended by the USAID Food for Development Office, although no reasons were specified for this. The Controller had prepared an analysis of the 237 CURs, all over $300 each, submitted by CARE during a 10 month period from March 1980 to January 1981. According to his analysis, 8.2 million pounds of commodities having a value of $1.6 million were written-off through these CURs. We selected 30 of the losses involving 4.7 million pounds of commodities valued at $942,978 for our review. The value of individual CURs ranged from $7,003 to $111,351. We found that the justifications furnished for nearly all cases were either incomplete or they clearly showed that the losses had occurred because of the fault of a GOI instrumentality or the state government. Yet, all these losses were treated as uncollectible by CARE and USAID officials. These 30 losses included 5 cases where 451,059 lbs. of salad oil costing $223,890 was donated for use as animal feed or for the manufacture of soap as it was allegedly contaminated with sulphur. The salad oil involved was transported on the ships President Fillimore and Jala Godavari that arrived during June 1979 and November 1979. Our review of the matter disclosed several highly questionable factors surrounding these 5 cases. Based on our review, we concluded that both USAID and CARE were negligent in their handling of this large loss involving over $200,000 of USG donated oil. For instance:

(a) In one case, 196,581 lbs. of the oil valued at $90,034 was donated by CARE for use as animal feed without adequate investigation and without obtaining the required prior approval of USAID. In February 1980, when CARE requested post-facto approval, USAID asked CARE to explain the reasons for the long interval between the laboratory reports, donation of the oil and reporting to USAID; and why the oil was donated as animal feed when the laboratory reports showed that the oil was edible. CARE's response did not address these questions but merely listed the "extenuating circumstances" due to which the oil was disposed of without USAID approval. In spite of this, USAID did grant post facto approval on March 26, 1980. Later, answering our audit query of April 1982, USAID informed us that CARE has still not furnished a satisfactory reply on the above mentioned issues.

(b) Significantly, only part of the quantity of oil received under the two shipments (549,395 lbs. out of 1,397,642 lbs.) was donated due to the alleged contamination. Similarly, only 220,189 lbs. (4,766 cartons) out of the 304,920 lbs. (6600 cartons) of oil received by the concerned consignee in Gujarat were donated for animal feed or soap manufacture. The balance of the total quantities were stated to have been utilized by the Gujarat consignee and others in the feeding program. In sum, about two thirds of the total oil involved was used f'r the program and no complaints of contamination were reported.

(c) Apart from the above two shipments, another ship (State of Nagaland) brought 699,976 lbs. of oil for the CARE India program around the same time. This shipment was received on November 6, 1979 and samples therefrom were tested by the same laboratory on the same date (December 1, 1979) alongwith a sample from Jala Godavari, one of the two shipments discussed above. The two tests were almost identical and a sulphur content of 0.05% and 0.06%, respectively, was shown in the related reports. Yet, only the Jala Godavari oil was treated as contaminated and donated. The oil transported on the State of Nagaland was used in the feeding program despite the fact that it also was reported to be contaminated with sulphur. When queried as to why a different standard was followed in the case of these two shipments having almost an identical level of reported sulphur contamination, CARE stated that the oil received via the Nagaland was presumed to be fit since no adverse reports were received from the recipients, unlike the case of Jala Godavari where the state government would not permit the oil to be used because of the presence of sulphur. We consider CARE's explanation to be questionable because (1) the allocation of oil from the Nagaland was made after the report of sulphur contamination; and (2) the sulphur contamination, if harmful, would have been equally harmful regardless of where and by whom the oil was used in the program.

(d) A U.S. Department of Agriculture (USDA) analysis of oil samples furnished by USAID concluded that the oil was sound, uncontaminated and in compliance in every respect with the provisions of the contract. Despite this, USAID authorized donation of additional quantities of oil from the two shipments first mentioned above. Moreover, we could not determine whether any action was taken and claims filed against the U.S. supplier if the oil was in fact contaminated. USAID stated that they had kept AID/W and USDA informed but received no response from them.

(e) Five tests of oil samples were made from the President Fillimore shipment by various laboratories. The first three tests declared the oil as sound the fourth test found a sulphur content of 0.05%, and the fifth test found presence of castor oil. Similarly, five tests by different laboratories were carried out on oil samples from the shipment Jala Godavari. One test reported presence of sulphur (0.084%) but there was no mention of castor oil, another test showed the presence of sulphur (0.06%) but no castor oil, and another test showed the presence of castor oil. A fourth test by USDA found that the oil was uncontaminated and sound in all respects. Another test made in August 1980 (by Shri Ram Test House) reported a sulphur content of 0.0174% as against the first test result of 0.084% in December 1979. We queried USAID in April 1982 as to: (1) why there were differing opinions and how did the oil become contaminated with castor oil; (2) why didn't USAID or CARE have Shri Ram Test House make a test for castor oil also in view of the differing opinions; and (3) why didn't USAID send samples to various laboratories for testing as was indicated in their letter of May 19, 1980 to CARE (a sample of only one tin of oil was sent to Shri Ram Test House). In response, USAID and/or CARE stated that they were not qualified to comment about the presence of castor oil; and that the Shri Ram Test House was requested to conduct the test for castor oil but it was not done. USAID also stated that they did not send samples to various laboratories because they did not have a source of funds from which to authorize the expenditure of the Rs. 1,530 ($170) required for carrying out the tests. Again, we find these explanations unsatisfactory and thus question the basis on which USAID authorized the donation of additional quantities of oil costing over $100,000 without adequate tests simply because they could not find the $170 required to pay for the tests. Finally, are these low levels of sulphur and castor oil content considered harmful or are they well within standards for human consumption as indicated by the USDA tests?

In sum, there are serious questions of whether the oil was even contaminated and, if so, where and how it was contaminated. Why was only a part of the total shipment quantity considered to be sulphur contaminated? Why wasn't the oil disposed of by sale? Why weren't claims filed against the U.S. contractor if the oil was in fact contaminated?

Overall, we found that losses were treated as uncollectible after lodging an initial claim and following it up with two reminders, or no claims were filed by CARE. The write-off, in most cases reviewed, was justified on the grounds that port or railway authorities do not acknowledge or accept liability for losses, or no single responsibility could be fixed for the losses. For instance, 81 percent of the losses of $300 and above, involving 2 million pounds of commodities costing about $397,875 that were treated as uncollectible during the audit period in Orissa, occurred at the port or in railway transit. Significantly, all three agencies involved in the clearance, storage and despatch of Title II commodities (port, FCI and railways) are GOI instrumentalities and they should be held responsible for losses that occur while the commodities are in their custody. Evidently, they have been consistently able to disown responsibility because no serious effort appears to have been made to fix responsibility for the losses or to vigorously pursue claims, or because CARE and FCI continue to accept qualified railway receipts which the railways later use to avoid any claim liability. As of June 30, 1981, CARE's external auditors reported similar observations and noted that certain transit claims they reviewed were treated as uncollectible although the documents examined by them indicated the losses could have been collected.

Commenting on our observations, CARE stated that they viewed a port loss percentage of less than 1% of the commodities imported through Orissa port as being commendable. Regarding railway claims, CARE stated that our contention that they should not accept disclaimers of liability based on local laws, regulations and commercial practices is contrary to current requirement prescribed in AID Regulation 11. We, however, do not accept CARE's comments for several reasons. First, the factors that were responsible for the loss, and not the percentage of the losses in relation to the total imports, are required to govern the collectibility or otherwise of losses. Second, we are not aware of any specific local law or regulation that required the railways to issue qualified receipts. Third, CARE noted in their own internal review report for CY 1979 that the railways have issued instructions that clear railway receipts must be issued for all consignments railed from the port. Fourth, the claim letters written to the railways clearly mentioned that tenability of the claims was visualized in the GOI Ministry of Railway letter No. 6267-TC of August 27, 1953. Finally, according to CARE's operating manual, in 1975 the Railway Board also issued a circular asking the railways to issue clear railway receipts for CARE consignments in the future. It is pertinent to mention that CARE's own external auditors also noted this problem in a state visited by them where almost all railway losses were treated as uncollectible because of the qualified receipts issued by the railways.

In the case of port handling of Title II shipments, there even appeared to be some ambiguity as to the precise responsibility of the port authorities vis-a-vis such shipments. For instance, in rejecting a CARE claim, the Paradip Port Trust (PPT) stated that PPT does not take custody of the cargo and it is, therefore, not responsible for any loss while the cargo is stored in the port. PPT said that in this specific case the cargo was not handed over to them as bailee. The cargo was handled on board the ship by stevedores and the state government handling contractors took charge of it thereafter. Hence, PPT disclaimed responsibilities for the loss. The question that arises then is what exactly is the port's responsibility, and should such technicalities and ambiguities be allowed to be continuously used as reasons for writing-off losses involving large quantities of commodities. The List of Provisions (LOP) which govern CARE's Title II programs in each state provide, inter alia, that physical possession of commodities will be transferred to the state government at the end of the ship's tackle and the government will be responsible for their clearance through customs, storage and transportation by a secure mode of transport for distribution to the beneficiaries. The LOP further provides that the state government will pay the value of commodities lost if CARE is held liable for them. Thus, the respective state governments continue to be responsible for safe custody of the commodities until they are distributed to the beneficiaries. Therefore, if the port and railway authorities continue to disown any responsibility, the concerned state government should be made accountable for the losses.

Both USAID and CARE disagreed with us that losses were being routinely treated as uncollectible or that the state governments should be held responsible for the losses. USAID stated that although they are intent on reducing losses, we must keep them in proper perspective. According to them, the losses represent an exceedingly small percentage when compared to the total poundage and the dollar value of commodities imported by CARE. USAID had earlier conducted an analysis of commodity losses reported by each voluntary agency during FY 1978 to FY 1980. Their analysis showed that inland losses ranged from 1.05 percent to 1.72 percent of the quantities distributed in the three years. In the case of CARE, the inland losses ranged from 1.18 percent to 1.96 percent and involved a total quantity of about 23 million pounds (or 10,421 MT) of commodities. USAID felt that while losses can be prevented and their rate reduced, it should be realized that during at least two-thirds of the handling process from ship's tackle to distribution point, the commodities are under the control of third parties, i.e., FCI, state governments and transporters. Although it is usually possible to fix blame for commodity losses, it is usually very difficult to lodge claims against the railways because of their practice of issuing qualified railway receipts. Therefore, on the basis of their analysis, USAID concluded that the losses were well within tolerable limits. Finally, both CARE and USAID stated that they use the cable guidance which was provided by AID/W in July 1975 as a basis for writing off claims. The AID/W cable (State 171586 dated July 22, 1975) stated that voluntary agencies are required to file claims only when there is provable liability under local country laws, regulations, and commercial practice. If there is no provable liability because of lack of evidence, or if the voluntary agency is not able to reach a conclusion that an entity is responsible for the loss sustained based on known facts, or if liability is exempted under law, regulation or contract, the voluntary agency should report the loss to USAID requesting permission to close the matter because there is no provable liability.

We do not agree with USAID's position in this matter. First, the overall percentage of losses may be small, but because of the massive size of the India program even this small percentage involves the negligent loss of millions of pounds of commodities every year. Moreover, Title II claim regulations are not based on the percentage of commodities lost, but on their dollar value. This is clear from AID Regulation 11 which states that the voluntary agency "may elect not to file a claim if the loss is less than $300 and such action is not detrimental to the program." Secondly, the third parties who are in control of the commodities for two-thirds of the handling process are GOI instrumentalities, and there is no justifiable reason for their disowning responsibility. Thirdly, both USAID and CARE seem to have loosely applied the wording of the 1975 cable guidance to serve their purpose of justifying the write-off of losses. Neither the justifications furnished by CARE nor USAID's approvals adequately established that there was no provable liability under country laws, regulations, and commercial practice, or because of lack of evidence. In most cases reviewed, the documents furnished showed that the liability was clearly that of the concerned GOI instrumentality or the state government. Finally, USAID did not provide specific bases for their determination that the losses were uncollectible. In all cases, they had used a preprinted memo for approving the CURs. This memo merely stated that they found that the documents furnished by the voluntary agency contain sufficient evidence that the claim is uncollectible. We believe such general statements do not encourage a proper review of the CURs; rather they tend to make the review of the CURs a mere routine. We believe USAID should state the specific reasons for each CUR they approve.

We have also noted that USAID's actions seem to be contrary to regulatory requirements as cited by the U.S. General Accounting Office (GAO) recently in an issued audit report (No. AFMD 82-32 dated January 22, 1982) entitled: "Federal Agencies Negligent In Collecting Debts Arising From Audits." In this report, one of the problems reported by the GAO was that Federal agencies were inappropriately terminating debts rather than taking aggressive action to collect them. The GAO recognized that Federal administrators are empowered to make final decisions on the collections, but they also pointed out that such decisions must be based on Federal laws, regulations, and the terms of the governing documents. The GAO stated that without specific statutory authority, an agency cannot waive recovery of claims resulting from violations of its regulations no matter hcw well-intentioned the grantee may have been. Finally, the GAO reasoned that while corrective action to avoid recurrence of similar problems would certainly be expected, the Claims Collection Standards do not provide for terminating claims on the basis of present or future compliance with regulations. We believe the cavalier manner in which USAID has terminated claim actions for losses involving millions of pounds of Title II commodities costing millions of dollars annually is a classic example of the concerns expressed by GAO. Rather than initiating recovery action for losses that occured due to negligence on the part of GOI instrumentalities or state governments, both USAID and CARE have loosely used the above referred to cable as a basis to justify the write-off of virtually all losses. Their continued emphasis on very liberally interpreting the 1975 cable is, in our opinion, wrong and therefore requires that we refer the matter to the General Counsel for review and a determination of the propriety of USAID's actions in treating most losses as uncollectible.

In sum, we found that the justifications available for not filing claims were not adequate and neither CARE nor USAID has furnished any other convincing evidence for treating the losses as uncollectible. There is no specific provision in either the Indo-U.S. or the Indo-CARE agreement which requires the GOI to reimburse the value of commodities lost but such a provision does exist in the LOPs which the GOI forwards each year to the state governments and which become binding on them. Therefore, under separate cover, we are forwarding all available documentation on 30 losses valued at $942,978 (as listed in Exhibit B) for the AID General Counsel's review. These major losses were reviwed by us and we believe were improperly treated as uncollectible losses. If the General Counsel concurs with our position, we believe all losses treated as uncollectible during the audit period should be reexamined and the value of improperly justified losses should be recovered from the concerned state governments or from CARE in accordance with Section 211.9(e) of AID Regulation 11 which states that cooperating sponsors who fail to file or pursue such claims shall be liable to AID for the value of the commodities lost, damaged or misused.

Recommendation No. 6

The General Counsel, AID/W should review the loss data described in Exhibit A and the documentation provided under separate cover for the losses listed in Exhibit B and determine for each loss if a legal basis exists to justify a write-off of the loss or whether claim action is legally required under the provisions of AID Regulation 11.

Recommendation No. 7

If it is determined that the above losses were improperly written-off, the Director, USAID/India should require examination of all losses that were treated as uncollectible during the audit period, and require CARE to obtain refunds from the concerned state governments for all such losses that are determined to have been improperly written-off. If CARE is unable to obtain refunds from the state governments, USAID should issue a bill-for-collection to CARE for the value of such losses.

Recommendation No. 8

The Director, USAID/India, in conjunction with CARE and the GOI, should develop procedures to reduce Title II commodity losses by clearly establishing that GOI instrumentalities or state governments are liable for losses that occur while commodities are in their respective custody, and to have them reimburse the value of commodities lost due to reasons other than an Act of God. USAID should formalize these procedures in an addendum to the Indo-U.S. Agreement which governs the PL 480 Title II program in India.

Recommendation No. 9

The Director, USAID/India should require discontinuation of the practice of using preprinted forms for approval of CURs, and require the appropriate USAID officials to expressly state on each CUR the basis for determining a loss as uncollectible. USAID should develop internal review procedures to ensure that each CUR approved in the future fully describes the reason and the basis for the loss write-off.

USAID and CARE Comments to our Findings on Write-off of Losses/Damages

USAID agreed that there are several areas where their loss and claims documentation procedures need to be reexamined and said they were taking steps to do so. They also stated that: (a) they are reviewing the additional clarification on the current applicability of the 1975 cable sought from AID/W; (b) although the LOPs provide for the state's obligation to pay for the value of lost and damaged commodities, its enforcement if a state refuses to pay has not been considered in terms of its admissibility in an Indian court of law, its enforcibility in the context of prevailing Indian legal and commercial practices, and what would constitute provable liability in the Indian legal context; and (c) in 1970, the GOI had already disowned responsibility for such losses under the Indo-U.S. Agreement. USAID, therefore, felt that we should rescind Recommendation Numbers 6 to 8 and instead include one suggested by them whereby the matter would be reviewed by the Mission Legal Officer and/or an independent Indian law firm under the general supervision of the Regional Legal Advisor and based on their determination, an AID USDA-appointed claims review advisor should review whether USAID should proceed with action to reopen and pursue previously closed claims.

USAID also disagreed with our Recommendation No. 9 requiring that the basis for determining a loss as uncollectible to be expressly stated on each CUR. They stated that this would be a mere duplication since justification furnished by the voluntary agency is an integral part of USAID's review of the CURs. They felt that the use of a pre-printed format does not in any way demonstrate that the justification furnished by the voluntary agency is not reviewed by USAID.

CARE objected to our statement that they have been negligent in the methods and procedures followed in determining collectibility. They objected to Recommendation No. 6 and 7 in view of prior USAID approval of CARE's actions related to uncollectible internal claims. They also disagreed with Recommendation No. 8 and said that the LOP accepted annually by the GOI is tantamount to an agreement and it identifies the liability of CARE's counterparts for losses of commodities through negligence while in their custody, and it delineates the procedure for reimbursement when liability is established. CARE believes that there are other valid reasons besides an Act of God why reimbursement of losses may not be demanded and that action which is simply punitive will not reduce commodity losses. Finally, CARE said that they do not recognize that the Indo-U.S. Agreement governs the Title II programs in India or that any modification thereof emphasizing the GOI's liability for losses would be acceptable to the GOI.

Audit Comments

We question USAID's reasoning about the admissibility or enforcibility of the LOPs clause as, by CARE's own admission, the LOPs are binding on the state governments. Moreover, we do not agree that the prospect of the Indian states refusing to pay should be an acceptable reason for allowing loss claims involving millions of dollars to be improperly written-off as uncollectible year after year. Notwithstanding the GOI's earlier objection, we feel it is high time that suitable action is taken to fix responsibility for the losses of Title II commodities. If the GOI continues to maintain their earlier stand, we believe the implication of that action should be reviewed by AID/W in terms of AID regulations and the future continuation of the Title II program in India.

We also disagree with CARE's comments and continue to believe that the losses were improperly written off. Available evidence indicates the losses were caused based on the negligence of various GOI instrumentalities. Thus, LOP terms should be enforced. Otherwise, the improper and unjustified write-off of commodity losses will continue unabated in the future. Accordingly, we have retained Recommendations Number six through eight.

Similarly, we continue to believe it is necessary to state on each CUR the specific basis for authorizing the write-off of losses. Our review is supported by a recent cable (State 115076) that stated: both AID Regulation 11 and Handbook 9 require independent review of facts underlying claims prior to final payment or determination of uncollectibility; and it is important that the USAID review the facts of each claim to determine if such claim is valid and proper and also to evaluate any potential liability the cooperating sponsor itself may have. The cable further stated that in the absence of an active review and evaluation of the potential claims, it is difficult to see how USAID can adequately fulfill their responsibilities under AID regulations. Thus, we continue to believe that the routine manner in which USAID is currently authorizing the write-off of losses is contrary to both the intent of AID regulations as well as to the review and documentation requirements envisioned by AID regulations. Accordingly, we believe compliance with Recommendation No. 9 is essential.

(b) Delayed Reporting of Losses: At the time of our audit there were 345 instances of known losses in the three states visited which had occurred a long time back but which had not been reported to USAID as follows:

State	No. of Cases	Period	Quantity (Lbs.)	Value $
Tamil Nadu	74	1/80 - 4/81	88,687	12,625
U.P.	61	1/77 - 5/81	38,178	5,706
U.P.	190*	11/79 - 12/79	288,845	43,693
Orissa	20	6/80 - 6/81	195,650	37,755
	345		611,360	99,779

*These misuse cases are discussed separately under B(2) below.

Thus, losses that occurred from 6 to 60 months back had still not been reported to USAID. Apart from these outstanding cases, we noted that the reporting of losses was generally substantially delayed. Overall, we found little justification for these delays which are contrary to AID regulations requiring prompt reporting of all losses. For instance, we reviewed 4 pending cases which involved 190,422 lbs., of unaccounted commodities costing $36,701 as follows: (1) SFB 3,450 lbs., and oil 92.4 lbs., representing the differences between block issues and the centers' receipts; and (2) SFB 176,600 lbs., and oil 10,279.5 lbs., where the block issues were not supported by the centers' acknowledgements. The differences were detected at Boudh Block, Orissa during a joint review made by the state government and CARE in October 1980. Based on that review, the state government conducted a special audit but a copy had not been furnished to CARE thus far. Thereafter, in the joint investigation report of June 23, 1981, a state government official stated that CARE may file a claim for the difference mentioned in (1) above, and if the block is unable to furnish the missing acknowledgements by July 25, 1981, a collectible claim may be filed for (2) also. Nevertheless, as of the date of our audit in December 1981, CARE had not filed claims for any of these. CARE requested a copy of the state government's audit report on September 23, 1981, but it had not been received up to the time of our audit. Subsequently, CARE informed us that during a field visit in November 1981, their field officer was told by a state government official that the audit report was confidential and a copy could not be supplied at that time. CARE did not state why the copy was not provided even after the November 1981 visit. These 4 cases are, therefore, still pending.

To a large degree, the delays in reporting of losses were caused by CARE's failure to take prompt action, and by procedures under which CARE's state offices report losses to headquarters only after their collectibility or otherwise has been determined in claim panel meetings held periodically with the concerned state governments. The delays at the CARE state offices result in delayed reporting to USAID. CARE stated that delays are to be expected in the processing of a loss or damage reports because of the number of government officials involved, the infrequency of claim meetings, and the workload of the Claims Review Panel. We accept that delays can occur at the state level, but the delays should not be so protracted and losses should be reported to USAID as soon as they are discovered at the state level.

USAID agreed with the substance of our recommendation below but stated that CARE needed clarification on the nature of losses to be reported to USAID, e.g. suspected and/or verified losses. Section 8B of AID Handbook 9 requires reporting of any loss, damage, misuse or improper distribution of commodities within 30 days of <u>discovery</u>. Hence, in our opinion, CARE should report <u>all</u> losses as they are discovered.

<u>Recommendation No. 10</u>

The Director, USAID/India should require CARE to: (a) submit a report on all currently pending losses or damages alongwith the action taken and the current status thereof within 120 days of the issuance of this report; and (b) develop and implement procedures that would ensure that all future losses are promptly reported to them by their state offices and, in turn, to USAID.

(c) Claims Payment Reports (CPRs): Our selective review disclosed that except for a few cases discussed below, CARE has refunded claim amounts realized to USAID in accord with requirements of AID Regulation 11. The following claim amounts covered by our review had not been refunded until the date of our audit:

State	Date of Claim	Amount (Rs.)
U.P.	8/79	32,223
Orissa	8/79	10,266
Orissa	8/79	5,310
Orissa	6/81	3,678
Orissa	6/81	3,950
	Rs.	55,427
Equivalent $ ($1 = Rs.9.00)	$	6,159

CARE informed us that under their established procedures, claims that are determined to be collectible are included in their annual accounting furnished to the respective state governments at the end of the GOI fiscal year on March 31. Refunds to USAID are made when the annual accounting is settled by the state governments. The claims mentioned in items 1 to 3 above had been included in the annual accounting for 1979-80 and the remaining two claims will be included in the 1981-82 accounting. USAID has not maintained independent controls or records to ensure that refunds are received for all claim amounts realized by CARE, but they depend on CARE for this purpose. Since our review showed that CARE has adequate procedures to ensure that collectible claims are included in the annual accounting and appropriate refunds are made to USAID when realized, and as the settlements of these amounts may not be made for quite sometime under CARE's existing procedure, we have not made any recommendation for the recovery of the specific amounts mentioned above. However, we suggest that USAID follow-up on these claims until the refunds are received from CARE.

2. Misuse and Thefts

CARE has not reported to USAID the commodity misuse and theft cases which were disclosed during their field visits to four districts in U.P. CARE discovered a total of 189 cases of misuse involving 279,745 lbs. of commodities valued at $41,731; and a theft of 9,100 lbs. of milk powder valued at $1,962. According to CARE records, the misuse reflected missing or false records, short deliveries to schools, physical shortages and unauthorized deliveries. All these cases were over two years old, and all were pending disposition at the time of our audit. In fact, CARE does not appear to have any established procedure to systematically and promptly report such instances to USAID nor has USAID followed up on these cases even though they were aware of them through their periodic reviews of the CARE program.

Our review of the related CARE files disclosed no justification for the delay in recovering the value of these losses involving misuse of Title II commodities. For instance, in the Claim Review Panel meeting held on March 14, 1980 between CARE/UP and the state government, it was mutually agreed to treat the claims as collectible. Despite this, CARE/UP did not initiate recovery action. Instead, they gave the benefit of non-payment of the value to the state government because the government took action to confiscate records and initiated an inquiry. CARE/UP felt that the inquiry may produce more records thereby reducing the unaccounted commodities, and the government may punish the culprits by way of legal or departmental actions. CARE's action in withholding recovery proceedings was contrary to their established procedure whereby all claims decided as collectible in the meetings are recovered annually as of the close of the GOI fiscal year on March 31. Subsequently, in October 1980, the state government reversed their position and stated that the claims could not be treated as collectible until the inquiry is completed. Thereafter, CARE/UP's follow-ups elicited no response until December 1981 when the state government informed them that the inquiry was still continuing.

Commenting on our finding, CARE stated that until they are able to substantiate the validity of the 189 cases of misuse, no loss can be said to exist. They believe that many if not most of the documents not traceable during their investigation will be found to tally with their previous audit. The agreement reached between CARE and the state government in the March 14, 1980 meeting was that claims growing out of the concerned cases of suspected misuse would be treated as collectible. However, since establishment of loss and misuse as opposed to collectibility remained to be determined, CARE was not obliged to report these cases of suspected misuse or initiate any recovery action. Finally, CARE stated that the fact that they do not appear to have any established procedure for systematically reporting such cases to USAID is because this is not a requirement of AID Regulation 11.

We do not agree with CARE that the misuse was not established or the claims were not made collectible or that AID Regulation 11 does not require that such cases be reported to USAID. For instance, the discussion note on the March 14, 1980 meeting available in CARE's file, which note was jointly signed by the Assistant Director of Education, Government of U.P. and the CARE State Administrator, clearly mentioned the unqualified agreement as follows: "In addition to the above (claims) the four misuse cases namely Rae Bareilly, Sitapur, Barabanki and Varanasi were taken up and mutually agreed to treat all collectible claims (sic)" (emphasis provided). Thus, it follows that the misuse was established but CARE chose to delay the collection because they hoped that more records would be made available, and as they felt that if after the government inquiry the culprits are punished by way of legal or departmental actions then CARE, as a voluntary agency interested only in program improvements, should give the benefit of non-payment to the government. We do not know what additional records could be furnished now after over four years, especially since the records were stated to have been confiscated, or whether they would be genuine.

Thus, because of CARE's failure to initiate recovery action, the claims are still unreported to USAID and recovery thereagainst is still pending even after the lapse of over two years. CARE's continuing delay in taking formal recovery action may have jeopardized the chances of realizing the value of the misused commodities. We believe USAID should require CARE to promptly collect Rs. 393,231 ($43,693)* for these claims and refund it to USAID within 60 days. Failing this, USAID should recover the money from CARE in accord with Section 211.9(e) of AID Regulation 11 because of their failure to take action. We also found other cases of misuse and theft which were not reported to USAID (see pp 85,86), as did USAID officials themselves. For instance, USAID's administrative review reports commented on several cases of misuse, theft or inventory shortage where the loss disposition was not known because USAID did not follow-up on them. We believe the details of all such cases should be obtained by USAID.

*Plus any ocean freight

Recommendation No. 11

The Director, USAID/India should require CARE to recover Rs. 393,231 ($43,693)* from the state government of U.P. and refund that amount to USAID within 60 days of the issuance of this report. If CARE is unable to recover the money within this period, USAID should issue a bill-for-collection to CARE for the $43,693*.

*Plus any ocean freight.

Recommendation No. 12

The Director, USAID/India should obtain a report from CARE on all cases of misuse and theft currently pending and institute follow-up procedures to ensure that these losses are settled promptly and that appropriate refunds are received from CARE. USAID should also instruct CARE to notify them promptly of all misuse and theft cases as required by Section 211.9(f) of AID Regulation 11.

USAID and CARE Comments to Audit Findings on Misuse and Thefts

USAID stated that in view of the state government's investigation of the misuse, the recovery of $43,693 either from the state government or CARE within 60 days would be inappropriate and counter-productive. They felt that such an imposition is unwarranted and could prejudice an official inquiry. They suggested that issuing a bill for collection to CARE should be kept in abeyance until final outcome of the state government's inquiries. USAID accordingly suggested that the draft recommendation No. 11 be reworded to require CARE to secure expeditious completion of inquiries and recover any amount from the state government based on the final results of the inquiries.

CARE stated that we continue to ignore the elemental determinants governing the reporting of losses and damages. AID Regulation 11 requires that the cooperating sponsor report losses and damages which have occurred. When CARE has not been able to verify that losses have occurred, as in the 189 cases of suspected misuse, no report of loss as per the current regulations is required to be submitted. CARE also found our conclusion that misuse was established in the 189 cases as illogical and incorrect as, according to them, we have based our claim on a discussion note to the effect that CARE and the state government had mutually agreed to treat all verified misuse cases as collectible, while ignoring the bulk of the evidence in this regard. CARE contended that it is not unusual for them to agree in advance that, should a loss be established, the resulting claims may be treated as collectible. They said this was the case in the 189 cases and it should not be inferred that the government had agreed to pay CARE for unverified losses for which claims have not yet been preferred. Accordingly, CARE disagreed with the recommendation.

Regarding Recommendation No. 12, CARE agreed to submit a report on all pending cases of verified losses or damages and their status. They stated that the determination that a loss has occured is a separate issue from whether it occurred due to misuse or theft, which requires extensive investigation by the Indian authorities. Therefore, CARE stated they will not be able to specifically identify the cause of loss until determination has been made by the Indian authorities.

USAID noted that CARE will submit quarterly reports on all verified losses over $300. They then referred to Section 8C1 of AID Handbook 9 and suggested that a General Counsel's clarification be sought on what they believed to be vague language in that section which required the submission of an interim report "verifying the alleged loss or damage."

Audit Comments

USAID and CARE comments relating to our finding on misuse and theft are unacceptable for reasons already cited above under this subcaption of the report. The available information in CARE's files clearly showed that the 189 cases had been verified and that they have remained unsettled so far because of CARE's reluctance to prefer claims after the state government's initial agreement to treat the specific misuse cases as collectible. Hence, we have retained Recommenation No. 11.

Section 8B1(b) of AID Handbook 9 clearly requires that the cooperating sponsor shall report all losses, damages, misuse or improper distribution of commodities within 30 days of their discovery. Section 8C1(b) requires the cooperating sponsors to submit the loss report to USAID immediately upon verification of all the facts, or within 30 days after the loss or misuse has taken place whichever is sooner. This section further provides that where the cooperating sponsor is unaware of the loss until after 30 days have elapsed, they file a report with USAID immediately upon verification of any alleged loss or misuse. Where they are unable to file a report containing all the required information, they should file an interim report verifying the alleged loss and containing all available information. This interim report should be followed as soon as possible by a supplementary report.

Thus, it is evident that emphasis is on prompt reporting of losses, damage or misuse upon discovery thereof. Finally, AID regulations require reporting of all losses and misuse cases and not only those over $300. Therefore, CARE should be required to submit reports in accordance with AID Handbook 9, Section 8B and 8C.

C. PROGRAM IMPLEMENTATION

1. Field Program Operations

We visited 14 consignees and 64 feeding centers in the three states of Tamil Nadu, Uttar Pradesh (U.P.) and Orissa. Detailed reports of Audit Findings were provided to USAID and CARE during the course of our audit. Overall, we found evidence of distribution at 40 centers but at the remaining 24 centers there was either no feeding or the feeding was over at the time of our visit or the distributors' claims about feeding were found to be questionable. In all but three centers in Tamil Nadu, we noted that the feeding program had not been integrated with other health care and nutrition education services; thus, most centers functioned merely as food distribution points. At the three integrated centers, our review disclosed that: the beneficiaries were not being selected on the basis of their nutritional status; the beneficiaries interviewed stated they were sharing the food with other family members and, thus, they were not getting even the minimum authorized ration; the beneficiaries progress and clinical assessment records were incomplete or not current; and two of the 33 beneficiary identity cards reviewed had expired but they continued to get food, another 12 cards did not show the expiry dates. In addition, CARE's state office told us that each integrated center was required to have a doctor exclusively for the program. However, they stated that, at the time of our audit, there were only 44 doctors for the 49 centers in Madras, 2 doctors for 13 centers in Coimbatore, and 2 doctors for 10 centers in Madurai. Thus, problems still exist in this integrated program which was started in 1976 and covers 136,500 beneficiaries, or about 18 percent of the state's MCH program. Our review also disclosed other problems, the most significant of which are described below:

(a) Unexplained Inventory Differences at 15 of the 57 Centers Where Stock Could Be Counted By Us (26%)

The differences ranged from about one-half bag to about two bags of grains and from one to three gallons of vegetable oil. Although these differences are not large, they are significant in relation to the stocks issued to and available with each center and by virtue of the fact that the differences are indicative of possible improper use of commodities or unreliable stock records. Furthermore, there were inventory differences at 26 percent of the centers included in our small sample and, if this level of difference actually applies to all 207,500 centers in the current program, then the deficiency can be considered to be quite significant. In our view, this same rationale of significance also applies to the following examples of program problems.

(b) <u>Questionable Use of Commodities at 13 of 49 Centers (26%)</u>

At these 13 centers, which included 10 centers where there were unexplained inventory differences, we found conditions which indicated that the centers' claims regarding food distribution were questionable. Besides unexplained inventory differences, we found other indicators like oil not being used for cooking on the day of our visit although such usage was claimed on that day and regularly in the past at 3 centers. At other centers, conflicting statements were made regarding food distribution or the distributors' feeding claims were not supported by available evidence. Some examples are furnished below:

(1) Two schools (Mendhasal Muktab and Mahabalapoda) in Orissa claimed to have distributed food on the date of our visit. One of the schools was destroyed in a cyclone two or three years ago but claimed that they continued to feed on the old school verandah. CARE was not aware of the school's destruction. The school teacher initially claimed that the distribution had been made that day also at the school verandah, but later changed his statement when we asked to see the cooking and feeding area. He then told us that the food was cooked and distributed at his residence some distance away. On the day of our visit, the school had four bags of bulgur and two tins of oil, all unopened. There was no loose stock of either bulgur or oil, which there should have been if his feeding claims were correct. Moreover, the teacher could not show us a cooking utensil and gave conflicting answers about the source of the equipment claimed to have been used that day. At the other school, the teacher had closed the school early (just around the time of our visit), but claimed that he had distributed raw bulgur wheat soaked in water that day because the children had not brought the firewood. He told us that this had happened in the past also whenever the children failed to bring firewood. However, his stock records showed that he had consistently recorded the use of oil in the past. Moreover, there was no stock of commodities or cooking equipment at the school. The teacher could not produce even a single empty bag or oil tin and claimed that he had sold all the empties, including

the last bag and tin that had been emptied only that day. We also found his commodity inventory was in excess by about one bag of bulgur wheat and a shortage of about two-thirds of a tin of oil. Thus, we considered the feeding claims of both these schools as highly questionable.

(2) At another three Orissa schools (Siriapur, Birgobindpur and Chandoka), where there was no feeding on the day of our visit, there were again some questions about the genuineness of their feeding claims. The Siriapur school was just across the road from the Pipli block office which was visited by us earlier the same day. We reached the school at about quarter to one and found a pot of bulgur wheat soaking in water. The cooking had not started although the concerned block official had told us that the feeding would be between 1 and 2 O'clock. The teacher informed us that the distribution would be made after the school was over around 4 O'clock. There was no firewood at the school and it appeared that the designated fireplace (some bricks only) had not been used in recent times as there were no ashes. The stock records and stock could not be shown as the concerned person was stated to be absent. There were no serving utensils at the school but the teacher claimed that the food would be served on banana leaves or newspaper. Neither of these were available, however, except for a small piece of dirty newspaper which a student brought to show us. At Birgobindpur, the lack of evidence of recent cooking, differences between the statements made by two teachers about the claimed feeding days and discussions with the children indicated that the recorded feeding days may not be correct. We also found an overstock condition at this school. At the Chandoka school, there were long interruptions in feeding (e.g., no feeding from July 10, 1981 to the date of our visit on December 10, 1981) because the teacher could not or would not transport the PL 480 commodities to the school. The school had received stock on November 30, 1981 but had not started feeding as of the date of our visit. Here again,

there was no cooking pot at the school and the one shown later by the teacher at his house could not (per the estimate of the CARE official who accompanied us) contain more than about 6 kgs. of food against the center's claimed usage of 10.8 kgs. daily. We also found a full tin of oil in excess at his house, which was kept separately from the inventory. When asked, the teacher insisted that it contained kerosene, but our examination of the contents showed that it contained Title II oil. The teacher was unable to explain how or where he got the excess tin since his records showed that the school had no stock since July 9, 1981 until a resupply was received on November 30, 1981 and that stock was intact at a separate location.

(3) At one center in Tamil Nadu there were indications that oil may not have been used as claimed. We found that on the day of our visit, boiled rice was cooked but no oil was used. However, an entry for oil consumption had been made in the stock register and later erased. Also, the center's records showed that oil had been used on all the other feeding days during the month, including the days when rice was cooked. Pertinently, CARE's field representative also commented in a November 1980 trip report that the oil content in the food appeared to be less than claimed but no further action was taken by CARE.

(4) At two schools in U.P. (Dadra and Ganeshpur) oil was not used for cooking on the day of our visit but usage was claimed on that day and also regularly in the past. We also found inventory differences at both the centers. Commenting on our Report of Audit Findings (RAF), CARE acknowledged that there were inventory differences at the centers but they disagreed that oil was not used on the day of our visit. In both cases, however, they said the amount of oil used was less than the prescribed ration due to depletion of stock. They also stated that oil is often added to the food after cooking is completed. We do not accept CARE's comments because the food had already been cooked at both the centers and samples therefrom kept in a paper by us did not show any signs of oil even after several hours. CARE acknowledged the shortage of three tins of oil at Dadra for which they have now filed a claim attributing it to the center's negligence. At Ganeshpur, school officials initially recorded a consumption of 1.344 kgs. of oil on the

date of our visit on a rough sheet containing stock entries for that month, but the teacher later changed this quantity to 0.344 kgs. while making entries in the stock register when we pointed out to him that no oil had been used for that day. Furthermore, the CARE field officer accompanying us also agreed with us about the non-use of oil at these centers.

(5) At another center in U.P., Fatehpur school, the oil stock was excess by about 1-1/2 tins. The stock was kept in a private doctor's clinic (the doctor was not connected with the program) where we found 6 bags of bulgur wheat and 5 rusty tins of oil. In addition, there was about 1/2 bag of bulgur and 1/2 tin of oil at the school. The teacher told us that there was no other stock but when we pointed out a shortage of one bag of bulgur, another bag of bulgur was found in the doctor's living quarters upstairs. The teacher then told us that the bag was kept upstairs to avoid any loss because the bag was torn. However, we found that the bag brought down was in perfect condition. Later, upon our return to the school, we saw that the 1/2 tin of oil was missing. On inspecting the room, we located another tin of oil lying behind a trunk and the teacher later produced yet another tin that was almost full. In effect, there was an excess of about 1-1/2 tins of oil and the production of one bag of bulgur from the doctor's living quarters indicated further questionable inventory control practices.

(c) <u>Feeding of Less Than the Claimed Number of Beneficiaries at 14 of 42 Centers (33%)</u>

At 12 of these 14 centers, the number of beneficiaries actually fed on the day of our visit was less than both the number claimed for that day and also in the past. At another two centers, Raghda and Nayapur Stampur schools in Orissa where we could not observe distribution, school attendance records showed a lower attendance than the number claimed to have been regularly fed. Raghda school had regularly claimed feeding of 70 children but attendance records for the last 10 months showed that the children present on any day ranged between 33 and 53 only. Nayapur Stampur School regularly claimed distribution to 50 children since July 1981 while the average attendance during this period was only 40. Overall, the under feeding observed by us at the 14 centers ranged from 31 to 57 percent in Tamil Nadu, 11 to 53 percent in Orissa, and 8 to 20 percent in U.P. This under feeding showed that either the commodity usage claims were inflated or more than the authorized ration was used, both of which were improper. Moreover, at one of the centers in Tamil Nadu (Balwadi, Ariyamangalam), there was beneficiary duplication. We noted the same six children who had collected food from this center also received food at another CARE MCH center about 10 yards away.

(d) Feeding of Ineligible Beneficiaries at 10 of 39 Centers (26%)

We observed that six MCH centers were feeding children aged from 7 to 14 years although the program authorizes feeding of children up to 6 years of age only. Another four centers were feeding children who were not on their rolls. The ineligible beneficiaries at these 10 centers ranged from 15 to 67 percent of the levels approved for them. The above statistics do not include 3 centers visited in Tamil Nadu where we found 28% of the beneficiaries were in grades 6 to 8 and therefore their eligibility was questionable under AID/W guidelines for the PL 480 Title II assistance. CARE feels their inclusion in the program is appropriate because the Government of Tamil Nadu is providing rice for 100 of the 200 feeding days in the year.

(e) Commodities Issued to Ineligible Centers

Two of the 25 centers visited in Orissa were orphanages with a population of 90 and 140 children, respectively. At both places, the children were ineligible for assistance because they were more than six years old. Their ages varied from 7 to 16 years. In addition, institutional feeding is not an approved category for the CARE program. The two centers were issued a total of 10,455 kgs. of grains and 866 kgs. of oil during the audit period. In addition to these two centers, district records showed that there were other similar ineligible centers (orphanages and leprosy homes) which had been approved under the MCH program. For instance, in Balasore district there were five more centers having approved programs for 365 children. According to the details furnished by the district, 17,486 kgs. of grains and 1,418 kgs. of oil were issued to them during the audit period. In Cuttack district there were six such institutions, but details on beneficiary numbers or commodities issued to them were not available. In Mayurbhanj district, there was one institutional center with an approved program for 20 children. All the above districts informed us that the children or persons would invariably be more than six years old, and that the age criteria prescribed under the MCH program cannot be adhered to in such institutional feeding programs. CARE told us that they were unaware of the institutional feeding programs even though the centers have had Title II feeding programs for several years. Subsequent to the completion of our audit, CARE informed us that they have asked the state government to delete these centers from the program.

(f) Feeding of More Than the Approved Number of Beneficiaries at 16 of 48 Centers (33%)

The over feeding at these 16 centers ranged from 14 to 188 percent of the approved beneficiary levels. Actually, other centers in U.P. and Orissa may also have been feeding more than the approved levels, but we could not establish this because not all the centers were recording actual numbers fed (e.g., seven centers in U.P.). Moreover, the schools visited told us that they were feeding all the enrolled children present in the school on any day under instructions from the two state governments even though their approved beneficiary levels were lower. This over feeding has resulted in the beneficiaries getting only a fraction of the minimum rations authorized for them under the program, thus, it is unlikely that these programs are having adequate impact on reducing dietary inadequacies.

(g) Attendance Records Were Not Kept or Were Inadequate at 18 of the 56 Centers (32%)

Of these 18 centers, 4 had not kept beneficiary records for their preschool program, another 4 MCH centers had not shown the beneficiaries ages, one MCH center had marked attendance even before beneficiaries had come, and one MCH center had marked attendance even for children who were not present. At the remaining 8 centers, the attendance records were incomplete either because attendance had not been marked on the day of our visit, or records were not kept for some of the months, or the names of some recipients were not included. For instance, at one MCH center (Tanrapa), the names of only 75 beneficiaries were recorded while the center consistently claimed feeding of the approved level of 100 children.

In addition, schools in U.P. and Orissa had not kept separate beneficiary records even though only a part of their total enrollment had been approved for coverage under the program. In all such cases, the beneficiary number had been arbitrarily established for each school by the state governments, and no selection process was followed to identify the specific children to be covered.

(h) Stock Records of 5 of the 14 Consignees Were Inadequate and Unreliable (36%)

This type of deficiencies were found at four of the seven consignees visited in Tamil Nadu and included duplicate and missing records and differences between the quantities shown as issued to the centers and amounts acknowledged by them. As a result, 3,794 bags (93,104 kgs.) of grains and 2,118 tins (7,398 kgs.) of oil valued at about $31,106, have not been accounted for (see details in Exhibit C). In addition, we also noted a serious lack of stock control at the consignees in Tamil Nadu and one consignee in Orissa. Overall, we found instances where: acknowledgements of stock receipt were not obtained, blank acknowledgements were obtained in advance and center's name and quantity were added later, requested quantities rather than the actual quantities were shown as received and distributed, and there were overwritings and alterations which were not initialled either by recipient or consignee officials. Thus, in our opinion, the consignees' records could not be considered reliable for audit purposes. CARE's June 30, 1981 external audit report also mentioned the existence of similar problems in two of the four states they visited. Although no quantitative details were given in the report, the auditors stated that differences were observed between center receipts and consignee issues and that acknowledgements were not obtained.

In sum, our field visits disclosed serious problems in program implementation at the field level. Besides the specific problems mentioned above, we found a lack of consistency in feeding. There were long breaks in feeding (sometimes months) at some centers because stock was not available. We also noted that community involvement in the feeding programs was generally lacking and that the feeding centers, particularly in U.P. and Orissa, still lacked adequate storage space and basic supply requirements. For instance, food was being stored in private homes for 25 of the 45 centers visited because storage facilities at the centers were unsatisfactory. Cooking facilities were generally inadequate, measures for drawing commodity rations and eating utensils for children had not been provided, and little attention was being paid to proper hygiene. In practice, the centers were using their own best estimates to draw rations, and food was being served to the children on slates, copy books, newspapers or even in the fold of their shirts. In Orissa, we found four centers who did not even have cooking pots. All these conditions, after over twenty years of program operations, pretty well indicate that the program remains somewhat primitive and that little progress has been made. We believe the primary reasons for these problems are that the program is too large to effectively monitor, there is virtually no community involvement to upgrade the program, the food continues to be distributed largely as charity, and CARE's management and surveillance of sub-program units has been weak and sporadic. Overall, it is unlikely that significant program improvements can be achieved unless the number of sub-program units is reduced to a manageable level that CARE can effectively monitor on a consistent basis.

CARE made extensive comments on our findings in U.P. state and generally disagreed with our specific field visit observations. They also took issue with our general observations relating to program quality and ration dilution. They stated that both CARE and the state governments seek to promote primary school attendance by the poor majority through nutritional support, and that we have failed to consider the compelling role played by the school feeding program in attracting and retaining children in the school. They indicated that state governments establish the beneficiary levels on the basis of average attendance levels in the schools and that the approved level is periodically adjusted on the basis of the number of children fed during the period. They pointed out that the government of U.P. recently undertook a major relocation of the program to ensure that more children of disadvantaged segments of the population in backward areas receive the benefits and that there is integration of feeding and education. They believe that ration sizes have been determined and set by them and the GOI to provide a nutritious meal to beneficiaries and they reported that the government of U.P. had supplied calibrated measuring containers to all program schools in the past and that eating utensils had been provided to seven of the 40 districts that were not visited by us. They felt that the fact that children were seen collecting food on slates, copy books and even in shirt folds suggests that the selection criteria were effective, i.e., the program participants were so poor that they do not even have a plate of their own to bring to school and they suggested that we did not choose to visit any of the 1,000 school centers in U.P. where integrated services are being provided.

In reviewing CARE's comments, we have found that they offer very little of substance, and thus, very few changes have been made to our findings. CARE has not offered any new evidence regarding program impact, nor are their claims supported by GOI statements or evaluations. The state governments may be establishing the approved feeding levels on the basis of average attendance as stated above by CARE but, since they have also instructed the schools to feed all children, dilution of even the minimum ration sizes is inevitable and was observed by us in 33 percent of the schools visited. In regard to CARE's claim that 1,000 schools in U.P. have integrated programs, we were informed by their state office officials that the feeding programs had not been integrated with health inputs, but that CARE had launched a scheme in November 1981 where weighing scales and health cards would be provided to 1,000 schools. Thus, the claimed integrated programming in the 1,000 schools had not started at the time of our visit.

Recommendation No. 13

The Director, USAID/India should require CARE to take corrective action on the specific deficiencies noted in Section C1(a) to (c) and (f) to (h) above and on those deficiencies specified in our RAF's. USAID should closely monitor CARE's action to ensure that the underlying problem areas are resolved.

Recommendation No. 14

The Director, USAID/India should discuss the feeding of ineligible beneficiaries with CARE officials and require them to: (a) take such actions as are necessary to ensure that this practice is discontinued at the centers discussed under C1(d) above and also program-wide; and (b) implement adequate monitoring and internal reporting procedures to provide continuous information on the extent of this problem and corrective actions taken.

Recommendation No. 15

The Director, USAID/India should require CARE to take immediate action to terminate the institutional feeding programs discussed in C1(e) above and any other similar ineligible centers participating in the Title II program. USAID should ensure that CARE completes the necessary action within 30 days of the issuance of this report.

Recommendation No. 16

The Director, USAID/India should require CARE to assist feeding centers in obtaining basic program supply items such as ration measures, eating utensils and cooking utensils. USAID should determine if sufficient funds from the sale of empty containers are available for this purpose.

(USAID officials agreed with recommendations No. 13, 14, 15 and 16 but CARE officials indicated some disagreement because they questioned our sample base, the accuracy of our facts, our comments on community involvement and they stated that our finding regarding the lack of basic supply items completely ignores the poverty levels prevailing in rural areas where their program operates. CARE did not submit any substantiation of their comments and based on a careful evaluation of the comments, we did not find a need to change our findings or recommendations.)

2. Field Surveillance

CARE has not implemented a satisfactory program of field inspections because of staffing limitations, inadequate coverage of the program areas, weaknesses in inspection reports, and the lack of or inadequate follow-up of problems reported therein. Thus, we concluded that CARE has not effectively discharged their program supervision responsibility as required by Section 211.5(b) of AID Regulation 11.

CARE maintains surveillance over the field operations through inspection visits to warehouses, processing plants, consignees and feeding centers. They have a staff of 90 field officers (FOs) in India to monitor about 3,600 consignees, 207,500 centers, plus processing plants and the warehouses. The FOs have visited on average about 7 percent of the schools and about 16 percent of the MCH centers annually. In the three states visited by us, CARE had six FOs in each and they were required to inspect the programs of 1,193 consignees and 75,240 centers. Of these, CARE had visited the consignees frequently but only a small percentage of the centers in the states of Tamil Nadu and Orissa. In these two states the average number of centers visited annually were, respectively, 2.8 and 4.5 percent of the school feeding programs, and 13.8 and 12.7 percent of the MCH programs. Moreover, on the basis of the field visits made during the last three years, we estimate that it would take the FOs about 12 years to be able to visit all the centers in the three states. Approximately the same estimate would apply to the country-wide program also.

Our previous audit report (No. 5-386-78-11 dated 4/25/1978) also commented on CARE's limited field surveillance but we did not make a recommendation because CARE had taken the matter up with USAID to establish an acceptable level of end-use visits. CARE suggested to USAID that their procedures require visits to at least 2 percent of the feeding centers which they had made and, therefore, CARE considered the surveillance as adequate. However, during a meeting held between CARE and USAID on March 7, 1978, USAID asked and CARE agreed to furnish their statistician's opinion on why and how a two percent sampling level was representative. CARE has not furnished the opinion in question nor has USAID followed up on the matter. A record of discussions on the same meeting stated that USAID was reviewing the adequacy of CARE's field surveillance and that a decision thereon would be taken soon but thus far no corrective action has been taken.

Section 7M of AID Handbook 9 provides that voluntary agencies are responsible for efficient operation of the program and for providing adequate supervisory personnel to conduct, inter alia, "end-use checks in accordance with current AID guidelines and Regulation." We, however, could not find any such guidelines that may have been provided to the VolAgs.

We reviewed 132 of CARE's feeding center visit reports in the three states. The reports indicated the existence of the same type of problems as were found during our own field visits, such as inventory differences, misuse or indications thereof, feeding of more or less than the approved number of beneficiaries, and inadequate records or records not available. Overall, the reports indicated that improvements were needed in program operations. In addition, our review of the reports disclosed the following weaknesses:

(a) FOs had not observed actual food distributions during their visits to 116 out of 132 centers. Consequently, verification of the centers' claims about the number of beneficiaries fed or the quantities of food distributed were not made in 89 percent of the reports reviewed by us.

(b) The reports usually contained generalized statements without identifying the extent of problems noted. Besides, 68 of the 132 reports were incomplete or contained contradictory answers.

(c) The report formats did not require verification of some important program areas like compliance with publicity and marking; obliteration requirements; number and eligibility of beneficiaries actually fed; whether any charges were being collected from beneficiaries and the use thereof; whether there was any community involvement in or support for the program; and if any other health or nutrition inputs were being provided.

(d) CARE's follow-up on the field visit reports was unsatisfactory. No control records were kept to ensure that all deficiencies disclosed by the field visits were followed-up until the required corrective actions were taken. CARE's procedures require that the FOs leave a copy of their report with the concerned center or consignee for their response. We found that such responses were not available in Tamil Nadu and they were only partially available in the case of the other two states visited (11 out of 68 in U.P. and 28 out of 45 in Orissa). Consequently, it was not known whether or not the required corrective actions were taken on the specific deficiencies disclosed by the field visits. Since the feeding center may not be revisited, at least for quite some time because of the large number of centers involved, the corrective action taken, if any, would not be known. For instance, in Orissa there was no evidence of follow-up or corrective action taken at 9 centers reviewed in the period November 1979 to May 1981. The problems reported involved 2 cases of alleged misuse and 7 cases of inventory shortages. In another case, a November 1980 field visit report in Tamil Nadu stated that only 140 of the 400 authorized beneficiaries (or 35%) were present on the day of the FO's visit but the entire food meant for 400 was distributed. The report further stated that many of the beneficiaries collected rations twice, an old man collected as many as 10 rations, and attendance was not marked. Also, 98 of the 140 recipients, or 70%, were ineligible to receive food under the MCH (SNP) Program as they were children of ages 7 to over 12 years. Thus, of the 400 rations served, only 42 (or 10%) of the distribution was eligible. Despite indications of misuse, CARE did not follow-up and no further information was avialable on this apparent misuse of Title II commodities. We also noted instances where the FOs did not follow-up on deficiencies even in their subsequent visits. For example, the FOs found an inventory shortage at one center in March 1980, and a commodity misuse at another center in January 1980 during visits to MCH centers in Basudevpur Block, Orissa, and inventory shortages at four centers in Jajpur Block, Orissa during the period November 1979 to November 1980. They did not follow up on these during subsequent field visits. In another Orissa report, a shortage of 17 bags of SFB at Thidi Block was found in March 1981. The FO did not follow-up on this during his subsequent visit on May 14, 1981, hence no claim action was taken till the time of our audit. During our own field visit to this block on December 7, 1981, we found that there was an inventory shortage at the block level which was detected by them at the time of issuing the stock to the centers but which they improperly showed as issued to the centers.

Finally, even in cases where action was taken, we noted that the centers were merely suspended because of CARE FOs' reports although the reports indicated serious problems like beneficiaries stating that food was not distributed (5 centers), or the commodities were sold for raising funds to repair or construct center buildings (7 centers). The FO's did not indicate the quantity misused in any of the reports. According to information furnished by CARE, the block officials' review did not confirm the FOs' findings hence no action other than program suspension was taken. Thus, either the FOs' reports or the block's subsequent reviews were incorrect. The FOs' reports appear to be correct because they showed that the statements about the sale of commodities were made by the school teachers themselves. Yet, no claims were filed by CARE.

In sum, on the basis of CARE's minimal field visits, the weaknesses in their field visit reports and their inadequate follow-up, we concluded that CARE's program supervision and monitoring was weak and needs substantial improvement. Our own field visit observations confirmed this conclusion. We believe these problems have been caused by a lack of adequately trained field personnel, a lack of coverage of important program areas, and inadequate reporting and follow-up. Hence, existing field visit reports should be revised to include the areas not presently covered and the reports should be critically reviewed to ensure that all questions are answered and that actual food distributions are observed to verify claims regarding consumption and beneficiaries levels. Adequate follow-up controls should also be established and implemented to ensure that prompt corrective actions are taken on all deficiencies found.

Overall, CARE indicated strong disagreement with our observations on their field surveillance in U.P. state. Commenting on our Record of Audit Findings (RAF) on U.P., CARE stated that: (a) it is not proper to draw conclusions about program performance from their center visit reports. Their visits are not made on a random sample basis, but only to centers which evidence deficiencies as per records at the district level. Thus, all available reports in U.P., including those reviewed by us were representations of problem centers only; (b) they do not agree that the usefulness of their field visits was limited because actual distribution of food was not observed; (c) they do not consider instances where questions were not answered in their visit reports as being an automatic irregularity. In many cases a blank space conveys all that is required and in those cases where the answer is not self evident of what needs to be conveyed, their field staff use the remark column to clarify the situation; (d) our comment regarding expansion of their field visit report formats is inappropriate as no charge is leviable in the CARE program; and (e) in most of the instances where information about corrective action was not available in the related files, follow-up action had been taken by the field staff and the cases had been closed.

We do not agree with CARE's comments. We were informed by CARE staff during the audit that a primary criteria is to randomly select those centers in a district which have not been visited earlier and which fall on the route selected. Moreover, apart from irregular submission of the reports, the districts records would generally not show other problems like misuse, inventory differences or unauthorized feeding. Our own visits to the centers were made on a random basis and disclosed similar problems in the CARE program. Regarding the visit reports, we still maintain that center visits that do not include actual observation of distribution and reports which are incomplete or contradictory have limited usefulness. We find CARE's comments regarding the expansion of report format unacceptable because the field visits are required to establish compliance or non-compliance with set procedures. Furthermore, we were not shown any evidence or record of corrective actions during the audit which CARE now claims were taken in most of the examples cited by us in our RAF on U.P., and even the explanations now furnished by CARE are followed by statements that no written response or special reports were received or required by them in these cases which were closed on the basis of subsequent visits. Thus, it appears that no written evidence or record is available even now. Finally, some of the explanations now furnished by CARE appeared to be contrary to the information available in their records. For instance, Kumriyan and Deora centers acknowledged the short receipt of 3 bags and 6 bags of SFB respectively, as compared to the issues made to them during November 1979 and January 1980. CARE explained that the short receipts were resolved soon after in the case of Kumriyan and in the next month in Deora. Yet, CARE's center visit reports of May 1980 said that shortage certificates were collected.

Recommendation No. 17

The Director, USAID/India should require CARE to: (a) evaluate their field inspection efforts, reporting and follow-up procedures; (b) develop corrective actions including additional training as may be appropriate and (c) furnish a report to USAID on actions taken to make field inspections more effective. USAID should then determine whether these actions provide an acceptable inspection, reporting and follow-up system and review CARE's compliance with the system during subsequent administrative reviews.

Recommendation No. 18

The Director, USAID/India should, in conjunction with CARE, establish the minimum number of consignees, centers and other Title II related activities that should be inspected every year; and require CARE to furnish annual reports alongwith their Annual Program Plan to show their compliance therewith.

USAID and CARE Comments to our Finding on Program Implementation - Field Surveillance

USAID stated that we tend to prejudice CARE's undertaking an evaluation of their surveillance efforts and the design of subsequent corrective action, if applicable, by stating that existing procedures are inadequate.

CARE expressed disagreements with our observations on their field surveillance efforts, reporting and follow-up. They did not accept that verification of the number of beneficiaries fed or the quantities of food distributed by centers can be made only by observation of food distribution; they found our observations in regard to the format and content of their field visit reports totally insignificant and mostly irrelevant; and they objected to our conclusion that follow-up on their field visit reports was unsatisfactory. They said they maintain a master control record for all major deficiencies disclosed by field visits and ensure that required follow-up action is taken. They explained that their follow-up on deficiencies identified during field visits is not limited to only file documentation. The follow-up action is more orientated to field versus desk verification and they solicit verbal responses from the concerned centers and consignees to determine if the necessary corrective action has been taken by them. Therefore, they felt that our conclusion that follow-up was inadequate because such responses were not available in the CARE office is incorrect. Finally, CARE stated that we have quoted some of their comments out of context. They said it is inappropriate to apply analysis of program deficiencies recorded in center level visit reports to the program as a whole. To do so would require a use of random sample selection techniques and a statistically meaningful sample size.

They indicate their surveillance of feeding centers is based on reviews of center and block level records or special reports received by CARE, and that visits are not made on a random sample basis. Therefore, available field reports, including those reviewed by the auditors, are representative of problem centers and are not indicative of the program as a whole. Thus, they feel the related material included herein is a gross distortion of acceptable survey techniques and has led to an overemphasis of exceptions without regard for proper perspective.

CARE disagreed with Recommendation No. 17 and considered Recommendation No. 18 as meaningless as they said we have prejudiced the determination of the minimum number of inspections by our related comments in the report.

Audit Comments

We do not accept USAID's or CARE's remarks on Recommendation No. 17 as that recommendation is based on the significant exceptions noted by us in CARE's field inspection efforts, reporting and follow-up. Ample evidence of these exceptions has been furnished in the report text and thus needs no repetition here. We also do not accept CARE's explanation regarding verbal responses on deficiencies disclosed by their field visits as there was little evidence to support their claim. We also believe appropriate documentation on how deficiencies were resolved is necessary in any adequate surveillance and monitoring effort.

AUDIT NOTE: CARE advised they were unable to comment on the following report sections D, E, G, H, I and J due to our time restrictions for response to the Draft Audit Report. CARE received the draft report on April 8, 1982 and their response time was extended by the auditors to May 10, 1982 which is over one month but CARE still did not feel that this was sufficient time for their review.

D. INTERNAL REVIEWS

Although CARE furnished their internal review reports for CY 1978 and CY 1979, the reports were too general and repetitive to be effectively used for the purposes for which they are required. CARE did not submit a CY 1980 internal review report because AID/W approved a USAID request exempting them from this requirement for CY 1980 and CY 1981.

AID Regulation 11, Section 211.5(c) requires that the voluntary agencies shall conduct or arrange to have conducted comprehensive internal reviews or a series of examination which, when combined, will represent a complete review of Title II programs under their jurisdiction. Section 211.10(b)(4) states that the purpose of the comprehensive internal review is to enable USAID to assess and to make recommendations as to the ability of the cooperating sponsors to effectively plan, manage, control and evaluate the Food for Peace programs under their administration. Accordingly, in September 1977, USAID circularized instructions to all voluntary agencies including CARE, specifying the scope of internal reviews, the period to be covered and the deadline for submission of the reports.

CARE submitted their internal review report for CY 1978 by the specified date, but their CY 1979 report was delayed about three months. USAID provided a copy of the CY 1978 report to AID/W but did not submit the CY 1979 report. Although the reports discussed all the program areas specified in the September 1977 guidelines, USAID found them to be focussing more on a description of CARE's operating procedures than on describing the scope and specific findings of the review. USAID stated these reports gave the impression that, with some exceptions, CARE does not have problems with the implementation and management of the program. Commenting on the CY 1979 report, USAID stated that it was an exact copy of the 1978 report except for a few minor changes, and that CARE has apparently not fully understood the purpose of the internal review, which is to focus on difficulties and problem areas as well as to show factors which have tended to assist or hinder the conduct of the program. Therefore, in September 1980, alongwith their comments on the CY 1979 report, USAID furnished a copy of a draft internal review guidance received from AID/W and asked CARE to resubmit a revised report based on the AID/W guidelines. CARE, however, declined to submit a revised report at that late date but stated that they would try to ensure that succeeding reviews were more to USAID's satisfaction.

However, in July 1981, USAID requested and obtained an AID/W waiver exempting CARE from submission of internal review reports for CYs 1980 and 1981, even though CARE had not submitted acceptable reports for CYs 1978 or 1979. USAID justified the waiver request on the grounds that the same purpose has already been achieved by other means such as audits, evaluations, and administrative reviews. USAID mentioned that they had made 13 administrative reviews of the CARE program, and that the Office of the Regional Inspector General would be starting a comprehensive audit of the program. However, none of these justifications were valid as our audits are supplemental to, and not substitutes for, the comprehensive internal reviews required by AID Regulation 11. Besides, by USAID's own admission, their administrative reviews are not comprehensive.

Our own review of CARE's internal review reports also disclosed that they were repetitive and provided mainly a generalized description of their procedures. Even in those cases where problems were observed, the reports did not clearly bring them out or state the extent thereof. For instance: (a) the CY 1979 report mentioned that a new contract was proposed for a processed food program in Maharashtra more than two years ago, but the contract was never finalized and the contractor had advised that they would no longer undertake the processing. The report also stated that this would entail substantial interruptions in the program until alternative arrangements could be made. The report did not specify any reason or the size of the program effected or what alternative arrangements were being made; (b) the report stated that the health department programs in Kerala were not operating satisfactorily. The one basic problem mentioned was that the health officials were reluctant to take on the additional burdens of a feeding program. As a result, there was some lack of accomplishment. Training programs undertaken had not met with completely successful results. The report did not identify the program, when it was started, why it was being continued in the face of such a basic problem, what other problems there were, or why the training did not improve performance; (c) the report mentioned that the railways had issued instructions that since CARE is a charitable organization, clear railway receipts (RRs) must be issued for all consignments railed from the port and CARE stated that the instructions had helped in expeditious settlement of transit claims. CARE, however, did not furnish any supporting evidence for this latter statement to show that improvement had, in fact, resulted. On the contrary, railway claims continue to be rejected or not even acknowledged by the railways and, according to CARE officials, the railways are still continuing to issue qualified RRs.

Moreover, neither the CY 1978 nor the CY 1979 report mentioned the scope or extent of the review. Both the reports contained substantially the same findings thereby indicating that corrective actions were not taken. In fact, one major problem observed by us was that neither of the reports contained any recommendations for corrective actions, and CARE had not kept any follow-up control record for the problems observed. We were told by CARE that the internal review findings were communicated to state offices through letters, but they could not show us any such letters stating that they were not traceable. Similarly, CARE did not show us any workpapers or review guidelines in support of their internal reviews. CARE stated that they had made pencil notes which were not preserved, and they had used their Food Monitoring Manual as guideline for the review. Thus, CARE could not show us anything in support of their internal reviews. Consequently, we could not review the adequacy of the review scope or the extent of coverage, whether the findings were fully developed, whether all the findings were reported, or if required corrective actions had been taken. In fact, we are not even sure the internal reviews were actually conducted or whether the reports were written on the basis of data available in the CARE office.

In sum, CARE has not satisfactorily complied with the requirements of Section 211.5(c)(1), and their internal review reports were not adequate to serve the purpose stated in Section 211.10(b)(4). We believe several factors have been responsible for this. First, CARE does not appear to have attached sufficient importance to the internal reviews and has apparently prepared the reports to meet an AID requirement, or, as stated by USAID, has not fully understood their purpose. Second, CARE had not developed or used any audit guidelines or program for conducting the internal reviews in a systematic manner. Third, instead of pointing out specific weaknesses in the internal review reports and procedures, and following up on the few problems reported therein to ensure that corrective actions were taken, USAID had merely made some general comments on them. Even now, USAID has still not approved the internal review procedure to be used by voluntary agencies, the minimum frequency of internal reviews or the schedule for submission of reports thereon as required by Sections 14E1 and 14E2 of AID Handbook 9, or provided copies thereof to AID/W as specified in Section 14E3.

Recommendation No. 19

The Director, USAID/India should require CARE to develop comprehensive internal review procedures which will cover all the areas of the Title II program and ensure compliance with Section 211.5(c) of AID Regulation 11. USAID should review the adequacy of these internal review procedures and approve them as required by Section 14E1 of AID Handbook 9.

Recommendation No. 20

The Director, USAID/India should require CARE to: (a) perform a full scope internal review for CY 1982; (b) retain adequate workpapers in support of all such reviews; (c) include in their report specific statements about the scope and extent of their review, and actionable recommendations on the deficiencies found; and (d) develop and implement a follow-up system to ensure that corrective actions are taken on the recommendations and that adequate documents are available in support thereof.

Recommendation No. 21

The Director, USAID/India should: (a) determine a minimum frequency for internal reviews and, in conjunction with the voluntary agencies, formalize a mutually agreed upon schedule for performance of the internal reviews and submission of reports thereon to USAID; and (b) provide copies thereof and of the approved internal review procedures to AID/W as required by Section 14E3 of AID Handbook 9.

Recommendation No. 22

The Director, USAID/India should develop and implement internal monitoring procedures that will ensure that: (a) the requirement for internal reviews is fully met by the voluntary agencies; (b) the internal review is conducted in accordance with approved procedures and that it covers all areas of the Title II program; and (c) follow-up is made to determine that corrective action has been taken on recommendations made in the report.

AUDIT NOTE: USAID agreed with the four recommendations under this section of the report but felt that a comprehensive internal review should not be required in any year in which either we or CARE's external auditors perform an audit. USAID stated that they will discuss this with AID/W and CARE prior to making a final determination on Recommendation No. 21.

As pointed out earlier in this report, our audits cannot be considered a substitute for the internal reviews required to be performed by the voluntary agencies. Similarly, CARE's external audits are performed annually and are only limited scope reviews that cannot be considered as complying with AID regulatory requirements for comprehensive reviews. Accordingly, these limitations should be carefully considered in any action taken to respond to Recommendation No. 21.

E. PROCESSED FOODS

1. Processing Agreements

CARE's compliance with Section 211.6(a) of AID Regulation 11 and USAID's monitoring thereof continues to be unsatisfactory. Section 211.6(a) of AID Regulation 11 requires that where Title II commodities are processed into different end products (a) the cooperating sponsor shall enter into written agreement with the firm(s) providing such services; (b) the agreements must have prior approval of USAID; and (c) copies of the executed agreements shall be provided to USAID. The Regulation also specifies certain terms which must be included in these agreements.

Our last audit of CARE's Title II Program (Audit Report No. 5-386-78-11) mentioned that: (1) CARE was not a party to the processing agreements; (2) they could not furnish copies of agreements between FCI and the Balahar processing mills; and (3) USAID had not been provided with copies of the agreements and there was no evidence that CARE had obtained prior USAID approval therefor. The related recommendation was closed on the basis of AID/W's waiver exempting CARE from being a party to the agreement, and USAID's assurance that CARE had since furnished copies of the agreements to them.

Our current audit disclosed that the same problems still exist. CARE stated that a copy of the agreements between FCI and the Balahar processing mills was furnished to USAID in 1979. Although USAID's letter indicated that the agreement was reviewed by them, a copy was not available in USAID files and CARE again did not show us these agreements during the course of this audit; CARE stated that copies of the agreements between FCI and the mills were not available at their office. CARE's failure to produce the agreement copies is unreasonable because, regardless of who executed the agreements, CARE is responsible for supervising and monitoring the program and would require copies of the agreements for that purpose.

Apart from these agreements, CARE also did not provide copies of other agreements to USAID as required. For instance, CARE had 21 processing arrangements during the Indian FY 1979-1980 and 64 each in 1980-81 and 1981-82. Of these, CARE did not furnish USAID any agreement copies for the 1979-1980 period and for the latter two years, copies of only 18 and 14, respectively, were provided long after their execution. Most of the agreements were received by USAID during the course of our audit and seven of them were forwarded after they had expired. In the case of one of the seven, the agreement itself was executed after the expiry date of the period covered. Moreover, no processing agreements had been executed for several of the processed food programs that had been operating in Gujarat and Punjab States for the last many years. These programs were still being continued without any basic written agreements.

In fact, CARE headquarters in New Delhi did not have copies of all the agreements for the processing arrangements they had in various states during the audit period. They had copies of only 1, 19 and 15, respectively, of the agreements that existed during the three years mentioned above. Thus, they could not effectively control or monitor compliance with AID regulations. Moreover, we noted that ten of the available agreements for six state programs did not provide for labelling the processed food as required by Section 211.6(c) of AID Regulation 11; seven agreements did not provide for obliteration of markings; and four agreements did not provide for USAID audit rights. In addition, the Balahar bags were not being labelled as required by Section 211.6(c) of AID Regulation 11 and, since CARE did not show us the related agreements, we could not determine if the labelling caluse or other required clauses were included therein.

In commenting on our finding, CARE stated that they have now furnished copies of most agreements to USAID except for one program in the Punjab and two programs in Gujarat. They also advised that an agreement for the bread program in Punjab, which was started in 1977, could not be executed due to disagreements between the state government and the bakery on certain terms and conditions. CARE stated that they are withdrawing support from this program. Regarding the two programs in Gujarat, CARE said that one of them has been stopped and an agreement for the other program is expected to be signed shortly. Finally, CARE stated that agreements furnished to USAID after the date of our audit contain the required clauses.

We believe that the above problems continue to exist because of insufficient attention and lack of control at CARE to ensure compliance with AID Regulation 11 as well as inadequate monitoring and follow-up by USAID. USAID acknowledged that problems continue to exist. USAID also stated that during their administrative reviews, they do make an effort to determine if Title II commodities are being processed under agreements, and they are on record as having requested CARE to submit copies thereof. Based on our review, however, it was evident that USAID's efforts have been inadequate. For instance, the USAID files revealed that until January 1981 they had not even followed up with CARE regarding submission of the agreements. Moreover, until October 1981, USAID did not even know the total number of processing agreements CARE had in the various states and, consequently, they could not ensure that copies of all these were furnished as required. Besides, there was no evidence indicating that USAID had required CARE to obtain their approval before executing the agreements. As mentioned above, some programs were continuing to operate in Gujarat and Punjab without any processing agreements, yet USAID did not ask CARE to discontinue those programs until valid agreements were executed. In sum, USAID has failed to take corrective action despite their knowledge of the many problems existing.

Recommendation No. 23

The Director, USAID/India should: obtain a current list of all processed food programs being operated; verify whether or not CARE has valid agreements for all such programs and that the agreements contain all the provisions required by Section 211.6 of AID Regulation 11; and require CARE to execute any required agreements that are not currently available and to incorporate any required provisions that are missing from the existing agreements within 90 days of the issuance of this report.

Recommendation No. 24

The Director, USAID/India should develop and implement follow-up controls to ensure that CARE complies with requirements of Section 211.6 of AID Regulation 11 in the future.

2. Implementation

CARE's processed food programs have been ongoing for several years without any firm phase-over plans or progressive increases in local commodity inputs. During the audit period, there were 5 such programs under which items such as bread, noodles and other fried foods were being produced for distribution to beneficiaries. The largest of these programs, Balahar, was terminated in FY 1981 after 14 years of operation and without achieving the primary program goal.

The Balahar program started in 1967 to develop a local product which would eventually replace Title II commodities in the nutrition programs in India. The Initial commodity-mix of 85% PL 480 commodities and 15% GOI input was meant to be gradually changed until the product became 100% indigenous. In 1970, it was envisaged that the GOI would be in a position to continue the manufacture of Balahar solely with their own resources after three years but this goal of indigenization was never realized and the original commodity mix of 85% and 15% remained static until March 31, 1981 when the program was terminated.

The program guidelines approved in July 1975 provided, inter alia, that the indigenous component of Balahar would be increased by 15% every year during the period 1979 to 1984 so that by 1984 the annual Title II input would be reduced to only 10%. However, GOI inputs were never increased and USAID continued to approve the program annually without questioning this. CARE's FY 1981 program plan stated that the GOI was requested to increase the indigenous input to 25% and to change the Balahar formulation but that the GOI was reluctant to do either. CARE's FY 1982 program plan stated that the GOI was making a complete reassessment of the Balahar program and the issue of additional local inputs formed a part thereof. However, the FY 1983 program plan did not mention the Balahar program nor was any reason given for its termination.

When queried, CARE informed us that almost the sole factor responsible for the lack of progress toward achievement of the program goal was the GOI's reluctance and inability to contribute more than the annual 15% input. CARE also stated that use of Title II commodities in Balahar, without any indigenization, was becoming an embarrassment to them because of production, packaging, and delivery problems which made the product unattractive to counterparts and recipients at consumption time. However, none of the CARE program plans had commented on these last mentioned problems as adversely affecting the program's acceptability or future prospects. Finally, CARE told us that the program was not stopped because of the GOI's reassessment but from the minutes of a meeting held on December 6, 1980 between CARE and the GOI it was evident that Balahar production was stopped because the GOI felt that: (a) its cost was not commensurate with the benefits derived; (b) its use in the feeding program was not encouraging and its shelf-life was shorter than SFB; and (c) the malnutrition among children was due to lack of calories and, therefore, expensive protein fortification did not yield commensurate results.

Thus, the primary goal of indigenization of the Balahar program was never realized although Title II commodities costing about $29 million, plus ocean freight, were provided for the program during July 1975 to March 1981. During the entire program USG costs far exceeded this $29 million.

USAID and CARE Comments to our Finding on Processed Foods - Implementation

USAID and CARE contend that although AID Handbook 9, Chapter 3 (Policy) provides for the "eventual transfer" of full responsibility for Title II programs to the recipient country, the incorporation of a plan to progressively indigenize the ongoing processed food programs has not been articulated as a specific goal as was the case with the Balahar program. Moreover, discussions of CARE's on-going processed food programs should be delinked from the Balahar program and considered by themselves. USAID stated that while CARE is proceeding with plans to terminate those processing agreements covering the "bread only" programs in a number of states, they shall continue to encourage CARE to retain those processing arrangements which involve using a combination of Title II processed grains and edible oil with indigenously provided ingredients (by the states), such as jaggery (a sweetener) and other condiments. According to USAID, these arrangements provide several distinct advantages namely: (1) they result in a reduction of the amount of blended fortified foods such as CSM (currently the second costliest product on the list of Title II commodities imported to India), (2) centralized processing eliminates the need to further cook the commodities at the distribution sites, and (3) it is planned that the Title II inputs which will be provided under the AID-assisted ICDS program through the IMCN project will be processed with indigenous inputs similar to the ones currently in force. USAID, therefore, contended that these processing agreements should not be considered in isolation, nor should the existing agreements be considered as an extension of the Balahar program which has been terminated. On this basis, USAID felt that the related draft report recommendation should be rescinded.

CARE also disagreed with the draft recommendation. They said that aside from our faulty assumptions and conclusions concerning India's self-sufficiency in food production on which we have based our recommendation for a 20% phase over of the program to the GOI each year starting in 1983, this recommendation concerning phase over of all processed food programs reflects a total lack of understanding of the basic nature of these programs. CARE remarked that unlike the Balahar program, which was a GOI supported effort to produce a local blended and fortified primary food, the 5 processed food programs are not supported by the GOI and are not meant to produce a local blended food. Rather, they seek to centrally prepare imported foods for consumption by the intended beneficiaries mainly to relieve the teachers and other center personnel of the time consuming chore of cooking. According to CARE, these programs facilitate indigenous inputs in terms of processing costs and local ingredients and as such are good examples of locally supported programs. Therefore, CARE stated that they fail to see the logic of the recommendation, and questioned why should these programs be singled out for phase over in isolation of the rest of the Title II program, portions of which due to their lack of local support in terms of indigenous inputs might be more appropriately singled out by the cooperating sponsor for phase over. Rather than focusing the majority of available local resources on a very small segment of the program, as would be required by this recommendation, and thereby severely restricting the availability of local resources for the remaining bulk of the program, CARE believed its approach of encouraging broader and more extensive local resource allocation is far more likely to result in permanent local involvement and achievement of the desired goal of program phaseover.

Audit Comments

Although progressive transfer of ongoing processed food programs has not been articulated as a specific goal, AID policy applies as much to individual program segments as it does to the overall Title II program. We recognize that such processed food programs may have some of the advantages cited by USAID and CARE. However, we fail to see how negotiation of a phase-over plan would adversely affect their continued operation. Besides laying the foundation for an eventual transfer of responsibility to the GOI as envisaged by AID policy, the development of such a plan at this stage would demonstrate the GOI's willingness or otherwise to support these programs increasingly with their own resources over a period of time and thereby avoid the fate met by the costly Balahar program after 14 years of operation. Hence, the key questions currently remaining are: (a) Considering the fate of the Balahar program, is there a reasonable basis to expect the GOI to indigenize the remaining programs? If so, when? (b) How long are we (AID and the USG) willing to continue before a determination is made of whether the GOI will continue the programs? One, five, ten or twenty years; or should a current understanding and formal agreement be reached? In sum, we continue to believe that action on this matter is essential but we have deleted our draft report recommendation for action because of the specific content of Recommendation Number Five.

3. Bread Program in Orissa

The bread program in Orissa was operating in five municipalities covering 50,000 beneficiaries per day (or 7% of the total approved MCH beneficiaries for this state). Bread was being baked by four contractors under contracts executed between the GOO and the bakers. We visited two bakeries - (1) M/s Suresh Kumar Commercial Enterprises, Bhubaneswar, and (2) Orissa Food Products, Cuttack. Both bakeries were using all purpose wheat flour (APF) for baking bread. We found that the APF was badly infested with weevils and that large quantities (about one million pounds) of the infested flour was scheduled for disposition for commercial use. Nevertheless, the APF was still being used for weeks thereafter to feed pre-school children under the Title II program.

The Bhubaneswar bakery (suppliers of bread to two municipalities for 11,000 beneficiaries) was first visited by us on November 23, 1981. We found Title II commodities were not stored properly, the storage facilities were poor, the APF bags were badly infested with weevils, the dough prepared for that day's production contained dead weevils, and the overall quality of the bread appeared to be poor. We also found inventory differences of an excess of 23 kgs. of oil and a shortage of 8,965 kgs. of APF for which no satisfactory explanation was provided by the baker. We later obtained samples of the bread from the bakery and from a center. The two samples were given to CARE officials and an analysis by a public health laboratory was requested. The laboratory's report confirmed that the fat content of the bread was less than specified, that the bread contained dead weevils and its use for human consumption was highly questionable.

We again reviewed this bakery's program on December 9, 1981 on a surprise basis and observed bread being delivered to the Municipal Office for distribution to the centers. We found that the bread was literally crawling with live weevils. The weevils were inside and outside the bread wrapper and the overall commodity condition was quite repulsive. The bread appeared overbaked, not properly raised, heavy and hard. In our view, it was inedible and unfit for human consumption, a view which was confirmed when we later took apart one of two loaves of bread we had taken as samples and found 34 pieces of weevils or full weevils in it. In addition, we also found that the bakery had delivered only 493 loaves to the Municipal Office that day instead of the 1,083 that should have been delivered per the contract. We were told by the agent that the remaining loaves were delivered directly to the centers by the bakery. This was, however, contradicted by the bakery's proprietor and his manager who insisted that they always deliver all 1,083 loaves to the Municipal Office as they had done on that day also. Thus, we could not satisfy ourselves that the bakery was in fact delivering the required number of loaves every day.

We immediately reported our observations regarding the extremely poor quality of the bread and the short delivery to the Municipal Executive Officer but he showed little interest in the matter and made no effort to either examine the bread or stop its distribution. He merely said that his only responsibility for this program was to pay the contingent expenses bills. Later, we again visited the Bhubaneswar bakery and found that the entire place was infested and literally crawling with weevils. There were weevils on the floor, on bread preparation tables, in the raw dough that had been prepared for that day's production, all over the flour inventory and highly evident in opened bags and one bag that we asked to have opened. Overall, the bakery was dirty, unkept, poorly lighted and there was no evident effort to control the weevil population or to keep any acceptable degree of sanitation regarding the bread mixing equipment. As stated above, we had found the same conditions existing at the time of our earlier visit to this bakery and CARE had taken no corrective action. Overall, this bakery had been supplied with 1.12 million pounds of flour and 69,562 lbs. of oil valued at $248,473 during the audit period.

At the Cuttack bakery, we again found the flour to be badly infested but there was some effort there to control the problem. The inventory had been fumigated and they were trying to sift out the weevils. Notwithstanding this, however, live weevils were still highly evident in the baking area where bread for pre-school children was being prepared. Later we examined some of the bread produced at the Cuttack bakery and found it to be of acceptable quality. We did not find any weevils in the sample we examined.

Overall, we found that CARE's monitoring of the bread program was not satisfactory. For instance, CARE had copies of only six laboratory analysis reports in their files for bread samples which were examined during the period May 1978 to October 1979. All the reports showed that the bread weight was less or more than that specified in the contracts (in three cases the weight was less, in two it was more and in one the weight was not given. Both the reports on the Bhubaneswar bakery reported the bread samples as being underweight). In addition, three of the six reports, including one on the Bhubaneswar bakery, showed that the bread was unfit for human consumption for such reasons as containing dead weevils and ants, high alcholic acidity and a musty odour. CARE showed us follow-up documentation on two of the reports for the Rourkela bakery but no follow-up was made for the two Bhubaneswar bakery reports which showed the bread as underweight and as unfit for human consumption in one case.

The highly infested bread sample brought by us from the field was shown to the USAID Director and the Food for Peace Officer (FFPO). The sample was then given to the FFPO for delivery to CARE headquarter officials. We also furnished an advance report of our findings to USAID on December 16, 1981, and suggested that this bakery's program be terminated. USAID provided a copy of the report to CARE for their review and comments. In response, CARE stated that they were unable to concur fully with our findings as they had not accompanied us to the bakery, and as the auditor's personal view had not been confirmed by public health authorities to whom we had supplied samples for analysis. CARE's comments were both surprising and unacceptable as the poor quality of the bread was confirmed not only by the sample brought by us to New Delhi, but also by the public health authorities reports which we had got through CARE's own state office (see page 68).

On January 12, 1982, USAID informed us that CARE is in process of discontinuing the bread program in Orissa and that this would resolve the problem surfaced by our review. Later, in response to our draft report USAID stated that CARE has agreed to terminate this bakery's program effective June 30, 1982 and transfer any stock balances remaining in the bakery's inventory to other programs. USAID should ensure that this action is taken and also require CARE to closely monitor the bread program in other states as well to ensure that similar unsatisfactory conditions are not prevailing elsewhere.

Recommendation No. 25

The Director, USAID/India should ensure that (a) CARE's termination plans for the bakery in question are carried out, (b) any stock balances that remain in the bakery's inventory are transferred to other programs; and (c) a final accountability for the Title II commodities provided to this bakery during the audit period is prepared showing whether the unexplained inventory differences found during our visit were satisfactorily resolved.

Recommendation No. 26

The Director, USAID/India should include the review of bakeries and other processed food programs' facilities and operations in the Mission's monitoring of the CARE program.

Excess Stock of APF: During July to October 1981, CARE received 22,424 bags of APF at the Cuttack district godown. This total stock was a 14 month supply of the requirements of the bread program for which APF is used. CARE stated that this stock-piling occurred because of erratic shipment arrivals and that since APF has a shelf-life of only three months, they obtained USAID approval to divert most of the stock for commercial uses and subsequent replenishment on a pound-for-pound basis. On December 5, 1981, the state government issued orders authorizing a loan of 410 MT (18,078 bags) of the flour to the four bakeries on a replacement basis. At the time of audit, only about 60 MT had been diverted for commercial purposes but CARE subsequently informed us that another 283 MT had been removed by the bakeries.

This APF was in stock for over three months and, as mentioned above, the stock observed by us at both the bakeries was infested with weevils. Therefore, we suggested that USAID reexamine the desirability of loaning the infested flour for commercial purposes. In response, USAID stated their assumption is that at the time of taking delivery, the concerned institution would normally refuse to accept infested flour. In view of USAID's position, we have not made a recommendation for corrective action.

4. Processed Food Program in U.P.

Two types of processed foods were being produced at six locations in five districts of the State. These processed foods were: (1) Sev (fried noodles) produced at two state government owned facilities; and (2) Panjeree (fried food) produced by four private contractors. Of the six locations, we visited both the Sev plants and two of the four Panjeree contractor facilities at Lucknow and Allahabad. We found:

(a) Sev: There was no production on the date of our visit at the Lucknow plant because there was no stock of commodities, but we found that the plant area was quite dirty and foul-smelling. The plant did not appear to have been white-washed or cleaned for a long time. At the Mirzapur plant there also was no production on the date of our visit, but the plant was started up at CARE's request after our arrival to demonstrate the operation and the product produced. We found that the Sev produced on that day tasted alright, but the plant and the storage room adjoining showed evidence of rodent infestation and there were cobwebs all over the ceiling and wall areas. About one-half of the available Title II CSM stock was not properly stored.

We also found that CARE had not established any control procedure to determine the production loss or acceptability of the Sev yield, i.e., raw material input versus Sev output. CARE had conducted a trial production in April 1978 when 1,675 kgs. of sev were produced from 1,361 kgs. of CSM and 314 kgs. of oil. In other words, a 100% yield was obtained from the commodity inputs and based on this trial run, CARE advised the state government that the following input would be required for achieving a production of 2,000 kgs.:

(a)	CSM	72 bags (80%)	1,632 kgs.
(b)	Oil	18 Cartons (20%)	378 kgs.
(c)	Salt		6 kgs.
			2,016

(d) Sev Produced - 2,050 kgs. (or 102% of input)

According to details provided by CARE, the commodities used and the actual production of Sev during 1979-80 and 1980-81 were as follows:

(In Kgs.)

	1979 - 1980				1980 - 1981			
	Lucknow	%	Mirzapur	%	Lucknow	%	Mirzapur	%
Commodity and Quantity Used								
CSM	31,775	75	33,181	73	20,648	68	53,366	70
Oil	10,426	25	12,204	27	9,865	32	23,310	30
	42,201		45,385		30,513		76,676	
Sev Produced	40,140		41,429		23,620		73,075	
Yield Percentage	95.1%		91.3%		77.4%		95.3%	

Thus, both the yield and the percentage of commodity inputs have varied between the plants from year to year, and the yield was lower than that achieved during the trial production. Subsequent to the completion of our audit, CARE agreed to conduct yield tests and to monitor commodity input versus sev output against the established percentage.

(b) Panjeree: Title II SFB or CSM and oil are used for making Panjeree. The related contracts do not provide for the one percent milling loss which all four contractors were claiming when SFB based Panjeree was produced. Furthermore, the two contractors we visited did not keep any account for the SFB quantity sent for milling or the quantity received back from the mills. Because of this we were unable to ascertain the actual percentage of milling loss. According to CARE records, the unauthorized milling loss claimed by the four contractors during 1979 to 1981 was 10,731 kgs. of SFB valued at about $2,000 excluding freight costs.

We believe that USAID should review this matter and if the milling loss is appropriate, a specific provision therefor should be included in the contracts and the contractors should be required to keep records of SFB quantities milled and the related milling losses.

Recommendation No. 27

The Director, USAID/India should instruct CARE to: (a) take appropriate steps to improve the storage and other conditions at the two Sev plants; (b) develop and implement monitoring procedures to establish the reasonableness of Sev yield in relation to the commodity inputs; and (c) include appropriate provision for milling losses in the Panjeree contracts after establishing their propriety, and also require the contractors to keep records of SFB quantities milled and the related actual milling losses. USAID should require CARE to furnish a report on the actions taken on these matters and verify the adequacy of the actions taken.

F. COMMODITY ACCOUNTABILITY

Our selective review disclosed that CARE's accountability records for the receipt and distribution of Title II commodities were generally satisfactory. However, in one state (Tamil Nadu) we noted that unreconciled inventory differences of 288,113 lbs. of SFB and 155,877 lbs. of oil were written-off during CY 1980 with USAID approval. The differences, which were stated to relate to the period prior to July 1, 1975, were caused by incorrect or incomplete reporting, inadequate accounting records, and deficient inventory reconciliation procedures in the past. CARE Tamil Nadu has now improved their records and also started making reconciliations, and our limited review did not disclose any such differences in either FY 1980 or FY 1981. Hence, we have not made a recommendation for corrective action.

In addition, we found certain problems in the Balahar accountability and the Food Bank arrangement that CARE had negotiated with the GOI. These are discussed below.

1. Balahar Accountability

Our previous two audits of the CARE program disclosed significant problems in Balahar accountability. Audit Report No. 8-386-75-62 dated June 26, 1975, which covered the period from July 1, 1973 to February 28, 1975, stated that CARE had not maintained any control record or accountability records showing details of the commodity inputs supplied to FCI for Balahar production or the processed food received therefrom. At the completion of that audit, there was an unreconciled difference of over 24 million pounds of commodities. Subsequently, CARE compiled a Balahar accountability statement from inception to June 30, 1975 and their reconciliation efforts reduced the difference to about 5.9 million pounds. This difference was reported in our Audit Report No. 5-386-78-11 dated April 25, 1978. The related recommendation was closed on the basis of USAID's assurance that CARE had established the necessary accounting and reconciliation procedures and that the difference of 5.9 million pounds was reconciled as follows:

	In Million Lbs.
Shipments diverted to non-Balahar programs as verified by USAID	3.520
Production loss for the period of 1969 to 1975	2.307*
Additional quantity shown as physical inventory as of 7/1/75	0.017
Unreconciled balance written-off	0.017
	5.861

*Note: The production loss was allowed at a flat percentage and not on an actual basis. While requesting closure of the last audit recommendation, USAID told us that the permissible production loss was 2% from 1969 to June 30, 1975 on all commodities provided for Balahar. During that period, CARE's efforts to improve Balahar production resulted in the production loss being reduced to 1% beginning July 1, 1975, and the loss was limited to SFB and SFSG only. USAID also informed us that CARE was continuing negotiations with FCI to further reduce the production loss to one-half percent.

During our current audit, we found that CARE had periodically reconciled the Balahar accountability, but the following problems still require resolution:

(a) There were differences between the quantities of Title II commodities shown in the Balahar reconciliation statements and the Commodity Status Reports (CSRs) submitted by CARE to USAID. According to available information, these differences, which related to the period from July 1, 1975 to March 31, 1979, were as follows:

Commodity	Differences (Short)/Excess Reported in CSRs (In Pounds)
SF Flour	(59,938)
SF Bulgur	5,466,726
SF Sorghum Grits	44,559

CARE could not explain the differences between the CSRs and the Balahar reconciliation statements which totalled 5,451,347 lbs. or 2,473 MT of Title II commodities. In addition, there was a difference of 1,612,518 lbs. (731 MT) between the Balahar quantity shown in the CSRs and that acknowledged by the CARE state offices. CARE stated that they are required to keep records for only three years and they do not have most of the records prior to CY 1978. CARE, however, stated that the quantities shown by us as transferred to FCI per the CSRs were not correct. They did not elaborate on their statement or provide any details to support their comment. In fact, our statement of quantities transferred to FCI per the CSRs was reviewed by CARE during the audit, and after adjustment of the differences pointed out by them, it agreed with the quantities shown in CARE's own analysis. Hence, CARE's comment is unacceptable.

(b) CARE had no record to support the losses of 177 MT of SFB and 145 MT of SFF which pertained to shipments turned over to FCI before July 1, 1975 but which were adjusted in the current reconciliation. The July 1, 1975 opening balances included in the reconciliation statement were confirmed by FCI as physical balances of commodities avialable with them and there was no mention by them of any losses. Hence, the deduction of losses that occurred prior to July 1, 1975 from the confirmed physical balance as of that date is questionable. CARE stated that their normal practice is to carry forward pending losses as part of the total availability, but that they are unable to comment on our finding as they do not have the records for that period. Thus, this matter remained unresolved.

(c) The reconciliation statement for the period July 1, 1975 to March 31, 1979 showed an opening balance of 1,156 MT of processed Balahar on hand at FCI and the mills. However, CARE considered this quantity as production subsequent to July 1, 1975 and allowed credit therefor to FCI in the reconciliation for the period ending March 31, 1979. CARE told us that they did this as they had reduced the balance of 1,156 MT from the production for the period prior to July 1, 1975 (October 1, 1969 to June 30, 1975). They, however, could not show us any documents in support of their claim. Our review of the FCI reconciliation statement for the period October 1, 1969 to June 30, 1975 showed that FCI had adjusted 89,974 MT (198,357,913 lbs.) of Title II commodities for producing 103,776 MT (228,786,520 lbs.) of Balahar. Accordingly, the balance of 1,156 MT of Balahar would appear to be from the total production of 103,776 MT for which FCI had already adjusted the utilization of Title II commodities. Thus, CARE had apparently allowed an excess credit to FCI for the 1,156 MT Balahar costing about $287,985. Again, this matter has remained unexplained as CARE stated that they do not have the supporting documentation. CARE also questioned why this irregularity was not reported during our last audit in 1977. We, of course, could not have reported on this as CARE's reconciliation itself was prepared later and furnished to USAID in February 1980, which is considerably after the completion of our last audit.

(d) As mentioned above, USAID had stated that the allowable production loss was reduced from 2% to 1% from July 1, 1975 and the loss was to be allowed only on SFB and SFSG. USAID further stated that Balahar reconciliations after that date would reflect only a one percent production loss. Contrary to this, however, CARE allowed FCI a 2% production loss on SFSG and wheat even after July 1, 1975. This resulted in an excess credit to FCI of 108 MT of Balahar costing Rs. 242,145 ($26,905) during July 1975 to March 1979. Pertinently, according to the mill reports, the actual production losses for the year ending March 31, 1980 amounted to only 0.61 percent which was less than even the one percent flat rate. In fact, in April 1979 USAID informed us that CARE was negotiating with FCI to further reduce the production loss from one to only one-half of one percent. We do not know USAID's basis for this statement because we found no record with CARE to show that negotiations were going on at that time. CARE did show us their letter dated March 31, 1977 where they sought clarification as to why FCI was allowing one-half percent loss on groundnut cake as against 1% on SFB. CARE made one follow-up on December 16, 1977 but there was no written response from FCI. CARE informed us that FCI had verbally told them that acceptance of one-half percent production loss on SFB was not possible. CARE, however, did not furnish any reasons for this verbal rejection by FCI.

CARE did not agree that the allowable production loss was reduced from 2% to 1% for SFSG and wheat based Balahar. They said that the reduced percentage was applicable only to SFB and bulgur wheat. In the case of SFSG and wheat, the allowable production loss remained at 2%. CARE's explanation is unacceptable for several reasons. First, FCI's confirmation of this one percent loss was contained in their letter No. 19(2)/76-BAP Vol. IV dated March 10, 1978. Although the FCI letter did not specify that the production loss was limited to SFB and SFSG only, the draft terms and conditions approved by USAID for the Balahar program did mention this. Second, CARE's own letter No. 5648 dated July 3, 1978 to USAID provided a confirmation of the one percent production loss. In that letter, CARE stated that: "For every 85.85 lbs. of Title II commodities turned over to FCI, FCI will produce and despatch to the designated consignees 100 lbs. of Balahar. The only exception to this will be in cases where there are legitimate interior losses of Title II commodities which will of course be reported through the normal reporting procedures." (Emphasis provided). Neither FCI or CARE letters mentioned that a different production loss percentage would apply for SFSG and wheat. Finally, CARE did not show us the agreement between FCI and the mills nor did they furnish any other support for their contention.

(e) The reconciliation for the year ended March 31, 1981 showed that FCI was still accountable for 463 MT of Title II commodities as of that date when the Balahar program was terminated. CARE filed a claim of Rs. 1,653,847 ($183,761) for this quantity in September 1981. The claim was still pending at the time of completion of our review. According to FCI, the unaccounted quantity of 463 MT included 366 MT representing the total of several claims lodged with the railways for transit losses and damages as of March 31, 1980. FCI, however, did not provide any details of these losses to CARE, nor had CARE followed up until June 1981 when FCI informed CARE of the recovery of Rs. 22,379 against some railway claims filed during October and November 1976. FCI remitted this amount to CARE in September 1981, and CARE sent an appropriate amount to USAID in November 1981 alongwith a statement of losses.

The statement showed three different amounts and it was not clear as to which of these represented the value of commodities lost or damaged. The Rs. 22,379 remitted represented the least of the three amounts shown in the statement. Neither CARE or USAID offered any explanations regarding this. However, according to FCI's Bhopal office, the amount of the claim was Rs. 26,746 as compared to FCI's remittance of Rs. 22,379. In November 1981, CARE asked FCI to explain the difference but their response had not been received as of the date of our audit. Moreover, CARE has not furnished any Disposal Request for Damaged Commodities (DRDC) for the damaged quantities included in the settled claims. Therefore, the disposal status of the damaged commodities was not known.

(f) CARE's reconciliation statement showed that FCI had 232.73 MT of SFB and 6.12 MT of SFSG when Balahar production was stopped on March 31, 1981. CARE's external auditors' report dated June 30, 1981 furnished to us after completion of our audit work, however, showed that FCI had 256.51 MT of SFB and 6.12 MT of SFSG. The comparative figures for SFB are as follows:

Stock Location	Per CARE Reconciliation Given to Us	Per CARE's External Auditors' Report
FCI, Madras	8.44	-
FCI, Ahmedabad	-	3.05
FCI, Raipur	201.64	253.46
Mill, Madras	22.65	-
	232.73	256.51

CARE's external auditors' report stated that they were informed by CARE that the SFB balances pertain to losses that have to be processed. However, in response to our Record of Audit Findings (RAF), CARE informed us that 194.7 MT, out of the balance of 232.73 MT, was transferred for use in their existing feeding programs during July 1981 todate.

In short, differences involving 3,276 MT of Title II commodities and 1,995 MT of Balahar having a total value of about $1.4 million remained unexplained. CARE's arguements that they are required to keep records for only three years and that we should not be questioning previously audited transactions, are unacceptable. The Balahar accountability had not been reconciled during our previous audits and the related reconciliation statements were prepared and submitted to USAID subsequent to the completion of our last audit. Hence we could not review them during our earlier audits. Moreover, it is normal audit practice to review, during follow-up audits, the adequacy of actions taken to resolve previously reported deficiencies, and this fact was mentioned in our audit notification letter to CARE.

Recommendation No. 28

The Director, USAID/India should obtain, and review the adequacy of, documents and information for the commodity accountability problems in the Balahar program mentioned in (a) to (f) above. USAID should recover the cost of any Title II commodities that are not accounted for by CARE within 60 days of the issuance of this report.

USAID and CARE Comments to our Findings on Commodity Accountability - Balahar Program

Besides reiterating that the Balahar accountability had been audited by us in 1975 and 1978, CARE commented as follows on the specific audit observations:

(a) Regarding the difference of 5,451,347 lbs., the quantities shown by us as being transferred to FCI per the CSRs are not correct as they include commodities which were transferred to agencies other than FCI, and they do not reflect subsequent losses in quantities transferred to FCI. About the difference of 1,612,518 lbs. (731 MT) between the CSR quantity and that acknowledged by the CARE state offices, CARE stated that this quantity had been acknowledged in subsequent period's records.

(b) CARE has the Interior Claims Statements to support the losses of 177 MT of SFB and 145 MT of SFF, and these losses were part of the opening balance as of July 1, 1975 which were reviewed by us during our previous audit.

(c) CARE did not allow an excess credit of 1156 MT of Balahar to FCI as is evident from the fact that we did not detect such an irregularity during our previous audit.

(d) The production loss for BW/SFB-based Balahar was 1%, and 2% for SFSG and wheat, and CARE attached a copy of an FCI letter dated March 2, 1982 confirming this. CARE also stated that we have incorrectly interpreted FCI's letter of March 10, 1978 as that letter pertained only to SFB/BW-based Balahar.

(e) CARE continuously follows-up with FCI on the pending loss/settlements. FCI, New Delhi has also been following-up with their concerned sub-offices.

CARE contended that Recommendation No. 28 should either be deleted or be limited to the adequacy of documents and information for the Balahar accountability problems related to the period subsequent to June 30, 1977.

USAID also referred to CARE's comments that we had audited the Balahar accountability twice (in 1975 and in 1978), and that records prior to 1978 are not available with CARE. They stated that they will reserve judgement concerning the necessity for recovery of the costs as recommended by us.

Audit Comments

We do not accept CARE's contention that our previous audit covered the issues of excess credit, adjustment of alleged losses and damages against the June 30, 1975 closing balances, and the production loss of 2 percent on certain commodities. The Balahar accounting furnished during our last audit did not reflect the adjustments of excess credits or losses and damages. Moreover, the accounting furnished to us and to FCI through CARE's letter No. 1582 of February 20, 1978 clearly showed that a one percent production loss had been allowed for SFSG-based Balahar (against the SFSG input of 13,180,005 lbs., CARE had shown the quantity of Balahar due from FCI as 15,352,365 lbs. at the rate of 100 units of Balahar for every 85.85 units of Title II commodity input). CARE reflected all these adjustments only in Balahar reconciliation furnished to us during the current audit and, therefore, these could not have been reviewed by us during our previous audit. Similarly, CARE has not furnished any details for their claims regarding the differences between the CSR quantities and those shown in the Balahar reconciliation, or the differences between the Balahar quantity shown in the CSR and the amount acknowledged by the states as per CARE's records. In addition, CARE's claim that the latter difference was accounted for in a subsequent period is questionable since our review showed that the Balahar quantity reported in the CSR and that acknowledged by the states during Indian fiscal years 1979-80 and 1980-81 had tallied. Thus, we are retaining our recommendation as stated.

2. Food Bank Arrangement

CARE has maintained a food bank arrangement with the FCI. Under this arrangement, CARE turned over to FCI the Title II shipments of wheat and rice received at various ports. Against these shipments, CARE received wheat and rice at such locations where these commodities were required for implementation of the FFW and emergency programs.

The food bank arrangement also provided for the supply of 'A' category of wheat from FCI stocks for the Title II program. Because of problems encountered in the past with the quality of wheat supplied by FCI, a procedure was established whereby samples of wheat issued would be provided to CARE and any complaint about the quality would have to be registered within 72 hours of the receipt of the stock. During the audit we could not determine that FCI supplied only 'A' category wheat or whether there were any complaints about the quality because CARE refused to show us the related correspondence file stating that it contained correspondence on other matters also. CARE told us that it was the responsibility of the consignees to receive only 'A' category wheat and, since CARE did not receive any complaint, they assumed that the required quality was supplied by FCI.

Our review of the CARE food bank accounting records disclosed that they were generally satisfactory. However, CARE did not provide us certain information relative to the following issues because they said the old records were not readily available.

(a) Losses/Damages: During the audit period wheat losses/damages were reported from shipments that arrived during March 1976 to May 1978. We reviewed 5 cases of losses involving 1,080,735 lbs. of wheat and according to the information available with CARE, the losses were attributed to reconstitution of cut and torn bags; unaccountable or unknown shortages; discharge of shipments in an open shed which was contaminated by soda ash, or other salvage operations. Since the related documents were not produced by CARE, we could not complete our review of these cases. However, available information indicated that the write-off of such losses was questionable. For instance, according to the report furnished to USAID by CARE, a loss of 538,677 lbs. (244 MT) of wheat was caused by the carrier's inability to offer the cargo at the port, the port authorities decision to discharge the cargo in uncertified shed spaces, and the clearing agent's failure to effect direct delivery due to internal difficulties. Yet, the loss was written-off by CARE on the grounds that it was difficult to fix the responsibility on any one entity. Similarly, since bulk wheat shipments were turned over to FCI at the port upon arrival, we do not understand, nor could CARE explain, how losses could be attributed to cut and torn bags. In another case of a loss of 217,132 lbs. (claim No. G-267 dated August 25, 1980, for Rs. 153,241.56), one of the attachments to the claim papers showed that FCI had sold this quantity of damaged wheat and retained the sale proceeds to offset their handling and clearance charges. The retention of money realized from the sale of Title II commodities for handling and clearance charges of the shipment is contrary to Section 211.8(b)(4) of AID Regulation 11 and also improper because the consignees are required to provide such services free of cost. Besides, FCI did not furnish any details of the amount realized from the sale nor was there any evidence to show that CARE had asked for the details.

(b) Unprogrammed Use of Wheat: During FY 1979, 40,542 MT wheat was programmed for the FFW program against which CARE reported utilization of 57,566 MT, or 17,024 MT in excess of the programmed quantity. Similarly, the use of wheat during FY 1980 and FY 1981 was not programmed either, but CARE showed a utilization of 1,016 MT and 379 MT, respectively, during the two years. CARE told us that the wheat utilized in excess of the programmed quantity was in respect of the unutilized mandays carried forward from previous years. However, they did not show us any document in support of their claim, hence we could not establish whether the wheat was used to support an earlier approved program.

(c) Balances in Food Bank: According to CARE's records, the closing balances in the food bank were 2,071.6 MT of wheat and 225 MT of rice as of December 31, 1981. The wheat balance comprised of 1,945 MT with FCI and 126 MT in the CARE inventory. FCI had recently confirmed the credit of 1,906 MT in the food bank out of the 1,945 MT, but no confirmation was available for the remaining 39.6 MT of wheat or for the 225 MT of rice. At the time of our audit, CARE did not have an approved FFW program, therefore it was not known how these balances would be used. Subsequently USAID advised us they had approved the use thereof in CARE's ongoing MCH program in Maharashtra state.

(d) Unaccounted Wheat: According to CARE's Commodity Status Report (CSR) for the quarter ending September 30, 1981, they had 126 MT of wheat in their stock. We were told that this quantity was actually not available because it was stolen. CARE told us that cases for the theft had been filed in court and, at the time of audit, the cases were still pending. CARE, however, did not tell us when the theft occurred, nor could they show us any documents or correspondence on the cases filed. CARE informed us that the related correspondence is available at their West Bengal State office and that they may have some follow-up letters. We asked for the follow-up letters but CARE could not show them to us stating they would have to be traced. Thus, we could not ascertain any details or verify the claimed theft of 126 MT of wheat costing about $22,223 and a USAID official informed us that the theft had not been reported to them by CARE. It is pertinent to mention that while commenting on this quantity of 126 MT (277,796 lbs.) wheat, CARE's external auditors' report as of June 30, 1981 noted that it comprised of 17,196 lbs. of damaged wheat and a shortage of 260,600 lbs. The shortage of 260,600 lbs. was reported as mostly representing misappropriation of stocks by dealers. Their report further stated that criminal cases were pending against the dealers for the shortages, some of which were quite old and one of them dated as far back as 1973.

Subsequently, in responding to our RAF on this matter, CARE stated: (a) they have now traced their files pertaining to the losses, and as the standard procedure for discharge of bulk wheat involved bagging in the ship's hold, the write-off due to reconstitution of cut and torn bags should not be considered a questionable practice; (b) in the case of the sale of damaged wheat cited by us above, the damages had occurred before FCI took delivery of the consignment and there was no possibility of FCI receiving reimbursement from the consignees. Still, FCI agreed to move the damaged wheat from the port and have it cleaned and reconstituted at their own expense with the understanding that their expenses could be offset against the sales proceeds. CARE also provided details of the sale stating that FCI realized Rs. 5,499 ($605) against which they spent Rs. 6,513 ($724) on clearing and handling. CARE considered our objection to FCI retaining the proceeds as improper because the value of the wheat salvaged in the process was more than Rs. 500,000 ($55,556), and as AID Regulation 11, Section 211.8(b)4 allows such retention for meeting expenses incurred in the disposal of damaged commodities; and (c) the approved program level for the FFW program for FY 1979 was the actual amount programmed and reported as utilized. CARE also stated that six months after the AER was approved by USAID, AID/W reduced the program level due to a ban on wheat shipments to India. While adjusting the FFW program level, AID/W did not take into account actual inventory levels at the time of the adjustment but used the estimated inventory levels as of September 30, 1978, which were lower than the actual levels as of that date. CARE believes that the AID/W adjustment was not meant to limit the program level below the actual tonnage available for programming, but only sought to reflect the non-availability of additional wheat shipments. Hence, there was no utilization in excess of programmed quantities.

CARE's response to our RAF was received too late for us to review any of the documentation that CARE states is now available. Therefore, any such documentation should be reviewed by USAID. Regarding the sale of damaged commodities, we agree that AID regulation allows the actual expense incurred in effecting the sale to be deducted from the proceeds. However, the regulation does not allow the use of such proceeds to offset the handling and clearing charges which are to be paid by the GOI or their consignees. About the unprogrammed use of wheat in the FFW program, CARE did not show us any documentation during the audit, nor have they furnished it now to support their claim that the excess utilization was because of unused mandays carried over from previous years. During our exit conference, CARE advised us that they had already filed a collectible claim for the 126 MT of diverted commodities noted above.

Recommendation No. 29

The Director, USAID/India should: (a) review the documents available with CARE concerning the sale of damaged Title II wheat mentioned in F 2(a) above, and recover from CARE the sales proceeds after adjusting the actual expenses incurred in effecting the sale; (b) review CARE's accounting, justification, and documentation in support of the excess utilization of wheat for the FFW program during FY 1979 to FY 1981; and (c) follow-up on the claim regarding the theft or misappropriation of the 126 MT of wheat discussed above to ensure that the cost thereof is refunded to USAID.

3. Loans and Transfers

CARE has kept adequate records on loans and transfers of Title II commodities, and did obtain the required USAID approvals. However, they have not obtained periodic confirmation of the outstanding balances. In addition, CARE's external auditors' report showed that the physical stock as of June 30, 1981 in West Bengal state included a quantity of 15,432 lbs. of milk powder with Himalyan Cooperative Milk Producers Union

Limited (HIMUL). This quantity was part of the 22,046 lbs. of milk powder loaned to HIMUL in May 1977. The auditors' report further stated that during the last four years, only 6,614 lbs. of milk powder had been returned by HIMUL and that was done only in March of 1980, and that CARE has made only very limited follow-up during the last year. Furthermore, HIMUL has expressed an inability to procure milk powder and return the loan except on a monthly installment basis. We believe USAID should require an immediate settlement of this old outstanding balance.

Recommendation No. 30

The Director, USAID/India should require CARE to obtain periodical confirmations, at least annually, of outstanding Title II loan balances and to recover the balance of the milk powder loan (or commensurate value) from HIMUL.

G. REPORTING

1. Commodity Status Reports (CSRs)

Our selective review disclosed that preparation of the CSRs was generally satisfactory and their submission was generally timely. We, however, noted the following conditions which require additional efforts on the part of CARE:

(a) Physical Count: AID procedures require voluntary agencies to take physical inventory of stocks semiannually. However, because of the large size of the CARE program, AID has authorized CARE to take a physical inventory annually. CARE's established procedures required that: (1) complete physical counts will be made at all district, regional and central warehouses, and at the food processing centers; and (2) physical count certificates will be obtained from other intermediary storage points, such as the blocks. Our review at Tamil Nadu and U.P. disclosed deviations from these established procedures. For instance, in Tamil Nadu, CARE could not make the annual physical counts at both the transit warehouses in 1979 and at one warehouse in 1981 due to improper stacking in both the years. The same problem of improper stacking was found by us again at the time of our visit to the two transit warehouses and as a result neither we, CARE or the warehouse officials could count the stocks. Moreover, the warehouse could not show us bin cards (stockwise or shipment-wise) stating that these had not been kept, or explain how they were keeping controls or records on despatches of commodities. Thus, an accurate inventory could not be established.

Similarly, in U.P., CARE did not make the required physical count at 9 and 17 of the total 43 storage points (district and processing unit warehouses) during 1979 and 1980, respectively, mainly because of over-stocking and partly due to other reasons.

In FY 1981, CARE counted the stock at 45 of the 46 storage points. At one storage point, no count could be made because of over-stocking. Further, in Tamil Nadu, we also noted two instances where alterations in physical count certificates had not been initialled, including one instance where the certificate quantity had been altered to make it agree with the book balance. We also found that CARE's external auditors reported similar instances of problems such as physical counts not possible due to improper stacking, physical counts not made at some districts, and alteration in one certificate of quantity.

(b) The CSR as of June 30, 1981 showed a difference of about 2.8 million pounds of commodities between physical inventory and the statistical balances after adjustment of losses and transfers. A statement attached to the CSR showed that except for a net unreconciled quantity of 45,100 lbs., this difference was caused by several factors such as unreported deliveries, unprocessed transfer authorizations, and unadjusted excess receipts of stock. Our previous audit also disclosed a difference of 49.8 million pounds between the physical inventory and the statistical balance as of June 30, 1977. We do not know how that difference was adjusted as USAID did not follow-up thereon and because CARE stated that their old records were not available now. However, CARE told us that since they carry forward the statistical balances in the succeeding CSRs, the differences must have been adjusted. The June 30, 1981 differences would also be similarly adjusted. We agree that since CARE carries forward statistical balances, the differences would be eventually adjusted over a period of time. However, we believe that the purpose of the annual physical count would be more effectively served if CARE provides USAID a statement showing how the differences, especially the unreconciled figure, were actually adjusted.

Recommendation No. 31

The Director, USAID/India should: (a) reemphasize to CARE the importance of complying with the requirement for complete annual physical counts to be made at all storage points such as district, regional and central warehouses, and at the food processing centers; and (b) obtain annually a reconciliation statement showing how the differences between the June 30 physical count and the statistical balances were adjusted.

2. Recipient Status Report (RSR)

Because of the large size of their program, CARE prepares the RSRs using random sampling techniques. Under this procedure, data on commodity utilization and recipients reached is gathered for randomly selected feeding centers. The data is then computerized and projected to the total CARE program for RSR purposes.

Although delayed, CARE did submit the required RSRs to USAID. We, however, could not verify the accuracy of the RSRs because CARE did not have the intermediary results in support of their computerized RSR data. We also did not attempt any independent computation because it would be very time consuming and since USAID has already requested AID/W consideration to provide technical assistance to review existing CARE RSR documentation and suggest modifications therein to ensure a flow of accurate and meaningful data.

3. CARE's External Auditors' Report

Annually, CARE's financial and Title II program operations are audited by their own external auditors. The last such audit was made by Messrs. S.B. Billimoria & Company, local representatives of Ernst and Whinny, a Certified Public Accounting firm of New York, USA. The auditors' review covered the year ended June 30, 1981 and we requested that CARE provide a copy of the report during our entrance conference held in August 1981. CARE initially told us that they would have to obtain New York headquarters approval for this but after several follow-ups by us, CARE informed us on December 18, 1981 that they were not authorized to share the report with us. Subsequently, after the AID Inspector General's intervention, CARE made a copy of this report available to us on February 26, 1982 i.e., after completion of our audit work and about six months after it was initially requested. We believe USAID should require CARE to furnish copies of all such reports on the Title II program to USAID in the future.

Pertinent references from the external auditors' report have been included under relevant sections of our report. In addition, the external auditors' report of August 7, 1981 stated the following specific problems involving Title II commodities which we believe should be followed-up by USAID to ensure that satisfactory actions have been taken by CARE:

(a) Modern Bakeries, Karnataka acknowledged only 67 cartons of oil against 73 cartons dispatched by the warehouse, and they have failed to furnish any explanation for this discrepancy despite repeated reminders by CARE. (Page VIII-10).

(b) 18,132 lbs. of oil has remained in a Maharashtra state warehouse since November 1979. In addition, 153 bags (9,150 lbs.) of CSM at a state warehouse or at a port were found to be damaged. (Page IX-5).

(c) In August 1980 production of bread at Modern Bakeries, Rajasthan, was stopped and the total stock of 62,198 lbs. of Soya Fortified Flour was declared unfit for human consumption due to prolonged storage. The damaged stock was donated in February 1981 and a related claim is pending. (Page X-10).

(d) Comparison of pending shortages and damages per state inventory positions submitted to CARE headquarters in New Delhi with pending claims in Rajasthan showed some differences, including a major difference of 59,059 lbs. of SFB. (Page X-13).

(e) The physical count certificate submitted by Hooghly district, West Bengal showed that 199 bags of bulgur (9,950 lbs.) in damaged condition remained with the Railways since June 1980, and that the Railways had refused to deliver the commodities despite reminders from district authorities. In addition, the physical count certificate of Great Eastern Bakery showed that damaged stocks of 2,973 lbs. of S.F. Flour and 1,967 lbs. of milk powder remained at a bakery whose program was discontinued in August 1980. No efforts had been made by the CARE state office to retrieve these stocks and only on July 1, 1981 samples therefrom were sent for analysis. (Page XI-4).

(f) An emergency program conducted during 1977-78 in Assam state still showed a closing stock of 29,763 lbs. of rice. The quantity had not been removed from the inventory records because a utilization certificate had not been received from the state authorities even though the stock may have been used long back. (Page XI-6).

(g) The inventory position as of June 30, 1981 showed that 105,723 lbs. of S.F. Flour, 5,946 lbs. of peanut oil, and 6,870 lbs. of milk powder remained at the Aryan Bakery, Calcutta since April 1978. The bakery was closed on April 19, 1978 but the stocks had not been removed. The external auditors were informed that efforts were being made by the state government to take custody of the stocks with the assistance of the local police. The auditors felt that these stocks may have deteriorated and would probably be unfit for any use, and that a collectible claim should be lodged therefor. (Page XI-6).

(h) Reconciliation of stock-in-transit shown in the state physical count balance as on June 30, 1981 with unacknowledged dispatches per the records showed that: 22,500 lbs. of bulgur wheat dispatched to Darjeeling district on June 30, 1981 were stated to have been received by them which was highly improbable considering the distance from the port; total stock in transit from shipment No. 835, Robert E. Lee, per the shipment register was 71,350 lbs. whereas per the state physical count report it was 71,200 lbs. and no combination of dispatches in the former record added up to 71,200 lbs.; dispatches of 35,000 lbs. of bulgur to Malda district on December 29-30, 1980 still appeared in transit as of June 30, 1981 and no explanations were available for these dispatches remaining in transit for over six months; and 3,465 lbs. of oil, out of 10,395 lbs. dispatched to Midnapore district on May 19, 1981 were shown as in transit, and no explanation was available as to how a part of the truckload could remain in transit. (Page XI-8).

(i) While checking the postings of loading advices to the shipment register in West Bengal, the external auditors noted some differences. One instance cited in their report showed that against dispatches of 800 bags of bulgur wheat per the shipment register on June 1, 1981, the loading advices showed dispatches of only 625 bags on May 25, 1981, and the postings in the shipment register could not be substantiated with any documentary evidence. (Page XI-11).

(j) A stock of peanut oil (1,132 lbs.) was still available in two warehouses in West Bengal per physical count reports, and the fact that there has been no peanut oil shipments for more than one year showed that the first-in-first-out method of issuing stocks had not been followed. (Page XI-14).

(k) 83,424 lbs. of salad oil that arrived on February 27, 1981 by S.S. George Wythe was still at port in West Bengal. The delay in dispatch was caused by a failure of the state government to make prompt prepayment of handling charges to FCI even though most of the districts were short of oil stock during the last few months. The external auditors noted delays of upto 5 months in dispatch of commodities allocated to the pre-school feeding programs, resulting in irregular commodity flow, because of this reason. (Page XI-14).

Recommendation No. 32

The Director, USAID/India should: (a) reach agreement with CARE regarding submission of all future CARE/India external audit reports to USAID in accord with the provisions of Section 211.10(b), AID Regulation 11, and (b) determine and ensure that corrective action taken by CARE on above issues raised in their external auditors' report is adequate.

USAID and CARE Comments to our Finding on CARE's External Auditors' Report

USAID stated that if they are placed in a position of being required to monitor and ensure closure of recommendations made in CARE's self-financed external audit reports, an unprecedented interference in CARE's internal operations will result. They also felt that this type of monitoring function, in addition to their current monitoring responsibility, is not mandated by AID Regulation 11 or Handbook 9. USAID, therefore, strongly believed that Recommendation No. 32 be deleted.

CARE also disagreed with the recommendation. They said that CARE World Headquarters agreed to provide us a copy of the external audit report in keeping with their policy of voluntarily assisting USG representatives in their review of Title II activities. CARE, however, believed that AID regulations do not specifically assign to USAID or any other USG representative authority to require CARE to submit external audit reports for review nor to determine whether CARE has taken adequate corrective action thereon.

Audit Comments

We believe our recommendation is not unreasonable nor would its implementation cause any significant monitoring problems for USAID. CARE's external auditors conduct annual audits of the Title II program and point out problems with the use of USG provided commodities. We do not understand why CARE should object to sharing the report and information on subsequent corrective actions with USAID. Regarding the specific commodity accountability problems extracted from the recently issued external auditors' report and included in our report text, we fail to appreciate USAID's reluctance in ensuring that adequate corrective actions have been taken. Proper utilization remains a USAID concern no matter who points out the problem. Accordingly, we continue to believe that action on this recommendation is necessary.

H. MARKING AND PUBLICITY

CARE's compliance with Sections 211.5(g) and 211.6(c) of AID Regulation 11 regarding publicizing the U.S. source of commodities continues to be unsatisfactory.

331 of 357 beneficiaries we interviewed at 39 centers did not know that the PL 480 commodities were donated by the people of the U.S.A. We found no posters or other publicity materials at any of the centers visited by us. The beneficiaries identity cards in the MSNP program in Tamil Nadu gave recognition to only the state government and CARE, and no mention was made of the USG's contribution. Similarly, the stock accounting and reporting forms in use in Tamil Nadu and U.P., two of the three states visited by us, identified only CARE and the state governments' name without mentioning the U.S. source of the commodities. The same condition was observed in the forms in use at Andhra Pradesh (A.P.), another state which was visited by us in connection with another audit.

In the case of processed foods, such as Balahar and the ready-to-eat noodles at Andhra Pradesh, the packages did not identify the U.S. source of commodities nor did they mention that the food was not to be sold or exchanged. Similarly, the bread wrapper at Cuttack, one of the two bakeries visited, gave recognition only to CARE and the state government. Section 211.6(c) of AID Regulation 11 requires that repackaged food should identify the U.S. source on the new package.

Our previous audit of CARE (Audit Report No. 5-386-78-11 dated 4/25/78) also reported CARE's inadequate compliance. The related recommendation was closed on the basis of CARE's assurance to USAID that additional efforts would be made, and USAID's statement that they would review CARE's efforts during field visits. In addition, CARE also issued a circular in March 1978 to their state offices requiring, inter alia, that when any forms, coupons or booklets are to be printed, a statement about the U.S. source should be included. Our current review, however, disclosed that CARE's instructions were not implemented in two of the states visited. For instance, forms printed in January 1980 and July 1981 in Tamil Nadu and A.P., respectively, only identified the state government and CARE with the program. Similarly, the bread wrapper at Cuttack, Orissa did not mention the U.S. source.

We noted that CARE has often stated in their statements on publicity, e.g. in the circular mentioned above and the program plan, that it may not be possible to comply with this in some states because of political sensitivity and because some funds for the program are provided by the state governments. USAID was not convinced of this and in July 1978, they pointed out to CARE that the one state mentioned by them had specifically informed USAID that it had no problem with publicizing the U.S. source. Accordingly, USAID requested CARE to identify such states so that the matter could be discussed with them, but CARE has not provided the information requested. We too are not convinced by CARE's generalized statements and believe that since the USG contributes substantial resources for the Title II food distribution program, adequate publicity should be given thereto as required by AID regulations.

Recommendation No. 33

The Director, USAID/India should: (a) require CARE to comply with Sections 211.5(g) and 211.6(c) of AID Regulation 11 by taking adequate steps to accord public recognition that Title II commodities are furnished by the People of the United States; and (b) ensure during monitoring visits that adequate public recognition is being given to the U.S. source of the commodities as required. If CARE is still concerned about political sensitivities, USAID should obtain specific information about all such states, discuss the matter with them, and take such action as deemed appropriate on the basis of the discussions.

I. EMPTY CONTAINERS

1. Generation and Use of Funds

CARE's compliance with Section 211.5(i) of AID Regulation 11 was not entirely satisfactory. We found that two of the three CARE state offices we visited were either not receiving or only partially receiving the funds generated from sale of empty containers. They did not know if the funds retained by the state governments were used for authorized purposes. Moreover, our selective review of expenditures disclosed some questionable uses of container funds.

Empty containers are disposed of in the respective states and CARE state offices remit the sales proceeds to their New Delhi headquarters where central records are kept on the generation and use of container funds. We found that except in U.P., the other two CARE state offices had not maintained control records to show the total number of containers to be accounted for, the number sold, or the balance. Even U.P. had not started keeping such records until June 1980. Hence, we could not determine if empty containers had been properly accounted for. CARE's own external auditors also pointed out in their report that there was no evidence of a system to estimate the proceeds that should be realized from the sale of containers. They, therefore, could not determine if sale generations were reasonable.

Orissa State did not keep any records on the generation and use of container funds. The state government was selling containers and retaining the sales proceeds. CARE has neither required or received any reports on the generation and use of the funds, consequently we could not establish if all the funds were properly accounted for and used for authorized purposes. Related information obtained by CARE at our request showed that there was a balance of Rs. 1,002,876 ($111,431) available in this account as of October 31, 1981. Our selective review during field visits disclosed unauthorized uses of container funds. We also found that one of the two bakeries visited had not remitted any money to the state government as required, nor did it show us any records to enable us to determine the amount of funds generated. In the case of Tamil Nadu, CARE was not receiving container sales proceeds for part of the school feeding program. Such proceeds were being retained by the state government and, according to information provided to us, a sum of Rs. 726,858 ($80,762) had been realized from empty container sales during October 1978 to June 1981.

According to CARE headquarters records, the total container funds available during the audit period were about Rs. 8.1 million ($902,712) against which CARE had spent about Rs. 4.7 million ($517,884). Our selective review disclosed questionable uses of these funds for procurement of plastic sheets and garments for the flood victims, for part of construction costs of central kitchens and creches, and for the clearing and handling of commodities which the GOI is supposed to provide free of cost. Section 211.5(i) of AID Regulation 11 provides that container funds could be used for payment of program costs, such as transportation, storage, handling, insect and rodent control, rebagging of damaged or infested commodities, and other program expenses specifically authorized by AID. No AID approval was available for the use of container funds for the purposes mentioned above.

Recommendation No. 34

The Director, USAID/India should require CARE to either recover the container funds retained by state governments or develop and implement regular reporting and review procedures to establish that these funds are used for purposes authorized under Section 211.5(i) of AID Regulation 11. USAID should review the adequacy of corrective actions taken by CARE.

Recommendation No. 35

The Director, USAID/India should: review the admissibility of the expenditures of Rs. 4.7 million ($517,884) incurred by CARE during the audit period; and take the necessary action to either approve the expenditures which do not fall within the specified types mentioned in Section 211.5(i) of AID Regulation 11 or require CARE to restore unapproved amounts to the container fund account.

USAID and CARE Comments to our Finding on Empty Container Funds

CARE disagreed with Recommendation No. 34 stating that according to AID Regulations, they are obliged to ensure that funds accruing to them from the sale of empty containers are used for authorized purposes. They believe that since our recommendation concerns the use and reporting of funds accruing to entities other than themselves, CARE is not accountable for such funds.

USAID referred to CARE's contention that they cannot make the host government accountable for container fund proceeds which do not accrue to CARE. USAID stated that this matter was discussed with the Regional Legal Advisor who informally expressed his belief that CARE as a Title II cooperating sponsor would remain responsible for ensuring that proceeds from the sale of empty containers were used in accordance with AID regulations. Nevertheless, as his opinion was not formal, USAID believed that our recommendation should be modified to require a legal opinion on the extent of CARE's responsibility in this regard.

Audit Comments

Section 211.5h(2) assigns the container disposal responsibility to the cooperating sponsors and CARE has merely delegated this as well as other program functions to the state governments. We do not understand how CARE can claim that they are not accountable for such funds retained by the state governments. CARE continues to be responsible for ensuring that container funds are properly accounted for and used for authorized purposes. This is evident from Section 211.2 of AID Regulation 11 which states that cooperating sponsors are directly responsible for administration and implementation of and reporting on programs involving the commodities and/or funds. Hence, we do not believe it is necessary to obtain a legal opinion on this matter and have retained our recommendation.

2. Obliteration of Markings

Section 211.5h(2) provides that if the empty containers are to be sold for commercial use, the voluntary agency must arrange for removal or obliteration of USG markings from them prior to such sale. Accordingly, CARE has issued instructions to the concerned state governments but our field visits disclosed that generally the markings were not being obliterated, and many of the consignees and distribution centers were not even aware of the requirement. Thus, there is a need for greater effort to ensure that markings are obliterated or at least defaced prior to the sale of empty containers.

In March 1982, USAID suggested to AID/W that modifications be made in AID regulations on obliteration of markings to minimize the problems faced by cooperating sponsors in complying with it. AID/W has requested a General Counsel's opinion which had not been received at the time of finalization of this report.

<u>Recommendation No. 36</u>

Based on the AID General Counsel's determination, the Director, USAID/India should require CARE to take appropriate steps to comply with Section 211.5h(2) of AID Regulation 11 regarding the obliteration or defacing of markings on empty containers prior to their sale; and to include verification of compliance with this requirement during their field monitoring trips.

J. USAID/INDIA MONITORING

On the basis of our overall audit and review of USAID's administrative review reports, we have concluded that USAID's monitoring has not been satisfactory. We believe considerable improvement is required in administrative review techniques and reporting, and in follow-up on known deficiencies to make USAID's monitoring efforts effective.

According to Section 211.10(b)(4) of AID Regulation 11, the voluntary agencies' internal review reports are required to be used by USAID to assess the agencies' capability to effectively plan, manage, control and evaluate their programs. However, USAID's review of CARE's reports was perfunctory, they did not draw any conclusions about CARE's ability to effectively operate the program, and they have not followed up on the problems reported in the reports. Similarly, USAID has routinely authorized write-off of losses and has not effectively monitored or taken action to ensure CARE's compliance with Section 211.6 of AID Regulation 11 relating to processing agreements.

USAID's Food for Development Office (FFD) conducts administrative reviews, including field visits, of the Title II programs. FFD has an Evaluation Branch, staffed with four local nationals, who are responsible for conducting administrative reviews. No such reviews of the CARE program were made in FY 1979. During FY 1980 and FY 1981, however, 3 and 11 CARE administrative reviews, respectively, were made but no American personnel participated in any of the field work during these reviews. Our review of the USAID reports disclosed generally that the findings were not fully developed, information furnished was incomplete, conclusions were not supported, and many important program areas were not covered. For instance, the reports generally did not mention if the actual food distribution was observed or the reasons why it was not observed, and whether or not the feeding operation on the day of visit was compared with the distributor's past claims. In the case of losses and damages, the reports merely gave statistics regarding the number of losses reported to CARE during the period, the number of claims pending and settled as collectible or uncollectible. No information was given about the propriety of treating the claims as uncollectible. Similarly, the reports gave statistics of the field visits made by CARE during the review period followed by a statement that a cursory review of the visit reports revealed that a fairly satisfactory system was in force or that the reports contain adequate details on all aspects of the program. No mention was made about whether or not deficiencies were being followed up. In the case of accounting records of the centers, it was generally stated that they were well-maintained or up to date, but no information was given whether or not they were accurate and in agreement with the attendance records.

We analyzed six administrative review reports prepared by USAID on the CARE program during December 1980 to February 1981. We found that out of the 71 distribution centers visited by USAID, there was no indication that actual feeding was observed or head counts were made at any of them. Similarly, there was no mention of whether storage facilities were examined or whether a physical count of stocks was made at any of the centers and tallied with the book balances. Inquiries regarding the source of the program commodities were made at only 6 of the 71 centers and other program areas like container records, obliteration of markings and adherence to ration rates, were not covered in the reports. Thus, the usefulness of the reviews is highly questionable.

FFD did not have any workpapers in support of their reviews, nor did they have any checklist to be used for each program level to be reviewed. FFD mentioned, in a memo dated February 20, 1981 to the USAID Director, the guidelines they would follow in conducting these reviews. Therefore, in order to determine that subsequent administrative reviews were made in accordance with these guidelines, we reviewed two reports, on Maharashtra and Madhya Pradesh, which were issued after the date of the FFD memo. Our review disclosed that most of the questions were not answered or the answers were incomplete. For instance, in the case of the 8 schools visited, 8 of the 12 questions were not answered for any center and the remaining questions were answered for only a few of the centers. Similarly, in the case of 5 MCH centers and 4 blocks visited, 6 of the 15 questions and 15 of the 21 questions, respectively, were not answered at all. The remaining questions were answered for only some of the centers or blocks visited. FFD personnel informed us that answers to all the questions may not have been included in their reports as it may have been considered unnecessary. However, since they did not have any supporting documentation, we could not determine whether or not their reviews covered all the specified areas. Considering that all those areas were pertinent, we see no reason why the related information was considered unnecessary for the report. For instance, amongst the areas not covered in the reports at the block or center levels were: criteria for the selection of beneficiaries and determining their nutrition status; selection of malnourished children and their number; local community support and other inputs; how many beneficiaries were girls and scheduled castes and tribes; benefits and impact of the program; visits by CARE representatives; adequacy of storage space and practices; accounting and reporting of losses; and disposal of empty containers and the related use of the funds generated.

Finally, we noted that USAID had forwarded copies of their reports to CARE but generally did not follow up on them to determine what action CARE had taken on the problems found. Our visit to the three states disclosed that action was taken on 8 of the 15 problems reported in USAID reports. USAID informed us that they request CARE to provide written comments at the time the reports are sent to CARE, but they do not follow-up and leave it up to CARE to determine precisely the corrective actions to be implemented by them.

In sum, on the basis of our audit and the inadequacies in USAID's review techniques, reporting and follow-up, we concluded that USAID's monitoring has not been satisfactory. It appeared to us that the reasons for this are USAID's misdirected emphasis towards more coverage rather than on making a meaningful review to determine the effectiveness or otherwise of the program operations, inadequate training of the staff engaged in these reviews, and ineffective control over the work actually performed by the staff in the field. We believe such superficial reviews are meaningless and they do not justify the manpower and funds spent on them.

Recommendation No. 37

The Director, USAID/India should reexamine the current monitoring efforts of FFD and take such action as is necessary to improve their scope, coverage, reporting and follow-up. As a minimum, USAID should require coverage and reporting on all the important program areas, such as observation of food distribution and comparison with the distributors' past claims, review of storage facilities and physical counts of stock, losses and damages plus a comparison of actual feeding levels and eligibility status with approved plans. For this purpose, USAID should develop and use a standard checklist for conducting their administrative reviews, and also require preparation and retention of supporting workpapers in support thereof.

(USAID advised that they are taking corrective action to improve the quality of their administrative reviews, including the development of a checklist and therefore have no objection to this recommendation.)

INDIA - CARE PROGRAM AUDIT - REPORT NO. 82-7

LOSS SUMMARY AND AUDIT COMMENTS ON EXAMPLES OF LOSSES IMPROPERLY TREATED AS UNCOLLECTIBLE ORISSA STATE, INDIA

Loss No.	CUR No. and Approval Date	Commodity	Quantity (lbs.)	Value
1	F-476 12/ 4/79	R.P. Oil	7,980	$ 4,841

7,980 lbs. of oil was reported to be a reconstitution loss which occurred at Puri District godown in April 1977. According to the justification provided by CARE, a large oil shortage was detected at the Puri district godown during April 1977, and that shortage was not reported to CARE/HQ as the Government of Orissa (GOO) was investigating the matter. Thereafter, in spite of several reminders (6 times during 7/77 to 1/78) and personal requests, the GOO did not provide an investigation report to CARE in time. The report was finally received in July 1979 and indicated that there were 432 oil cartons which were in a soaked condition at the time the outgoing storage agent handed over the stock of 5,468 cartons to a new storage agent. Later, the new storage agent found that 1,052 cartons were in soaked condition. District officials did not take up the reconstitution immediately which resulted in heavy leakage. When the reconstitution of 1,052 cartons was done in April 1977, 7,980 lbs. of oil were found short. The GOO investigated the loss and requested CARE/O to treat the claim as uncollectible, which they did. CARE justified the write-off "as a special case" because of the GOO request and because the claim was an old one.

USAID approved the CUR even though the justification was not sound, and without even ascertaining how the number of oil soaked cartons increased from 432 to 1,052 after the stock was taken over by a new storage agent. The state government and the storage agent were clearly responsible for the loss, yet the loss was written-off as uncollectible.

Loss No.	CUR No. and Approval Date	Commodity	Quantity (lbs.)	Value
2	G-653 4/21/81	R.P. Oil	112,313	$68,048
3	G-658 4/21/81	SFB	38,809	$ 6,468

According to the justification furnished by CARE, the indicated qunatities were short at the Cuttack district godown during early 1977. The GOO had appointed a cooperative of 12 unemployed graduates as storing and transporting agent for the Cuttack district. The cooperative's contract period was over on March 31, 1977 and a new agent was appointed from April 1, 1977. CARE stated that: "Due to some unavoidable circumstances, "the cooperative failed to hand over the stock to the new agent despite the GOO order (no explanation was given as to what those cirucmstances were). Meanwhile, a theft occurred at the godown on April 28, 1977 and the cooperative lodged a complaint with the police on the next day. While investigating the theft, the police arrested some persons and recovered 337 cartons of oil. Later, the police entrusted the case to the GOO's Special Crime Branch, and the case was still pending in a court of law when CARE requested USAID's approval for the write-off of 112,313 lbs. oil and 38,809 lbs. SFB, the quantities which were found short by an audit made by the GOO Special Officer.

CARE/O initially filed a collectible claim but later decided to write it off in November 1980 on the basis that: "Since the criminal case is going on and it is not possible to realize the cost of the commodity either from the storing agent or from the State Government we suggest to treat the above two claims as uncollectible."

Thus, CARE's justification did not elaborate on the "unavoidable circumstances" due to which the stock could not be handed-over by the cooperative, or what became of the 337 cartons seized by the police. Besides, the Court's decision was still pending. Yet, USAID approved the CUR without seeking any explanation, and despite the fact that the state government was responsible for the loss caused by their storage agent.

Loss No.	CUR No. and Approval Date	Commodity	Quantity (lbs.)	Value
4	G-131 10/14/81	SFB	25,898	$4,316
5	G-131 10/14/81	SFB	15,370	$2,562

41,268 lbs. of SFB were short delivered by the railways and the shortage was entered in the station delivery book. The GOO filed claims against the railway authorities on 2/19/79 and later routinely sent two reminders on 6/21/79 and 5/26/80. The railways did not respond, and CARE treated the shortage as uncollectible since they said the GOO could not be held responsible.

Loss No.	CUR No. and Approval Date	Commodity	Quantity (lbs.)	Value
6	Z-261 10/13/81	SFF	46,700	$8,665
7	Z-261 10/13/81	SFF	3,300	$ 612

46,700 lbs. (934 bags) of SFF were found damaged and 3,300 lbs. (66 bags) short out of a consignment of 1,000 bags made in July 1979 (i.e. the entire consignment was lost). Although the consignment was made in July 1979, the railways delivered it after about five months in November 1979. The railways granted a shortage certificate for the 66 bags and requested the district authorities to get the contents of the 934 bags analyzed. This was done and the stock was found unfit for human consumption. Initially, the railways did not agree that the stock was unfit and wanted it to be so certified by the railway doctor. Later, they agreed about the stock's unfitness but in their Shortage/Damage certificate of 12/31/80, they stated that: (a) although unfit for human consumption, the stock was fit for poultry feed and all the 934 bags were removed by the consignee; (b) the stock was donated by the USA and the consignee did not produce any invoice (beejuck) to show the value of the stock; and (c) the railway receipt had remarked that the paper packets are liable to burst and be damaged in transit.

Loss No.	CUR No. and Approval Date	Commodity	Quantity (lbs.)	Value

None of the reasons furnished by the railways was acceptable. Moreover, according to the claim, all 934 bags "were found watermarked (and) contents discoloured," and they were not burst or torn. Finally, the railways delayed the delivery by almost five months. Yet, the claim was written-off as uncollectible after two reminders.

8	F-830 4/21/80	Oil	25,225	$10,538

25,225 pounds of salad oil was found to be missing from a shipment which arrived on May 18, 1979. This shortage was notified to Paradip Port Trust (PPT) on June 27, 1979 within the port liability period. CARE/O sent a notice of claim to PPT and followed it up by sending reminders. PPT did not respond, and the loss was treated as uncollectible.

9	G-40 8/21/80	SFB	64,400	$10,733

64,400 pounds of SFB was missing/damaged out of a shipment arrived in April 1979. The loss occurred due to poor handling/storage practices and inadequate security measures at PPT, and it was detected within the port liability period. CARE/O sent a claim notice followed by a reminder. The claim was repudiated by PPT stating that the cargo was lying at the risk and responsibility of the consignee, and CARE/O treated it as uncollectible.

Loss No.	CUR No. and Approval Date	Commodity	Quantity (lbs.)	Value
10	G-41 8/21/80	SFB	102,978	$ 17,163
11	G-40 8/21/80	SFB	28,272	$ 4,712
12	G-41 8/21/80	SFB	12,600	$ 2,100
13	G-41 8/21/80	SFB	2,600	$ 433

146,450 pounds of SFB was lost out of a shipment which arrived in May 1979. Of this, 131,800 lbs. were missing and the remaining quantity was damaged. The loss occurred due to poor security measures and improper handling at PPT, and it was detected within the port liability period. PPT again repudiated CARE/O claim saying that the cargo was lying at the risk and responsibility of the consignee, and CARE/O treated it as uncollectible.

Loss No.	CUR No. and Approval Date	Commodity	Quantity (lbs.)	Value
14	G-130 10/14/80	SFB	77,100	$ 12,850
15	G-130 10/14/80	SFB	18,300	$ 3,050
16	G-130 10/14/80	SFB	8,600	$ 1,433

This loss of 104,000 lbs. of SFB, out of a shipment arrived in November 1979, comprised of shed damage of 8,600 lbs., reconstitution loss/spillage 18,300 lbs., and shed sweepings of 77,100 lbs. The loss occurred due to improper handling and insecure storage conditions at PPT transit shed, and because of slow movement of stock. CARE issued a claim notice to PPT and sent the routine reminders, but PPT did not respond.

Loss No.	CUR No. and Approval Date	Commodity	Quantity (lbs.)	Value

According to CARE's documents, the port had imported about 60,000 MT of urea during this period and as per the GOI priority, the urea moved out first, thereby causing heavy delay to the Title II stock. Added to this situation, there was quite a pilferage of bags from the transit shed. Moreover, the transit shed itself was insecure and unfit for storage. CARE stated that their port officer had time and again brought this to the notice of PPT, and the matter was even brought up in the quarterly trade review meeting. Despite this, CARE justified the write-off of this loss on the grounds that they could identify no single reason/person responsible for the loss/damage.

17	G-753 4/22/81	CSM	93,200	$19,365

93,200 pounds of CSM were found missing in November 1980 after completion of the despatches from a shipment which arrived in May 1980. According to CARE's report, the loss was due to pilferage at the port shed which happens frequently. No claim was filed as the shortage was detected after the expiry of the port liability period. The delay in despatches of the commodity was stated to be due to the non-availability of wagons. CARE wrote-off this shortage because of delayed despatches caused by non-availability of wagons and as cases of pilferage were quite frequent at the port, for which no single person could be held responsible.

18	G-752 4/22/81	SFB	245,916	$40,986
19	G-752 4/22/81	SFB	80,784	$13,464

245,916 pounds of SFB were available in the form of sweepings upon completion of deliveries. This was a marine loss, but it was later classified as a port interior loss as the surveyors could not submit

Loss No.	CUR No. and Approval Date	Commodity	Quantity (lbs.)	Value

their ex-tackle reports for unspecified reasons. In addition, 80,784 pounds of SFB was found missing due to high pilferage of bags from PPT sheds. CARE stated that the loss occurred due to pilferage and inordinate delay in despatches, which were reasons beyond any one's control. Hence, no claim was filed and the loss was treated as uncollectible.

20	G-329 4/10/81	SFB	85,400	$14,233
21	G-329 4/10/81	SFB	69,950	$11,658

69,950 lbs. of SFB was found short upon completion of delivery of a shipment arrived in December 1979. In addition, 85,400 lbs. (and another 2,950 lbs.) were found damaged in PPT Transit Shed No. 1. Available documents attributed the loss due to labor unrest, bad handling by the labor, and slow movement because of non-availability of wagons due to some differences between the railways and PPT. The loss was treated as uncollectible as CARE stated that they could not hold anyone responsible for it.

22	G-654 4/21/81	SFB	99,400	$16,567
23	G-654 4/21/81	SFB	30,850	$ 5,142

This stock was damaged due to heavy moisture contact because no dunnage was provided in the PPT transit shed (30,850 lbs.), and as the reconstitution was delayed due to labor disputes and a lack of laborers. Slow movement due to a shortage of railway wagons and restrictions placed by the railways on stock movement to some districts was also cited as a reason. CARE's report also stated that added to all these reasons, pilferage of bags from sheds continued unchecked. CARE stated they had brought this to PPT's notice time and again, but with not much effect. Because of this and as the loss was detected after the free time period, CARE said no single person could be held responsible for the loss.

Loss No.	CUR No. and Approval Date	Commodity	Quantity (lbs.)	Value
24	G-39 8/21/80	SFB	12,187	$ 2,031
25	G-39 8/21/80	SFB	23,450	$ 3,908
26	G-39 8/21/80	SFB	15,497	$ 2,583
27	G-39 8/21/80	SFB	116,753	$19,459

167,887 lbs. of SFB was found missing on June 25, 1979 from PPT Transit Shed out of a shipment which arrived in February 1979. In response to CARE/O's claim notice, PPT stated that the cargo, although stored in the port area, was not handed over to the port trust into its custody and the PPT did not hold the cargo under its charge as a bailee, and as such no claim can be admitted. PPT further stated that as the cargo was handled on board the ship by the stevedores and it was taken charge of by the GOO's handling contractors, the responsibility therefor vested with them and CARE should ask them about the loss. CARE merely wrote-off the loss as uncollectible stating that they cannot hold the state government responsible for it.

28	F-930 4/9/80	SFB	19,000	$ 2,512

19,000 lbs. of SFB, received in June 1979 from a shipment that arrived in April 1979, was found damaged at the Nimapara Block of Puri District. CARE's report stated that most of the bags from this shipment were soaked in saline water during sea journey. CARE/O files contained no information as to why this was not discovered at the time of survey and included in the marine loss.

Total Losses in Pounds 1,482,832

Total Value of Losses $ 310,432*

*Loss values were stated in terms of Indian Rupees and were converted to dollars at the rate of Rs. 9 to $1.

INDIA - CARE PROGRAM AUDIT - REPORT NO. 82-7

DETAILS OF 30 ADDITIONAL CASES OF LOSSES/ DAMAGES REVIEWED

Loss No.	CUR No.	Approval Date	Commodity	Quantity (lbs.)	Value ($)
1	F-961	6/23/80	S.F. Bulgur	93,240	13,147
2	F-975	6/23/80	S.F. Bulgur	65,800	9,278
3	F-984	6/23/80	C.S.M.	49,250	9,259
4	F-1001	6/23/80	C.S.M.	37,250	7,003
5	F-1023	6/23/80	Milk Powder	96,000	21,984
6	G-26	8/21/80	C.S.M.	66,700	15,141
7	G-64	8/21/80	S.F. Bulgur	76,407	13,830
8	G-62	8/21/80	S.F. Flour	37,450	7,565
9	G-170	10/14/80	S.F. Bulgur	249,400	45,141
10	G-93	11/ 4/80	S.F. Bulgur	615,200	111,351
11	G-267) G-268)	4/10/81	Wheat	178,334 223,124	15,158 18,966
12	G-365	4/10/81	S.F. Bulgur	81,200	14,697
13	G-322	4/10/81	Balahar	216,914	33,405
14	G-431	4/10/81	Bulgur Wheat	124,838	22,346
15	G-309	4/10/81	Bulgur Wheat	95,800	17,148
16	G-649	4/21/81	Salad Oil	96,411	50,712
17	G-691	4/21/81	Wheat	823,272	69,978
18	G-260	4/21/81	C.S.M.	207,250	47,046
19	G-259	4/21/81	S.F. Bulgur	211,100	38,209

Loss No.	CUR No.	Approval Date	Commodity	Quantity (lbs.)	Value ($)
20	G-247	4/21/81	S.F. Bulgur	155,084	28,070
21	G-238	4/21/81	S.F. Bulgur	144,200	26,100
22	G-634	4/21/81	S.F. Bulgur	59,896	10,841
23	G-223	4/21/81	Balahar	146,918	22,625
24	G-468	4/21/81	C.S.M.	90,400	20,521
25	G-782	4/22/81	Salad Oil	56,210	29,567
26	F-1059	7/ 8/80	Salad Oil	196,581	90,034
27	G-706	4/22/81	Salad Oil	28,098	14,780
28	G-707	4/22/81	Salad Oil	23,654	12,442
29	G-614	4/21/81	Salad Oil	138,877	73,049
30	G-617	4/21/81	Salad Oil	63,849	33,585
			Total	4,748,707	942,978

INDIA - CARE PROGRAM AUDIT - REPORT NO. 82-7

DETAILS OF COMMODITIES UNACCOUNTED FOR AND DEFICIENCIES IN CONSIGNEES STOCK RECORDS

	SFB Bags	Balahar Bags	Oil Tins
1. Commodities Unaccounted for	636	2,457	1,722

Manachannalur Block - Stock records for programs other than the MCH program were not available prior to July 1980 and for the MCH program, prior to January 1981. During our several visits to the Block we were told that the records were in a record room, and that the concerned clerk was on leave. Hence, in the absence of the stock records, 3,093 bags of SFB and Balahar and 287 cartons of oil remained unaccounted for as follows:

Program	Period	SFB/Balahar	Oil
Social Welfare	10/78 - 6/80	656 Bags	350 Tins
RDLA	10/78 - 6/80	1,858 Bags	1,040 Tins
MCH	10/78 -12/80	579 Bags	332 Tins
		3,093 Bags	1,722 Tins

For the later periods, memorandum records showing commodities received from the Range and distributed to various centers were kept. We found several deficiencies in these records, such as recipients' acknowledgements were not obtained in some cases in the space provided therefor, blank acknowledgements of recipients were obtained, requested rather than the actual quantities were shown as received and distributed, separate accounts were not kept for SFB and Balahar, and there were many overwritings and alterations which were not initialled either by the recipients or the Block officials.

	SFB Bags	Balahar Bags	Oil Tins
2. Commodities Unaccounted for	44	655	376

Athoor Block: The unaccounted quantity was as follows:

(a) The Block received commodities for the MCH program and a voluntary agency (Gandhi Gram Children Home) program. No stock records were kept for the voluntary agency program until April 1981. During October 1978 to March 1981, the Block received 1,344 bags of SFB/Balahar and 696 tins of oil for this program. Of these, we could verify the receipt of 703 bags of SFB/Balahar and 377 tins of oil in the volagency stock register for the period January 1980 through March 1981. The stock register for the remaining 642 bags of SFB/Balahar and 319 tins of oil relating to the period October 1978 to December 1979 was not available either with the Block or the volagency.

(b) The Block did not have stock records for 19 bags of SFB and 32 tins of oil received from the Range for the MCH program in July 1979 and February 1980.

(c) There were differences between the Range issues and Block receipts whose net effect was the short receipt of 2 bags of Balahar and 3 tins of oil shown in the Block records.

Thus, on an overall basis, there were 663 bags of SFB/Balahar and 354 tins of oil which remained unaccounted for at the Block level. In addition, 36 bags of SFB/Balahar and 22 tins of oil remained unaccounted for at two of the centers visited because stock records were not made available for our verification.

Apart from the commodities unaccounted for, the Block's records were found deficient in several other respects. For instance, the Block had kept only distribution registers and not regular stock records; there were alterations and overwritings not initialled by anyone; two sets of distribution records were kept for one month and quantities therein differed from each other; and the centers acknowledgements were not always obtained. Moreover, prior to picking up the stock from the Range, the Block obtained the signatures of the Centers' officials against the quantities shown in the distribution register. If the quantities actually received from the Range were different, the Block showed the actual distributions made to the centers on the reverse side of its Acknowledgement Form. Thus, both these records showed different quantities and the distribution register was not accurate.

	SFB Bags	Balahar Bags	Oil Tins
3. Commodities Unaccounted For	2		7

Tiruverumbur Block - Stock records for the MCH program contained inaccuracies as disclosed by our selective review. For instance, the Block records showed a receipt of 58 bags of bulgur and 37 tins of oil against the Range issues of 60 bags and 40 tins, respectively, during March and April 1981. The Block had, however, signed for the full quantity in the Range records. Thus, 2 bags of bulgur wheat and 3 tins of oil (or 3% and 8%, respectively of these issues) remained unaccounted for and an adequate explanation was not available. In addition, we also noted discrepancies in the oil quantities issued to the feeding centers. The Block's consolidation of the centers' monthly reports showed the receipt of only 33 tins of oil during March and April 1981 while the Block had issued 37 tins for which the centers had signed for in the Block records. Thus, 4 tins, or about 11%, of the oil issued remained unaccounted for and again, no explanation was available. These differences between the quantities signed for and those actually received also indicated the prevalence of an improper practice of signing blank or incorrect acknowledgements both at the Block level and at the feeding centers.

	SFB Bags	Balahar Bags	Oil Tins
4. Commodities Unaccounted for			13

Tirumangalam Block - The Block had distribution records but here again our selective review disclosed that an improper practice of obtaining blank or incorrect acknowledgements had been followed. For instance, the Block acknowledged having received only 42 tins of oil against the 54 tins which the Range showed as having issued to it in September 1981 and for which the Block had signed in the Range records. Block officials told us that although they had signed for 54 tins they were actually issued only 42 tins by the Range and the remaining 12 tins were to be issued later. The Range, on the other hand, told us that all 54 tins had been issued to the Block. Thus, 12 tins, or 22%, of the oil issued remained unaccounted. Similarly, the Block's consolidated statement of feeding centers showed a receipt of 71 tins of oil by them against the 72 tins claimed to have been issued by the Block. The difference of 1 tin was because one center acknowledged only 3 tins in the monthly report against the 4 tins for which the centers' incharge had signed in the Block's records.

Total Commodities Unaccounted for:	SFB Bags	682
	Balahar Bags	3,112
	Oil Tins	2,118

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Recommendation No. 4 The Director, USAID/India, should ensure that CARE's FY 1984 program plan provides for a refocussing of PL 480 Title II commodities for school feeding to the poorest areas where school enrollment is lowest within those states where Title II assistance is being provided.	15
Recommendation No. 5 The Director, USAID/India, in collaboration with AID/W and CARE, should promptly negotiate a formal plan with the GOI that provides for a progressive phase-over of the current school feeding program to a program implemented entirely with indigenous resources. The plan should consider progressively transferring 20 percent of the programming responsibilities each year starting in FY 1983. If the GOI does not plan to support the program with indigenous resources, the Director should consider a more rapid phase-out of total USG support during FY's 1983 and 1984.	17
Recommendation No. 6 The General Counsel, AID/W should review the loss data described in Exhibit A and the documentation provided under separate cover for the losses listed in Exhibit B and determine for each loss if a legal basis exists to justify a write-off of the loss or whether claim action is legally required under the provisions of AID Regulation 11.	28
Recommendation No. 7 If it is determined that the above losses were improperly written-off, the Director, USAID/India should require examination of all losses that were treated as uncollectible during the audit period, and require CARE to obtain refunds from the concerned state governments for all such losses that are determined to have been improperly written-off. If CARE is unable to obtain refunds from the state governments, USAID should issue a bill-for-collection to CARE for the value of such losses.	28

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Recommendation No. 8

The Director, USAID/India, in conjunction with CARE and the GOI, should develop procedures to reduce Title II commodity losses by clearly establishing that GOI instrumentalities or state governments are liable for losses that occur while commodities are in their respective custody, and to have them reimburse the value of commodities lost due to reasons other than an Act of God. USAID should formalize these procedures in an addendum to the Indo-U.S. Agreement which governs the PL 480 Title II program in India. 28

Recommendation No. 9

The Director, USAID/India should require discontinuation of the practice of using preprinted forms for approval of CURs, and require the appropriate USAID officials to expressly state on each CUR the basis for determining a loss as uncollectible. USAID should develop internal review procedures to ensure that each CUR approved in the future fully describes the reason and the basis for the loss write-off. 28

Recommendation No. 10

The Director, USAID/India should require CARE to: (a) submit a report on all currently pending losses or damages alongwith the action taken and the current status thereof within 120 days of the issuance of this report; and (b) develop and implement procedures that would ensure that all future losses are promptly reported to them by their state offices and, in turn, to USAID. 32

Recommendation No. 11

The Director, USAID/India should require CARE to recover Rs. 393,231 ($43,693)* from the state government of U.P. and refund that amount to USAID within 60 days of the issuance of this report. If CARE is unable to recover the money within this period, USAID should issue a bill-for-collection to CARE for the $43,693.* 36

*Plus any ocean freight.

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Recommendation No. 20

The Director, USAID/India should require CARE to: (a) perform a full scope internal review for CY 1982; (b) retain adequate workpapers in support of all such reviews; (c) include in their report specific statements about the scope and extent of their review, and actionable recommendations on the deficiencies found; and (d) develop and implement a follow-up system to ensure that corrective actions are taken on the recommendations and that adequate documents are available in support thereof. 60

Recommendation No. 21

The Director, USAID/India should: (a) determine a minimum frequency for internal reviews and, in conjunction with the voluntary agencies, formalize a mutually agreed upon schedule for performance of the internal reviews and submission of reports thereon to USAID; and (b) provide copies thereof and of the approved internal review procedures to AID/W as required by Section 14E3 of AID Handbook 9. 60

Recommendation No. 22

The Director, USAID/India should develop and implement internal monitoring procedures that will ensure that: (a) the requirement for internal reviews is fully met by the voluntary agencies; (b) the internal review is conducted in accordance with approved procedures and that it covers all areas of the Title II program; and (c) follow-up is made to determine that corrective action has been taken on recommendations made in the report. 60

Recommendation No. 23

The Director, USAID/India should: obtain a current list of all processed food programs being operated; verify whether or not CARE has valid agreements for all such programs and that the agreements contain all the provisions required by Section 211.6 of AID Regulation 11; and require CARE to execute any required agreements that are not currently available and to incorporate any required provisions that are missing from the existing agreements within 90 days of the issuance of this report. 64

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Recommendation No. 24

The Director, USAID/India should develop and implement follow-up controls to ensure that CARE complies with requirements of Section 211.6 of AID Regulation 11 in the future. 64

Recommendation No. 25

The Director, USAID/India should ensure that (a) CARE's termination plans for the bakery in question are carried out, (b) any stock balances that remain in the bakery's inventory are transferred to other programs; and (c) a final accountability for the Title II commodities provided to this bakery during the audit period is prepared showing whether the unexplained inventory differences found during our visit were satisfactorily resolved. 71

Recommendation No. 26

The Director, USAID/India should include the review of bakeries and other processed food programs' facilities and operations in the Mission's monitoring of the CARE program. 71

Recommendation No. 27

The Director, USAID/India should instruct CARE to: (a) take appropriate steps to improve the storage and other conditions at the two Sev plants; (b) develop and implement monitoring procedures to establish the reasonableness of Sev yield in relation to the commodity inputs; and (c) include appropriate provision for milling losses in the Panjeree contracts after establishing their propriety, and also require the contractors to keep records of SFB quantities milled and the related actual milling losses. USAID should require CARE to furnish a report on the actions taken on these matters and verify the adequacy of the actions taken. 74

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USAID/India	
Director	10
AID/W	
Deputy Administrator (DA/AID)	1
Bureau For Asia	
Assistant Administrator (AA/ASIA)	2
Office of Bangladesh and India Affairs (ASIA/BI)	1
Audit Liaison Officer	1
Bureau For Food For Peace and Voluntary Assistance	
Assistant Administrator (AA/FVA)	2
Office of Food For Peace (FVA/FFP)	3
Audit Liaison Officer	1
Bureau For Technology and Science	
Office of Development Information and Utilization (T&S/DIU)	4
Bureau For Management and Budget	
Office of Evaluation (MBB/E)	1
Office of Financial Management (MBB/FM/ASD)	1
Bureau For External Relations	
Office of Legislative Affairs Office (EXRL/LEG)	1
IDCA Legislative and Public Affairs Office	1
Office of the General Counsel	1
Office of the Inspector General:	
Inspector General (IG)	1
Communications and Records Office (IG/EMS/C&R)	12
Policy, Plans and Programs (IG/PPP)	1
Regional Inspector General for Audit:	
RIG/A/W	1
RIG/A/Nairobi	1
RIG/A/Manila	1
RIG/A/Cairo	1
RIG/A/Panama	1
OTHER	
Regional Inspector General for Investigations and Inspections (RIG/II/Karachi)	1
New Delhi Residency	3