

PDAAU-445

47529

AUDIT OF
"SHARE'S" MANAGEMENT OF SECTION 416
SURPLUS DAIRY PRODUCT ASSISTANCE TO MEXICO

Audit Report No. 1-523-87-05
November 14, 1986

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:
RIG/T
APO MIAMI 34022

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA --- HONDURAS

TELEPHONES:
32-0044 & 32-0092
also 32-3120/9, EXT. 293 & 296

November 14, 1986

MEMORANDUM FOR: AID Representative in Mexico, Samuel Taylor
FROM : RIG/A/T, ^(Coinage N. Gothard) Coinage N. Gothard
SUBJECT : Audit of "SHARE's" Management of Section 416 Surplus Dairy Product Assistance to Mexico

This report presents the results of audit of surplus dairy product assistance under Section 416 to Mexico made by a private voluntary organization, SHARE (Self Help and Resource Exchange -- affiliated with the Roman Catholic Diocese of San Diego, California). Please advise us within 30 days of any additional information relating to actions planned or taken to implement the recommendations. We appreciate the cooperation and courtesy extended to our staff during the audit.

Background

The Agriculture Act of 1949 (as amended by Section 416) authorizes the donation of surplus dairy products overseas. Prior to May 24, 1984, the program was administered by the Commodity Credit Corporation (a U.S. Department of Agriculture Agency). On August 9, 1983 a Memorandum of Understanding was entered into between the Commodity Credit Corporation and the Agency for International Development (AID) designating AID the agent of the Commodity Credit Corporation for providing surplus dairy products to needy people overseas. AID Regulation 10 sets forth the general guidelines and procedures applicable to overseas donations of dairy products, as authorized under Sec. 416.

On May 9, 1984 AID, the Commodity Credit Corporation and the Diocese of San Diego Education and Welfare Corporation (represented by SHARE) agreed to distribute 7,837.4 metric tons (estimated value \$5.3 million) of dairy products (e.g. dry milk, cheese and butter) to needy persons in Mexico. On September 5, 1986 the Office of the AID Representative in Mexico suspended SHARE's activities after 3,772 metric tons had been distributed. The program was suspended because of alleged duplication of SHARE's efforts with other operating agencies and unauthorized distribution of commodities following the September 1985 earthquake in Mexico. A visit by a senior AID/Washington official in June 1986 resulted in a report that indicated: (1) inadequate recordkeeping by SHARE, (2) duplication of effort with other operating agencies, (3) unauthorized distribution of dairy products to Mexican customs officials, and (4) resale of dairy products. On September 5, 1986 SHARE named a local entity, Foundation for Social Support (FAS), as its exclusive representative in Mexico. FAS agreed to accept responsibility for entry

and transport of dairy products. Additionally, FAS undertook the support and management of existing distribution sites. There had been no SHARE representative in Mexico prior to September 5, 1986.

The Office of the AID Representative in Mexico is staffed by only one American AID direct hire employee (the Representative himself), two U. S. contractors, and a supporting staff of six foreign nationals. Yet it administers a Section 416 Program valued at over \$50 million in addition to its many other locally and centrally funded AID activities.

Audit Objectives and Scope

At the request of the AID Representative, the Office of the Regional Inspector General for Audit/Tegucigalpa made a compliance review of SHARE's role in providing Section 416 assistance to Mexico. The audit objective was to determine whether the dairy donation program was being properly administered. Specific objectives were to: (1) review accountable records at SHARE's office for the receipt, transport, storage and distribution of dairy products; (2) ascertain if duplication of SHARE's efforts with other agencies was occurring; (3) determine whether unauthorized distribution of surplus dairy commodities had been made; and (4) verify whether dairy products were diverted for other reasons, such as for resale on the market.

We reviewed the Dairy Donation Agreement between SHARE and AID and accounting records at SHARE Headquarters in San Diego, California. AID and SHARE officials were interviewed and appropriate files examined. Detailed audit site visits to distribution centers and end-users were not made because the program had been suspended. The audit was performed during the period October 1 through 9, 1986 and was made in accordance with generally accepted government auditing standards.

Results of Audit

Our review showed that SHARE was not complying with Section 416 donation agreements calling for the maintenance of financial and other records and documentation in a manner that accurately reflected all transactions pertaining to the receipt, transport, storage and distribution of dairy products.

The AID Representative in Mexico had arranged a meeting among all Section 416 voluntary agencies to address any duplication of efforts. Primarily because of this, we did not pursue this aspect further.

We could not determine whether unauthorized diversions of dairy commodities had occurred. At the same time, SHARE personnel were unable to assure us, through fully documented transactions, that unauthorized diversions had not occurred. Since the program had been suspended, and also because the dairy commodities lose their identity after distribution, we did not feel it would be cost-effective to perform site visits to determine whether unauthorized diversions had occurred. Instead, audit emphasis was placed on establishing the necessary internal controls needed to prevent any future unauthorized diversion of dairy products.

The lack of an effective system to ensure the accountability of dairy products was seen as a material internal control weakness leaving the program vulnerable to waste or abuse. Therefore, we recommended that adequate internal controls be established to monitor the donated dairy goods. We also recommended that AID provide definitive guidance to SHARE concerning the nature and limits of its responsibilities.

1. Internal Controls Were Inadequate to Account for Dairy Products - AID Handbook 19 provides internal control guidelines which were not being followed or enforced. As a result, SHARE lacked adequate internal controls over the receipt and distribution of commodities, raising the potential for waste or abuse.

Discussion - AID Handbook 19 Appendix 1D. "AID Internal Control Directives," requires the establishment and maintenance of adequate internal control systems to protect assets from waste, loss, unauthorized use and misappropriation. Since AID is the U.S. Government's agent in this program, the responsibility for seeing that distribution programs are safeguarded by adequate internal controls lies with the AID Representative to Mexico.

There were insufficient internal controls to ensure that dairy commodities received by SHARE and forwarded to distribution centers in Mexico were not diverted to other uses. Examples of poor internal controls were found in both the receipt and distribution of the donated commodities.

A. Receiving - Since SHARE inventory takers were made aware of quantities shipped prior to conducting their inventory count, both overages and shortages could go unreported and any overages could be diverted to unauthorized uses without detection. On the other hand, shortages could go undetected if the inventory takers merely reported the inventory count per the shipping notice instead of conscientiously carrying out a physical count of dairy products received.

B. Distribution - Controls were also needed to ensure that goods sent to distribution centers were in fact received by those distribution centers. The audit disclosed that SHARE did not have a system to verify that all quantities distributed were in fact actually received. Consequently, there were no assurances that the dairy products were properly accounted for.

2. Reporting Requirements Were Not Met on a Timely Basis - For a variety of reasons SHARE had not been promptly submitting required semiannual reports, hindering the AID Representative's oversight of the program.

Discussion - Paragraph 11 of the Dairy Product Donation Agreement required SHARE to submit a semiannual report to the chief, Title 11 Division, Food for Peace (AID) covering the receipt and distribution of dairy products. Our review for the period June 1984 to June 1986 showed that only one of the four required reports for the aforementioned period was prepared on time. SHARE personnel stated they were initially unaware

of the reporting requirement and that they were currently behind schedule because of the September 1985 Mexico earthquake. Also, SHARE personnel were not always sure whether the AID office in Mexico should have been receiving copies of its reports or not, since SHARE forwarded most correspondence to AID/Washington. Without the necessary reports, the AID Representative to Mexico could not adequately exercise his stewardship responsibilities.

3. Report Presentation Was Too Confusing - SHARE reports were not prepared in accordance with common business practice, apparently because of a lack of qualified personnel. As a result, they were confusing and unreliable.

Discussion - SHARE's reports to AID/Washington were not clearly or accurately presented to show receipt and distribution transactions. For example: (1) mathematical errors were detected, indicating underlying data were not adequately checked; (2) receipt discrepancies detected by SHARE personnel were not always explained; and (3) reports were full of non-essential data, resulting in confusion. The apparent cause was the absence of experienced personnel to prepare the reports in a professional manner. It is common business practice to ensure that data is accurate and clearly understandable. However, SHARE's reports to AID were not prepared in such a manner nor could AID rely on the accuracy of the data.

Recommendation No. 1

We recommend that the AID Representative to Mexico obtain evidence that SHARE has:

- a) implemented essential internal controls that will safeguard dairy commodities between all receipt, storage, transportation, and delivery points.
- b) employed personnel having the necessary business skills to ensure reporting requirements are complied with in a concise, accurate, and timely manner.
- c) acknowledged that its personnel have read and understood the Dairy Donation Agreement and AID Regulation 10.

Recommendation No. 2

We recommend that the AID Representative to Mexico issue definitive guidance to all participating private voluntary agencies including SHARE on the type of Sec. 416 program information required, when required, desired reporting format, and necessary accompanying supporting documentation.

The Office of the AID Representative in Mexico responded to the draft of this report by suggesting certain changes in the text. They have been incorporated in the final report.

APPENDIX A

REPORT DISTRIBUTION

	<u>No. of Copies</u>
AID Representative to Mexico	5
AA/LAC	2
LAC/SAM	1
LAC/DR	1
LAC/DP	1
LAC/PS	1
LAC/CONT	1
LAC/GC	1
LAC/RLAs	1
AA/FVA	1
FVA/PPE	1
FVA/PVC	1
FVA/FFP	1
FFP/LAC	1
AA/M	2
GC	1
LEG	1
M/FM/ASD	3
PPC/CIDE	3
AA/XA	2
XA/PR	1
IG	1
AIG/A	1
IG/PPO	2
IG/PSA	1
IG/LC	1
IG/EMS/C&R	12
IG/II	1
RIG/II/T	1
Other RIG/As	1

5