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Auditor General

AUDIT REPORT
ON
CARE
PL 480 TITLE II PROGRAM
IN SRI LANKA

Audit Report Number 5-383-80-9

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Area Auditor General Near East
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PDAAN743

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EXECUTIVE SUMMARY

INTRODUCTION

CARE has distributed PL 480 Title II commodities in Sri Lanka since 1956 and is responsible for the design, operation, and management of the program.

The mainstay of CARE's program has been a School Feeding Program. Under this program biscuits are produced and distributed to primary school children throughout the country. Another aspect is the Maternal Child Health Program which addresses major nutritional problems in Sri Lanka. The latter program involves the production and distribution of Thriposha (a fortified food) to expectant and lactating mothers, pre-school children and selected primary school children.

CARE's approved program for FY 1979 provided for the distribution of 26.8 million pounds of Title II commodities valued at approximately \$5.8 million. These commodities were to be distributed to 1.6 million beneficiaries, predominantly school children.

The purpose of our audit was to determine whether the PL 480, Title II program was implemented in compliance with AID policies and regulations; to evaluate CARE's management of the program; and to review USAID/Sri Lanka monitoring of the program.

Audit Conclusions

- Since 1975, the CARE managed school feeding program in Sri Lanka has grown by about 43 percent but the MCH program level has remained relatively stable. Based on this, we concluded that more emphasis should be given to expansion of the MCH program. CARE disagreed with our analysis and cited several factors that they feel demonstrated their interest and focus, as well as the Government of Sri Lanka's (GSL), in expanding the MCH program. In view of their comments, we did not feel that a recommendation for corrective action was warranted. (See pp. 3 - 4).

- Neither CARE/Sri Lanka nor USAID/Sri Lanka are providing adequate follow-up on interior loss claims filed with the GSL. In the last three years, over 97 percent of the claims filed are still outstanding. (See pp. 4 - 5).
- USAID/Sri Lanka is not being informed how damaged commodities are being disposed of and what proceeds are being deposited with the U.S. Agent Cashier. Furthermore, sales proceeds are not being deposited promptly, but on an annual basis. (See p. 6).
- CARE has not been a signatory party to processing agreements for which PL 480, Title II commodities are utilized as required by AID Regulation II. Under one of the contracts involved, we found production shortages of about 345,000 pounds which requires further review by CARE and USAID/Sri Lanka. (See pp. 7 - 8).
- USAID/Sri Lanka should examine "Container Fund" expenditure reports to determine the validity of the expenditures. (See pp. 8 - 9).
- CARE is not submitting internal reviews as prescribed in AID Regulation II. (See pp. 9 - 10).
- USAID/Sri Lanka lack of staffing has resulted in a minimal monitorship of the PL 480, Title II program. (See p. 11).

Recommendations

We have made seven recommendations in the text of the report that will require follow-up on claims filed with the GSL, further follow-up on commodities disposed of, improved processing of contractual agreements, financial reviews, performance of required internal reviews and improved program monitoring by USAID/Sri Lanka. A listing of the recommendations is presented in Exhibit A.

BACKGROUND

CARE has distributed PL 480 Title II, commodities in Sri Lanka since 1956. The program is governed by a Food For Peace Program Agreement between AID and CARE and a basic agreement between CARE and the GSL. The basic agreement between CARE and the GSL is supplemented by annual agreements that relate specifically to the Title II program to be implemented each year.

CARE is responsible for the design, operation, and management of the program. The GSL provides duty-free entry for commodities and pays such costs as inland handling, transportation, storage, processing, and CARE's administrative expenses.

CARE's approved program for FY 1979 provided for the distribution of 26.8 million pounds of Title II commodities valued at about \$5.8 million. These commodities were to be distributed to 1.6 million beneficiaries, predominantly school children.

The mainstay of CARE's program in Sri Lanka is a School Feeding Program administered through the Ministry of Education. Approximately 40 percent of Sri Lanka's primary school children suffer from nutritional deficiency and the feeding program seeks to maintain and improve their nutritional status through provision of biscuits produced primarily from PL 480, Title II commodities and distributed to targeted schools throughout the country.

The other part of the program consists of a Maternal Child Health Program administered through the Ministry of Health. This program addresses three major nutritional problems in Sri Lanka: Protein-Calorie Malnutrition, Nutritional Anemia, and to a lesser degree Vitamin A deficiency. The program involves the production and distribution of a fortified food called Thriposha which is provided to expectant and lactating mothers, pre-school children and selected primary school children.

The purpose of our audit was to determine whether the PL 480, Title II program in Sri Lanka was implemented in compliance with AID policies and regulations; to evaluate CARE's management of the program, and to review USAID/Sri Lanka monitoring of the program. The audit covered

fiscal year 1978 and 1979 and our initial field work was performed in October and November 1979. Due to the Pakistan evacuation, our report issuance was delayed until the audit could be finalized in July and August 1980.

We reviewed relevant agreements, program plans and annual estimates for fiscal year 1978 and 1979. On a test basis, we reviewed CARE's records and controls over the receipt, storage and distribution of commodities; the usage of proceeds from the sale of empty containers; actions taken in cases of marine and interior losses; and the accuracy of reports submitted to USAID/Sri Lanka. We also reviewed USAID/Sri Lanka files and held discussions with USAID and CARE officials. We made site inspections of storage facilities and limited field visits to distribution points. To a large extent, however, we utilized CARE's end-use inspection reports to evaluate the adequacy of their monitoring.

Our examination was made in accordance with generally accepted auditing standards and included such tests of records and discussions as were considered necessary. Copies of our draft report were provided to USAID/Sri Lanka and CARE. Their responses were considered in the preparation of this audit report.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

A. PROGRAM IMPLEMENTATION

CARE has not totally complied with AID policy and regulations in their implementation of the PL 480, Title II commodity assistance program operated in Sri Lanka. We found several areas where program efficiency and effectiveness could be enhanced if various control and administrative procedures are improved. We also found a continuing need for CARE to place greater emphasis on expanding the MCH program.

AID policy emphasizes the use of Title II commodities for overcoming malnutrition problems of vulnerable groups. Generally, program emphases are given to Maternal Child Health (MCH) (including pre-school age child feeding), food-for-work proposals, and primary school feeding in that order.

In spite of the above priorities, CARE programming continues to utilize a major share of commodities for the school feeding program. For example, the CARE PL 480 Title II program in Sri Lanka for FY 1979 provided for 1.2 million school feeding recipients as compared to 340,000 recipients under the MCH program. For FY 1980, their Annual Estimate of Requirements (AER's) showed the school feeding program would be increasing to 1.25 million recipients and the MCH to 375,000 recipients. This, when compared to past activities, does not indicate that CARE is giving sufficient priority to development of the MCH program. For instance, our prior audit report published in 1976 showed that school feeding had been reduced from 2 million recipients in FY 1973 to 850,000 in FY 1975 and that MCH beneficiaries would be increased to a level of 450,000 in FY 1977. Due to a severe drought, CARE requested a two year postponement of the phasedown and an increased level for school feeding in 1976 to a total of 875,000 recipients. In effect, the school feeding program has since grown by about 43 percent while the MCH program has not yet reached the program level of 450,000 expected for FY 1977.

Based on the above, we have concluded that more emphasis is being placed on the school feeding program than on the MCH program. However, CARE maintains there are certain reasons for the increase in the school feeding program. The primary reason cited is a recent GSL decision to reduce school enrollment age from six to five years and

making kindergarten mandatory in all primary schools. Therefore, the school feeding program was increased to cover the additional enrolment expected of 250,000 five year olds. According to CARE, the school feeding program also represents a GSL priority area and benefits from substantial government support of the program at the rate of about \$1.5 million annually.

CARE also stated that since the inception of the MCH program in FY 1975 full priority has been allocated to that program in terms of their resources and staffing. They stated that their annual MCH program budgets have been double their school feeding expenditures for the same periods, and that the MCH program has a full time CARE staff of 15 while school feeding has only three. CARE further stated that their focus, and the focus of the Ministry of Health, is toward expanding the MCH program among targeted malnourished categories. In view of this expression of intent we are not making a formal recommendation but we do suggest that USAID/Sri Lanka closely review future program plans and AER's to ensure that continued emphasis is placed on further development of the MCH program.

B. CARE REPORTING AND ACCOUNTABILITY

CARE is regularly submitting prescribed program reports to USAID/Sri Lanka. However, in some reports, USAID/Sri Lanka's commodity accountability responsibilities are either assumed unilaterally by CARE; cannot be determined by USAID/Sri Lanka on the basis of information provided; or lack the necessary follow-up supporting information.

(1) Interior Loss Claims

Neither CARE/Sri Lanka nor USAID/Sri Lanka are providing adequate follow-up on interior loss claims filed with the GSL.

On reporting these losses to USAID/Sri Lanka, CARE lists all the losses that have occurred and unilaterally decides which of the listed losses they will file claims for. During our initial review we noted that these reports showed many cases where losses exceeded \$300 in value but where no claim was filed by CARE. During our follow-up review in July 1980, we noted that CARE had begun to file claims

against the GSL for all losses in excess of \$300 but did not maintain adequate claim follow-up. For example, there is no follow-up by either CARE/Sri Lanka or USAID/Sri Lanka on claim collections. A review of outstanding claims against the GSL for fiscal years 1978, 1979 and 1980 shows that over 97 percent of the total claim dollar values are still outstanding:

<u>FY</u>	<u>Number Claims Filed</u>	<u>Dollar Value</u>	<u>Partial Receipts - Sale of Damaged Commodities</u>	<u>Claims Outstanding</u>	
				<u>No.</u>	<u>Value</u>
78	19	\$27,520	\$3,373	19	\$ 24,147
79	29	90,099	1,645	29	88,454
80	41	<u>178,515</u>	<u>2,997</u>	41	<u>175,518</u>
		<u>\$296,134</u>	<u>\$8,015</u>		<u>\$288,119</u>

Recommendation No. 1

The Director, USAID/Sri Lanka should require CARE/Sri Lanka to follow established procedures on claim processing, follow-up, and reporting that will satisfy AID regulations and provide sufficient details to ensure that USAID can carry out their monitoring responsibilities.

(2) Physical Inventories and Reconciliations

CARE takes a physical inventory every three months and reconciles its book inventory figures to the physical inventory. However, the quarterly reports submitted to USAID/Sri Lanka only show the reconciled balances. Overages and shortages are not indicated. Our review of CARE's physical inventory reconciliations during FY 1979 showed total commodity overages of 989,210 pounds and shortages of 1,156,288 pounds resulting in an overall shortage of 167,078 pounds for the year.

In order to determine accountability for these overages and shortages, USAID/Sri Lanka should receive reports showing all adjustments and the reasons for such variances. During our follow-up audit CARE informed us that they would submit such statements to USAID therefore, we are not making a formal recommendation.

(3) Reports on Damaged Commodities Unfit For Human Consumption

CARE has not been informing USAID/Sri Lanka whether damaged commodities deemed unfit for human consumption were disposed of in accordance with priorities stated in AID Regulations II nor did they inform USAID whether proceeds from the sales of these commodities were deposited with the U.S. Agent Cashier, Colombo.

CARE does, however, submit to USAID/Sri Lanka a report requesting their approval for the disposal of commodities unfit for human consumption. Our review indicated that after receiving USAID's approval the commodities are sold primarily for animal feed and at the best available prices but sales proceeds are only deposited with the U.S. Agent Cashier, Colombo on an annual basis. Thus, USAID does not have current information on the sales or the amount of proceeds deposited.

In order to properly monitor the disposition of damaged commodities USAID/Sri Lanka should be informed of how these commodities were disposed of and what proceeds were deposited with the U.S. Agent Cashier. Furthermore, deposits should be made promptly to the Agent Cashier as sales occur and not on an annual basis.

CARE, in responding to our draft report, stated that in the future they would submit documentation on sales to USAID/Sri Lanka.

Recommendation No. 2

The Director, USAID/Sri Lanka should develop follow-up procedures to ensure that commodities are disposed of according to AID Regulation II and that proceeds from the sales of these commodities are reported and deposited promptly with the U.S. Agent Cashier.

C. SURVEILLANCE

CARE has strengthened its field monitoring of the Title II program since our 1976 audit. CARE employs five field nutrition educators whose primary function is to conduct end-use checks. CARE's efforts in this important area of program management were quite extensive.

Our review of CARE trip reports and files showed that problems or deficiencies identified during the visits were brought to the attention of local and regional ministry officials for corrective action. Also, in many cases CARE had formally requested the GSL to take corrective action as a result of their end-use checks. CARE has also developed new procedures that should provide for a more effective follow-up on actions taken by the GSL.

D. PROCESSING AGREEMENTS

Processing agreements between the GSL Ministry of Education (MOE) and biscuit manufacturers have not had the prior approval of USAID/Sri Lanka nor is CARE a signatory party to the agreements as required by Section 211.6(a) of AID Regulation II.

Section 211.6(a) of AID Regulation II authorizes the use of such processing agreements but requires that, when commercial facilities are used, the cooperating sponsor shall enter into written agreements for such services. These agreements must have the prior approval of USAID and copies of the executed agreements are to be provided to USAID. The regulation also specifies certain terms which must be included in the agreements.

The MOE does have agreements with two local commercial firms for the production of biscuits used in the school feeding program and CARE does work closely with the MOE in drafting the processing agreements. However, the processing agreements do not bear the signature of CARE officials, they have not been approved in advance by the USAID, and there were no copies of the executed agreements on file at USAID/Sri Lanka.

During our follow-up review in July 1980, CARE informed us that future processing agreements would be submitted to USAID for review prior to signing and that USAID would be provided with copies of the executed agreements.

In our review of the contractor's performance, we found one of the firms had not produced biscuit quantities in FY 1979 in accordance with the terms of their contract. The contract required that for each 100 pounds of total commodity inputs the contractor was to produce

93 to 94 pounds of finished biscuits or would pay for any shortfall at prevailing rates. For the year in question we found that the contractor's production level was actually about 345,000 pounds short of the required minimum level specified above. CARE has brought this to the attention of the MOE indicating that the production rates should be investigated and corrective action taken.

Recommendation No. 3

The Director, USAID/Sri Lanka should require CARE to be a signatory party to the PL 480, Title II processing agreements or obtain a waiver of that requirement from AID/W.

Recommendation No. 4

The Director, USAID/Sri Lanka should obtain a report from CARE that fully explains the above production shortfall and obtain a refund for that part of the shortfall relating to PL 480, Title II inputs that is not adequately explained.

E. CONTAINER DISPOSAL

The sale of empty containers generates sizeable amounts of revenue in Sri Lanka. During the year ending September 25, 1979, proceeds from the sale of containers plus interest earned on funds deposited totalled about \$40,587 while expenditure of accumulated funds during the same period totalled about \$108,776.

CARE effectively controls the empty containers and their eventual sale but certain expenditures made from the proceeds were not always supported by specific USAID/Sri Lanka authorization as required by AID Regulation II, Section 211.5 (i).

The use of container funds for program costs such as transportation, storage, handling, insect and rodent control, and rebagging of damaged or infested commodities does not require AID authorization. However, other program expenses require specific authorization.

During our review of quarterly reports of container proceeds and expenditures we noted that some of the expenditures, broadly reported as "Cost of supplies and equipment to the Applied Nutrition Service Program", were not supported by a specific USAID authorization. However, CARE contends that in 1974, following an exchange of letters with USAID, it was agreed that these expenditures were authorized and would be reported to USAID on a quarterly basis but neither CARE or USAID were able to provide us with a copy of the relevant letters. Furthermore, although USAID receives container fund reports quarterly, they do not acknowledge receipt of the reports nor do they indicate approval or disapproval of the expenditures.

Recommendation No. 5

The Director, USAID/Sri Lanka should require that past and future container fund reports of income and expenditures be reviewed to the extent necessary to determine if the expenditures are acceptable. CARE should be required to restore any expenditures determined to be unacceptable.

F. INTERNAL REVIEWS

CARE is not submitting internal reviews as prescribed in AID Regulation II.

Section 211.5 (c) of AID Regulation II requires that at intervals mutually agreed upon in writing by USAIDs and the voluntary agency, "the voluntary agencies shall conduct or arrange to have conducted comprehensive internal reviews or a series of examinations which, when combined, will represent a complete review of Title II program(s) 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 program under their administration".

CARE informed us that it is audited annually by an independent firm of Chartered Accountants. CARE contends that these independent audits, for the most part, meet AID requirements. The audit reports, however, had not been submitted by CARE to USAID/Sri Lanka for their review since 1976.

We reviewed two of the audit reports for the years ending June 30, 1978, and June 30, 1979, and found several significant omissions in the coverage of program aspects in these independent reviews. For example, we found:

- Differences in physical inventories between CARE records as well as warehouse records which were not reconciled;
- No attempt was made to determine whether any end-use checks were made or to comment on their effectiveness;
- Production of biscuit quantities significantly below normal output levels by one manufacturer were not explained and there was no mention of processing agreements and whether shortfalls were recoverable from processors;
- There was no mention of PL 480 Title II commodities and indigenous cereal inputs needed to manufacture Thriposhna which is the basic commodity utilized in the MCH program;
- No amounts were given for claims filed with the GSL for interior losses; and
- The reports did not indicate whether the CARE program was in compliance with PL 480 Title II regulations. In general, the reports did not clearly identify problems areas or their extent.

Consequently, the independent audits did not meet the requirement of AID Regulation II, Section 211.5(c) which specifies that the internal reviews must be comprehensive or a complete review of Title II programs.

Recommendation No. 6

The Director, USAID/Sri Lanka should require CARE to perform comprehensive internal reviews and submit reports as required by AID Regulation II, Section 211.5(c).

G. USAID/SRI LANKA MONITORING

USAID/Sri Lanka has carried out only a minimal monitoring of the PL 480 Title II program because of staffing constraints. They do not have a Food For Peace Officer and until February 1977, the U.S. professional staff consisted only of an AID Representative and a Program Officer. Their current staff has increased to 17 Americans but Mission officials have indicated an additional local hire employee is needed specifically for monitoring the PL 480 Title II program because of its size and complexity.

The PL 480 Title II program in Sri Lanka has continued to expand over the years, increasing from about \$4.1 million in FY 1975 to an estimated \$6.4 in FY 1980. To date, the Program Officer has participated to a limited degree in the monitoring of the program but this consists primarily of a review of the AER's and program plans submitted by CARE. We believe much more effort is needed in monitoring the day-to-day activities of the program. Notwithstanding, the sense of proprietorship that CARE and GSL have in the PL 480, Title II program, the majority of commodities used are provided by the U.S. Government and these commodities should be controlled by USAID/Sri Lanka in accordance with AID Regulation II.

Recommendation No. 7

The Director, USAID/Sri Lanka should determine if additional local hire staff is needed to effectively monitor the PL 480 Title II program in Sri Lanka and take action to ensure that an adequate level of program monitoring is provided.

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Recommendation No. 6

The Director, USAID/Sri Lanka should require CARE to perform comprehensive internal reviews and submit reports as required by AID Regulation II, Section 211.5 (c).

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LIST OF REPORT RECIPIENTS

USAID/Sri Lanka

Director 5

AID/W

Deputy Administrator (D/AID) 1

Bureau For Asia

Assistant Administrator (AA/ASIA) 5

Office of Pakistan, Nepal and Sri Lanka (ASIA/PNS) 1

Audit Liaison Officer 1

Bureau for Private and Development Cooperation

Office of Food For Peace (PDC/FFP) 2

Office of Private and Voluntary Cooperation (PDC/PVC) 2

Bureau For Development Support

Office of Development Information and Utilization (DS/DIU) 4

Bureau For Program and Policy Coordination

Office of Evaluation (PPC/E) 1

Office of Legislative Affairs (AA/LEG) 1

Office of General Counsel (GC) 1

Office of Financial Management (FM) 1

IDCA Legislative and Public Affairs Office 1

Office of Auditor General

Auditor General (AG) 1

Communications and Records Office (AG/EMS/C&R) 12

Policy, Plans and Programs (AG/PPP) 1

Area Auditor General

Area Auditor General/Washington 1

Area Auditor General/Africa (East) 1

Area Auditor General/East Asia 1

Area Auditor General/Egypt 1

Area Auditor General/Latin America 1

OTHER

General Accounting Office (GAO/W) 1

Inspection and Investigations Staff (IIS/Washington) 1

New Delhi Residency 1