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IAN-50064

AUDIT OF THE PUBLIC LAW 480,
TITLE II PROGRAM WITH
CATHOLIC RELIEF SERVICES
IN BOLIVIA

Audit Report No. 1-511-87-15-N
May 18, 1987

AGENCY FOR INTERNATIONAL DEVELOPMENT

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May 13, 1987

MEMORANDUM

TO : Acting Director, USAID/Bolivia, George A. Wachtenheim
FROM : RIG/A/T, *George N. Gotthard*
George N. Gotthard, Jr.
SUBJECT: Audit Report No. I-511-87-15-N, "Audit of the Public Law 480, Title II Program with Catholic Relief Services in Bolivia"

This report presents the results of a non-Federal audit of the Public Law 480, Title II Program in Bolivia operated by Catholic Relief Services (CRS) and its local counterpart organization, Caritas-Bolivia (Caritas). The certified public accounting firm of Horwath & Horwath in Bolivia prepared the report, which is dated May 7, 1987.

The purpose of this audit was to report on (1) the fairness of the commodity statements for the year ended September 30, 1986, (2) the system of internal accounting controls established for administering and supervising the project, and (3) compliance by CRS and Caritas with the laws, regulations and agreement provisions to which they are subject in relation to the program.

In the opinion of Horwath & Horwath the commodity statements fairly present the quantities of commodities received and distributed as of September 30, 1986, except for not being able to determine (1) the quantity of inventory on-hand, (2) the amount of foreign currency on-hand, and (3) the quantity of commodities loaned to and returned from other cooperating sponsors. However, in their opinion, the Statement of Cash Income and Expenses does not fairly present the cash position of CRS/Caritas due to inadequate accounting records of currency balances. Their study and evaluation of the system of internal controls disclosed significant weaknesses related to inadequate inventory records, inadequate storage facilities and inadequate supervision. They also determined that CRS/Caritas was not in compliance with certain regulations applicable to the PL 480, Title II Program. For items not tested, nothing came to their attention that caused them to believe that untested items were not in compliance.

The Horwath & Horwath report contains 9 recommendations to improve the CRS/Caritas system of internal controls and 11 recommendations to achieve compliance with laws, regulations, and agreement terms. We believe that these recommendations will significantly improve CRS/Caritas's

administrative and compliance weaknesses. As a result, the following recommendation will be included in the Office of the Inspector General's audit recommendation follow-up system.

Recommendation No. 1

We recommend that USAID/Bolivia obtain evidence from Catholic Relief Services in Bolivia to demonstrate that it has implemented the 9 recommendations to improve the system of internal controls and the 11 recommendations to achieve compliance with laws, regulations and agreement terms contained in the Horwath & Horwath report dated May 7, 1987.

Please advise this office within 30 days of the actions planned or taken to implement this recommendation.

AUDIT OF THE PL 480 TITLE II

PROGRAM -- BOLIVIA

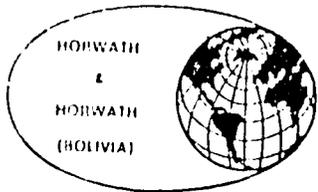
CATHOLIC RELIEF SERVICES

AUDIT OF THE PL 480 TITLE II PROGRAM - BOLIVIA

CATHOLIC RELIEF SERVICES

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HORWATH & HORWATH (BOLIVIA) LTDA.

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LA PAZ -- BOLIVIA

Mr. Coinage N. Gothard
Regional Inspector General for Audit
U.S. Agency for International Development
Tegucigalpa, Honduras, C.A.

Dear Mr. Gothard:

This report presents the results of our audit of the PL 480, Title II Program-Bolivia managed by Catholic Relief Services-Bolivia for the period October 1, 1985 to September 30, 1986.

BACKGROUND

Catholic Relief Services (CRS) is an institution that was created by the United States Catholic Conference with a humanitarian purpose. Its main objective is to help the world's poor and needy people. CRS's counterpart agency in Bolivia is CARITAS-BOLIVIA, an agency of the Bolivian Catholic Episcopal Conference. The prime aim of the CRS/CARITAS PL 480, Title II Supplemental Feeding Program in Bolivia is directed toward two groups: (1) children under six years of age that are likely to be suffering from PEM (Protein energetic malnutrition) and (2) troubled persons, primarily women of child bearing age, in poor communities throughout Bolivia. To fulfill these responsibilities CRS/CARITAS has an organization comprised of a Central Office in La Paz and Regional Offices located throughout the country.

According to their FY' 86 Operational Plan CRS/CARITAS' Specific Feeding Projects for distribution of PL 480, Title II commodities for FY'86 were the following:

1. Mother-child Health (MCH)

This program represents a direct food subsidy distributed to the family through organized Mother Centers and Clubs.

The goal is to improve the health and nutritional level of women and their young children through promotional activities, such as health education, proper food preparation and nutritional information, income-generating activities, and basic literacy education.

2. School Feeding (SF)

This program is designed as an indirect food subsidy for families of participating primary school children. The principal objectives are to improve the quality of the student's diet, decrease absenteeism from school, and elevate the ability of the student to learn through better health and nutritional habits.

3. General Relief Assistance (G.R.)

This is a general and purely humanitarian project without any measurable development impact. The purpose is to provide the program with a ready relief capability which will be used to meet extraordinary needs of the poor in general. Beneficiaries include those enrolled in institutions as indigent and poverty cases.

4. Food for Work (FFW)

The FY 1986 Operational Plan did not consider the Food for Work Program as an activity of CRS, since the experience acquired indicated that very little has been done in this area, in part because this program does not really fit within the overall goals and objectives of the CRS/CARITAS Program. However it was agreed with USAID to include in the FY 1986 program 356 metric tons of commodities to be distributed to 6,000 beneficiaries.

NUMBER OF BENEFICIARIES BY PROGRAM AND QUANTITY OF FOOD PROGRAMMED TO BE DISTRIBUTED DURING FISCAL YEAR 1986 AS PER OPERATIONAL PLAN

FY 1986 Program	Number of Beneficiaries	Commodities Metric Tons
Mother Child Health (MCH)	235,125	13,402
School Feeding (SF)	115,000	4,158
Food for work (FFW)	6,000	356
General Relief (GR)	15,000	1,143
Total	371,125	19,059

AUDIT OBJECTIVES AND SCOPE

The objective of our audit was to perform a financial and compliance audit of the PL 480, Title II Program for the period October 1, 1985 to September 30, 1986. Our main task was to determine if funds and/or commodities were being properly accounted for and used as directed by the agreements or other applicable program documents. Our examination included a study and evaluation of internal controls over commodities and compliance with AID regulations and the Food For Peace Agreement with Catholic Relief Services Bolivia.

The specific functional issues addressed were whether:

1. Required reports were properly and accurately prepared and were submitted promptly.
2. Adequate accounting was being maintained over receipt, storage, shipment, distribution, sale, and inspection of the donated commodities, and over outreach grant funds.
3. Proper facilities existed for storage and handling to ensure ultimate distribution of the commodities in good condition.
4. Inland transportation of commodities was effective and transportation companies were competitively selected.
5. Commodities were distributed to eligible recipients and beneficiaries and were not sold or exchanged by persons in charge of distributions.
6. Commodities were distributed free to eligible recipients or as partial payment of wages.
7. Adequate publicity was given to the fact that the commodities were donated or furnished by the people of the United States.
8. Proceeds from sales of containers and/or recipient contributions were accounted for and used for approved program expenses.
9. Beneficiaries qualified as eligible recipients under established criteria.
10. Commodities unfit for human consumption were promptly reported and disposed of by approved methods.
11. All losses and misuses of commodities were promptly reported to the AID Mission and to the Cooperating Sponsor's headquarters in accordance with regulations; reasonable efforts had been made to pursue claims against third parties; and claims proceeds payable locally had been deposited with the United States Disbursing Officer.
12. Adequate supervision was being provided to the program.

Our examination was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and, accordingly, included a review of the system of internal controls, tests of transactions, and such other tests as we considered necessary to determine: a) whether the commodity statements of the audited entity present fairly the commodity and financial position and

results of operations in accordance with generally accepted accounting principles and b) whether the entity has complied with the laws, regulations and agreement provisions.

The scope of the work consisted of:

1. Examining the commodity statements.
2. Performing a review and evaluation of the administrative and accounting control system pertaining to the physical receipt, storage, distribution and use of commodities.
3. Reviewing the internal control system of Catholic Relief Services related to the physical safeguarding, warehousing, controlling and delivering of inventories of commodities.
4. Visiting the Regional Offices of the Cooperating Sponsor in the districts of La Paz, Corocoro, Santa Cruz, Cochabamba, Oruro, Tarija, Sucre and Potosi for the purpose of establishing whether the use and distribution of commodities to recipients was in accordance with AID Regulation 11 and the Operational Plan for FY 1986.

RESULTS OF AUDIT

1. Commodity Statements

Our examination of the commodity statements of the PL 480, Title II Program-Bolivia managed by Catholic Relief Services as of September 30, 1986 revealed that, in our opinion, the Statement of Commodities Programmed and Distributed, the Statement of Receipt and Distribution of Commodities and the Statement of Imports accurately, reasonably and fairly present the commodities received and distributed, except for the following limitations in our audit scope and departures from generally accepted accounting principles:

- A. Due to inadequate inventory records, we were unable to satisfy ourselves as to the quantity of inventories of commodities as of September 30, 1986.
- B. Lack of accounting records regarding the purchase of foreign currency with funds contributed by beneficiaries of the Program.
- C. Lack of accounting records and reconciliations of commodities loaned to and returned from other cooperating sponsors and institutions.

Our examination revealed that in our opinion, the Statement of Cash Income and Expenses does not fairly present the cash position of Catholic Relief Services as of September 30, 1986 due to the effect of not keeping adequate accounting records of foreign currency balances on hand.

2. Internal Controls

Our study and evaluation of the internal control system of the PL 480, Title II Program-Bolivia managed by Catholic Relief Services revealed certain conditions as described in our report which, in our opinion, result in more than a relatively low risk that errors or irregularities in quantities that would be material in relation to the commodity statements may occur and not be detected within a timely period. Those conditions were related to inadequate inventory records, inadequate storage facilities and inadequate supervision.

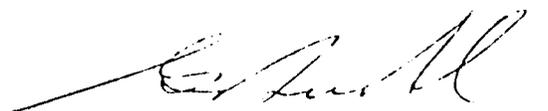
3. Compliance with Agreement Terms

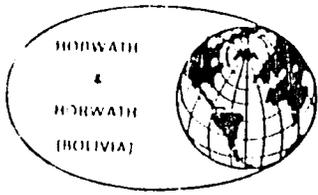
Our examination revealed that Catholic Relief Services has not complied with AID Regulation 11 regarding the use and distribution of commodities, eligibility of recipients and the requirement to provide adequate supervisory personnel for the efficient operation of the program in the distribution of commodities. Other instances of non-compliance were also revealed. For items not tested, nothing came to our attention that caused us to believe that untested items were not in compliance with applicable AID Regulations.

Management Comments

Relevant comments by CRS/CARITAS are incorporated in this report.

May 7, 1987


HORWATH & HORWATH BOLIVIA



HORWATH & HORWATH (BOLIVIA) LTDA.

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LA PAZ -- BOLIVIA

AUDIT OF THE PL. 480, TITLE II PROGRAM--BOLIVIA,

CATHOLIC RELIEF SERVICES

REPORT ON THE EXAMINATION OF COMMODITY STATEMENTS

AUDITOR'S OPINION

We have examined the Statement of Commodities Programmed and Distributed by Catholic Relief Services PL 480, Title II Program Bolivia for the Fiscal Year ended September 30, 1986, and the related Statement of Receipt and Distribution of Commodities and the Statement of Imports for the same year. We also examined the Statement of Cash Income and Expenses for the year ended September 30, 1986. Our examination was made in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision) and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except for the limitations explained in the following paragraphs.

Due to inadequate inventory records, we were unable to satisfy ourselves as to the quantity of the inventories of commodities as of September 30, 1986.

As explained in Note B - 9, Catholic Relief Services has created an Economic Reserve which is managed by their Regional Offices. Such reserves are shown in the Statement of Cash Income and Expenses as an expense for the amount in Bolivian pesos used to purchase foreign currency at the historic rate of exchange.

We could not determine the total amount of foreign currency on hand as of September 30, 1986. No formal accounting records are maintained of foreign currency transactions at the Regional Offices and the National Office does not control or consolidate such balances.

As explained in Note B - 3, the Statement of Receipt and Distribution of Commodities as of September 30, 1986 includes other receipts and other deliveries, which accounts for quantities of commodities loaned to and returned from other cooperating sponsors and institutions. We were unable to satisfy ourselves as to quantities of commodities loaned and returned, because no formal accounting records are maintained and no reconciliations of accounts are made with the other agencies and institutions. We did not receive confirmation of such quantities of commodities loaned to and returned from the other agencies and institutions.

In our opinion, except for the effect of the matters described in the above paragraphs, the Statement of Commodities Programmed and Distributed, the Statement of Receipt and Distribution of Commodities, and the Statement of Imports for the Fiscal Year ended September 30, 1986 present accurately, reasonably and fairly commodities received and distributed under the PL 480, Title II Program Bolivia by Catholic Relief Services.

In our opinion, due to the effect of not keeping adequate accounting records of foreign currency balances on hand, as explained in the above paragraph, the Statement of Cash Income and Expenses does not present fairly the cash position of Catholic Relief Services as of September 30, 1986.

May 7, 1987



HORWATH & HORWATH BOLIVIA

PL 480 TITLE II PROGRAM BOLIVIA
 CATHOLIC RELIEF SERVICES
 STATEMENT OF RECEIPT AND DISTRIBUTION
 OF COMMODITIES
 FISCAL YEAR ENDED SEPTEMBER 30, 1986
 (Expressed in Metric Tons)

(Note A)

	<u>Milk</u>	<u>Wheat Flour</u>	<u>Corn Flour</u>	<u>Rice</u>	<u>Bulgur</u>	<u>Oil</u>	<u>CSI</u>	<u>Oats</u>	<u>Lentil</u>	<u>Total</u>
Beginning Inventory as of October 1, 1985	1,244	1,044	165	45	2,766	750	15	10	19	6,058
Add Receipts:										
Imports (Note B-1)	3,331	6,963			6,568	1,484	3,974			22,320
Others (Note B-3)	<u>40</u>	<u>174</u>		<u>1</u>	<u>42</u>	<u>8</u>				<u>265</u>
Total	4,615	8,181	165	46	9,376	2,242	3,939	10	19	28,643
Less Deliveries:										
Distribution to beneficiaries (Note B-2)	3,321	3,973	165	41	6,053	1,608	2,875	9	19	18,064
Shrinkage	<u>1</u>									<u>1</u>
Others (Note B-3)	<u>20</u>	<u>82</u>		<u>1</u>	<u>163</u>	<u>6</u>				<u>272</u>
Total Inventory reported, September 30, 1986	<u><u>1,273</u></u>	<u><u>4,126</u></u>	<u><u>165</u></u>	<u><u>4</u></u>	<u><u>3,160</u></u>	<u><u>628</u></u>	<u><u>1,114</u></u>	<u><u>1</u></u>	<u><u>19</u></u>	<u><u>10,306</u></u>

See notes to commodity statements

PL 480 TITLE II PROGRAM - BOLIVIA

CATHOLIC RELIEF SERVICES

STATEMENT OF COMMODITIES PROGRAMMED AND DISTRIBUTED

YEAR ENDED SEPTEMBER 30, 1986

(Expressed in Metric Tons)

(Note B-2)

<u>PROGRAM</u>	<u>PROGRAMMED</u>		<u>DISTRIBUTED</u>	
	<u>Number of Recipients</u>	<u>Commodities M.T.</u>	<u>Number of Recipients</u>	<u>Commodities M.T.</u>
Mother Child	235,125	13,402	211,064	12,209
Pre-school Feeding			393	18
Other child			2,321	155
School Feeding	115,000	4,158	108,793	3,117
Food for Work	6,000	356	16,360	1,189
Adult Institutions	<u>15,000</u>	<u>1,143</u>	<u>21,294</u>	<u>1,237</u>
Sub-totals	<u>371,125</u>	<u>19,059</u>	<u>360,225</u>	17,925
Lake Titicaca Rehabilitation and Food for Work				<u>139</u>
				<u>18,064</u>

See notes to commodity statements

PI. 480 TITLE II PROGRAM -- BOLIVIA

CATHOLIC RELIEF SERVICES

STATEMENT OF IMPORTS

YEAR ENDED SEPTEMBER 30, 1986

(Expressed in Metric Tons)

(Note B-1)

<u>Commodity</u>	<u>Quantity programmed</u>	<u>Quantity shipped</u>	<u>Products in transit</u>	<u>Lost in sea transit and delivery</u>	<u>Quantity received</u>
Milk	3,529	3,057	331	12	2,713
Wheat flour	4,868	4,264	101	75	4,089
Bulgur	4,868	4,473		34	4,440
Oil	1,585	1,208	58	18	1,132
C.S.M.	<u>4,209</u>	<u>4,396</u>	<u>367</u>	<u>55</u>	<u>3,973</u>
	19,059	17,398	857	194	16,347
Emergency	<u>1,907</u>	<u>5,994</u>	<u>1,822</u>	<u>35</u>	<u>4,138</u>
Sub-total	<u>20,966</u>	<u>23,392</u>	<u>2,679</u>	<u>229</u>	20,485
Shipments cor- responding to FY 1985					<u>1,835</u>
					<u>22,320</u>

See notes to commodity statements

PL 480 TITLE II PROGRAM - BOLIVIA

CATHOLIC RELIEF SERVICES

STATEMENT OF CASH INCOME AND EXPENSES

FROM JANUARY 1, 1986 TO SEPTEMBER 30, 1986

(Expressed in millions of Bolivian pesos)

(Note B-6)

Beginning cash balance as of January 1, 1986		96,276
Plus Income: (Note B-5)		
Sale of Containers	212,339	
Cash Contributions	784,729	
Regional Office Remittances (Note B-7)	<u>128,953</u>	<u>1,126,021</u>
		1,222,297
Less Expenses: (Note B-5)		
Personnel Service	228,745	
Personnel Expenses	442,933	
Other Services	62,666	
Fixed Assets	57,613	
Economic Reserve	<u>13,426</u>	<u>805,383</u>
Ending cash balance as of September 30, 1986		<u><u>416,914</u></u>

See notes to commodity statements

AUDIT OF THE PL 480 TITLE II PROGRAM-BOLIVIA

CATHOLIC RELIEF SERVICES

NOTES TO COMMODITY STATEMENTS

FISCAL YEAR ENDED SEPTEMBER 30, 1986

A. CONSOLIDATION

The consolidated CRS Commodity Statements are prepared from the Movement and Distribution of Commodities and Cash Income and Expense reports submitted by the following Regional Offices:

La Paz
Corocoro
Oruro
Cochabamba
Santa Cruz
Sucre
Potosi
Beni
Tarija

The Consolidated Commodity Statements include the Regular Program, the Urban Program and the special one for Lake Titicaca.

B. RECORDING PROCEDURES AND ACCOUNTING POLICIES

1. Imports

During fiscal Year 1986, 29 shipments composed of 20,485 metric tons of commodities were received from the PL 480, Title II Program, and 8 shipments composed of 1,835 metric tons corresponded to fiscal year 1985. The recording procedure originates in each port of entry according to cargo manifest. The unit of weight used for reporting purposes is net kilos. A summary report of deliveries to warehouses is prepared on a monthly basis.

The difference between the amount of commodities shipped and received of 2,908 M.T. is the following: 2,679 M.T. of commodities were received after September 30, 1986 and 228 M.T. of commodities were lost in transit from port of origin to destination.

2. Distribution to beneficiaries

In accordance to AID Regulation 11, Paragraph 211.5 (e) Eligibility Criteria, CRS/CARITAS determines the eligibility of approved programs. Distributions to beneficiaries are accomplished every month according to rations approved by CRS.

3. Other receipts and deliveries of commodities

These represent loans to other cooperating agencies and institutions. The recording system is cumulative. A return of commodities does not cancel the recording of that loan.

4. Physical inventories

The procedure used for physical control of inventories is based on the first-in-first-out system.

5. Use of funds generated from contributions and sales of containers.

CRS/CARITAS Bolivia receives income from payments and contributions by beneficiaries and from sales of containers. These funds are used to carry out the objectives of the program by covering the costs of the program, including transportation, storage, improvement of storage facilities, construction of warehouses, handling, control of insects and rodents, repacking of spoiled commodities, payments to local personnel and other authorized expenses.

6. Statement of Cash Income and Expenses

The Cash Income and Expenses Statement is prepared on a cash basis. Each Regional Office has a budget and allotment control ledger. The annual report of cash income and expenses is prepared for the calendar year January 1, to December 31. The F.Y. 1986 cash report includes only the 9 months from January 1, to September 30, 1986 because the cash balance as of October 1, 1985 was not available at the time this report was issued.

7. Funds remitted by Regional Offices

As much as 15 percent of the contributions of beneficiaries to the Regional Offices are sent monthly to the National Office. These funds are used for operating expenses of the program.

8. Economic Reserves

In order to maintain the purchasing power of the local currency, the Regional Offices have created a reserve in foreign currency, which is recorded at the exchange rate at the date of a transaction .

C. IMPORTS

Commodities received as imports during F.Y. 1986 were as follows:

Points of Entry	<u>PRODUCTS/Metric Tons</u>					<u>Total</u>
	<u>Powdered Milk</u>	<u>Wheat Flour</u>	<u>Bulgur</u>	<u>CSM</u>	<u>Soya Oil</u>	
La Paz	1,004	1,700	1,571	1,399	410	6,084
Cochabamba	536	840	932	703	176	3,187
Oruro	241	503	747	475	104	2,070
Santa Cruz	372	638	665	458	177	2,310
Potosí	175	250	276	167	75	943
Sucre	282	407	361	381	138	1,569
Tarija	212	274	317	204	82	1,089
Beni	<u>131</u>	<u>216</u>	<u>355</u>	<u>186</u>	<u>42</u>	<u>930</u>
	<u>2,953</u>	<u>4,828</u>	<u>5,224</u>	<u>3,973</u>	<u>1,204</u>	18,182
Lake Titicaca rehabilitation and urban food for work programs						<u>4,138</u>
						<u>22,320</u>

D. OTHER RECEIPTS AND DELIVERIES

The distribution of these items were as follows:

<u>Institutions</u>	<u>Receipts M.T.</u>	<u>Deliveries M.T.</u>
SNDC	62	52
ADRA OFASA	137	123
CRUZ ROJA		8
DASSE		?
CFMUR	20	20
Foundation Against Hunger	41	59
Others	<u>5</u>	<u>8</u>
	<u>265</u>	<u>272</u>

E. DISTRIBUTION TO BENEFICIARIES

The distribution of food to beneficiaries during fiscal year 1986 were as follows:

<u>PROGRAMS</u>	<u>Number of Centers or Institutions</u>	<u>Number of Beneficiaries</u>	<u>Total quantity of Commodities Distribu- ted (MT)</u>
Mother-child	2,656	211,064	12,209
School feeding	1,477	108,793	3,117
Food for work	110	16,360	1,189
Food for pre-school	4	393	18
Other children	26	2,321	155
Adult Institutions	<u>203</u>	<u>21,294</u>	<u>1,237</u>
	<u>4,476</u>	<u>360,225</u>	17,925
Lake Titicaca rehabilitation and urban food for work program			<u>139</u>
			<u>18,064</u>

F. PHYSICAL INVENTORY

The physical inventories as of September 30, 1986, by regional office were follows:

PHYSICAL INVENTORY
YEAR ENDED SEPTEMBER 30, 1986
(Expressed in Metric Tons)

<u>REGIONAL OFFICES</u>	<u>In good Condition</u>	<u>Commodities Inadequate for Human Consumption</u>	<u>Total</u>
La Paz	2,257	16.16	2,273.16
Corocoro	110		110
Oruro	969	8.8	977.8
Cochabamba	1,216	1.4	1,217.4
Santa Cruz	435		435
Sucre	568	1	569
Potosi	256	4.04	160.04
Beni	33.3	1.5	34.8
Tarija	247.1		247.1
Physical inventory as of September 30, 1986	<u>6,091.40</u>	<u>32.90</u>	6,124.30
Lake rehabilitation and urban food for work program			<u>4,179.70</u>
			<u><u>10,304.00</u></u>

The final inventory at September 30, 1986 was 10,306 M.T. of commodities. The difference between physical and kardex was 2 M.T. of commodities lost in transit.

The 32.90 M.T. of commodities unfit for human consumption on the above chart correponds to the regular program, and were in transit waiting for official authorization.

G. CHART OF ASSIGNED RATIONS BY PROGRAM

The chart of Assigned Rations by program approved for fiscal year 1986 by CRS was as follows:

COMMODITIES (in kg)

<u>PROGRAM</u>	<u>Powdered Milk</u>	<u>Flour</u>	<u>CSM</u>	<u>Bulgur</u>	<u>Oil</u>	<u>Total</u>
F	0.90	1.20	1.00	1.20	0.45	4.75
B	0.90	1.20	1.00	1.20	0.22	4.52
H		1.50	1.50	1.50	0.45	4.95
A-C	0.90	1.50	2.00	1.50	0.45	6.35

H CONTRIBUTIONS FROM BENEFICIARIES AND OTHERS

The following chart shows contributions made by eligible beneficiaries for fiscal year 1986.

<u>PROGRAM</u>	<u>Cost per ration</u>	
	<u>Urban Area</u> <u>\$b</u>	<u>Rural Area</u> <u>\$b</u>
Mother-child	400,000	400,000
	600,000	
School feeding		500,000
		300,000

I. REMITTANCES FROM REGIONAL OFFICES

<u>Regional Offices</u>	<u>15% of Total contributions from Beneficiaries</u>
La Paz	50,172
Cochabamba	20,124
Oruro	11,186
Santa Cruz	10,615
Sucre	11,427
Potosi	8,826
Tarija	8,695
Beni	<u>7,908</u>
	<u>128,953</u>

J. ENDING CASH BALANCE

The ending cash balance for each Regional Office and the National Office as of September 30, 1986 is as follows:
(In millions of Bolivian pesos)

<u>Regional Office</u>	<u>Deposits in checking Account (1)</u>	<u>Deposits in Savings Account (2)</u>	<u>Total</u>
La Paz	157,263	28,164	185,427
Cochabamba	18,222	3,543	21,765
Oruro	42,955	11,010	53,965
Santa Cruz	22,089	24,269	46,358
Sucre	27,631	7,885	35,516
Potosi	5,388	4,349	9,737
Tarija	19,383	8,386	27,769
Beni	3,685	4,064	7,749
National Office	<u>28,628</u>		<u>28,628</u>
	<u>325,244</u>	<u>91,670</u>	<u>416,914</u>

(1) Corresponds to deposits of contributions by beneficiaries.

(2) Corresponds to deposits from sales of empty containers.

MANAGEMENT COMMENTS

See appendix 1



AUDIT OF THE PL 480 TITLE II PROGRAM BOLIVIA
CATHOLIC RELIEF SERVICES
REPORT ON INTERNAL CONTROL SYSTEM
AUDITOR'S OVERALL OPINION

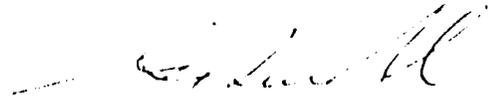
In relation to the examination of the Commodity Statements of the PL 480, Title II Program-Bolivia managed by Catholic Relief Services for the fiscal year ended September 30, 1986, we have performed a study and evaluation of the system of internal control over commodities. Our study and evaluation was performed in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 revision). According to the Fiscal Year 1986 Operation Plan, CRS was responsible for the distribution of 19,059 Metric Tons of donated commodities under the PL 480, Title II Program in Bolivia. Our study included the evaluation of procedures used to account for the arrival, storage, shipment and distribution of these donated commodities; warehouse facilities for storage and handling; and supervision over the program.

Catholic Relief Services (CRS) and its local counterpart (CARITAS BOLIVIA) are responsible for establishing and maintaining a system of internal accounting control for this program. In fulfilling this responsibility, estimates and judgements by the directors are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide reasonable, but not absolute, assurance that commodities are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with applicable regulations, and authorizations and are recorded properly to permit the preparation of commodity statements.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the internal controls of CRS detected significant weaknesses which are described in the following pages. The main weaknesses detected were related to inadequate inventory records, inadequate storage facilities and lack of adequate supervision over the distribution of commodities. These weaknesses, in our opinion, result in more than a relatively low risk that errors or irregularities in quantities that would be material in relation to the commodity statements may occur and not be detected within a timely period.

May 7, 1987



HORWATH & HORWATH BOLIVIA

ACCOUNTING AND ADMINISTRATIVE SYSTEM

I. Undeposited Cash Receipts

Condition:

Cash receipts from sales of containers and recipient of contributions in the Regional Offices of Santa Cruz, Sucre, and Potosi had not been deposited in the bank by the following day. Some deposits were delayed up to 5 days.

Criteria:

Sound internal control practices call for bank deposits of all cash receipts to be made by the day following collection.

Cause:

- A. The Agency's cashier did not have sufficient time to make daily deposits.
- B. Santa Cruz Suppliers did not always accept payments by check, therefore the Regional Office utilized cash to make such payments.

Effect:

The Regional Offices were not following good internal control practices, and therefore there was a risk of having unauthorized transactions.

Recommendation:

USAID/Bolivia should require CRS/CARITAS to increase the petty cash fund for urgent purchases. All daily cash receipts should be deposited in full in the bank account by the day following collection.

Inaccurate Account Balances of Foreign Currency Funds

Condition:

Foreign currency funds which were received from beneficiaries and contributors, from sales of empty containers, and from other sources were not converted at the current exchange rate for recording purposes in the accounting ledgers of the Santa Cruz, Sucre and Tarija Regional Offices. Also as of the date of this report interest accrued up to September 30, 1986 in the Santa Cruz Foreign Bank Account had not been recorded.

Criteria

For accounting purposes foreign fund balances in cash and in foreign bank accounts should be converted into Bolivian pesos at the rate of exchange in effect at the close of business.

Cause:

CRS/CARITAS Headquarters had not issued clear regulations or instructions concerning this matter.

Effect:

Accounting records in Bolivian pesos did not show actual balances for foreign currency on hand and in bank accounts. Therefore the accounting records were not accurate.

Recommendation:

USAID/Bolivia should require the CRS/CARITAS Regional Offices to convert foreign cash on hand and in bank balances at the exchange rate in effect at the close of business. Also interest income should be recorded when accrued.

3. Foreign Currency Funds not Properly Utilized

Condition:

Foreign currency funds were not adequately used or recorded:

- A. In the Regional Office of Tarija, a voucher for \$US 6,000 delivered to the National Director was unaccounted for.
- B. The Oruro Regional Office delivered \$US. 5,300 on April 17 and June 11, 1985 to the National Office. Also, \$US 11,000 were delivered to the Bishop Office to be deposited in a foreign bank account. However as of the date of this report, the program operations for which the funds were to be used had not been carried out. Return of these funds was being requested.
- C. According to the records on the date of our visit to the Corocoro Regional Office, there were approximately \$US 53,000 under the personal custody of the Director, who was not present when we made our cash count.

Criteria:

In accordance with AID Regulation 11, Paragraph 211.5 (i) funds received by Cooperating Sponsors shall be used for payment of program costs. All of the available funds should be deposited in a special bank account.

Cause:

The foreign currency funds were to be used to maintain the purchasing power of available funds, but instead were not utilized.

Effect:

The institution had liquidity problems, but the foreign currency were not being used properly for payment of program costs.

Recommendation:

USAID/Bolivia should require CRS/CARITAS Headquarters to require the Regional Offices to utilize foreign currency funds for payment of program costs. Also all available funds should be deposited in a special bank account.

4 Organizational and Functional Weaknesses

Condition:

- A. The duties and functions of employees were not specified in written form. Presently, supervisory work is carried out by promoters, personnel in charge of programs, outside institutions and other employees, who should not perform specific supervisory work. There were no function and responsibility manuals for use by personnel.
- B. The commodity distribution form (SG-3):
 1. In Sucre and Tarija it was prepared and approved by the same person. The same person was also in charge of the cash section.
 2. In Potosi, it was reviewed by the executive secretary who devoted most of her time to this function.
 3. In Cochabamba, it was not filed in correct chronological order due to the fact that some payments are made later. Also Program H-2 receipts were noted on loose sheets and not recorded on official receipt forms. The accounting for cash income and expenses was also on loose sheets.
 4. In Tarija, there was no correlativity in the use of receipt forms. This made it difficult to follow-up the movement of commodities. The four decimals were not used in the preparation of receipt forms.
 5. In La Paz, the head of the program did not review the SG-3 forms.

Criteria:

According to sound internal control procedures an administrative manual should be prepared describing the operations and procedures of each department and the duties of personnel in each department. This manual should define authority and responsibility lines, segregation of duties and training of personnel. The manual would act as a guide for detection of any deviations from normal work patterns and would permit corrections, if needed.

Cause:

CRS/CARITAS did not have an administrative manual describing the functions and operations of each department, duties of personnel, and authority and responsibility lines in accordance with sound internal control procedures.

Effect:

There was an inadequate internal administrative control system which resulted in risks of undetected errors and unauthorized transactions.

Recommendation:

USAID/Bolivia should require the National Office of CRS/CARITAS in conjunction with the regional representatives to establish an administrative manual describing the functions and operations for the entire organization, since information coming from different Regional Offices is consolidated in the National Office.

Accounting Records and Reports

Condition:

Records maintained by the Cooperating Sponsor did not accurately reflect all transactions pertaining to receipt, storage, distribution and inspection of commodities. Conditions observed were the following:

- A. CRS/CARITAS Headquarters did not maintain an independent record to control receipt and distribution of commodities of all of their Regional Offices. The consolidated reports were prepared based on reports submitted by the Regional Offices.
- B. CRS/CARITAS Headquarters did not make a careful review of supporting documents of monthly reports submitted by the Regional Offices. Some receipts and deliveries of commodities mentioned in the monthly reports of the Regional Offices of Cochabamba and Corocoro did not correspond to the correct monthly transactions, however this was not detected by the National Office.
- C. Consolidated reports of commodities were prepared after two months delay. Since deficiencies were not detected, no follow-up actions were made.
- D. The computerized system of commodities movement implemented by the National Office was not yet fully operational.
 1. Form RE-40 designed for inventory control of Regional warehouses did not contain a balance column.
 2. Instructions were issued to the Regional Offices to discontinue manual kardex control of their warehouses before the National Office had fully implemented the computerized system.
- E. The Sucre Regional Office did not use bin cards as a control mechanism to allow follow-up on receipts, storage and distribution of commodities. There were no records for empty containers or damaged commodities. The executive secretary did not adequately supervise the preparation of reports by each department.
- F. Cash income and expense transactions were not adequately processed and recorded:
 1. In the Cochabamba Regional Office, accrued interest for their savings account was not being recorded in the accounting ledgers. The bank book for the checking account was not kept current, as of December 2, 1986. Transactions were only recorded up to February 1986.

2. In the Tarija Regional Office receipt forms issued for petty cash expenses were not numbered. We also found unrefunded cash receipts corresponding to October and November 1986, notwithstanding the fact that the last delivery of funds for petty cash was made in December 1986.
 3. In the Regional Office of La Paz, there were no copies of deposit receipts of the checking and savings accounts. Checks issued were not recorded in a correlative manner in the bank book. Vouchers for cash payments were not numbered.
 4. In Corocoro, checks were issued in no specific name to buy dollars from the parallel market. Therefore, the payment vouchers were not signed by the payee.
 5. In Potosi, no bank book register was kept to control deposits, checks issued, and transfers of funds that might occur. Also, bank reconciliations were not prepared. No surprise counts of cash were carried out by the Regional Office.
- G. In the Headquarters Office we observed that:
1. The accounting section carried out the consolidation of income and expenses based on reports submitted by Regional Offices. In some cases consolidation was made without reviewing the documents supporting the movement of funds.
 2. The bank reconciliations of the Regional Offices were not reviewed.
 3. Consolidated reports were signed without a careful review of the statements. During our review, we detected some errors.
 4. The chart of accounts was not complete. Some accounts were lacking and some transactions improperly posted. For instance, contributions made by beneficiaries should be posted to a special account and not to the global income account.
 5. There was no uniform information procedure, at each Regional Office, to disclose the movement of income and expenses, which would allow the National Office an adequate consolidation.
 6. The information sent by each Regional Office was late, therefore consolidation was carried out with delays of two to three months.

Criteria:

- A. In accordance with AID Regulation 11, Paragraph 211.10 (a) the Cooperating Sponsor shall maintain records and documents in a manner which will accurately reflect all transactions pertaining to the receipt, storage, distribution, sale and inspection of commodities.
- B. An adequate system of internal controls requires correct usage of accounting forms and documents. Adequate records and controls must be maintained for proper administration of the Program.

Cause:

- A. Reduced personnel assigned and large movements of documents does not permit adequate control.
- B. The Regional Office sends the documents after excessive delay.
- C. No parallel register was programmed, (computerized or manual) to control warehouse operations until there was a definitive computer system working.
- D. According to personnel of the Sucre Office, the lack of bin cards and records was due to the fact that no instructions had been received from the National Office requiring them to follow these procedures. Also they stated that there were insufficient personnel to comply with these requirements.
- E. The National Office was not able to make a detailed review of reports and documents sent by Regional Offices. There was insufficient and inadequate personnel to perform these functions. The Regional Offices did not send reports to the National Office promptly.

Effect:

- A. Reports sent by the Regional Offices did not allow the National Office to make reconciliations and to follow-up in a timely manner.
- B. The documents were not reviewed adequately.
- C. The National Office did not have current information at any given date regarding the compliance of the program and to be able to take necessary actions.
- D. There were inadequate controls over the receipt, storage and distribution of commodities and over empty containers and damaged commodities.

E. The Consolidated Income and Expense Statement was prepared without an adequate analysis and evaluation of its content. These statements were not accurately prepared or on time, therefore they were not useful for executive decisions.

Recommendation:

USAID/Bolivia should require:

- A. The CRS/CARITAS National Office to implement a system at the national level to have better control over the movement of commodities. Such system should be independent from the Regional Offices.
- B. The National Office to carry out more detailed reviews of documents and to demand from the Regional Offices compliance with instructions regarding delivery of documents in a timely manner. Periodic evaluations must be carried out for better control of rations assigned and over the number of beneficiaries programmed by each Regional Office.
- C. CRS/CARITAS to require the Regional Offices to keep their kardex records in manual form and in a parallel manner until the information provided by the computer system is reliable.
- D. CRS/CARITAS to issue instructions to all Regional Offices to comply with AID Regulation 11, 211.10. All necessary documents and records should be maintained for a period of 3 years.
- E. The CRS/CARITAS National Office to carry out detailed and careful reviews of reports and documents submitted by the Regional Offices before issuing the consolidated financial statements.

STORAGE AND HANDLING SYSTEM

1. Incomplete Records of Commodity Arrivals

Condition:

- A. In Santa Cruz, La Paz, Oruro and Tarija, records and files of commodity arrivals were incomplete. We couldn't find supporting documents of commodity shipments from port of entry to the Regional Offices, i. e. invoices, bills of lading, survey reports and custom house cargo manifests. All of the copies of supporting documents were sent to custom house offices. There was a delay in obtaining custom duties clearances of more than one year.
- B. In Potosi no current files were maintained of packing lists (PL) where receipt of products is detailed. It was determined that for PL 1055 dated August 9, 1985, the entry of 1,519 units was not registered.

Criteria:

In accordance with AID Regulation 11, Paragraph 211.10 the Cooperating Sponsor's records and documents shall accurately reflect all transactions pertaining to receipt, storage, distribution, sale and inspection of commodities.

Cause:

CRS/CARITAS Regional Offices had not been adequately informed by National Office headquarters concerning their duties to keep complete records of commodity shipments.

Effect:

It was not possible to determine if the accounting records of the Regional Offices were reasonable, due to the lack of supporting documents.

Recommendation:

USAID/Bolivia should require CRS/CARITAS Regional Offices to maintain a commodity shipping file of all documents pertaining to each shipment. CRS/CARITAS Headquarters should establish an adequate filing system to keep complete records of commodity shipments for their Regional Offices.

2. Deficiencies in the Inventory Records and Physical Counts

Condition:

Records maintained by the Cooperating Sponsor did not accurately reflect transactions relating to inventories of commodities. The following conditions were observed:

- A. In the Regional Offices of Cochabamba and Santa Cruz, inventory records were corrected by hand and showed blots and erasure changes.
- B. In Corocoro, the physical inventory as of September 30, 1986 did not agree with what was reported in the SG-1 form for that month, because the form included transactions of commodities that arrived and were delivered in November 1986, two months later.
- C. In Santa Cruz, corrections were made in an original document showing delivery of commodities, but such corrections were not made in the other copy of the document which was used for posting to the inventory records.
- D. In our physical counts at the Sucre Regional Office, we found a shortage of oil. Commodities were loaned without authorization and corresponding recording in the inventory records.
- E. In Cochabamba, we determined that 20 bags of flour were missing and there were 3 excess boxes of milk. These discrepancies originated in November 1985 and March 1986 respectively. The National Office was not informed in the monthly reports about these differences.
- F. In our physical counts at the Regional Office of La Paz it was determined that there was a loss of 221 packages of milk. Also records of empty containers were not kept. The warehouse did not have adequate security facilities and products of other institutions, such as E.N.A. and the Custom Office, were stored there. In the same warehouse, products for the emergency program were stored. In one of the deposits in the warehouse products in bad condition, empty containers and products unfit for human consumption were stored.
- G. In Oruro, 30 drums of oil were loaned during 1985 and 1986 without being documented; and as of this date (December 18, 1986) they have not been returned.
- H. Inventory records were not kept up to date in the Cochabamba, Tarija, La Paz, Oruro and Corocoro warehouses.

- I. In Cochabamba, postings in the inventory kardex showed different balances from one month to the next, i.e. the closing balances of August, September and October were different from the opening balances posted for the next month. At the end of each month, amounts recorded as losses of food and transfers to other storage warehouses were not referenced to supporting documents or dated. Postings in the inventory records were made for one or two days of activity instead of by each individual receipt form. Postings were made for commodities which did not leave the warehouse.
- J. Several copies of receipt documents in the Regional Office of Santa Cruz did not have the signatures to support receipt by the distribution centers of commodities delivered. Receipt documents were prepared in advance and filed according to delivery of commodities. Sometimes the representatives from the distribution centers did not arrive on time to pick up the commodities; in the meantime the document was held pending

Criteria:

According to sound internal control procedures, accounting and inventory records of the Regional Offices should be kept in good order and up to date. Physical inventories should be compared with inventory records to determine necessary adjustments and to prepare reliable reports.

Cause:

- A. The CRS/CARITAS National Office did not issue clear instructions to its Regional Offices regarding how to keep adequate inventory records.
- B. Some of these Regional Offices were not well organized.
- C. The new form used in the Regional Offices to record and control inventories did not have a balance column.

Effect:

- A. The National Office did not receive adequate and up to date information on inventories of commodities.
- B. Inadequate control of commodities did not permit verification of physical inventory counts and quantities of damages and losses.

Recommendation:

USAID/Bolivia should require the CRS/CARITAS National Office to establish adequate accounting procedures in order to improve inventory records for the entire organization.

3. Inadequate Storage Conditions

Condition:

The Cooperating Sponsor did not release commodities from warehouses on a first-in-first-out basis. In some of the Regional Offices we found that commodities were not adequately stacked.

- A. In the Santivañez Center of the Regional Office of Cochabamba, storage conditions for commodities were very poor. Therefore, we could not establish the quantity of commodities damaged.
- B. In the distribution centers of La Paz, Corocoro, and Oruro, there were inadequate storage conditions.
- C. In Corocoro, no bin-cards for control of commodity stocks existed, therefore we could not establish if commodities were delivered on a first-in-first-out basis.
- D. In Potosi, commodities were stacked inadequately, without sufficient space between stacks.

Criteria:

In accordance with AID Regulation 11, 211.7 (c) the Cooperating Sponsor shall be responsible for the maintenance of commodities in such manner as to assure distribution of commodities in good condition to recipient agencies or eligible recipients.

Cause:

Inadequate utilization of funding resources of the institution did not permit the Regional Offices to maintain adequate storage facilities. Also, there was a lack of capable supervisory personnel.

Effect:

- A. Large Undetermined quantities of commodities were damaged in the Santivañez Distribution Center of the Regional Office of Cochabamba.
- B. There were undetermined quantities of commodities damaged in storage in the Distribution Centers of La Paz, Corocoro, Oruro and Potosi.

Recommendation:

USAID/Bolivia should require the CRS/CARITAS National Office to establish adequate procedures for the maintenance of commodities to assure distribution in good condition in accordance with AID Regulation 11, 211.7 (c).

4. Evaluation of Internal Controls Over Port Handling Facilities

Total PL 480, Title II commodities requested by CRS/CARITAS for fiscal year 1986 were 23,268 metric tons, of which 17,291 metric tons were for the Regular Program, 3,000 metric tons were for the Titicaca Lake Emergency Program and 2,977 metric tons were for the Urban Food for Work Program. 23,392 metric tons of PL 480, Title II commodities were actually shipped from the U.S. to the points of entry. 20,485 metric tons were received up to September 30, 1986 and 2,679 were in transit. Total losses in transit amounted to 228 metric tons which represents less than 1% of total shipments. Maritime losses were 205 metric tons and inland losses were 23 metric tons.

Our evaluation of the procedures followed by the Cooperating Sponsor in the process of unloading commodities at the points of entry and delivering them to the distribution centers revealed that commodities were adequately handled.

5. Claims for Losses and Damages in Maritime Transportation

Our evaluation revealed that all of the losses and damages of commodities in maritime transportation were adequately covered by appropriate claims and reported by CRS in the United States to the Maritime Shipping Transportation Company. CRS/Bolivia did not have information concerning the status of such claims.

INLAND TRANSPORTATION SYSTEM

1. Evaluation of Inland Transportation

Our evaluation of the process of inland transportation of commodities from the point of entry to the Regional Warehouses of the Cooperating Sponsor revealed that inland transportation of PL 480, Title II commodities during fiscal year 1986 was effective and transportation companies were adequately selected.

SUPERVISION OF PROGRAM

1. Supervision of the Program

Condition:

Based on the observations made during our audit, we determined that the Cooperating Sponsor did not provide adequate supervision and effective management to the program. The following conditions were observed:

- A. The National Office of CRS/CARITAS did not carry out supervisory visits to its Regional Offices to evaluate results of the program, except for visits to the Regional Offices of Cochabamba and Santa Cruz.
- B. The quarterly inspection reports of the Regional Office of Cochabamba states that a large number of supervisory visits were made to the distribution centers, however no written statements were prepared supporting the work done and the findings and recommendations which should have been made. Our observations revealed that only one supervisor covered this activity in this district. No visits were made to places far away from the city.
- C. In the majority of the Regional Offices the amount of supervisory work at the distribution centers was inadequate:
 1. In Tarija, only 5% of the supervision program was fulfilled for the School Feeding Program. Also at this Regional level, only 30% of the supervision program was accomplished. This Regional Office did not prepare a schedule of the visits that should be carried out by supervisory personnel.
 2. In La Paz, supervisory work was carried out by only one person, who was carrying out promotion and supervisory activities in only the urban and sub-urban areas of the Mother-Child Program. No plan for performing supervision was prepared.
 3. In Oruro, there was no supervisory unit and supervisory work was not carried out during the months from January to April and from July to September 1986. No written reports were prepared supporting the visits made in Oruro and La Paz.
 4. During fiscal year 1986 no supervisory visits to the distribution centers were made in the Regional Office of Corocoro.

5. The supervisory function was fulfilled in Potosi by two promoters, however reports prepared by them were incomplete, giving only the schedule of trips made.

Criteria:

In accordance with AID Regulation 11. 211.5 (b) Cooperating Sponsors shall provide adequate supervisory personnel for the efficient operation of the program.

Cause:

CRS/CARITAS did not assign to the Regional Offices sufficient funding resources, as well as capable personnel and vehicles to carry out supervision and control of the program.

Effect:

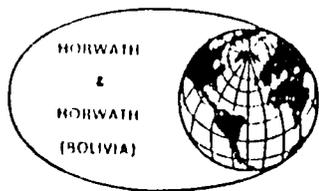
- A. Non-compliance with AID regulations by recipients and beneficiaries could cause irregularities in the program which would not be detected and corrected on time.
- B. There was inadequate information to determine if commodities were managed and distributed in accordance with AID Regulations.
- C. There was a lack of control and evaluation of the program concerning the final distribution of commodities.
- D. Deficiencies regarding organization, records, reports and control of distribution of commodities could not be detected and corrected by the National and Regional Offices.

Recommendation:

USAID/Bolivia should require the CRS/CARITAS National Office to comply with AID Regulation 11, 211.5 (b) by providing their Regional Offices with sufficient funding resources, capable and trained supervisory personnel and necessary facilities to carry out the supervision function. The CRS/CARITAS National Office should require all of their Regional Offices to submit written reports for each one of their supervisory visits to the distribution centers, including details of all of their findings, recommendations and actions taken to correct abnormal situations. The quarterly inspection reports should be prepared based on actual visits carried out during the period.

MANAGEMENT COMMENTS

See appendix 1.



HORWATH & HORWATH (BOLIVIA) LTDA.

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AUDIT OF THE PL 480 TITLE II PROGRAM-BOLIVIA

CATHOLIC RELIEF SERVICES

REPORT ON COMPLIANCE WITH AGREEMENT TERMS

AUDITOR'S OVERALL OPINION

We have examined the Commodity Statements of the 480, Title II Program-Bolivia for the Fiscal Year ended September 30, 1986. As part of our examination, we made a study and evaluation of the accounting and administrative internal control system for the Fiscal Year ended September 30, 1986 to the extent we considered necessary to evaluate the system. Our examination and study was made in accordance with generally accepted auditing standards and the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 revision), which include as additional standards and requirements the review of the compliance with laws, regulations and agreements.

The scope of the matters subject to our examination included a determination of compliance with AID Regulation 11 for the following:

1. General reporting requirements (11.211.10)
2. Use of commodities (11.211.5)
3. Distribution of commodities (11.211.7)
4. Publicity as AID program (11.211.5)
5. Use of proceeds from sale of containers (11.211.5)
6. Eligibility of recipients (11.211.5)
7. Disposal of damaged commodities (11.211.8 and 11.211.9)
8. Report on losses and misuses of commodities (11.211.9)

Our study and evaluation disclosed conditions which are described in the following pages which, in our opinion, indicate that Catholic Relief Services has not complied with AID Regulations regarding the use and distribution of commodities, eligibility of recipients, and the requirement to provide adequate supervision

for the efficient operation of the program. Also, instances of non-compliance were found related to general reporting requirements, publicity as an AID program, use of proceeds from sales of containers and contributions, and disposal of damaged commodities. For items not tested, nothing came to our attention that caused us to believe that untested items were not in compliance with applicable AID Regulations.

May 7, 1987



HORWATH & HORWATH BOLIVIA

GENERAL REPORTING REQUIREMENTS

1. Comprehensive Internal Reviews

Condition:

The last internal audit review conducted by CRS/NY of the PL 480, Title II Program-Bolivia managed by CRS/CARITAS Bolivia was made for the period: December 1, 1982 to September 30, 1985. Recommendations contained in such report, when applicable, were taken into account in the preparation of our audit report.

No external audit examinations had been conducted in accordance with AID Regulations and the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision) as of the date of this report.

Criteria:

In accordance with AID Regulation 11, 211.5 (c) the Cooperating Sponsor shall conduct or arrange to have comprehensive internal reviews or a series of examinations which, when combined, will represent a comprehensive review of the PL 480, Title II Program under its jurisdiction. Such examinations should be conducted once a year.

Cause:

USAID/Bolivia conducts periodic limited reviews, however we could not find copies of reports supporting such visits in the Regional Office files. These reviews do not meet the requirements for comprehensive internal reviews.

Effect:

The lack of internal reviews does not permit the proper evaluation of the program and follow-up of recommendations to correct abnormal conditions.

Recommendation:

USAID/Bolivia should require the CRS/CARITAS National Office to arrange for comprehensive internal reviews of the PL 480, Title II Program, to be conducted once a year as stated in AID Regulation 11, 211.10 (b).4 and 211.5 (c).

2. Governmental Clearance of Fiscal Year 1986 Imports

Condition:

The CRS/CARITAS National Office and its Regional Offices did not obtain the necessary approval from Customs authorities for clearance of the FY 1986 commodity imports.

Criteria:

AID Regulation 11 and the CRS/CARITAS agreement with the Bolivian Government states that all commodities imported under the U.S. PL 480, Title II Program should be free from taxes.

Cause:

CRS/CARITAS was not successful in obtaining clearance from Customs authorities due to lack of cooperation from Government authorities.

Effect:

The imports of commodities under the PL 480, Title II Program could be considered illegal according to Bolivian regulations.

Recommendation:

USAID/Bolivia should require CRS/CARITAS to ask the Bolivian Government to advise its Regional Custom authorities to give clearance to all PL 480, Title II imports in a reasonable period of time.

USE AND DISTRIBUTION OF COMMODITIES

1. Lack of Adequate Supporting Records and Documents in the Distribution Process

Condition:

Records and documents maintained by the Cooperating Sponsor did not accurately reflect all transactions pertaining to the use and distribution of commodities. The following conditions were observed:

- A. In Sucre, no records were kept in the distribution centers. Such distribution centers files should contain the following information:
 - History of the center
 - List of beneficiaries
 - Location of the centers
 - Copies of reports of previous visits by supervisors
- B. In Cochabamba, the filing system for required documents of the Mother-Child Program was not adequate. There was a general file by type of document instead of a file for each Mother-Child Center, making it difficult to perform a follow-up of information included in the documents. The list of beneficiaries was not up-dated every six months. In November 1986, the calculation of rations was made from the beneficiary lists for January and February 1986. There was no coordination between the work of the promotion department and the person in-charge of the Program, i.e. assignment control cards were completed by the promotion department on a monthly basis, but such control function should be carried out by the person in charge of the program. Control sheets signed by the beneficiaries as proof that the products were distributed were not required. Some centers did not have a contract with CARITAS, for example "Phujiuni" and "Rocha Rancho Nuevo". In most centers there was no official document showing the organization of the center or its activities.
- C. The Cochabamba Regional Office did not exercise adequate control of assignment cards for each school in the Rural School Feeding Program. Such cards were not current, therefore commodities were delivered without knowledge of real school needs. In general, the schools were not required to report on deliveries, consumption, balance of commodities, or beneficiaries receiving the commodities. No written statements were placed in folders indicating if supervision was carried out.

- D. In the Mother Child Program of the Regional Office of La Paz, distribution of commodities was made without fulfillment of the requirements established by CRS/CARITAS. For instance, commodity request forms and approval of these forms were not required for some of the older distribution centers. These requirements were fulfilled only by the newer Mother Centers. The distribution documents were not signed by the beneficiaries as proof of receipt of commodities. Reports regarding children's weight and size were not up-to-date in most of the files. These reports were used as a basis for control of the rations.
- E. In La Paz, the number of beneficiaries shown on the lists submitted by the charitable institutions in their commodity requests were different from those shown in the Regional Office records. No separate files were kept by each center. In the H-1 Program Food for Work Courses, the list of recipients was not signed by the participants. In some cases, the same person who was in charge of the program signed as the supervisor. In the H-2 Food for Work Program the documents were not signed by the recipients. The report of inspections prepared by the supervisor was not signed as approved by the Director. The records system of this Regional Office was inadequate.
- F. In Corocoro, recipient requests were not signed as approved by the Regional Office.
- G. In Oruro, we determined that some of the signatures on the recipient lists did not belong to the actual recipients. In many cases, the recipients date of birth did not correspond with the ones on their identification cards or birth certificates. The beneficiary files for the Mother-Child Program were not kept in an adequate manner. The corresponding documents regarding ages of children were not kept in adequate order. No written documentation existed of visits to the centers made by supervisors.

Criteria:

In accordance with AID Regulation 11, 211.10 (a) Cooperating Sponsors shall maintain records and documents in a manner which accurately reflects all transactions pertaining to the receipt, storage, distribution and inspection of commodities.

Cause:

The CRS/CARITAS National Office did not issue clear instructions regarding adequate recording procedures to their Regional Offices. There was a lack of capable personnel in the Regional Offices to handle this task.

Effect:

Inadequate records and documents maintained in the distribution centers result in a risk of undetected errors and/or unauthorized transactions.

Recommendation:

USAID/Bolivia should require the CRS/CARITAS National Office to issue instructions to all Regional Offices to comply with AID Regulation 11, 211.10. Capable and sufficient personnel should be hired in order to prepare adequate supporting records and documents.

2. Deficiencies in the Distribution of Commodities

Condition:

We observed the following conditions in our visits to the distribution centers:

- A. In the Rural School Feeding Program, the Regional Office of Cochabamba delivered commodities only up to October of 1986 notwithstanding that such assistance was promised to continue through December 1986. The instructions arrived too late to carry out these deliveries. Some of the Rural Schools did not have adequate warehouses or places for preparation of food which fulfilled the minimum hygienic conditions. Persons responsible for the preparation and distribution of commodities were teachers. Parents did not participate in this. Preparation and distribution of rations of commodities were not carried out in accordance with the program. 90% of the schools visited informed us that they did not receive an inspection or promotional assistance from CRS/CARITAS.
- B. In Tarija, commodities were delivered to schools in December, even though schools were closed in that month.
- C. In La Paz, even though the number of beneficiaries stayed constant in the Charity Assistance Program, the rations delivered changed from one delivery to another without any clear explanation.
- D. In the School Feeding Program of the Regional Office of La Paz some differences were found between the rations delivered to the Centers and those determined by our audit, for instance:

School	Center	Product	Delivered	Assigned	Difference
			as per receipts	as per Audit	
			Kg	Kg	Kg
Lipari	Yurupampa	Wheat flour	50	72	(22)
Lipari	Yurupampa	Wheat flour	100	72	28
Yapachi	Quilihuaya	Wheat flour	50	84	(34)
Contorno	Irpa Grande	Bulgur	100	72	28

These differences were due to the fact that complete units were delivered instead of exact weights and there was no control of bigger or smaller deliveries.

- E. In La Paz, it was determined that one of the centers was receiving commodities from both ADRA-OFASA and the Plan de Padrinos.

- F. In Corocoro, commodities were delivered to schools without considering the balances remaining from previous deliveries. Also, there were differences between recipient requests and the number of recipients of commodities.
- G. In some of the centers in Oruro, the distribution committee was not organized; the distribution was done by the Center Director.

Criteria:

In accordance with AID Regulation 11.211.5 (a) the Cooperating Sponsor shall provide adequate supervisory personnel for the efficient operation of the program.

Cause:

CRS/CARITAS Regional Offices had not complied with the above regulation.

Effect:

The Regional Offices were not following the regulations of the program, therefore there was a risk of having commodities distributed to ineligible recipients or in unreasonable proportions.

Recommendation:

USAID/Bolivia should require:

- A. The CRS/CARITAS National Office to provide its Regional Offices with adequate supervisory personnel to improve efficiency in the distribution of commodities.
- B. Adequate control to be exercised by the Regional Offices to avoid distribution of commodities without a careful examination of the supporting documents and previous deliveries of commodities.
- C. Regional Offices to evaluate the adequacy of the distribution centers' warehouses before making deliveries of commodities.
- D. The Regional Office of Cochabamba to improve the preparation and distribution of commodities in the Rural School Feeding program by obtaining the participation of parents and by adhering to the rations established.
- E. The CRS/CARITAS National Office in conjunction with the other Cooperating Sponsors to examine possible duplication of efforts, as in the Mother-Child Program in La Paz where recipients of the distribution center received commodities from both CRS and ADRA/OFASA.

3. Religious Discrimination

Condition:

In the Regional Office of Sucre, Recipients in distribution centers were subjected to religious discrimination.

<u>Center</u>	<u>Province</u>	<u>No. of Beneficiaries</u>
Yotala	Oropeza	213
Tarabuco "B"	Yamparaes	48
Tarabuco "A"	Yamparaes	51
Yotala	Yotala	49
San Matias	Oropeza	102

Criteria:

In accordance with AID Regulation 11, Paragraph 211.5 (f) the Cooperating Sponsor shall distribute commodities only to eligible recipient agencies and to eligible recipients without regard to nationality, race, color, sex, religious or political beliefs. Also, Paragraph 211.5 (e) states that commodities shall be distributed free of charge.

Cause:

There was ignorance of Aid Regulation 11 in the Regional Office.

Effect:

The CRS/CARITAS Regional Office of Sucre had not complied with the objectives of the Program and their Operational Plan.

Recommendation:

USAID/Bolivia should require the CRS/CARITAS Sucre Regional Office to take the necessary measures to avoid religious discrimination.

4. PL 480, Title II Commodities Offered for Sale

Condition:

In our visits to the local markets of La Paz, Cochabamba, Oruro and Sucre, we found that milk donated by the PL 480, Title II Program was offered for sale. We could not determine which Cooperating Sponsor was responsible for these commodities, since distribution of milk is made by two or three Agencies in the same places.

Criteria:

Commodities donated by the PL 480, Title II Program are not to be offered for sale. In accordance with AID Regulation 11.211.5 (b), as part of the comprehensive internal reviews, Cooperating Sponsors should include warehouse inspections, physical inventories and end use checks.

Cause:

As stated in our report on internal control systems, in most of the distribution centers, recipients of the Mother-Child Health Program did not utilize the monthly rations assigned and programmed by the Operational Plan.

Effect:

The general objective of the PL 480, Title II Program to combat malnutrition, especially in young children was not accomplished in accordance with AID Regulation 11.211.1 (b) (i), since rations assigned to these children were offered for sale.

Recommendation:

USAID/Bolivia should require the CRS/CARITAS National Office, in conjunction with the other Cooperating Sponsors, to evaluate and follow up on sales of PL 480, Title II commodities in the local markets to identify origins and to take the necessary actions to avoid such sales.

PROGRAM PUBLICITY AND PUBLIC RECOGNITION AS AID PROGRAM

1. Unknown Origin of Commodities by Recipients

Condition:

In the rural Distribution Centers of Tarija, Sucre and Cochabamba, some beneficiaries did not know the origin of commodities.

Criteria:

In accordance with AID Regulation 11, Paragraph 211.5 (g) the Cooperating Sponsor shall, to the extent feasible, display banners, posters, or similar media which shall contain the AID emblem at the distribution centers so adequate public recognition shall be given to the fact that commodities have been furnished by the people of the United States.

Cause:

Deficiencies were mainly due to the lack of human resources to carry out promotion, which was only done in urban and suburban areas.

Effect:

There was a low degree of recognition that these commodities were donated by the people of the United States of America. This could result in improper recognition of other entities or persons.

Recommendation:

USAID/Bolivia should require the CRS/Caritas Regional Offices of Tarija, Sucre and Cochabamba to provide the necessary means for publicity of the origin of the commodities distributed in order to comply with AID Regulation 11, Paragraph 211.5 (g)

USE OF PROCEEDS FROM SALES OF CONTAINERS AND
CONTRIBUTIONS OF RECIPIENTS

1. Foreign Currency Reserve Funds

Condition:

Most of the Regional Offices maintained large amounts of U.S. currency as reserve funds which were not used in the operation of the program.

Criteria:

In accordance with AID Regulation 11, Paragraph 211.5 (i) funds from these sources shall be used to support program costs.

Cause:

These funds were maintained for monetary exchange emergencies.

Effect:

The Cooperating Sponsor was not using available financial resources which were needed for the normal operation of the program.

Recommendation:

USAID/Bolivia should require the CRS/CARITAS National Office to include in its regular budget provision for the use of all funds collected by the Regional Offices for operation of the program.

ELIGIBILITY OF RECIPIENTS

1. Distribution of Commodities to Ineligible Recipients

Condition:

Some of the Regional Offices of the Cooperating Sponsor had not exercised sound internal control procedures in determining the eligibility of recipients to whom they distributed commodities. Conditions observed were:

A. In Sucre, differences were determined between the list presented by the distribution centers and the approved requests.

<u>Name of the Center</u>	<u>Number of Beneficiaries</u>	
	<u>As per Request</u>	<u>As per list</u>
Yotala-Program "F"	213	205
Hospital San Jorge Programa "F"	80	68
Lajastambo-Program "B"	129	150

Commodities had been delivered to children more than 6 years old. Commodities were not being distributed in accordance with the rations established, and were consumed by the whole family. No control existed over the ages of the children that were beneficiaries. Some were more than six years old.

- B. In Cochabamba, the Regional Office did not adequately control the list of beneficiaries for the Mother-Child Program. In some centers commodities were being delivered to persons not enrolled in the program.
- C. In Tarija, commodities were delivered to nurses of the Sanitary Unit in the promotion area that were not eligible recipients.
- D. In La Paz, commodities were not being consumed by the recipients of the Mother Child Program in accordance with the rations established. Commodities were consumed by the whole family. Children over six years old were receiving commodities.
- E. In Corocoro, commodities of the Mother-Child program were being consumed by the whole family and by teachers in the School Feeding program.
- F. In Oruro, children over five years old were excluded at all centers.
- G. In Potosi, commodities were being delivered to children over six years old at the following Centers:

Center	Province
San Ignacio	Frias
San Francisco	Frias
Chulchucani	Frias
San Diego	Frias

Criteria:

In accordance with AID Regulation 11, Paragraph 211.5 (e) the Cooperating Sponsor shall be responsible for determining that the recipients and the agencies to whom they distribute commodities are eligible.

Cause:

The promotion departments of the Regional Offices had not performed their functions adequately.

Effect:

Commodities were being distributed to ineligible recipients.

Recommendation:

USAID/Bolivia should require the CRS/CARITAS National Office to require its Regional Offices to improve control over the determination of eligibility of recipients of commodities in accordance with the "Food for Peace Agreement" and AID Regulations.

DISPOSAL OF DAMAGED COMMODITIES

I Disposal of Damaged Commodities

Condition:

- A. We observed large undetermined quantities of damaged products, unfit for human consumption at the Cochabamba and Oruro warehouses. Such products included rice, CSM, oil, bulgur and wheat flour. As of December, 1986, they had not been destroyed or otherwise disposed of.
- B. Some of the distribution centers in the Oruro Region had received food in poor condition. Due to a lack of knowledge by the distribution centers, they did not return the food to the institution.

Criteria:

In accordance with Paragraph 211.8 (b) of AID Regulation 11 the Cooperating sponsor shall immediately arrange for inspection of damaged commodities by a public health official, and if the commodities are determined to be unfit for authorized use, they shall be disposed of by transfer, sale, donation or destruction.

Cause:

There was a lack of knowledge of the AID Regulation concerning disposal of damaged commodities.

Effect:

Products that become unfit for human consumption and are kept without a definite purpose could be used for unintended purposes.

Recommendation:

USAID/Bolivia should require the CRS/Caritas National Office to strictly enforce the application of AID Regulations concerning the disposition of commodities unfit for their intended use.

REPORT ON LOSSES AND MISUSES OF COMMODITIES

I. Reporting Damaged Commodities

Condition:

We observed commodities in bad condition which were kept from previous years in all the offices we visited. In some offices this food was kept outdoors. According to the Director of Caritas, the damaged commodities were reported to the National Office of CRS and USAID, but approval from these entities was not received for the disposal of such commodities.

Criteria:

In accordance with AID Regulation 11, Paragraph 211.8(b) the cooperating sponsor shall arrange for inspection of damaged commodities by a public health official. If, after inspection the commodities are determined to be unfit for authorized use, the commodities shall be disposed of by transfer, sale, donation or destruction.

Cause:

The CRS National Office and USAID did not expedite instructions for the destruction or other disposal of these commodities.

Effect:

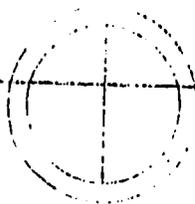
Damaged commodities could be used for unauthorized purposes with serious danger to the recipients.

Recommendation:

USAID/Bolivia should require CRS/CARITAS, with the concurrence of USAID, to instruct its Regional Offices to dispose of the commodities determined to be unfit for authorized use.

MANAGEMENT COMMENTS

See appendix 1.



APPENDIX I

La Paz, April 16, 1987

CRS-504/87

Mr. Gonzalo Ruiz Ballivián
Ruiz Ballivián y Asociados
Calle Capitán Ravelo 2131
La Paz.

REF: Audit of CRS/Caritas - Title II
PL 480 Food Program

Dear Mr. Ruiz:

We received your final draft of the audit carried out by your firm on the CRS/Caritas Title II PL 480 Food Program. We would like to give you our comments on the audit.

First, we understand that the audit takes in the period October 1, 1985 to September 30, 1986 - FY 1986. Even though several of the recommendations made in your report could still be pending, we do feel that in the past year there have been substantial improvements in the CRS/Caritas Program, some of which we will note below. We would also like to advise you that due to the short notice between the receipt of this report and your request for a reply, we have not had time to discuss it with Caritas Boliviana. We hope to do so before the meeting with the USAID Auditors scheduled for April 28 at 9:00 A.M. in your office.

Regarding the audit itself we are in agreement that there have been some deficiencies in the administration of the CRS/Caritas Title II Program. Rather than discuss them point by point, I would like to bring to your attention some positive measures that have been taken by both organizations during the past year.

First, Catholic Relief Services has given top priority to the Bolivian Program by opening a sub-regional office for all of South America in La Paz the past year. It is expected that more attention will be given to our Program in Bolivia in the course of the next years which could include the recruiting of additional professional and local support staff to the program.

Second, CRS and Caritas have studied the monetization of part of the food program proposed by USAID/Bolivia and have practically decided in favor of such a proposal. Part of the funds for monetization would go to support the infrastructure of Caritas and eventually improve the food program.

Third, CRS has been assisting Caritas to improve their administrative and promotional capabilities through two large projects financed by the

USAID Mission in Bolivia - Child Survival Project and several Outreach Projects. Both of these projects are beginning to have a positive impact on the Caritas/CRS Program. For example, the recommendations made in your audit to improve warehousing and provide vehicles for the Caritas Diocesan offices is being largely fulfilled by the Outreach Grant that has supplied 11 jeeps and three trucks so far to Caritas Diocesan programs. Five more jeeps are requested in the latest Outreach proposal, which would complete each of the 16 diocesan Caritas having received at least one vehicle from the Outreach program. Funds from Outreach have purchased, or are in the process of building, new warehouses in the Dioceses of Sucre, Potosí and Oruro.

As for the Caritas organization, they have gone through profound changes the past two years that sees them taking on new developmental roles as opposed to the strictly assistential programs for which they have been accustomed. We realize that there are still areas which need improvement but we have high hopes that within a year or two many of the negative points in your audit relating to Caritas will be resolved.

Before finishing, I would like to advise you that both CRS and Caritas are aware of the backlog of funds available in the beneficiary accounts of some Diocesan Caritas. At a recent meeting of all the Diocesan Directors of Caritas and at which CRS assisted, this point was brought up and it was agreed that these funds should be put to use as soon as possible.

In closing, I can say that we are looking forward to the meeting on April 28 and if you have any further comments please let me know.

Very truly yours,


John P. Conroy
ASSOCIATE DIRECTOR
FOR MATERIAL RESOURCES

JPC:pac.
File 9.9
cc: USAID/Bolivia
Mr. J. Noel - CRS Bolivia Sub-Regional Office

APPENDIX 1

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