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AUDIT OF THE PUBLIC LAW 480,  
TITLE II PROGRAM WITH  
FOOD FOR THE HUNGRY INTERNATIONAL  
IN BOLIVIA

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

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

U. S. MAILING ADDRESS:  
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OFFICE OF THE REGIONAL INSPECTOR GENERAL  
**AMERICAN EMBASSY**  
TEGUCIGALPA - HONDURAS

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May 18, 1987

MEMORANDUM

TO : Acting Director, USAID/Bolivia, George A. Wachtenheim  
FROM : RIG/A/T, *George A. Rothard* Coinage N. Gothard, Jr.  
SUBJECT: Audit Report No. 1-511-87-18-N, "Audit of the Public Law 480, Title II Program with Food for the Hungry International in Bolivia"

This report presents the results of a non-Federal audit of the Public Law 480, Title II Program in Bolivia operated by Food for the Hungry International (FHI). 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 FHI 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 position of FHI as of September 30, 1986, except for the limitation in scope of not being able to determine the quantity of commodities transferred to and from other cooperating sponsors. Their study and evaluation of the system of internal controls disclosed certain weaknesses which, in the auditor's opinion, were not of such magnitude to result in significant errors and irregularities. They also determined that FHI 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 11 recommendations to improve the FHI system of internal controls and 8 recommendations to achieve compliance with laws, regulations and agreement terms. We believe that these recommendations will significantly improve FHI'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 Food for the Hungry International in Bolivia to demonstrate that it has implemented the 11 recommendations to improve the system of internal controls and the 8 recommendations to achieve compliance with laws, regulations and agreement terms contained in the Horwath & Horwath report dated May 7, 1987.

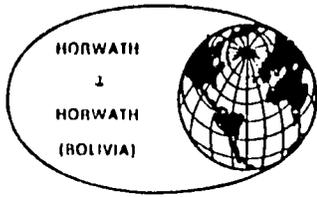
Please advise this office within 30 days of the actions planned or taken to implement this recommendation.

AUDIT OF THE PL 480 TITLE II  
PROGRAM - BOLIVIA  
FOOD FOR THE HUNGRY INTERNATIONAL

AUDIT OF PL 480 TITLE II PROGRAM - BOLIVIA  
FOOD FOR THE HUNGRY INTERNATIONAL

TABLE OF CONTENTS

	<u>Page</u>
TRANSMITTAL LETTER AND SUMMARY	1
EXPENDITURE AND COMMODITY STATEMENTS	
Auditor's opinion	8
Commodity statements	9
Notes to the commodity statements	13
INTERNAL CONTROLS	
Auditor's overall opinion	17
Accounting and Administrative system	19
Storage and handling system	20
Supervision of program	26
COMPLIANCE WITH AGREEMENT TERMS	
Auditor's overall opinion	30
Use and distribution of commodities	31
Publicity as AID Program	34
Eligibility of recipients	36
Disposal of damaged commodities	37



# HORWATH & HORWATH (BOLIVIA) LTDA.

CALLE CAPITAN RAVELO 2131 — TELFS. 374760 - 372106 - 372107 — CASILLAS 5860 - 6179 — TELEX 0309 - 3311 BV  
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 Food for the Hungry International (FHI) for the period October 1, 1985 to September 30, 1986.

## BACKGROUND:

Food for the Hungry International (FHI) is a non-profit relief and development organization that has its international headquarters in Geneva, Switzerland and the main administrative office in Scottsdale, Arizona. FHI became involved in Bolivia in 1977 in small scale development operations. In September of 1983, FHI began working with USAID in response to the emergency situation caused by a prolonged drought.

FHI's involvement in distributing Title II commodities presently constitutes the largest part of its overall program. FHI's general objective for the entire program in Bolivia is to assist peasants to improve their standard of living. In the PL 480, Title II Regular Program, FHI is directing its efforts to specific areas within La Paz, Oruro and Potosi. In FHI's Title II Regular Program the following categories were planned:

1. Maternal/Child Centers
2. Food for Work Projects
3. Other Child Feeding Program
4. Individual Health Cases

The program description of the Operational Plan for Fiscal Year 1986 includes the following objectives:

## 1. Mother/Child Health Program (MCH)

The facts are the following:

- The most reliable data on the nutritional status of the Bolivian child population indicates high prevalence of chronic malnutrition in the country, 56% in the rural areas and 45% in the urban areas. The most affected region is the Altiplano area ( La Paz, Oruro and Potosi).
- Morbidity and mortality rates in Bolivia are the highest in Latin America. According to one of the United Nations Reports, 169 will die in every thousand children.
- Due to inadequate food production, low incomes, and financial conditions, the peasants are unable to adequately feed their families.

FHI has developed a Mother-Child Program to reach certain population areas with high biological and socio-economic vulnerability through Mother Centers and Nutritional Centers.

In accordance with Food for the Hungry/Bolivia's overall development philosophy, FHI/Bolivia will design assistance for a maximum period of five years.

Objective of MCH Program:

- Goal: Raise the standard of living in rural areas and urban neighborhoods in La Paz, Oruro and Potosi.
- Purpose: Increase income and food production, and improve health conditions of families participating in the FHI/MCH program.
- In the Mother Centers, each beneficiary will contribute a monthly amount per ration. Of these contributions 70% in La Paz and 60% in Oruro and Potosi will be used to generate funds for projects. 30% in La Paz and 40% in Oruro and Potosi will be used to pay administrative expenses and other costs.

## 2. Food for Work (FFW) Program.

The rural Altiplano of Bolivia has suffered from a devastating drought and floods during the past two years. These climatic changes have caused serious crop failures, deficient food reserves, unemployment and underemployment, destruction of public infrastructure and serious changes in soil conditions.

General Objectives:

FHI is working to integrate development in specific concentrated areas. Its goal is to develop a working relationship with a given community and together design a program that will reach the problem areas on a multiple level.

The program has 8 specific projects designed for this:

- Irrigation systems construction and operation
- Flood prevention and construction of proper systems
- Increase pasture lands producing animal forage (ie.alfalfa and rye grasses)
- Improve veterinary attention and feeding practices
- Family and communal vegetable gardens construction and production.
- Increase and improve production of marketable animal  
furn
- Communal Cooperatives to strengthen the marketing of  
local production.
- To sign an agreement for technical assistance.

### 3. Other Child Feeding (OCF) Program

The state and private orphanages in Bolivia rely quite heavily upon outside assistance. For fiscal year 1986 CRS has dropped this program in Bolivia. However the need for food assistance still exists. Therefore, FHI began working with this program to help feed orphan children in these institutions.

### 4. Individual Health Cases (IHC) Program:

The object of this type of assistance is to be able to provide food in cases where an individual, family or group is in a state of malnutrition or has a temporary crippling health problem and there is as yet no established relief program in the area.

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

<u>1986 FY Program</u>	<u>Beneficiaries No.</u>	<u>Quantity (M. Tons)</u>
Mother/Child (MCH):		
La Paz	10,000	
Oruro	5,000	
Potosi	5,000	
	-----	
	20,000	1,608
	-----	
Food for Work(FFW):		
La Paz	17,000	
Oruro	10,000	
Potosi	10,000	
	-----	
	37,000	3,596
	=====	
Other Child Feeding (OCF):		
La Paz	6,000	
Oruro	750	
Potosi	750	
	-----	
	7,500	504
Individual Health Cases (IHC):		
La Paz	1,500	
Oruro	900	
Potosi	900	
	-----	
	3,300	233
	-----	
TOTAL:		
La Paz	34,500	
Oruro	16,650	
Potosi	16,650	
	-----	
	67,800	5,941
	=====	=====

## 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 Food for the Hungry International 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 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 the transportation companies were competitively selected.
5. Commodities were distributed to eligible recipients and beneficiaries and were not sold or exchanged by them or 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 only 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 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 Food for the Hungry International related to the physical safeguarding, warehousing, controlling and delivering of inventories of commodities.
4. Visiting Regional Offices of the Cooperating Sponsor in the districts of La Paz, Oruro 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 Fiscal Year 1986.

## RESULTS OF AUDIT

### 1. Commodity Statements

Our examination of the commodity statements of the PL 480, Title II Program-Bolivia managed by Food for the Hungry International as of September 30, 1986 revealed that except for our not being able to satisfy ourselves as to the quantities of commodities transferred to and from other cooperating sponsors, in our opinion, the commodity statements present fairly the commodities received and distributed for the year ended September 30, 1986.

### 2. Internal controls

Our study and evaluation of the internal control system of the PL 480, Title II Program - Bolivia managed by Food for the Hungry International revealed some weaknesses related to the storage and handling system in the Regional offices of Oruro and Potosi, lack of supervision of the program at the Regional Offices of Oruro and Potosi, and deficiencies in inventory records in the La Paz Regional Office. However, in

our opinion, these weaknesses were not of such magnitude that would result in significant errors and irregularities in relation to the commodity statements.

3. Compliance with Agreement Terms

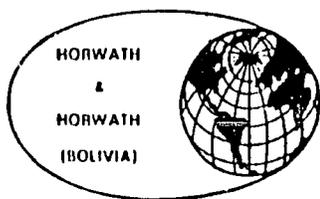
As a result of our review, we found that Food for the Hungry International has not complied with AID Regulation 11 regarding the use and distribution of commodities, publicity as an AID program, eligibility of recipients, and disposal of damaged commodities. For items not tested, nothing came to our attention that caused us to believe that untested items were not in compliance with applicable AID Regulations.

4. Management Comments

Relevant comments by FHI are incorporated in this report.

May 7, 1987

  
HORWATH & HORWATH BOLIVIA



AUDIT OF THE PL 480 TITLE II PROGRAM -- BOLIVIA  
FOOD FOR THE HUNGRY INTERNATIONAL  
REPORT ON EXAMINATION OF COMMODITY STATEMENTS  
AUDITOR'S OPINION

We have examined the Statement of Commodities Programmed and Distributed by Food for the Hungry International PL 480, Title II Program Bolivia for the year ended September 30, 1986, and the related Statement of Receipt and Distribution of Commodities, Statement of Imports, and the Statement of Cash Income and Expenses for the same fiscal year. 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 limitation explained in the following paragraph.

As explained in notes C and D, Food for the Hungry International transferred different quantities of commodities to and from other Cooperating Sponsors during Fiscal Year 1986. We could not satisfy ourselves as to such quantities of commodities transferred due to the lack of supporting documentation.

In our opinion, except for the effect of the matter described in the above paragraph, the Statement of Receipt and Distribution of Commodities, the Statement of Commodities Programmed and Distributed, the Statement of Imports and the Statement of Income and Expenses for the Fiscal Year ended September 30, 1986 present accurately, reasonably and fairly the commodities received and distributed under the PL 480, Title II Program - Bolivia by Food for the Hungry International.

May 7, 1987

HORWATH & HORWATH BOLIVIA

PL 480 TITLE II PROGRAM - BOLIVIA  
FOOD FOR THE HUNGRY INTERNATIONAL  
STATEMENT OF RECEIPT AND DISTRIBUTION OF COMMODITIES  
FISCAL YEAR ENDED SEPTEMBER 30, 1986  
(Expressed in Metric Tons)

	Milk	Wheat flour	Bulgur	Oil	Green peas	Rice	Lentil	Oats	Total
Beginning inventory as of, October 1, 1985	350	290	225	159		239	178	5	1,446
Add Receipts:									
Imports	176	1,517	877	194	1,188	123			4,075
Transfers (net) (Note C)	(85)		31		(17)			(2)	(73)
Other Arrivals (outlays) (Note D)	3	8	(47)	1	(15)	(18)	1		(67)
Total	444	1,815	1,086	354	1,156	344	179	3	5,381
Less Deliveries:									
Distribution to beneficiaries	365	1,585	862	288	940	344	179	3	4,566
Total inventory reported, September 30, 1986 (Note E)	<u>79</u>	<u>230</u>	<u>224</u>	<u>66</u>	<u>216</u>	<u>   </u>	<u>   </u>	<u>   </u>	<u>815</u>

See note to commodity statements.

PL 480 TITLE II PROGRAM - BOLIVIA  
 FOOD FOR THE HUNGRY INTERNATIONAL  
 STATEMENT OF COMMODITIES PROGRAMMED AND DISTRIBUTED  
 FISCAL YEAR ENDED SEPTEMBER 30, 1986  
 (Expressed in Metric Tons)

	<u>P R O G R A M M E D</u>		<u>D I S T R I B U T E D</u>	
	<u>Number of recipients</u>	<u>Commodities M.T.</u>	<u>Number of recipients</u>	<u>Commodities M.T.</u>
Mother-Child	20,000	1,608	10,013	1,519
Other Children	7,500	504	19,419	7
School Feeding				171
Food for Work	37,000	3,596	29,331	2,660
Adult Institutions	<u>3,300</u>	<u>233</u>	<u>1,991</u>	<u>209</u>
	<u>67,800</u>	<u>5,941</u>	<u>60,754</u>	<u>4,566</u>

See notes to commodity statements.

PL 480 TITLE II PROGRAM - BOLIVIA  
 FOOD FOR THE HUNGRY INTERNATIONAL

STATEMENT OF IMPORTS

YEAR ENDED SEPTEMBER 30, 1986

(Expressed in Metric Tons)

<u>Commodity</u>	<u>Quantity Programmed</u>	<u>Quantity Shipped</u>	<u>Quantity in transit</u>	<u>Shortages losses</u>	<u>Quantity Received</u>
Milk	333	278	124	9	145
Wheat Flour	2,163	2,387	1,276	5	1,106
Bulgur	1,121	1,246	575	8	663
Oil	407	401	189	18	194
Green peas	<u>1,917</u>	<u>2,098</u>	<u>908</u>	<u>2</u>	<u>1,188</u>
Sub Total FY 1986	<u>5,941</u>	<u>6,410</u>	<u>3,072</u>	<u>42</u>	<u>3,296</u>

Shipments corresponding

To FY 1985:

Rice/85		123			123
Milk/85		31			31
Wheat flour/85		411			411
Bulgur/85		214			214
Sub-Total FY 1985	<u>-</u>	<u>779</u>	<u>-</u>	<u>-</u>	<u>779</u>
Totals	<u>5,941</u>	<u>7,189</u>	<u>3,072</u>	<u>42</u>	<u>4,075</u>

PL 480 TITLE II PROGRAM - BOLIVIA  
FOOD FOR THE HUNGRY INTERNATIONAL  
STATEMENT OF CASH INCOME AND EXPENSES  
FROM JANUARY 1, 1986 TO SEPTEMBER 30, 1986  
(Expressed in U.S. Dollars)

Income:	
Sale of containers (Note F)	22,098.47
Contributions (Note G)	58,881.93
Other income	<u>6.00</u>
Total income	<u>80,986.40</u>
Expenses:	
Salaries and bonuses	22,755.34
Administrative expenses	1,357.55
General expenses	47,452.17
Other expenses	644.39
Dispatch - interior	<u>790.28</u>
Total expenses	<u>72,999.73</u>
Net Income	<u><u>7,986.67</u></u>

See notes to Commodity statements.

AUDIT OF THE PL 480 TITLE II PROGRAM - BOLIVIA

NOTES TO COMMODITY STATEMENTS

FISCAL YEAR ENDED SEPTEMBER 30, 1986

A. CONSOLIDATION

The consolidation of FHI Commodity Statements is prepared from the Movement and Distribution of Commodities and Cash Income and Expense reports submitted by the following Regional Offices:

La Paz  
Oruro  
Potosi

B. ACCOUNTING POLICIES, RECORDS AND REPORTS

1. Shipping documents for commodities dispatched for the PL 480 Title II Program are sent from Scottsdale, Arizona, U.S.A. FHI has the following accounting documents and controls of the shipments:

- Certificate of cargo and shipping documents
- Original invoices, donation charts, etc.
- Oscar Lazarini Inc., is the dispatch Agent at the port of entry

2. Inventory controls

Physical inventories were taken on a monthly basis which are reconciled with the inventory records.

C. NET TRANSFERS

Transfers of commodities received from and released to other Agencies during Fiscal Year 1986 were:

Transfers received:	M.T.
	----
From SNDC	28
From CRS/Caritas	69
From ADRA/OFASA	25
	----
	122
Transfers released :	
To Foster Parent Plan	100
To SNDC	28
To CRS/CARITAS	47
To ADRA/OFASA	20
	----
	195
	----
Net transfers	(73)
	=====

#### D. OTHER ARRIVALS (OUTLAYS)

Fiscal Year 1986 other arrivals and outlays were as follows:

Other arrivals	M.T.
	----
- Commodities not used by recipients:	
Potosi	11
La Paz	8
	----
	19
	----

Other outlays:

- Commodities not authorized for human consumption:

Oruro	4
La Paz	14
Potosi	3
Transfer to ADRA/OFASA	16
Civil Defense	24
Emergency Program	25
	----
	86
	----
Total other (net)	(67)
	=====

E. INVENTORY OF COMMODITIES

The inventory of commodities on hand as of September 30, 1986 was:

Regional Office	M.T.
	----
La Paz	312
Oruro	356
Potosi	147
	----
Total	815
	=====

F. SALE OF EMPTY CONTAINERS

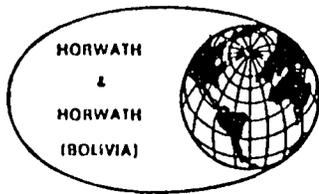
The income from the sale of empty containers in the distribution centers was deposited directly in a checking account of FHI. Such funds were used only to cover operating expenses of the program.

Empty bags were sold for approximately \$b 500,000 each and empty oil drums for \$b 3,000,000 each.

G. CONTRIBUTIONS

Contributions from commodity recipients were based on the quantity of rations received each month. The following chart shows total contributions collected in Fiscal Year 1986 by the program.

Program	US\$
Mother Child	14,027.20
Food for Work	36,546.67
School Feeding	7,664.19
Other	643.87
	-----
	58,881.93
	=====



# HORWATH & HORWATH (BOLIVIA) LTDA.

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LA PAZ - BOLIVIA

## AUDIT OF THE PL 480 TITLE II PROGRAM - BOLIVIA

### FOOD FOR THE HUNGRY INTERNATIONAL

### 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 Food for the Hungry International (FHI), we have performed a study and evaluation of the internal control system over commodities for the Fiscal Year ended September 30, 1986. Our study and evaluation was performed in accordance with the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (1981 Revision). The Management of Food for the Hungry International was responsible in Bolivia for the distribution of 5,941 metric tons of commodities of the PL 480, Title II Program in Bolivia to 67,800 beneficiaries during Fiscal Year 1986. To fulfill this responsibility FHI has an organization with a National Office in La Paz and three Regional Offices in La Paz, Oruro and Potosi. 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.

The management of FHI is responsible for establishing and maintaining a system of internal controls over commodities. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the commodity statements and other reports according to AID regulations.

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

Our study and evaluation of the internal controls of FHI detected some weaknesses which are described in the following pages. The main weaknesses detected were related to lack of supporting documents for transfers of commodities to and from other cooperating sponsors, deficiencies in the storage and handling system in the Regional Offices of Oruro and Potosi, lack of

supervision of the program at the Regional Offices of Oruro and Potosi, and deficiencies in inventory records in the La Paz Regional Office. These weaknesses were not of such magnitude which, in our opinion, would result in significant errors and irregularities in relation to the commodity statements.

May 7, 1987



HORWATH & HORWATH

## ACCOUNTING AND ADMINISTRATIVE SYSTEM

### 1. Transfers of Commodities among Agencies

#### Condition:

We were unable to obtain authorized documents from USAID that supported commodity transfers to and returned from other cooperating sponsors. They did not make periodic reconciliation of receipt documents of such transfers with the other agencies.

#### Criteria:

In accordance to AID Regulation 11 Paragraph 211.5 (1) the Cooperating Sponsor with prior approval of USAID may transfer commodities between approved Title II Programs.

#### Cause:

FHI ignored that regulation.

#### Effect:

There was a weakness in the internal control system which resulted in a risk of undetected errors and unauthorized transactions.

#### Recommendation:

We recommend that USAID/Bolivia require FHI to comply with Regulation 11 and establish adequate controls over transfers of commodities with the proper authorization.

## STORAGE AND HANDLING SYSTEM

### 1. Deficiencies in the Storage and Handling System

Condition:

At the Oruro Regional Office:

- A. Some products were not stacked on platforms in the warehouse.
- B. The last physical inventory taken at the time of our visit was not reconciled with the inventory records.
- C. The physical control register for food was not up-dated. On the date of our evaluation, December 9, 1986, the last entry recorded in the kardex was on November 30, 1986.
- D. Balances of Bin-Cards were not up-to-date.

Criteria:

In accordance with AID Regulation 11 Paragraph 211.7(c) the Cooperating Sponsor shall assume full responsibility for storage and maintenance of commodities and shall maintain records and documents which will accurately reflect all transactions pertaining to the receipt, storage, distribution, sale and inspection of commodities.

Cause:

The Office did not have sufficient funds to be able to comply with the storage requirements established by AID regulations. They did not follow adequate recording practices.

Effect:

Due to inadequate stacking, commodities were subject to damage. There was a risk that reports issued regarding the movement of commodities were not reliable.

Recommendation:

USAID/Bolivia should require The National Office of Food for the Hungry to provide the necessary funds to improve warehousing facilities. FHI/Oruro should up-date its records, make physical inventories of commodities and reconcile the physical inventories with the inventory records.

2. Deficiencies in the Storage and Distribution System

Condition:

At the Potosi Regional Office:

- A. The food was not released from the warehouse on a first-in-first-out basis.
- B. The stacks were not labeled for identification of the dates of arrival.
- C. They did not have sufficient wooden platforms.
- D. There was not enough space between the stacks.
- E. There were some water leaks in the roof.

Criteria:

In accordance to AID Regulations 11 Paragraph 211.7(c) the Cooperating Sponsor shall assume full responsibility for proper storage and maintenance of commodities.

Cause:

There was a lack of knowledge of AID policies and regulations concerning storage and maintenance.

Effect:

As a consequence of these deficiencies, there was a risk of distributing commodities unfit for human consumption to the distribution centers.

Recommendation:

USAID/Bolivia should require the FHI-National Office to perform a general evaluation in order to improve the present storage facilities at Potosi and to work with the Regional Office at Potosi to correct the situation of possibly distributing commodities unfit for human consumption.

3. Inventory Records

Condition:

The kardex register in the La Paz Regional Office was not adequately kept. There were changes and erasures and balances were written in pencil.

**Criteria:**

The kardex Control for inventories of commodities shall be maintained in such a way that will accurately reflect all the transactions.

**Cause:**

Apparently a review of the warehouse kardex was never conducted.

**Effect:**

There were unauthorized changes on reports.

**Recommendation:**

USAID/Bolivia should require FHI/La Paz to maintain its kardex control of inventories of commodities in a more accurate manner. There should be administrative follow-up of any changes made in the registers.

4. Receipt and Delivery of Commodities

Condition:

The person in charge of the La Paz warehouse both physically receives and prepares the receipt reports and also is in charge of the distribution of commodities.

Criteria:

The control of arrival and inventory of commodities requires adequate supervision in accordance with AID regulations.

Cause:

Only one person was in-charge of all operations of the warehouse.

Effect:

There was a lack of supervision and control which could result in unauthorized use of commodities.

Recommendation:

USAID/Bolivia should require FHI - La Paz to assign more than one person to the warehouse for purposes of proper control over the receipt, distribution and control of commodities.

5. Physical Counting of Commodities

Condition:

FHI - La Paz did not assign personnel from the accounting or administrative departments to be present at the time of the physical count of commodities taken on October 30, 1986.

Criteria:

The control of inventories includes an adequate supervision and inspection of the warehouses, in accordance with clause 211.5 of AID Regulation 11.

Cause:

FHI - La Paz had not established good supervisory control regarding the physical inventories.

Effect:

Since no outside personnel took part in the warehouse inventories, errors could occur and not be detected in counting the commodities.

Recommendation:

USAID/Bolivia should require FHI-La Paz to establish supervisory control over monthly physical inventories by an employee not connected with the warehouse.

## 6. Inventory Control of Empty Containers

### Condition:

At the La Paz warehouse there was no control over the number of empty containers of oil deposited in the warehouse. There were losses during transportation and storage of the containers.

### Criteria:

In accordance with AID Regulation 11, Paragraph 211.10 (a) the Cooperating Sponsor shall keep records reflecting the storage and inspection of products and their containers.

### Cause:

The corresponding instructions were unknown.

### Effect:

Control of such containers was lost.

### Recomendation:

USAID/Bolivia should require FHI to establish necessary physical controls over containers to avoid any future problems such as unaccounted for losses.

## SUPERVISION OF PROGRAM

### 1. Administrative Structure

#### Condition:

At the Oruro Regional Office no segregation of duties existed. The same personnel approved, calculated the rations, selected the beneficiaries and supervised and carried out promotion.

#### Criteria:

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

#### Cause:

The Regional Office was not complying with these regulations.

#### Effect:

There was deficient supervision of the program.

#### Recommendation:

USAID/Bolivia should require FHI/Oruro to have separate supervisory and promotional personnel for good administration of the program and segregation of duties.

## 2. Supervision of the Program

Condition:

At the Potosi Regional Office:

- A. There was inadequate supervision of the program since the office did not have the necessary personnel to handle this function.
- B. The head of each program made limited supervisory visits to only the distribution centers located near the Regional office and did not prepare written reports to support such visits.
- C. There were incomplete records indicating the number of recipients of the school feeding, charitable, and food for work programs.

Criteria:

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

Cause:

There was a lack of supervision and promotional support in the distribution centers due to insufficient personnel.

Effect:

It was not possible to evaluate how much the programs had accomplished in the Region because commodities were possibly being delivered to some ineligible recipients. Also, there were no supervisory reports.

Recommendation:

USAID/Bolivia should require:

- A. FHI-Potosi to carry out a general evaluation of the human resources required to improve supervision in the region and to implement the results of the evaluation.
- B. FHI-Potosi to require the supervisors to prepare written reports of their supervisory visits.

### 3. Reports on the Arrival of Commodities

#### Condition:

The last report of arrival of commodities sent to AID by the FHI -La Paz Regional Office was incorrect. There were differences in the calculation of kilograms due to errors in the computer system.

#### Criteria:

An adequate internal control system requires that reports sent to AID be adequately supervised to assure accuracy.

#### Cause:

The use of procedures manuals was not being implemented.

#### Effect:

Reports sent to AID were not reliable.

#### Recommendation:

USAID/Bolivia should require the FHI National Office to review the computer system and correct the problems causing errors in the arrival of commodities reports. Procedures manuals should be followed and reports should be reviewed for reliability.

#### 4. Recording of Contributions of Beneficiaries

Condition:

In the La Paz Regional Office there was no supervisory control over the recording of cash deposits in savings accounts of the contributions of beneficiaries.

Criteria:

The Regional Office should implement adequate recording and accounting control of cash collections.

Cause:

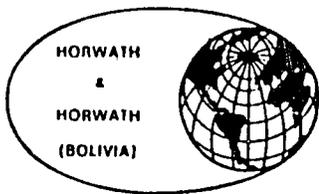
The procedures manual was not being used correctly.

Effect:

No monthly reconciliations were made to control payments and contributions of the beneficiaries.

Recommendation:

USAID/Bolivia should require FHI - Bolivia to instruct the personnel in-charge of beneficiaries' contributions to make monthly reconciliations, which should be supervised by personnel not working in that section.



HORWATH & HORWATH (BOLIVIA) LTDA.

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AUDIT OF THE PL 480 TITLE II PROGRAM - BOLIVIA

FOOD FOR THE HUNGRY INTERNATIONAL

REPORT ON COMPLIANCE WITH AGREEMENT TERMS

AUDITOR'S OVERALL OPINION

We have examined the Commodity Statements of the PL 480, Title II Program - Bolivia managed by Food for the Hungry International 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
2. Use of commodities
3. Distribution of commodities
4. Publicity as AID Program
5. Use of proceeds from sale of containers
6. Disposal of damaged commodities
7. Report on losses and misuses of commodities
8. Eligibility of recipients

Our study and evaluation disclosed conditions which are described in the following pages which, in our opinion, indicate that Food for the Hungry International has not complied with certain AID Regulations regarding the use and distribution of commodities, publicity as an AID program, eligibility of recipients, 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

## USE AND DISTRIBUTION OF COMMODITIES

### 1. Commodities Distributed to Unapproved Program

#### Condition:

With the authorization of the FHI National Office, the Oruro Regional Office made deliveries of food to schools in the urban area that were not included in the approved program. There was no provision for a school feeding program.

#### Criteria:

In accordance with AID Regulation 11 Section 211.5 (e), commodities should be delivered only to eligible distribution centers and recipients.

#### Cause:

The National Office authorized these deliveries.

#### Effect:

Commodities were not being distributed in accordance with the approved program, which implies a decrease in the distribution of commodities to approved programs. There was a risk that commodities were being received by ineligible recipients.

#### Recommendation:

USAID/Bolivia should require FHI - Oruro to operate in accordance with the approved assignment of rations programmed for the fiscal year to avoid transfers to unapproved programs and recipients.

2. Delay in Deliveries of Commodities

Condition:

Shipments of commodities consigned to FHI - Bolivia have been considerably delayed in relation to the request dates .

This circumstance did not allow FHI - Bolivia to comply with the operational budget for fiscal year 1986 for the distribution of food.

Criteria:

AID Regulation 11 Paragraph 211.4 (e) (2) states that AID shall promptly clear voluntary agencies requests for shipments of commodities or advise the Cooperating Sponsor within seven days of receipt of a request that there are reasons for delays or disapprovals.

Cause:

AID/Bolivia was not complying with this regulation.

Effect:

Delays in arrivals of commodities caused changes in the planned distribution schedule. For instance, the following chart shows delays from the date of the requests to arrival of commodities:

<u>Request</u>	<u>Date of Order</u>	<u>Period</u>	<u>Date of Arrival</u>
1st Quarter	July 1	Oct-Dec	Jan-Feb.
2nd Quarter	Oct. 1	Jan-March	Apr-May.
3rd Quarter	Jan. 1	Apr-June	Aug-Sep.
4th Quarter	Apr. 1	Jul-Sept.	Nov-Dec.

During fiscal year 1986, only 68% of the distributions budgeted were fulfilled due to the delays mentioned above.

Recommendation:

USAID/Bolivia should take the necessary measures to prevent delays in the shipments of commodities requested in accordance with AID Regulation 11.

### 3. Commodities Unfit for Human Consumption

#### Condition:

In the La Paz Region - Omasuyos province.

- A. Some commodities unfit for human consumption were found.
- B. The consumption and preparation of food was done under poor hygienic conditions.
- C. Oil drums mixed with water were found.

#### Criteria:

Section 211.8 (e) of AID Regulation 11 provides that when commodities may be unfit for authorized uses, the cooperating sponsor shall immediately arrange for inspection of the commodities by a competent authority approved by USAID, or USAID shall determine whether the commodities are unfit for human consumption, and if so, the disposal should be made in accordance with AID Regulation 11.

#### Cause:

There was a lack of adequate supervision and knowledge of procedures to be followed for commodities unfit for human consumption.

#### Effect:

Commodities unfit for human consumption were possibly being distributed for use in the program.

#### Recommendation:

USAID/Bolivia should require FHI to:

- A. Establish control over the condition of commodities being distributed.
- B. Determine the reasons why adulterated food was being found and in order to prevent future occurrences, assure that proper procedures are followed when there are commodities unfit for human consumption.
- C. Establish control over the rations assigned and their final use in order to comply with the objectives of the program.

## PUBLICITY AS AID PROGRAM

### 1. Publicity and Documentation

#### Condition:

##### At the Oruro Regional Office:

- A. In most of the centers visited, they did not know the origin of the commodities .
- B. The centers visited did not maintain files of documents, which supported the distribution of commodities.
- C. Some centers received food in bad condition, but did not return the food to the Institution.

#### Criteria:

In accordance with AID Regulation 11 Section 211.5 (g) it is provided that as much as possible, it must be publicly recognized that the products are donated by the people of the United States. Also, adequate records regarding the distribution of commodities should be maintained.

#### Cause:

According to the FHI Administrator, adequate promotion of the program was carried out, but some people in the rural areas were not very receptive, therefore it was very difficult to implement recognition that the commodities were donated by the people of the United States.

#### Effect:

There was a lack of knowledge of the beneficiaries of the origin of the donations.

#### Recommendation:

USAID/Bolivia should require FHI - Oruro to strengthen promotion activities at the distribution centers to improve publicity as an AID program and control of the distribution process.

## 2. Lack of Publicity

### Condition:

During our visits to the distribution centers in the Potosi and La Paz Regions, we observed that the origin of the food was not known by the recipients.

### Criteria:

AID Regulation 11, Paragraph 211.5 (g) establishes that at the distribution centers the Cooperating Sponsor shall, to the extent feasible, display banners, posters or similar media to inform that the commodities have been furnished by the people of the United States.

### Cause:

There was a lack of knowledge by the supervisors and promoters concerning specific functions that they should carry-out. The National Director of FHI had not provided instruction therefore, the Regional Offices did not know the regulation.

### Effect:

There was a lack of public recognition of the origin of commodities.

### Recommendation:

USAID/Bolivia should require FHI to promote public recognition that the commodities are furnished by the people of the United States by providing the necessary means to the Regional Offices for publicity of the origin of the commodities.

## ELIGIBILITY OF RECIPIENTS

### 1. Documents on the Eligibility of the Beneficiaries

#### Condition:

##### At the Oruro Regional Office:

- A. Adequate files documenting the eligibility of beneficiaries at the mothers centers were not maintained. In most cases the documents were not filed.
- B. The monthly up-dating of the beneficiary lists in the mother centers was done at the centers instead of by an FHI Official.
- C. There was no written evidence in the distribution center files that supervision was carried out.
- D. 60% of the contracts and commodity requests were not signed by the Director. Also these contracts did not contain all the required information.

#### Criteria:

In accordance with AID Regulation 11 Paragraph 211.5 (e) , the Cooperating Sponsor shall be responsible for determining the eligibility of the beneficiaries.

#### Cause:

The Institution had increased its activities without incrementing its personnel to handle the program.

#### Effect:

Ineligible recipients may have been receiving commodities of this program.

#### Recommendation:

USAID/Bolivia should require FHI/Oruro to:

- A. Maintain adequate beneficiary files containing all records and documents of eligibility.
- B. Verify the list of beneficiaries during the distribution of commodities. The supervisor should be present at that time.
- C. Apply proper internal control procedures.

## DISPOSAL OF DAMAGED COMMODITIES

### 1. Damaged Commodities

#### Condition:

During our visit to the distribution centers in the Potosi Region, we were informed by various recipients and we verified in one case that food unfit for human consumption, such as bulgur, had been distributed.

#### Criteria:

AID Regulation 11 Paragraph 211.8 (b) states that commodities determined to be unfit for authorized use shall be disposed of or destroyed.

#### Cause:

There was inadequate inspection and supervision at the distribution centers.

#### Effect:

Commodities unfit for human consumption were being distributed instead of being destroyed or disposed of.

#### Recommendation:

USAID/Bolivia should require FHI - Potosi to make periodic inspections of the distribution centers to evaluate the distribution process and to determine the condition of the commodities distributed. The distribution centers should be advised concerning the proper procedures for disposal or destruction of damaged commodities.

## 2. Disposal of Damaged Commodities

### Condition:

At the La Paz Regional Office during the Fiscal Year 1986, 23,097 kilograms of commodities unfit for human consumption were destroyed or donated. We did not see any documents of USAID approval for these purposes.

### Criteria:

AID Regulation 11 Paragraph 211.8 (b) provides that when commodities may be unfit for authorized uses, the Cooperating Sponsor shall immediately arrange for inspection of the commodities by a competent authority approved by USAID or USAID shall determine whether the commodities are unfit for human consumption, and if so, the destruction or disposal shall be made.

### Cause:

There was an inadequate filing system and, therefore, the necessary evidence was not provided to us concerning approval and authorization by USAID.

### Effect:

FHI - La Paz did not have the corresponding documents as proof of proper disposal or destruction of commodities unfit for human consumption.

### Recommendation:

USAID/Bolivia should require FHI - La Paz to keep in their files all of the documents authorizing disposal of commodities unfit for human consumption.

APPENDIX 1

REPORT DISTRIBUTION

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