Audit Report on

P.L. 480 Title II Program in the Philippines

USAID/Philippines

AUDIT REPORT NO. 2-492-83-08
JULY 29, 1983

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EXECUTIVE SUMMARY

P.L. 480, Title II commodities are distributed in the Philippines under a 1956 agreement between the Governments of the United States and the Republic of the Philippines. The agreement provides for the duty-free entry of commodities and Government of the Philippines (GOP) payment of all storage and transportation costs within the Philippines. Catholic Relief Services (CRS) and Cooperative for American Relief Everywhere, Inc. (CARE) are the registered nonprofit U.S. Voluntary Agencies (VolAgs) distributing the P.L. 480 Title II commodities in the Philippines. Both VolAgs use Transport Contractors, Inc. (TRANSCON) for freight forwarding services within the Philippines.

For FY 1983, the Philippine P.L. 480, Title II program was approved for 1,689,300 recipients with Targeted Maternal and Child Health Programs (TMCHP) covering 709,300 recipients and School Feeding Programs (SFP) covering 980,000 recipients. This was an 18 percent reduction in recipients from FY 1982 levels. Current plans call for reductions to continue until FY 1987 when the Philippine program is expected to be phased out. The following commodities were programmed for FY 1983:

Commodity	Metric Tons	Approximate CCC Value
Bulgur Wheat	3,298.0	$887,162
Corn Soya Milk	23,565.1	10,062,298
Flour	7,153.6	2,117,466
Non-Fat Dry Milk	6,101.3	671,143
	40,118.0	$13,738,069

The audit was conducted to: (a) determine if the P.L. 480, Title II program in the Republic of the Philippines is being operated in compliance with U.S. laws and AID regulations; (b) assess USAID/Philippines management of the P.L. 480 program in the Philippines; and (c) assess the adequacy of internal controls over P.L. 480 commodities from the time of their arrival in the Philippines until distributed to recipients.

RIG/A/Manila last reviewed the PL 480 Title II program in the Philippines in 1979. Since then there has been an audit by CRS/New York (April 1981) and an evaluation by AID/W (August 1982). This audit found that some of the problems identified by the prior audit reports are again problems.

The Philippine P.L. 480 Title II program is generally fulfilling its mission in accordance with law and regulation. However, we have identified several areas where improvements are needed. Generally USAID/Philippines needs to better supervise the VolAgs to ensure that they are meeting their responsibilities as Cooperating Sponsors. We found that: (1) both VolAgs had deducted unallowable costs from the proceeds of sales of unfit commodities (p. 5); (2) that CRS was unreasonably late in remitting proceeds to the U.S. Government from sales of unfit commodities (p. 7); (3) CRS was very late submitting required reports (p. 22); and (4) CRS accepted partial payment on a settlement of claims which had not been approved by USAID/Philippines or AID/W

(p. 14). We feel that USAID/Philippines must assert its program manangement authority to ensure that the VolAgs fulfill their responsibilities.

Other findings and recommendations relate to improvements needed in VolAg recordkeeping and controls over commodities (p. 16); settling claims for losses (p. 12); monitoring by USAID/Philippines (p. 15); and targeting of food assistance on the neediest of the needy (p. 18).

We presented 18 recommendations in the draft of this report which was provided to USAID/Philippines for comment. The Mission response documented actions adequate to satisfy ten recommendations which have therefore been deleted from this report. Other Mission comments have been considered and incorporated herein as appropriate.

We also had an exit conference with USAID/Philippines and the VolAg country directors on July 21, 1983. The results of discussions at that meeting and a subsequent letter from CRS have also been considered in finalizing this report.

BACKGROUND

The Agriculture Trade and Development Assistance Act of 1954, as amended, referred to as P.L. 480, is the statutory basis for the U.S. Food for Peace Program, which provides U.S. agricultural commodities for donation in friendly developing countries to (a) meet famine or other urgent or extraordinary relief requirements; (b) combat malnutrition, especially in children; (c) promote economic and community development through food-for-work projects; and (d) provide for the needy through nonprofit feeding programs.

P.L. 480 Title II commodities are distributed in the Philippines under a 1956 agreement between the Governments of the United States and the Republic of the Philippines. The agreement provides for the duty-free entry of commodities and Government of the Philippines (GOP) payment of all storage and transportation costs within the Philippines. Catholic Relief Services (CRS) and Cooperative for American Relief Everywhere, Inc. (CARE) are the registered nonprofit U.S. Voluntary Agencies (VolAgs) distributing the P.L. 480 Title II commodities in the Philippines. Both VolAgs use Transport Contractors, Inc. (TRANSCON) for freight forwarding services within the Philippines.

From FY 1979 to FY 1983 approximately $50 million worth of commodities have been brought into the Philippines. For FY 1983, the Philippine P.L. 480 Title II program was approved for 1,689,300 recipients with Targeted Maternal and Child Health Programs (TMCHP) covering 709,300 recipients and School Feeding Programs (SFP) covering 980,000 recipients. This was an 18 percent reduction in recipients from FY 1982 levels. Current plans call for reductions to continue until FY 1987 when the Philippine program is expected to be phased out. The following commodities were programmed for FY 1983:

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CRS

CRS has been involved in the Philippine Title II food distribution program since 1957, operating through the Ministry of Social Services and Development (MSSD) and the various Catholic dioceses throughout the country. Since the early 1970s, CRS has been primarily engaged in a Targeted Maternal Child Health Program (TMCHP) both to prevent and correct moderate and severe malnutrition in Filipino infants and pre-school children through age 5. Pregnant and lactating mothers are also recipients under this country-wide program. For FY 1983 CRS has approval for 384,300 TMCHP recipients. CRS's MSSD program also serves 200,000 recipients in Day Care Centers.

A third major CRS activity is a Targeted School Feeding Program (TSFP) providing nutribuns, a high calorie/protein/vitamin supplement, to correct weight deficiencies of primary school students. For FY 1983 this program, which is operated in cooperation with the Ministry of Education, Culture, and Sport (MECS), is expected to benefit 156,000 students in Metro Manila, Olongapo City, and Iligan City. In the past, CRS had Food-for-Work projects, but for FY 1983 commodities requested for 1000 workers and 4000 dependents were not approved because an AID evaluation recommended early phaseout of this program.

CARE

CARE has been operating in the Philippines since 1949 and has been distributing P.L. 480 commodities since the program began. Since the early 1970s, this agency has concentrated feeding programs on fighting malnutrition, especially among school children.

CARE's main activity is a School Feeding program operated in conjunction with the MECS. While CRS's school feeding program is limited to the three cities noted above, CARE operates in the rest of the Philippines. For FY 1983, CARE has an approved recipient level of 1,100,000 children. Of these, 715,000 recipients are to be served the nutribuns baked with U.S.-supplied flour, and 385,000 are to receive bulgur wheat. CARE in cooperation with the Ministry of Health also has 125,000 recipients in a Targeted Food Assistance program (essentially TMCHP).

PRIOR AUDITS/REVIEWS

In 1979 RIG/A/Manila issued separate audit reports on the CRS and CARE programs in the Philippines. Report number 2-492-79-8 dated May 14, 1979, entitled "Public Law 480, Title II -- Cooperative for American Relief Everywhere, Inc." included 11 recommendations for action by USAID/Philippines. Ten of the recommendations were closed in August 1979, but a recommendation concerning settlement of outstanding claims was not closed until August 1980. Of the deficiencies addressed by the 11 recommendations made in 1979, two concerning deficiencies in recordkeeping at distribution centers, and outstanding claims were found to again be problems (see pages 12 and 17).

The other report entitled "Public Law 480, Title II -- Catholic Relief Services" (Report Number 2-492-79-13 dated July 26, 1979) included 12 recommendations for improvements in the CRS program in the Philippines. All recommendations were cleared by March 1980. A significant problem of outstanding claims against the freight forwarder was reported in July 1979 and was again found to be a problem during this audit. In addition, problems of deficient recordkeeping and reporting by consignees were found to have reemerged (see pages 12 and 17).

In April 1981, CRS/New York issued "Report of Audit, CRS Philippines, Title II Food for Peace Program." This report contained 21 recommendations for improvements in planning/programming, program controls, and particularly commodity controls and claims resolution. CRS/Philippines made significant changes in organization, staffing, and procedures as a result of this report, but we found that end-use checks, claims resolution and prompt remittance to USAID of the proceeds from sales of unfit commodities were still problem areas.

In August 1982, AID/W issued A.I.D. Program Evaluation Report No. 6: "PL 480 Title II: A study of the Impact of a Food Assistance Program in the Philippines." The report concluded that the TMCH and Day Care programs brought about positive nutritional impact and were cost effective. School Feeding and Food for Work programs, on the other hand, were found not to be cost-effective and to have marginal nutritional impact.

SCOPE OF AUDIT

The audit was conducted to: (a) determine if the P.L. 480, Title II program in the Republic of the Philippines is being operated in compliance with U.S. laws and AID regulations; (b) assess USAID/Philippines management of the P.L. 480 program in the Philippines; and (c) assess the adequacy of internal controls over P.L. 480 commodities from the time of their arrival in the Philippines until distributed to recipients.

The audit scope covered activities since the last RIG/A/Manila audits in 1979 through April 1983. Emphasis was placed on current policies, procedures and practices. The audit was conducted at USAID/Philippines, CRS/Philippines, CARE/Philippines, TRANSCON Warehouses in Manila, and at selected sites in Regions V and VI (Bicol and Eastern Visayas). Program documents were examined and appropriate officials were interviewed at these loactions. As necessary, we solicited opinions from the Regional Legal Advisor (RLA) at USAID/Philippines. Because USAID/Philippines has no program responsibilities for the World Food Program Title II program in the Philippines, we did not review that program. The review was conducted in accordance with generally accepted auditing standards and included such tests and reviews as were considered necessary to fulfill the audit objectives.

NOTE ON EXCHANGE RATES

Because two of our findings relate to the exchange rate for the Philippine Peso and U.S. Dollar we have used a number of different exchange rates in this report. In all cases the exchange rate used by RIG/A is the disbursing rate established by the U.S. Disbursing Office (USDO) for that date. Where a date is not indicated we have used the April 15, 1983 exchange rate of 9.865 pesos per U.S. Dollar.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The Philippine P.L. 480, Title II program is generally fulfilling its mission in accordance with law and regulation. Since the RIG/A audits in 1979, approximately $50 million worth of commodities have been brought into the Philippines. Although we believe the great majority of the commodities reached intended recipients, we have identified several areas where improvements are needed. Generally USAID/Philippines needs to better oversee the VolAgs to ensure that they are meeting their responsibilities as Cooperating Sponsors. We found that: (1) both VolAgs had deducted unallowable costs from the proceeds of sales of unfit commodities; (2) that CRS was unreasonably late in remitting proceeds to the U.S. Government from sales of unfit commodities; (3) CRS was very late submitting required reports; and (4) CRS accepted partial payment on a settlement of claims which had not been approved by USAID/Philippines or AID/W. These concerns relate mostly to operation of the CRS program. As mentioned earlier, and detailed later, some of these same concerns were raised by CRS/New York's auditor in 1981. Although we feel no specific recommendation is warranted, it seems that USAID/Philippines should advise CRS/New York of the recurrent problems noted in this report and enlist the aid of that office in achieving effective corrective action.

SALES OF UNFIT COMMODITIES

In the operation of the P.L. 480 Title II program a portion of the food becomes damaged. Any commodity certified as "unfit for human consumption" (unfit) is to be disposed of by the VolAgs. AID Regulation 11 establishes procedures for disposal including its sale for animal feed. Proceeds from the sales accrue to the United States. VolAgs are allowed to retain actual expenses incurred in effecting the sale from sale proceeds.

With the approval of the former Food for Peace Officer, the U.S. Government has been paying storage fees for unfit commodities. CRS is also charging the U.S. for its regular employees' salaries for time spent on sales of unfit commodities. This is done by allowing the VolAgs to subtract these charges from the proceeds from the sale of the unfit commodities or by offsetting settled claims against TRANSCON and the forwarder's bills for storage of unfit commodities. This practice charges to the U.S. Government costs which are to be paid by the GOP. It also represents a serious fund control problem, since USAID/Philippines is effectively disbursing funds over which it has no disbursement authority.

Furthermore, CRS is not promptly remitting proceeds from the sale of unfit commodities to the USDO. As a result the U.S. Government does not have the funds available, the funds are not safeguarded by U.S. Government control, and since they are held in Philippine currency, which has been steadily devaluing relative to the U.S. Dollar, the eventual remittances are, or will be, significantly less than they should be.

Finally, CRS is using its Marine Survey firm to handle sales of unfit commodities. Fees paid to the surveyor are deducted from the sales proceeds. The use of the surveying firm results in excessive costs for effecting the sales. It also raises a question of conflict of interest since the firm was involved in deciding which commodities were unfit and then received a fee based on the sales price for those commodities.

Payment of Storage and Handling Fees For Unfit Commodities

Both CRS and CARE have paid the freight forwarder (TRANSCON) for storage fees for unfit commodities out of funds that belong to the U.S. Government. One method of charging these costs to the U.S. Government is to deduct them from the proceeds of the sale of the unfit commodities. Another method has been to reduce the amount of claims payments by the amount of charges for storage of unfit commodities. This results in the U.S. Government paying charges properly chargeable to the GOP under the terms of the 1956 agreement whereby the GOP pays commodity storage and transportation costs within the Philippines. It also means that funds, which are to be deposited to the credit of the Commodity Credit Corporation (CCC), are effectively being disbursed by USAID/Philippines. The former Food for Peace Officer (FFPO) approved of these payments and the current FFPO has not stopped the practice.

In 1979 TRANSCON billed USAID for "services rendered in handling, storage brokerage and lighterage of the damaged Title II flour from the S/S Howell Lykes." In a letter to TRANSCON dated May 31, 1979 the former FFPO proposed to offset these charges which amounted to ₱219,299 ($22,230) against outstanding claims against TRANSCON. (The proceeds from the sale of the unfit flour had already been deposited with the USDO and were not accessible by USAID.) The offset was effected in July 1979. Earlier, on June 22, 1979 the former FFPO signed a Memorandum of Understanding with TRANSCON and CRS. Paragraph 4 of the memorandum said:

> "TRANSCON will be paid the 80% of the integrated rate for services on damaged commodities when such damage is not attributed to TRANSCON's fault or negligence and to be paid from currencies generated from sale. When there is (sic) no proceeds from sale, TRANSCON will not be paid of (sic) the integrated rate for their services. The responsibility for the damaged commodity will be determined by the Claims Committee."

CARE deducted storage fees from proceeds from sales reported in December 1981 and June 1982. Fees deducted were ₱11,165 ($1,132) and ₱4,712 ($478) respectively. In June 1982 the USAID/Philippines' Controller's Office questioned these deductions, but we found no evidence that the matter had been pursued and resolved.

By letter dated September 9, 1982 CRS requested USAID/Philippines approval of "including transport handling costs as part of administrative expenses deductible from the sales proceeds of PL 480 unfit commodities." The Food for

Peace Officer replied on October 7, 1982 that "to deduct the costs of transportation or any type of service forming part of the integrated rate that the GOP agreed to pay to TRANSCON as the forwarder of said commodities, is shifting the responsibility of the Philippine Government to the U.S. Government. This should not be the case." On April 15 and 26, 1983, CRS transmitted proceeds from sales of unfit commodities. Despite the October 7, 1982, disapproval CRS retained $14,869 for handling costs out of total proceeds from four sales of $129,378.

The methods being used to pay these fees result in USAID/Philippines constructively disbursing funds for which it has no disbursement authority. Proceeds from sales of commodities and settlement of claims are required to be deposited with the USDO for credit to the CCC. USAID/Philippines has no authority to disburse funds from this account. However, allowing offsetting or VolAg deductions from the proceeds before they are deposited to this account equates to disbursing the funds. This represents a serious fund control problem.

Recommendation No. 1

USAID/Philippines identify all charges for transport or storage costs which have been improperly deducted from or offset against sales proceeds due the U.S. Government and recover such funds from the appropriate Voluntary Agency.

Mission Response

In its response to a draft of this audit report USAID/Philippines stated that the "Mission has identified all known charges for transport or storage costs deducted from proceeds of unfit sales. We will make all possible efforts to make collection on these amounts from CRS and CARE."

VolAg Response

CRS and CARE maintain that the deductions were proper because they were made in accordance with instructions from the former FFPO. They further stated that his action at that time was instrumental in eliminating a problem where commodities received in damaged condition rotted in the warehouses because TRANSCON was not getting paid for handling them. The VolAgs emphasize that these deductions are only being made from sales proceeds for commodities damaged during shipment from the US.

RIG/A Comments

We are retaining the recommendation until recovery of the identified costs has been accomplished.

Regarding the VolAgs contention that such deductions are allowable because the charges are included in their Marine claims, we feel the proper procedures to follow are found in Section 211.9(2)(c) regarding ocean carrier losses which provides, in part: "The voluntary agencies or intergovernmental organizations may also retain from claim recoveries remaining after allowable deductions for administrative expenses of collection, the amount of any special charges, such as handling, packing, and insurance costs, which the voluntary agency or intergovernmental organization has incurred on the lost or damaged commodity and which are included in the claim and paid by the liable party." (Underlining added)

Delinquent Remittance of Sales Proceeds

In October 1982 CRS/Philippines sold 19,741 kilos of All Purpose Flour; 106,386 kilos of Non-Fat Dry Milk; and 120 kilos of Bulgur Wheat all of which had been certified as unfit for human consumption. Using their Marine Survey firm, CRS conducted sealed bidding for the goods. Bids were opened on October 29, 1982. Accompanying the successful bid was ₱425,000 ($43,082) as the required 50 percent deposit of the bid. On November 3, 1982 the successful bidder paid the ₱373,101.60 ($37,821) balance due on the total bid of ₱798,101.60 (because an additional 10 kilos of Bulgur Wheat were later found, the bid total actually was ₱798.114.08 or $80,904). Records at CRS/Philippines showed that the second check cleared at their bank on November 10, 1982.

By late March 1983, the proceeds of this sale had still not been remitted to the USDO. After we asked USAID for the status on these proceeds, the USAID was orally advised by CRS, on March 28, that payment would be forwarded during the week of April 4, 1983. By letter dated April 7, 1983, CRS indicated that the precise date of remittance was not yet known. To explain the delay in remitting the funds, CRS stated that in early November 1982, "We decided internally to delay payment of these monies to USAID until we could determine USAID liability to pay Transcon for the 80% integrated rate and the rebagging costs."

As noted above, CRS was advised by USAID/Philippines on October 7, 1982, that such costs were the responsibility of the GOP and could not be retained from sales proceeds. And on April 27, 1983, the RLA reconfirmed the opinion expressed by USAID/Philippines in the October 7, 1982, letter. Notwithstanding the former FFPO's acceptance of these deductions from sales proceeds, RLA further stated that:

> "* * * there is still a question of whether or not the transportation costs are directly incurred 'in effecting' the sale of the unfit commodities. Further, the recent exchange of letters on this subject (from CRS to USAID on September 9, 1982 with the October 7, 1982 reply) should supercede any earlier agreement on the part of USAID to pay such transportation costs."

VolAgs should promptly remit the proceeds from the sale of unfit commodities to the USDO. Although promptly is not specifically defined it is reasonable to expect that funds will be deposited with the USDO within one week after receipt by the VolAg. For the duration of time that funds are not deposited with the USDO, they are not available for U.S. Government use and theoretically result in unnecessary U.S. Government borrowings to pay operating expenses that could otherwise be paid with these funds. Also, until these funds are received by the USDO, they are not under the stringent fund controls of the U.S. Government and are thus more susceptible to loss, theft or misapplication. The greatest adverse effect in this case, however, is the steady erosion of the U.S. Dollar value of the sales proceeds.

The sales proceeds from the October 1982 sale to be remitted to the USDO were ₱734,264.95 (net of 8 percent fee by surveyor). The USDO disbursing rate in effect on November 10, 1982, when CRS/Philippines had these funds was ₱8.865 per U.S. Dollar. By April 11, 1983, the rate had gone to ₱9.825 per dollar a devaluation of 10.8 percent. Thus, the dollar value of the sales proceeds had declined $8,093 ($82,827 - $74,734). The Philippine Peso has since continued to decline against the U.S. Dollar.

Although the above delinquent remittance was the largest outstanding at the time of our review, we also found sales made in June 1982 (₱375,915 or $38,106), November 1982 (₱77,678 or $7874), and February 1983 (₱101,713 or $10,310) for which the proceeds had not been deposited with the USDO. Based on our report of audit finding and discussions with USAID/Philippines staff, the Controller advised CRS on April 14, 1983, to remit the proceeds from sales within 15 days or Bills for Collection (B/C) would be issued. On April 26, 1983, CRS remitted to USAID/Philippines the proceeds from the October 1982 sale. CRS also remitted funds from the June 1982 sale. Further, they included a report on a January 1983 sale from which there were no net proceeds. USAID/Philippines did not know of these two sales until April 26, 1983. Proceeds from a November 1982 sale were still being held. CRS explained that there was a claim by the buyer that she had not received all the commodities she paid for.

CRS/New York's audit report dated April 7, 1981, pointed out that CRS/Manila was not promptly remitting sales proceeds to USAID as required. Recommendation 10 of that report was that such proceeds be promptly remitted and always before the end of each quarter. A follow-up by Office of Food for Peace and Voluntary Cooperation (OFFPVC) in April 1982 found that CRS was holding monies that should have been remitted to USAID. But in response to an inquiry from RIG/A/Manila, CRS/Manila advised on December 7, 1982 that: "CRS/Philippines will promptly remit to USAID it's (sic) share of the proceeds from the sale of unfit Title II commodities before the end of each quarter." Despite the recommendation and CRS/Philippines' response, proceeds still were not being remitted promptly.

One reason that USAID/Philippines allowed these proceeds to remain with CRS so long was that CRS delayed reporting the sales for various reasons. The October 1982 sale was not reported until all commodities had been delivered to the successful bidder. Under the terms of the Invitation to Bid the buyer was to take delivery of the commodities within 48 hours of CRS acceptance of payment in full. However, the commodities sold in October 1982 for which CRS had full payment on November 10, 1982 were picked up by the buyer between December 3, 1982 and February 3, 1983.

Another reason that USAID/Philippines did not follow up on remittance of sales proceeds was the lack of coordination between OFFPVC and the Controller's Office. The Controller's Guidebook (Chapter 6, Section IX. E.) states that: "* * * the Mission Controller coordinates with the Food for Peace Officer for receipt of prescribed reports from the cooperating sponsor on the disposition of the commodities involved as the basis for follow-up on remittances which are required to be made to the American Embassy Cashier's Office." And, "As requested, the Mission Controller participates with the Food for Peace Officer in effecting collection from cooperating sponsors when use of proceeds of sale of Title II commodities is not authorized. If timely remittances are not forthcoming, the Mission Controller issues a formal B/C to the cooperating sponsor on the basis of the report of sale."

At USAID/Philippines, we found very little coordination between the Food for Peace Officer and the Mission Controller regarding remittance of sales proceeds. The Office of the Controller became aware of sales only when the proceeds were received. Coordination as described above would aid in effecting prompt collection action when the Voluntary Agency does not act in accordance with AID Regulations.

Based on the recommendation included in the draft audit report, the USAID/Philippines Controller informed the VolAgs by letters dated June 30, 1983 that they should notify USAID of planned sales of unfit commodities. The letters further specified that remittance of the sales proceeds should be made within 15 calendar days of receipt by the VolAg. We consider this action to be responsive to the recommendation and have deleted the recommendation from this final report.

Use of Third Party to Conduct Sales of Unfit Commodities

CRS has been contracting with the firm which provides their Marine Surveying services to handle sales of PL 480 commodities certified unfit for human consumption. For performing these services the surveyor is being paid a fee of 8 percent of the gross sales proceeds. CRS is deducting the 8 percent fee from the proceeds to be remitted to the USDO.

The use of the Marine Surveying firm for these sales is questionable on the following bases:

1. Sales of unfit commodities is an integral part of CRS's responsibility and if they choose to use a third party they should bear the cost.

2. The Marine Surveying firm should not be used to conduct sales of unfit commodities which they are involved in designating as unfit. This is particularly important where the fee is based on a percentage of gross sales proceeds.

Sale of unfit commodities is an integral part of a P.L. 480 program and falls within the normal requirements of the cooperating Voluntary Agency. Generally the cooperating sponsor accepts responsibility and title to U.S.-supplied commodities at the time of offloading from ships. As a part of any P.L. 480 program, there are commodities which become unfit for human consumption. Section 211.8 of AID Regulation 11 provides the guidance for the cooperating sponsor in disposing of unfit commodities. Section 211.8b4 allows the cooperating sponsor to deduct "actual expenses incurred in effecting any sale" from the sales proceeds before remitting the proceeds to the USDO. Although this guidance does not specifically exclude payment of a fee to a third party, it is intended to cover incidental costs such as advertising that are related solely to the sale. We noted that CARE handled their own sales of unfit commodities at minimum cost. CRS chooses to contract out this segment of the normal operation to a third party, and we believe CRS should bear these costs.

Moreover the firm conducting the sales should not be the same Marine Surveying firm which is instrumental in determing whether or not commodities are unfit for human consumption. The potential for conflict of interest or at least the appearance of conflict is too great.

Between October 1982 and February 1983 CRS used their Marine Surveying firm to conduct the following three sales:

Date	Location	Total Sale Amount	Fee	To Be Remitted To USDO
10/29/82	Manila	₱ 798,114.08	₱ 63,849.13	₱ 734,264.95
11/22/82	Cebu	77,677.54	6,214.20	71,463.34
2/10/83	Manila	₱ 101,712.85	₱ 8,137.03	₱ 93,575.82
		₱ 977,504.47	₱ 78,200.36	₱ 899,304.11

Recommendation No. 2

USAID/Philippines advise CRS/Philippines that costs for a third party to sell unfit commodities will no longer be considered a legitimate deduction from the proceeds of such sales under Section 211.8 of AID Regulation 11.

Mission Response

USAID/Philippines responded to our draft audit report stating that the "RLA's memorandum to RIG/A/Manila dated 27 April 1983 provides the basis for allowing costs of a third party to conduct sales of unfit commodities. Unless we receive a contrary legal opinion, it is our understanding that this cost is allowable. The RLA's memo of 27 April 1983 also should form the basis for the closing of this recommendation in the final report."

RIG/A Comments

To facilitate resolution of this issue, we have not recommended recovery of past deductions since CRS actually incurred the costs. However, we maintain that, under Regulation 11 requirements, such sales are an integral part of a VolAg's responsibility as a Cooperating Sponsor and the U.S. Government should not pay if the VolAg elects to have a third party do the work. We are retaining the recommendation pending corrective action or receipt of General Counsel confirmation that the VolAg need not bear the third party expense of the sale of unfit commodities.

Using the Marine Survey firm to sell damaged commodities raises the conflict of interest issue. Although contracted for by CRS, the services performed by the Marine Surveying firm are for the benefit of the CCC and fees paid for their services are reimbursed by the U.S. Government. The surveyor's purpose is to provide an independent report on the amount and condition of cargo received. The surveyor's report on any shortages and the amount of damaged commodities provides the basis for CCC claims against the ocean carrier. To later hire this same surveying firm to sell the damaged commodities and pay that firm a percentage of the gross sales proceeds creates an incentive, or at least the appearance of an incentive, to maximize the amount and quality of damaged commodities.

Based on a recommendation included in the draft audit report, USAID/Philippines informed CRS that they should not use the same firm that does marine survey work to conduct the sales of unfit commodities. We consider this responsive and that recommendation has been deleted.

Deducting CRS Employee Salaries

CRS was also deducting salaries of their regular employees, "international staff," travel and miscellaneous administrative expenses from the sales proceeds. To be allowable deductions from the sales proceeds, such expenses must be "actual expenses" and also must be outside the regular program responsibilities of CRS. As a Cooperating Sponsor, CRS is required to have adequate supervisory personnel for the efficient operation of the program. As discussed above, sales of unfit commodities are an integral part of a P.L. 480 program and costs of such are to be borne by the VolAg. Salaries of CRS's regular employees, both in the Philippines and New York, are CRS's routine costs of being a cooperating sponsor. Miscellaneous administrative expenses similarly are routine costs of CRS operations. Actual costs of travel done exclusively for the sale of unfit commodities would be allowable, but CRS has been claiming ₱500 ($51) for each sale indicating this is probably an estimate and not actual costs.

These costs do not fit criteria of actual expenses incurred in selling of unfit commodities and should therefore not be allowed. For the four remittances received in April 1983 CRS retained ₱9,023 ($915) for such costs. These funds should be recovered.

Recommendation No. 3

USAID/Philippines collect ₱9,023 from CRS, which represents charges not acceptable as "actual expenses".

Mission Response

USAID/Philippines stated that the "Mission agrees with this recommendation and will attempt to collect the amount of ₱9,023.00 from CRS." USAID/Philippines also described review procedures they had established to identify any future unallowable deductions by the VolAg. We will retain the recommendation pending collection of ₱9,023.00 by USAID/Philippines. A recommendation included in the draft report on establishment of review procedures to detect future unallowable deductions has been deleted based on USAID/Philippines' action.

OUTSTANDING INLAND CLAIMS REMAINS SIGNIFICANT PROBLEM

As of April 15, 1983, CARE and CRS had 355 outstanding inland claims totalling ₱4,331,557 ($439,083). Some of these claims originated in 1978. The problem of excessive outstanding claims was addressed by RIG/A/Manila in the two reports issued in 1979. The CRS/New York audit report of 1981 also recommended stronger action to effect collection of claims. These longstanding claims have the following adverse effects:

(1) With the rapid devaluation of the Philippine Peso relative to the U.S. Dollar, the claims are effectively being eroded on a daily basis;

(2) The U.S. is being deprived of the use of the funds; and

(3) The attention being given to this problem by the VolAgs and USAID detracts from program focus on distribution of commodities.

CRS had the following outstanding claims as of April 15, 1983:

Fiscal Year	Number of Claims	Amount	Dollar Equivalent
78-79	14	₱ 905,624.47	$ 91,801.77
80	26	486,529.61	49,318.76
81	20	652,719.81	66,165.21
82	98	623,877.86	63,241.55
83	31	318,051.77	32,240.42
	189	₱2,986,803.52	$302,767.71

CARE also had a significant amount of claims outstanding dating as far back as FY 1979 despite the fact that in October 1981 claims of approximately $233,616 had been settled for $99,240. As of April 15, 1983 CARE had 166 claims as follows:

Fiscal Year	Number of Claims	Amount	Dollar Equivalent
79	9	₱109,925.50	$11,142.98
80	17	79,890.33	8,098.36
81	25	174,225.49	17,660.97
82	59	335,799.92	34,039.53
83	56	644,911.83	65,373.73
	166	₱1,344,753.07	$136,315.57

Much of the problem of why claims have accumulated relates to TRANSCON and its apparently precarious financial position. TRANSCON has moved through a variety of private/government ownership arrangements in recent years until now it is owned and operated by the GOP. As a government-controlled corporation, TRANSCON is subject to the current tight economic squeeze in the Philippines. This is exacerbated by the fact that in the P.L. 480 program, the payers for freight forwarding services are various GOP ministries. The ministries are also subject to the current economic crunch. What develops is a situation where TRANSCON owes money to the VolAgs for claims, but at the same time the ministries owe significant amounts to TRANSCON. An impasse is reached.

Current economic difficulties also makes settlement of the claims filed against the ministries difficult to settle. These are the claims filed when it is determined that a ministry was at fault for a loss. Since both of these types of claims are going to benefit the U.S. Government, not the GOP or the VolAgs, there is no natural incentive to quickly resolve them. Another cause of the accumulation of claims is that, in the past, some claims were filed on an untimely basis or were inadequately documented.

The principal negative programmatic impact of these outstanding claims is that they take time and energy away from other, more important, aspects of the program. A much more demonstrable effect is the loss of U.S. Dollar equivalent value of these claims. We valued the outstanding claims for FY 78-82 based on U.S. Dollar equivalent at the close of the fiscal year in which they originated. That estimate of the claims equalled $425,899, but at the April 15, 1983 exchange rate, they amounted to $341,469 or an $84,430 loss (see Exhibit 1).

A similar depreciation occurred with a CARE claim settlement which AID/W approved on October 9, 1981. This settlement called for payment of ₱784,000 by TRANSCON. At the exchange rate of ₱8.055 to $1 on that date this equated to $97,331. However, nothing was paid until until May 3, 1982. At that time monthly payments of ₱50,000 were begun, but by April 11, 1983 only seven remittances had been received by USAID/Philippines. At the October 9, 1981 exchange rate the net proceeds of the settlement of ₱741,981 was worth $92,114. Our analysis showed that the payments made and the receivable amount as of April 11, 1983 was worth $79,842. Essentially, $12,272 was lost because of depreciation of the Philippine Peso and payment delays.

CRS has been attempting to settle a group of claims against TRANSCON aggregating ₱1,584,752 ($160,644). CRS agreed to settle for ₱650,000 ($65,890), but USAID/Philippines was reluctant to approve another agreement, while the CARE settlement still had not been paid by TRANSCON. In early April 1983, CRS accepted ₱300,000 ($30,411) from the forwarder as partial payment of a ₱650,000 settlement. However, USAID/Philippines and AID/W approvals had not yet been granted. As was the case with proceeds from sales of unfit commodities, CRS delayed remitting these monies to USAID.

In response to a recommendation in the draft audit report, USAID/Philippines informed both VolAgs that claims settlements agreed to without required AID approvals may result in the responsible VolAg being billed for the full value of the claim. This addressed the problem and the draft recommendation has been deleted.

Recommendation No. 4

USAID/Philippines in cooperation with the Voluntary Agencies, GOP ministries, and TRANSCON settle all claims originating prior to FY 1983 and establish procedures for timely settlement of claims in the future.

Mission Response

USAID/Philippines in responding to our draft report stated that "The issue of outstanding inland claims is perhaps the most difficult problem confronting the P.L. 480 Title II program in the Philippines. Endless hours have been spent by both the voluntary agencies and by the Mission in attempting to get these claims resolved. We have had some success as seen in compromise settlements on claims with TRANSCON for both CARE and CRS for the years prior to FY 82. We are pressing for the early resolution of claims for FY 82 and FY 83, but realistically given the financial condition of the freight forwarder as noted on pp. 24-25 of the RIG draft audit report, this is going to take a good deal more time. Settlement of claims is slow for a number of reasons: a) communications with some of the outer islands are very slow; b) claims documentation is sometimes inadequate and requires follow-up; and, c) some claims involve extensive and tedious legal interpretation. All of this leads in many cases to unavoidable delays beyond the control of the voluntary agencies or the

Mission. What this all boils down to is that many claims take from 12 to 24 months to resolve. This has been the case over the history of P.L. 480 Title II operations in the Philippines, which can be fairly well-documented. There is a need for a realistic and implementable interpretation of the phrase 'settling claims in a timely manner'. Since this is an ongoing effort and we do settle claims as fast as we can under the circumstances, we suggest deletion of this recommendation."

RIG/A Comments

RIG/A agrees that settlement of claims is very difficult. However the reasons given in (b) and (c) above are subject to management action. We believe that a 12 to 24 month resolution period can be well-documented because necessary improvements have not been made in the documentation of claims. Also "extensive and tedious legal interpretation" equates to delay. As time passes the claims seem more easily compromised and the responsible party retains use of funds which should have been paid to the U.S. Government.

We are retaining the recommendation pending mission response on what procedures will be implemented to correct deficiencies in claim documentation and accelerating the identification and resolution of legal questions. Such procedures should, in turn, facilitate actual settlement of claims.

MONITORING BY USAID/PHILIPPINES

On-site monitoring is an integral part of any management information system. It provides verification of otherwise abstract statistics included in reports. Monitoring is also a prime method for establishing the reliability of reported data. That is, if site visits find few discrepancies or "surprises" then probably the program is operating as expected and reported. Thus fewer site visits may be warranted. On the other hand finding many discrepancies almost demands more site visits.

We reviewed the trip reports for the personnel of the Office of Food for Peace and Voluntary Cooperation (OFFPVC). The reports were of very good quality in establishing:

- -- what sites were visited,
- -- what programs were reviewed,
- -- who was contacted, and
- -- what discrepancies were noted.

These reports noted many discrepancies. For example:

- -- In Benguet Province no flour was received for the first quarter of 1982 for 20 schools.
- -- Northern Leyte was supposedly receiving commodities for Targeted Food Assistance projects, but the Provincial Health Officer knew of no such projects.

-- The Baguio District of MECS was phasing in more recipients than were being phased out (even though the P.L. 480 program is in a phasedown mode).
-- Benguet Province was targeting 4030 preschoolers for Day Care, but only reaching 1375.
-- In San Fernando, Romblon both CARE and CRS were operating TMCH programs which were in competition.

During our fieldwork, we also found discrepancies at most sites visited. Our findings on the inadequacy of records at the consignee level are detailed later in this report. Three examples of our other findings are:

-- At 12 locations under programs of both VolAgs commodities were delivered late.
-- A commercial bakery in Naga City had not submitted monthly reports to the MECS Camarines Sur Provincial Office for 5 months.
-- In Baao, Camarines Sur five bags of CSM had been disposed of without approval.

While discrepancies found in USAID's site visits were reported to the VolAgs, the corrective actions taken by the VolAgs apparently were not effective because we found similar discrepancies during our site visits. We believe that the frequency in which site visits bring out discrepancies shows that OFFPVC needs to maintain a heavy schedule of such visits. However, for FY 1982, we found that OFFPVC personnel had made only 13 trips to monitor the program. These trips consumed 66 staff days in total.

USAID/Philippines, in responding to the draft report, provided a monitoring schedule for the second half of 1983 which will double USAID's field monitoring of PL 480, Title II activities. In addition, procedures for monitoring the VolAgs' corrective actions were described. Based on the mission response we have deleted the recommendation in this area.

WEAKNESSES IN RECORDKEEPING AND CONTROLS OVER COMMODITIES

Controls over commodities at various levels of the distribution networks in the Philippines need strengthening. Inventory records are the principal control to minimize opportunities for error, loss or theft and to provide timely detection of such occurrences. For example at TRANSCON's main warehouse in Metro Manila stock cards were not being maintained for each stack of commodities. In addition, we found numerous instances at field locations where inventory records were maintained in such a way that they afforded no control over stocks and were therefore useless.

TRANSCON Warehouse Controls

The stock record cards were not accurate at the TRANSCON main warehouse during our visit. In one case, a loading crew had filled a CARE shipment of all-purpose flour from CRS's stock and had not noted this on the inventory card. In another case, the stock card for a stack of Corn-Soya-Milk (CSM) showed that the stack contained 4740 bags; but a cursory review showed that the stack contained about 1000 bags. Warehouse personnel were correcting the records.

Lack of adequate control procedures at the TRANSCON warehouse was reported in the CRS audit in April 1981. According to CRS/Philippines, procedures had been improved. However, as noted above, the inventory control records are still not accurate and therefore do not offer the proper controls over the inventory.

Recordkeeping by Consignees

Distribution points are required to maintain complete records of receipts and distributions of commodites (AID Handbook 9, Section 5 K 2 b) to, among other reasons, allow verification that the U.S.-supplied food is being properly distributed. Central to a system of records would be the stock card. Receipts would be added to the stock card based on deliveries of commodities as evidenced by Shipping Instructions (CRS) or Delivery Orders (CARE). We found numerous instances where records were being so poorly maintained by consignees that they provided no control over the P.L. 480 commodities. Examples of such deficiencies were found in both CRS and CARE programs; in programs operated in cooperation with MSSD, MECS, and MOH; and in both regions of the Philippines which were visited.

Consignees usually had stock records, but frequently they were of no value because they were:

- -- based on estimates rather than actual data,
- -- not supported by acknowledged receipts,
- -- not posted in a timely manner, and/or
- -- not reconciled to eliminate known variances between records and actual stock.

We consistently found errors in records maintained on flour provided for the baking of nutribuns for school feeding programs. These problems are similar to those reported by RIG/A in 1979 Audit Reports. CARE informs the bakeries that each 50 pound bag of Soy Fortified Flour should produce 385 nutribuns (All-Purpose Flour - 363). So when posting stock records and preparing reports the bakeries divide the number of buns baked by the expected production per bag and subtract that amount from the stock record. Since the expected production would only result under ideal situations where no loss, waste, or theft occured and all buns were of perfect size this estimate does not equal actual usage. The inadequacy of using estimates can be highlighted by the following examples:

- -- one month a school bakery reported an opening balance of 27.44 bags, no receipts, but issues of 32.03 bags.
- -- records of buns baked at another school bakery indicated 21.9 bags of flour should have been used, but analysis of stock records showed only 15.9 bags used.

In other distribution programs receipts are not always obtained for commodities. Even when they are obtained, they are sometimes of no value. We found two locations where reported distributions exceeded stock available. We also found situations where all commodities could not be accounted for or could only be "accounted" for on the basis of signed, but undated receipts and/or informal notes that commodities had been given to a particular person without any acknowledgement (signature, initials, etc.) by that person. These deficiencies can be attributed to the following causes:

-- The further along the distribution network one goes, the less background, experience, and interest in accountability records one finds.
-- Extensive records systems were being used which were difficult to understand and properly maintain. For example, some school bakeries would prepare reports for each of several schools for which they baked nutribuns. Flour usage would be reported to the one-hundredth of a pound. However, since all nutribuns were baked in one process and not for each school, the flour usage per school was estimated.
-- A lack of emphasis by the VolAgs on reducing the impact of the above problems through education and forms reviews.

Mission Response

By letter dated June 29, 1983, USAID/Philippines directed CRS and CARE to review commodity control procedures both at TRANSCON and in their own distribution networks. The VolAgs are to report to USAID on the corrective actions taken.

RIG/A Comments

The following recommendation (amended) is being retained pending the results of the reviews of controls by the VolAgs and USAID/Philippines. Based on USAID/Philippines actions described above, RIG/A has deleted two other recommendations contained in the draft audit report.

Recommendation No. 5

After the Voluntary Agencies have reported corrective actions in commodity control procedures, USAID review these actions and assure that the problems have been corrected.

TARGETING OF FOOD ASSISTANCE

Targeting of the food assistance to the Philippines needs improvement. Targeting of food assistance is the method for assuring that AID assists the neediest of the needy and thus has the greatest possible impact on malnutrition. In the Philippines, targeting has taken on even greater importance because the reductions in the number of beneficiaries means AID is assisting a smaller percentage of eligible recipients. Therefore, it is imperative that programs not only find eligible recipients, but that they find the most needy who will benefit most from supplemental feeding. Improved targeting is most needed in the Targeted Food Assistance program run by CARE in cooperation with the Ministry of Health. Improvements could also be made in the targeting of the CARE school feeding program and in the CRS TMCH and DCC programs operated in cooperation with the Ministry of Social Services and Development.

Targeted Food Assistance - CARE

Targeted Food Assistance is operated by the Ministry of Health (MOH) in cooperation with CARE. For FY 1983, the program is intended to assist 125,000 severely and moderately malnourished infants and preschool children. In many provinces each municipality (similar to a U.S. county) was targeted for the same number of recipients. This was done without regard to population differences or identified numbers of malnourished children. Thus in some municipalities, the program would be serving moderately and/or mildly malnourished children, when perhaps in an adjoining area many of the severely malnourished would not be assisted.

The Ministry of Health determines allocations for each municipality by specifying each suballocation on the Delivery Order given to the freight forwarding firm. Of all TFA Delivery Orders issued in January 1983, 24 provided a listing of allocations by municipality. Of these, 15 or 62.5 percent, showed the same allocation for each municipality.

The adverse effect this standard allocation method could cause is: In Antique Province, 17 of the 18 municipalities each received food allocation for 85 recipients. The remaining municipality was allocated food for 90 recipients, apparently to get the correct total recipient level for the province. We were told that the populations of these municipalities varied from approximately 10,000 to about 30,000. Moreover, Operation Timbang (a nationwide weighing program for children) results for Antique found five municipalities with only 10, 11, 19, 25 and 30 severely malnourished children. At the other end of the scale, five municipalities had identified 157, 160, 167, 181, and 193 severely malnourished children. In total, 1530 severely malnourished had been identified by weighing approximately 73 percent of the children under 7 years of age. The approved recipient level for Antique was 1535, however, the above-described allocation method meant that while up to 108 identified severely malnourished children in one municipality were not being reached, in another municipality as few as 10 of the 85 recipients were severely malnourished.

In Capiz province, each municipality was being allocated the same amount of commodities although they were given different recipient levels. For example, the municipality of Dao had 110 recipients who would each receive 18.6 pounds of Corn-Soya-Milk and 10.9 pounds of Non-Fat Dry Milk for the quarter. While each of Panay municipality's 270 recipients would receive 7.6 pounds and 4.4 pounds respectively. In Capiz, Operation Timbang identified as few as 48 and as many as 247 severely malnourished in the 16 municipalities. We also noted that Panay, which was approved for 270 recipients, was not the municipality with 247 identified severely malnourished. Panay had only 96 identified severely malnourished.

Finally in Naga City only two barangays (the smallest governmental unit in the Philippines) were being served with 60 recipients approved for 1983. Operation Timbang had identified 266 severely malnourished children under the age of 5 (preschool and infant) in the city or four times the number of approved recipients.

School Feeding Program - CARE

CARE working with the Ministry of Education, Culture and Sports operates the School Feeding program. The program is intended to provide supplementary feeding at school for students in grades one to four. We did not find a pervasive problem in the targeting of CARE's school feeding program, but we did note some instances which indicate a need for more attention to targeting.

The most serious deficiency was a situation where the commercial bakery bakinn for schools in Naga City and Camarines Sur province was unilaterally deciding which schools would receive nutribuns. We also noted a school which was feeding all 745 students once a week using food approved for 493 recipients. Although the severely malnourished were getting one extra feeding each week, the program cannot be expected to have any significant impact on malnutrition.

Recommendation No. 6

USAID/Philippines require CARE to correct the targeting deficiencies in the Targeted Food Assistance and School Feeding Programs.

Mission Response

By letter dated June 30, 1983, USAID/Philippines requested that CARE report on how they will correct targeting shortcomings noted in this report. We are retaining the recommendation (amended) pending receipt of adequate response from CARE.

Targeted Maternal and Child Health and Day Care Center Program - CRS

The TMCH and DCC programs are to be targeted by the Ministry of Social Services and Development on preschool children who are moderately or mildly malnourished. This provides for segregation from the MOH-sponsored TFA, which focuses on the severely malnourished of the same age group. We found that generally targeting was not a problem, but a few instances indicate some additional attention is required. At the De La Rama Day Care Center in Iloilo City, there was a preponderence of children of normal weight:

	1982	
	3rd Quarter	4th Quarter
Normal	42	40
Mildly Malnourished	15	16
Moderately Malnourished	3	4
Severely Malnourished	0	0

At the TMCH center in Panitan, Capiz we found an inconsistent distribution of commodities:

Barangay	Bags of CSM	Recipients	Bags/Recipient
1	10	14	0.71
2	12	24	0.50
3	10	24	0.42
4	10	31	0.32
5	14	37	0.38
6	26	68	0.38
	82	198	

The consignee explained that barangays 1 and 2 are remote and the women who come to pick up the food are given extra rations.

Finally, we noted a location where the list of recipients had been updated, but the latest allocation was made based on the earlier figures. This resulted in an inconsistent allocation. One subcenter received commodities for 53 beneficiaries, when their current recipient level was only 32.

Recommendation No. 7

USAID/Philippines advise CRS of deficiencies in targeting noted in the TMCH and DCC programs and require the Voluntary Agency to coordinate with the Ministry of Social Services and Development to improve the targeting of these programs.

Mission Response

By letter dated June 30, 1983, USAID/Philippines requested that CRS report on how the new CRS management systems approach would correct targeting shortcomings noted in the draft report. We are retaining the recommendation pending receipt of adequate response from CRS.

LATE REPORTING BY CRS

As noted in the background section of this report, CRS/Philippines had significantly reorganized and restaffed to address the deficiencies noted in the CRS/New York audit report. Under the new CRS organization, responsibility for the annual self-evaluation was assigned to the Internal Audit Department. Because this Department was not staffed until August 1982 and had many other organizational responsibilities, CRS did not submit the evaluation covering Calendar Year (CY) 1981 until February 10, 1983. As of April 15, 1983 no self evaluation had been submitted to USAID/Philippines covering CY 1982.

CRS has also been significantly late in submitting its Commodities Status Reports (CSR) and Recipient Status Reports (RSR) which are required on a quarterly basis. The CSR and RSR are supposed to provide AID management with timely data on actual performance by the VolAgs compared to the approved plan. These reports for the quarter ended September 30, 1982 were submitted to USAID in February 1983. As of April 15, 1983 reports for the quarters ended December 31, 1982 and March 31, 1983 had not been received by USAID/Philippines. The requirement that these reports be submitted is found in Handbook 9, Section 7 L 3. Although no due date for the reports is specified, CARE (and formerly CRS) was generally submitting reports by the 15th of the month following the end of the quarter being reported on.

Mission Response

USAID/Philippines responded to three recommendations regarding timely CRS submission of required reports by documenting previous actions to obtain reports and also letters requiring future timely reporting.

RIG/A Comment

We have deleted three recommendations which were included in the draft of this report. However, we feel that no assurance exists that CRS/Philippines is willing and able to meet their basic reporting requirements as a Cooperating Sponsor. In turn, this precludes effective and timely USAID/Philippines administration of the CRS programs. We have therefore added the following recommendation:

Recommendation No. 8

USAID/Philippines continue closely monitoring CRS submission of reports. If CRS/Philippines does not meet reporting requirements for the quarters ending June 30, 1983 and September 30, 1983, USAID/Philippines coordinate with FVA/FFP and enforce reporting requirements.

Exhibit 1

Outstanding Claims Loss Value
As Exchange Rate Depreciates

Fiscal Year	Outstanding Claims Fiscal Year (Peso Value)	Value of Claims at Close of Fiscal Year 1/	Value of Claims As of 04/15/83	Loss in Dollar Value
78-79	₱1,015,550.00	$137,608.00	$102,945.00	$34,663.00
80	566,420.00	74,874.00	57,417.00	17,457.00
81	826,945.00	103,046.00	83,826.00	19,220.00
82	959,678.00	110,371.00	97,281.00	13,090.00
TOTAL	₱3,368,593.00	$425,899.00	$341,469.00	$84,430.00

1/ "Original" dollar equivalent was computed using the exchange rate for the last day of the fiscal year in which the claims originated.

LIST OF RECOMMENDATIONS

Recommendation No. 1

USAID/Philippines identify all charges for transport or storage costs which have been improperly deducted from or offset against sales proceeds due the U.S. Government and recover such funds from the appropriate Voluntary Agency.

Recommendation No. 2

USAID/Philippines advise CRS/Philippines that costs for a third party to sell unfit commodities will no longer be considered a legitimate deduction from the proceeds of such sales under Section 211.8 of AID Regulation 11.

Recommendation No. 3

USAID/Philippines collect ₱9,023 from CRS, which represents charges not acceptable as "actual expenses".

Recommendation No. 4

USAID/Philippines in cooperation with the Voluntary Agencies, GOP ministries, and TRANSCON settle all claims originating prior to FY 1983 and establish procedures for timely settlement of claims in the future.

Recommendation No. 5

After the Voluntary Agencies have reported corrective actions in commodity control procedures, USAID review these actions and assure that the problems have been corrected.

Recommendation No. 6

USAID/Philippines require CARE to correct the targeting deficiencies in the Targeted Food Assistance and School Feeding Programs.

Recommendation No. 7

USAID/Philippines advise CRS of deficiencies in targeting noted in the TMCH and DCC programs and require the Voluntary Agency to coordinate with the Ministry of Social Services and Development to improve the targeting of these programs.

Recommendation No. 8

USAID/Philippines continue closely monitoring CRS submission of reports. If CRS/Philippines does not meet reporting requirements for the quarters ending June 30, 1983 and September 30, 1983, USAID/Philippines coordinate with FVA/FFP and enforce reporting requirements.

REPORT RECIPIENTS

USAID/Philippines	
Director	5
AID/W	
Bureau for Asia	
Assistant Administrator	1
Deputy Assistant Administrator (Audit Liaison Offficer)	2
Office of the Philippines, Thailand & Burma Affairs (ASIA/PTB)	1
Bureau for Food for Peace and Voluntary Assistance:	
Office of Food for Peace (FVA/FFP)	3
Bureau for Science & Technology:	
Office of Development Information & Utilization (S&T/DIU)	4
Bureau for Management:	
Assistant to the Administrator for Management	1
Office of Financial Management (M/FM)	5
Accounting System Division (M/FM/ASD)	1
Directorate for Program & Management Services:	
Office of Contract Management (M/SER/CM)	3
Office of the Inspector General:	
Inspector General (IG)	1
Executive Management Staff (IG/EMS)	12
Policy, Plans & Programs (IG/PPP)	1
Office of Legislative Affairs (LEG)	1
Office of Financial Management (OPM)	1
Office of the General Counsel (GC)	1
Office of Public Affairs (OPA)	2
OTHERS	
Regional Inspector Generals:	
RIG/A/Washington	1
RIG/A/Nairobi (Africa East)	1
RIG/A/Abidjan (West Africa)	1
RIG/A/Cairo (Egypt)	1
RIG/A Karachi (Near East)	1
RIG/A/Latin America	1
RIG/II/Manila	1
AAP/New Delhi	1