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NONFEDERAL AUDIT OF THE PL 480 TITLE II
PROGRAM IN SIERRA LEONE,

Audit Report No. 7-636-87-05-N

July 27, 1987

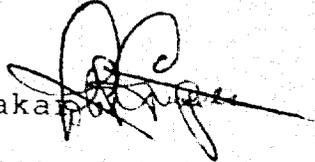
UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

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WEST AFRICA

July 27, 1987

MEMORANDUM FOR James W. Habron, A.I.D. Affairs Officer,
Sierra Leone

FROM: John P. Competello, RIG/A/Dakar 

SUBJECT: Nonfederal Audit of the PL 480 Title II
Program in Sierra Leone,
Audit Report No. 7-636-87-05-N

Attached is a copy of the report on subject audit. The certified public accounting firm Deloitte Haskins + Sells, Abidjan, Ivory Coast, prepared the report dated May 22, 1987.

The purpose of the audit was to identify potential weaknesses inhibiting the effectiveness of the \$4.3 million PL 480 Title II program, and to determine whether more detailed audit work was necessary.

The auditors found that the program implementing agency, Catholic Relief Services (CRS), was tardy in reporting its port losses to AAO/Sierra Leone. Some claims were not reported and others were not supported by appropriate documentation. Furthermore, indirect expenses pertaining to various CRS programs were inappropriately charged to the PL 480 Title II program. Finally, CRS's internal accounting controls were weak in certain areas.

The auditors also found that a full scope audit was not necessary. The auditors, the A.I.D. Affairs Officer/Sierra Leone, and the RIG/A/Dakar agreed that essential controls were in place, thus eliminating the need for additional audit effort. However, a number of issues came to the auditors' attention which we have summarized into five recommendations for your implementation.

Recommendation No.1

We recommend that the A.I.D. Affairs Officer/Sierra Leone ensure that Catholic Relief Services/Sierra Leone determine promptly all ocean and port losses, and file claims within 30 days of a ship's arrival.

Recommendation No. 2

We recommend that the A.I.D. Affairs Officer/Sierra Leone, with assistance from the Regional Economic Development Services Office/West and Central Africa, assist Catholic Relief Services/Sierra Leone in determining a provisional overhead rate to allocate indirect expenses to the PL 480 program.

Recommendation No. 3

We recommend that the A.I.D. Affairs Officer/Sierra Leone improve its monitorship of the PL 480 program by:

- a. increasing the number of site visits; and
- b. substantiating each field trip by submitting a formal report.

Recommendation No. 4

We recommend that the A.I.D. Affairs Officer/Sierra Leone ensure that Catholic Relief Services/Sierra Leone improve its internal accounting controls with respect to the shipping documents (Way Bills) by adopting the following practices:

- a. Way Bills, for deliveries to the central warehouses, should bear appropriate chronological serial numbers, according to vessel arrival, to allow commodity dispatches to occur on a "first-in-first-out" basis;
- b. each delivery Way Bill should be recorded separately in the stock records to allow proper control over the numerical sequence and cancelled Way Bills clearly marked "cancelled";
- c. the original of each Way Bill should be attached to the supporting port documents and filed for referral and verification;
- d. The Way Bill for delivery to central or regional warehouses should indicate the condition of the commodities dispatched so that information can be reconciled with receiving reports.

Recommendation No. 5

We recommend that the A.I.D. Affairs Officer/Sierra Leone request from Catholic Relief Services/Sierra Leone copies of its annual evaluation and/or audit reports to confirm the effective operation of the program or to identify factors that may inhibit it from reaching its optimum potential.

During our discussion on July 15, 1987 you stated that no comments were needed on the draft audit report. Therefore, I would appreciate written comments within 30 days on the final report including actions planned or taken to implement the five audit recommendations cited above. I appreciate the courtesy and cooperation given to my audit staff and the public accounting firm during the audit.

PRE-AUDIT SURVEY OF THE PL480 TITLE II PROGRAM

SIERRA LEONE

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22nd May 1987

3569/598A/AZ/sb

The Regional Inspector General
for Audit,
c/o American Embassy,
BP 49 Dakar,
Senegal.

For the attention of Mr. J. P. Compatallo

Dear Sir,

PRE-AUDIT SURVEY OF THE PL 480 TITLE II PROGRAM IN SIERRA LEONE (SL)

At the request of USAID/SL, Deloitte Haskins & Sells has, during the period March 3 through April 19, 1987, in accordance with Contract No 636-0510-C-00-7044-00, conducted a survey of the \$4.3 million PL480 Title II program, covering the fiscal years 1984, 1985 and 1986, in Sierra Leone. The program is administered by Catholic Relief Services (CRS). CRS operates in Sierra Leone under the auspices of an agreement with the Government of Sierra Leone (GOSL) signed by the Ministry of Social Welfare on November 29, 1963 and amended on April 1, 1965.

The purpose of the survey was to arrive at a judgement, agreed to by both USAID/SL and the Regional Inspector General's office in Dakar, Senegal, as to whether or not a more detailed audit of any or all of the aspects of the program should be performed.

As a result of the survey, although we identified certain items that would lend themselves to one or more action recommendations, our conclusion is that the principal areas requiring attention have been identified in the pre-audit survey. Although heavy port losses have been sustained particularly in 1986 we are satisfied that the following measures taken recently by CRS will result in material improvements and lead to considerably diminished port losses within an acceptable percentage range, at pre-1986 levels:

- (a) authorisation for direct delivery from ship to CRS warehouse;
- (b) appointment of an Assistant Country Representative to monitor commodities;
- (c) tightening up of security at the port at time of discharge

There is no evidence to suggest that any further detailed audit work would produce commensurate returns on investment. USAID/SL and RIG/A/Dakar concur with this conclusion.

Our pre-audit survey was performed in accordance with generally accepted audit standards, including the audit standards (GAO standards) established by the Comptroller General of the United States. We confirm that the items tested, with the exception of the following items, were in compliance with applicable laws and regulations and that nothing came to our attention to cause us to believe that the items not tested were not so in compliance.

- (i) Port losses experienced by CRS during the fiscal years under review were reported late to USAID Sierra Leone (USAID/SL) and claimed for from the Sierra Leone Port Authority only in October 1986 (cf recommendation 1);
- (ii) claims for the losses referred to above and ocean losses were not properly supported by timely discharge and delivery surveys (cf recommendations 1, 2 and 3);
- (iii) claims made by CRS were not complete. Additional port losses identified during our review need to be reported (cf recommendation 2);
- (iv) some indirect expenses were charged solely to the PL 480 Title II program (cf recommendation 4);

The Statement of Work (see Appendix G) sets out the specific concerns of the Mission. Details of the work undertaken and of our conclusions and recommendations are set out in the appendices to this letter as follows:

Appendix

INTRODUCTION	A
PRE-AUDIT SURVEY	B
MANAGEMENT AND ACCOUNTING FOR COMMODITIES	C
REVIEW OF PROGRAM FUNDS	D
INTERNAL CONTROLS	E
OTHER CONCLUSIONS	F
STATEMENT OF WORK	G
FIELD TRIP MAP	H

The action recommendations, the reasons for which are detailed more fully in the text of the report, are as follows:

Recommendation 1

We recommend that USAID/Sierra Leone request payment from Catholic Relief Services for the cost and freight value (CF value) of any claim rejected for improper documentation or because of late submission.

While making this recommendation we would also like to point out that CRS distributes these commodities as a service from which they derive no financial benefit. The implementation of this recommendation may cause CRS to reverse a decision made recently to continue distributing PL 480 commodities in Sierra Leone. USAID/SL may wish to consider this implication when deciding whether the recommendation should be applied.

Recommendation 2

We recommend that USAID/Sierra Leone request that Catholic Relief Services/Sierra Leone make additional claims for the port losses identified by us during our review which do not have a material effect (Leones 15,693, or approximately \$320 at current exchange rates). Additionally, CRS should be asked to take steps to ensure that all losses are included in claims.

Recommendation 3

Based on the schedule on table II, we recommend that USAID/Sierra Leone request Catholic Relief Services to provide a reconciliation of all ocean losses sustained during fiscal years 1984, 1985 and 1986, and request payment from CRS for the Cost and Freight value of any claim rejected.

Recommendation 4

We recommend that USAID/Sierra Leone request that Catholic Relief Services/Sierra Leone calculate a provisionnal overhead rate to allocate indirect expenses to the PL 480 program, possibly with the assistance of the financial analyst from the Regional Economic Development Support Office (REDSO).

Recommendation 5

We recommend that USAID/Sierra Leone request from Catholic Relief Services/Sierra Leone plans to implement immediately the following actions to improve its internal accounting controls:

- i) each way bill for deliveries to the central warehouses should bear the appropriate PL number (chronological number of vessel arrival) to allow commodity despatches on a first in first out basis (FIFO);
- ii) each delivery way bill should be recorded separately in the stock records to allow proper control over the numerical sequence;
- iii) the original of each way bill should be attached to the supporting port documents and filed for referral and verification;

- iv) the way bill for delivery to central or regional warehouses should indicate the condition of the commodities despatched in order to facilitate reconciliation with the receiving reports.

Recommendation 6

We recommend that USAID/Sierra Leone provide more extensive monitoring of the PL 480 Title II Program in Sierra Leone. We also recommend that AID Handbook 9 standard for monitoring PL 480 programs be reviewed to specify the extent, type and frequency of monitoring a mission should provide. Such procedures should include visits to warehouses, port facilities, and distribution sites.

Recommendation 7

We recommend that USAID/Sierra Leone request from Catholic Relief Services copies of its annual evaluation and/or audit reports to confirm the effective operation of the program or to identify factors that may inhibit it from reaching its optimum potential.

We should like to take this opportunity of thanking Mr. James Habron and the staff of USAID/SL, other members of the US Embassy in Freetown, the staff of CRS/SL, and Mr. Geoffrey Fritzler of RIG/Dakar for their help and cooperation throughout the period of our survey.

Yours faithfully,

A handwritten signature in cursive script, reading "Michael W.S. Neave", with a long horizontal line extending to the right from the end of the signature.

Michael W.S. Neave
Manager

GLOSSARY OF ABBREVIATIONS

BL	BILL OF LADING
CCC	COMMODITY CREDIT CORPORATION
CF	COST AND FREIGHT
CRS	CATHOLIC RELIEF SERVICES
FIFO	FIRST IN FIRST OUT
FY	FISCAL YEAR
GOSL	GOVERNMENT OF SIERRA LEONE
KG	KILOGRAM (app. 2.2 pounds)
LE	LEONE (LOCAL CURRENCY)
MCH	MOTHER AND CHILD HEALTH
NFDM	NOM FAT DRIED MILK
PL480	PUBLIC LAW 480
REDSO	REGIONAL ECONOMIC DEVELOPMENT SUPPORT OFFICE
RIG	REGIONAL INSPECTORATE GENERAL
SL	SIERRA LEONE
SSO	SOYA SEED OIL
USDA	UNITED STATES DEPARTMENT OF AGRICULTURE

INTRODUCTION

Catholic Relief Services (CRS/SL) operates in Sierra Leone under the auspices of an agreement with the Government of Sierra Leone (GOSL) signed by the Ministry of Social Welfare on November 29, 1963 and amended on April 1, 1965. CRS carries out specified health, welfare and a nutrition program for nursing and expectant mothers and children up to the age of five.

Commodities donated under Title II of the Agricultural Trade Development and Assistance Act of 1954, commonly referred to as Public Law 480, are Soya Seed Oil (SSO), bulgar wheat and non fat dried milk (NFDM). In fiscal years 1984, 1985 and 1986, total arrivals of food commodities were respectively 3,832, 4,907 and 1,857 metric tons. The dollar value obligated by fiscal year was:

<u>FY</u>	<u>Amount</u> (\$ millions)
to 9/30/84	\$1.6 M
9/30/85	\$1.6 M
9/30/86	<u>\$1.1 M</u>
	\$4.3 M

CRS/SL takes responsibility for the commodities as soon as they are offloaded at Freetown Port into the Port Authority's store or port sheds. The commodities are then transferred to CRS/SL's main stores in Freetown, where they are held until despatched to the various centers of distribution. CRS/SL operates from Freetown and has three major Diocesan centers at Bo, Kenema and Makeni. These centers receive commodities for the specified health and welfare programs, but most of the commodities are distributed for the nutrition program for Mother and Child Health (MCH) through Ministry of Health clinics. CRS/SL reaches about 50 clinics through the three main centers. The monthly level of recipients of approximately 72,000 in fiscal year 1984, was reduced to 54,000 in fiscal years 1985 and 1986 due to logistical, financial and administrative difficulties. CRS/SL uses its own fleet of vehicles to make distribution to the Diocesan centers and clinics.

The agreement with the Government of Sierra Leone provides for an annual contribution of the GOSL to CRS/SL activities. Sale of empty containers and a contribution by the recipients of the MCH program also provide financial support to the PL 480 Title II program.

PRE-AUDIT SURVEY

The pre-audit survey was carried out at the request of the USAID/SL Office. In requesting the pre-audit survey, the Office sought an independent assessment which would either result in a detailed audit of one or more of the components, or would lead directly to concrete recommendations to benefit the existing program.

We conducted the survey in accordance with the Statement of Work (Appendix G) except for the following scope limitations:

- i) we did not observe clearance through customs of commodities arriving in Sierra Leone;
- ii) according to USAID/SL and CRS/SL, no individual grant agreement was in effect.

Our work was carried out in accordance with generally accepted government auditing standards. As a result of the survey, although we identified certain items that would lend themselves to one or more action recommendations, our conclusion is that the principal areas requiring attention have been identified in the pre-audit survey. Although heavy port losses have been sustained, particularly in 1986, we are satisfied that the measures taken recently by CRS/SL will result in material improvements and lead to considerably diminished port losses, within an acceptable percentage range, at pre-1986 levels.

- (a) authorisation for direct delivery from ship to the CRS/SL warehouse;
- (b) appointment of an Assistant Country Representative to monitor commodities;
- (c) tightening up of security at the port at the time of discharge

MANAGEMENT AND ACCOUNTING FOR COMMODITIES

A. PORT LOSSES

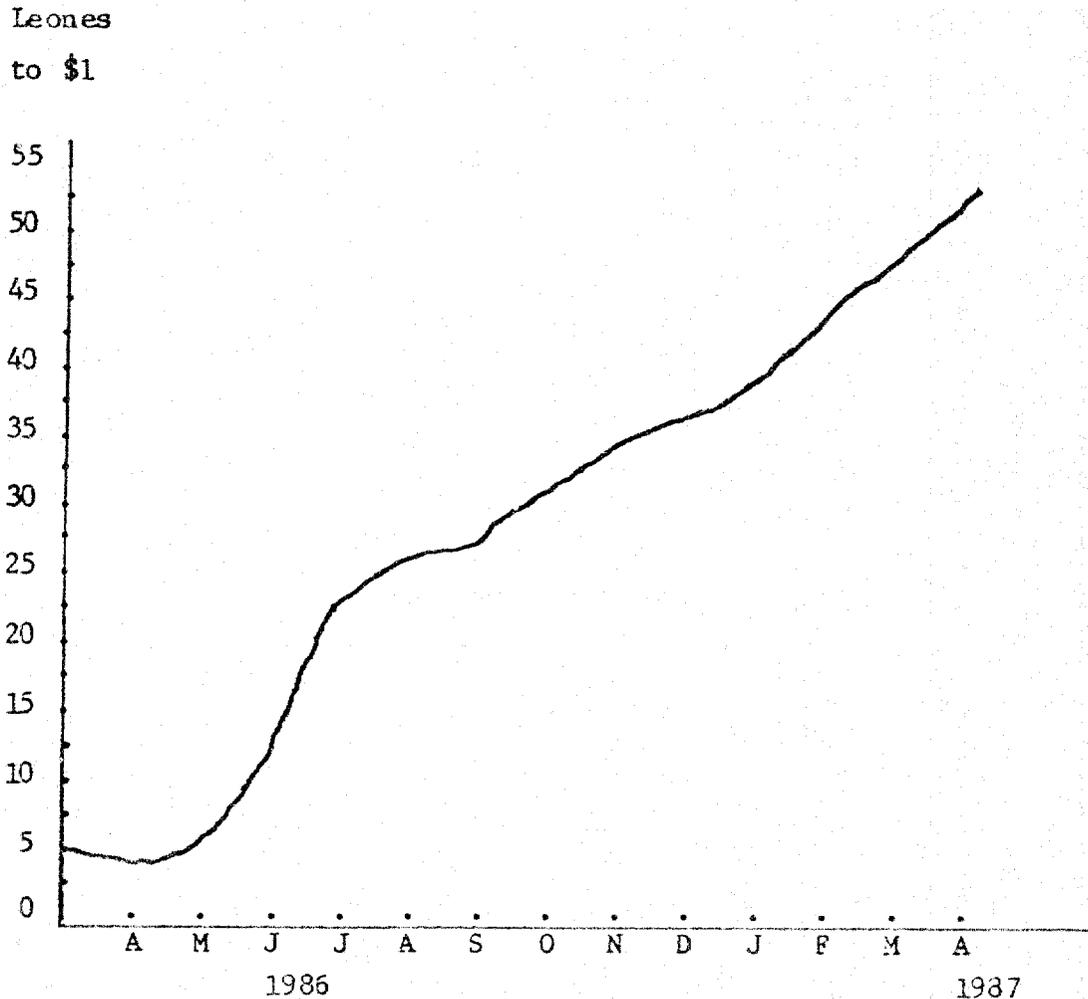
In table I and II, we present a summary of CRS/SL weight-specific commodity status reports for the 3 fiscal years under review. Table III presents a monetary valuation of the losses sustained during the above period.

During the 3 years no apparent improvement occurred in CRS/SL commodity management at the Port of Sierra Leone. During fiscal years 1984, 1985, 1986, total losses of food aid commodities amounted to 241 metric tons, 135 metric tons and 372 metric tons respectively. The total cost and freight value of these losses is Le 2,322,944, (\$ 46,459; \$1 = Le 50). The rate of \$1 = Le50 was the rate of exchange applicable in March 1987, but it does not represent an accurate dollar cost because of several significant devaluations of the Leone during the period under review:

September 1983	\$ 1 = Le 2.50
February 1985	\$ 1 = Le 6.00
June 1986	\$ 1 = Le 12.00
July 1986	\$ 1 = Le 22.00
December 1986	\$ 1 = Le 35.00
April 1987	\$ 1 = Le 53.00

This may be illustrated with the following graph:

EXCHANGE RATE MOVEMENTS
APRIL 1986 TO APRIL 1987



However, for purposes of this report we feel that the approximate current rate is the most appropriate to use.

These port losses were not reported to USAID/SL nor claimed from the Sierra Leone Port Authority until October 24, 1986. During our review we noted that the claims made by CRS/SL were not properly supported by timely discharge and delivery surveys. CRS/SL also omitted to report losses for 3,752 kg of SSO and 635 kg of bulgar wheat from the consignment of the Vessel "Anthos" which arrived in Sierra Leone in June 1984, and 4,936 kg of wheat from the consignment of the Vessel "Santa Ana" which arrived in Sierra Leone in June 1986.

Recommendation 1

USAID/SL should request the U.S. Department of Agriculture to demand payment from Catholic Relief Services for the Cost and Freight value of any claim rejected because of improper documentation or delay in making the claim.

Recommendation 2

USAID/Sierra Leone should request Catholic Relief Services/Sierra Leone to make additional claims for:

- i) 3,752 kg of SSO for a C&F value of Le 7,876 (app US\$ 158)
- ii) 5,571 kg of bulgar wheat for a C&F value of Le7,817 (app US\$ 156)

B. OCEAN LOSSES

During our review of the correspondence file between CRS/SL and CRS/New York, we noted a USDA letter dated September 25, 1986 which indicates that a claim for \$45,497 was rejected by the shipping company, because the survey report was requested too late by CRS/SL. The survey report was made one month after arrival of the cargo at the port, rather than at the time of discharge. The letter states that "...it would appear that CCC should make demand upon CRS for the C&F value of the loss sustained..". Claims for ocean losses are the responsibility of CRS/New York. We were unable to ascertain whether all ocean losses sustained during fiscal years 1984, 1985, 1986 have been properly claimed for.

Recommendation 3

Based on the schedule presented in Table I and II, we recommend that USAID/Sierra Leone request Catholic Relief Services/Sierra Leone to provide a reconciliation of all ocean losses sustained, and that the Commodity Credit Corporation make demand upon Catholic Relief Services/Sierra Leone for the Cost and Freight value of any claim rejected.

Note from review of ongoing fiscal year 1987 activities

Although CRS/SL has experienced both significant material losses and management difficulties in the past, it is equally important to recognise that improvements have been made recently and current commodity status reports reflect this improvement.

The major changes made by CRS/SL are:

- (i) engagement of an assistant country representative to monitor the PL 480 program;
- (ii) agreement with GOSL to transport directly from the ship to the CRS/SL warehouse, thereby reducing the risk of port losses.

TABLE I

SUMMARY OF COMMODITY STATUS REPORTS

	<u>SSO</u> <u>(kg)</u>	<u>%</u> <u>of total</u> <u>arrivals</u>	<u>NFDM</u> <u>(kg)</u>	<u>%</u> <u>of total</u> <u>arrivals</u>	<u>Bulgar</u> <u>wheat</u> <u>(kg)</u>	<u>%</u> <u>of total</u> <u>arrival</u>
<u>FY 86</u>						
Total arrivals	379,033	100.0	387,542	100.0	1,090,903	100.0
Ocean losses	(28,084)	7.4	(45,639)	11.8	(14,724)	1.3
Port + other losses	-	-	(200,931)	51.8	(171,736)	15.8
Despatched to warehouse	350,949	92.6	140,978	36.4	904,443	82.9
<u>FY 85</u>						
Total arrivals	831,052	100.0	1,796,961	100.0	2,279,023	100.0
Ocean losses	(30,009)	3.6	(44,819)	2.5	(8,972)	.3
Port + other losses	-	-	(35,866)	2.0	(99,253)	4.4
Despatched to warehouse	801,043	96.4	1,716,276	95.5	2,170,798	95.3
<u>FY 84</u>						
Total arrivals	676,779	100.0	1,207,590	100.0	1,948,091	100.0
Ocean losses	(39,213)	5.8	(30,638)	2.5	(35,507)	1.8
Port + other losses	(3,752)	0.5	(113,990)	9.4	(123,561)	6.3
Despatched to warehouse	633,814	93.7	1,062,952	88.1	1,789,023	91.8

TABLE II
SUMMARY OF PORT AND OCEAN LOSSES

	<u>Total food AID (kg)</u>	<u>SSO (kg)</u>	<u>NFDM (kg)</u>	<u>Bulgar wheat (kg)</u>
<u>FY 84, 85, 86</u>				
Total arrivals per B/L	10,596,980	1,886,864	3,392,099	5,318,017
Ocean losses	(277,605)	(97,306)	(121,096)	(59,203)
Port losses	(749,089)	(3,752)	(350,787)	(394,550)
Despatched to warehouses	9,570,286	1,785,806	2,920,216	4,864,264

TABLE III
QUANTITIES AND C&F VALUE OF PORT LOSSES

<u>Vessel arrival date</u>	<u>Vessel name</u>	<u>PL No*</u>	<u>SSO (kg)</u>	<u>NFDM (kg)</u>	<u>Bulgar wheat (kg)</u>	<u>C & F value Le</u>	<u>Approximate exchange rate</u>	<u>\$ Value</u>
06.14.83	Francae	403		4,468	6,146	13,206	2.5	5,282
12.15.83	Andros Island	409		61,236	43,478	152,333	2.5	60,933
04.18.84	Kalomira	412			79,448	62,108	2.5	24,843
07.06.84	Export champion	411		52,754		102,227	2.5	40,890
08.06.84	Anthos	414	3,752		635	8,268	2.5	3,307
11.03.84	Tana	418			29,838	20,529	2.5	8,212
02.25.85	Export champion	421		35,866	37,572	200,915	6.0	33,486
08.29.85	Senya Berekou	427			31,843	24,078	5.5	4,378
08.31.85	Duteous	430		174,069	80,650	369,444	5.5	67,172
01.07.86	Zhongshan	435		26,862		501,708	5.1	98,374
06.20.86	Santa Ana	438			4,936	7,425	12.0	619
07.15.86	Tana	444			86,150	873,905	22.0	39,723
	Total		3,752	355,255	400,696	2,336,150		387,219
	Less FY 83 losses		-	(4,468)	(6,146)	(13,206)		5,282
	Losses FY 84,85, 86		3,752	350,787	394,550	2,322,944		381,937

The rate of exchange used is the rate applicable at the date of arrival of the vessel

* Internal chronological number used by CRS/SL to identify the commodities relating to the arrival of each vessel

REVIEW OF PROGRAM FUNDS

Program funds are provided by:

- 1) GOSL - in the form of an annual contribution towards CRS activities.

The contributions for the fiscal years under review were as follow:

	<u>Leones</u>	<u>Rate</u>	<u>\$ equivalent</u>
1986	600,000	12.00	33,300
1985	400,000	5.5	72,727
1984	600,000	2.5	240,000

- 2) Recipients who make a small contribution to CRS/SL as follows:

	<u>Leones</u>
to July 1985	0.35
from 8/85 to 9/86	1.00
from 10/86	3.00

- 3) Containers - empty containers have been sold and the proceeds used to finance the PL 480 program. Prices have moved as follows:

	<u>Bulgar wheat bags</u>	<u>Oil tins</u>
	Leones	Leones
to April 1986	0.25	0.35
from May June 1986	1.00	*10.00

*Note: the size of oil tins was increased in June 1986

We have reviewed the program's three main bank accounts in accordance with item 7 of the Statement of Work.

We confirm that the items that we tested, with the exception of the following items, were in compliance with applicable laws and regulations and that nothing came to our attention that would cause us to believe that items not tested were not so in compliance.

(i) certain administrative expenses which should have been allocated over all CRS/SL activities were allocated in full to the PL/480 Program;

(ii) wages and related taxes which should have been allocated over all CRS/SL activities were allocated in full to the PL 480 program

Recommendation 4

We recommend that USAID/Sierra Leone request Catholic Relief Services/Sierra Leone to calculate a provisionnal overhead rate to allocate a proportionate share of indirect expenses to the PL/480 Title II program. In order to aid CRS/SL in the execution of this task, USAID/SL should offer assistance to the CRS/SL accountant to familiarise himself with USG accounting requirements, or request a financial analyst from the Regional Economic Development Support Office to provide such assistance.

Note on the MCH recipients contribution

During our field trip we interviewed recipient mothers in Kabala and Kouibondo clinics. We noted that the recipients interviewed could not differentiate between a purchase of the commodities and a contribution to program implementation.

However, in our opinion such a contribution neither constitutes a sale of PL 480 Title II commodities nor are recipients obliged to make donations because of the following reasons:

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- 1) The local value of the commodities given to recipients is as follows:

	<u>Leones</u>
oil 1 kg	12.50
bulgar 2 kg	6.00
milk 2 kg	<u>88.00</u>
	106.50

The recipients make a voluntary contribution of 3 Leones for this ration and are, or should be, aware of the significant difference between the value of the contribution and the value of commodities supplied.

- 2) The high transportation costs from Freetown to the clinics because of:

- a) the high cost of fuel;
- b) the poor condition of roads;
- c) the unpredictable spare parts availability

need to be financed and in our opinion it is not unfair to request recipients to make a small voluntary donation towards these costs.

- 3) The value of recipients contributions during the years under review were:

	<u>Leones</u>	<u>Approximate % of total receipts</u>
1986	506,859	45%
1985	308,196	39%
1984	224,051	24%

Without these contributions it would have been difficult for CRS to finance the program.

4) The contribution from GOSL is often paid late because of GOSL financial difficulties.

5) Recipients contribution is voluntary and no pressure is put on recipients to make a donation.

If no contribution were made from recipients the costs would have to be financed from alternative sources. It is difficult to see where these alternative sources of finance might be found.

We were also informed by both CRS/SL and officials at USAID/SL that withdrawing the recipients' contribution would have an adverse effect on the program since recipients, generally, felt that if they had to make some financial contribution they were being given something of value. If no financial contribution is required the recipients may tend to take the attitude that the commodities given would have only a small value and therefore would not be worth the trouble of collecting.

TABLE IV

	<u>FY</u> <u>84</u>	<u>FY</u> <u>85</u>	<u>FY</u> <u>86</u>
<u>Project funds</u>			
Beginning balance - sale of "empties" and MCH contribution	Le 75,556	17,095	39,595
Sale of empties and MCH contribution	<u>254,460</u>	<u>381,527</u>	<u>695,695</u>
TOTAL RECEIPTS	330,016	398,622	736,290
EXPENSES	<u>(312,921)</u>	<u>(359,027)</u>	<u>(543,127)</u> (1)
	Le 17,095	39,595	193,163 (2)
	-----	-----	-----

(1) Excludes overseas spare parts purchases, and overhead expense contribution.

(2) This balance added to the GOSL contribution should provide sufficient funds for program implementation. However, CRS/SL has experienced difficulties in collecting the GOSL contribution and with ever increasing costs the situation needs to be kept under constant review.

Recommendation 5

In order to:

- (a) facilitate the tracing of commodities relating to each shipment and ensure that commodities are issued on a first in first out (FIFO) basis;
- (b) provide a clear audit trail on the stock records; and
- (c) facilitate the retrieval of waybills

We recommend that:

- (i) each waybill bear the PL Number;
- (ii) each waybill be posted individually in the stock records and cancelled waybills be clearly marked "Cancelled";
- (iv) waybills for deliveries to clinics and regional warehouses indicate the condition of the commodities despatched in order to facilitate reconciliation with the receiving reports.

CRS/SL prepares quarterly commodity status reports and their files show that these reports were transmitted to USAID/SL. We were unable to locate any of the reports relating to the years under review in the files of USAID/SL.

A tri-annual audit and an annual evaluation are carried out on CRS/SL activities. Audit reports and evaluation reports are issued. Copies of these reports have neither been requested nor sent to USAID/SL.

The serious losses sustained by CRS/SL could have been identified by USAID/SL from both the Commodity Status Reports and the evaluation reports.

More extensive monitoring of the PL 480 program would have enabled the Mission to identify program problems early and helped to resolve them much sooner. To illustrate our contention, we refer to the GAO report entitled "Famine in Africa" (GAO/NSIAD-86-25) of March 1986. The report states that in Burkina Faso and Senegal, where the Missions provided extensive monitoring, the status of 95% food aid could be verified, while in Somalia, where the Mission provided less monitoring, Mission officials were unaware of poor storage facilities.

Recommendation 6

We recommend that USAID/Sierra Leone provide more extensive monitoring of its PL 480 Title II program. However, since USAID Handbook 9 does not specify the degree of monitoring that a Mission should provide we also recommend that USAID/Sierra Leone request clarification from the Food-For-Peace Backstop Bureau in Washington to review Handbook 9 and to specify more clearly the extent and type of monitoring. Such procedures should include the frequency of visits to warehouses, port facilities, and distribution sites.

Recommendation 7

We recommend that USAID/Sierra Leone, request from Catholic Relief Services/Sierra Leone copies of its annual evaluation and/or audit reports to confirm the effective operation of the program or to identify factors that may inhibit it from reaching its optimum potential

OTHER OBSERVATIONS

During our review we visited all CRS warehouses in Freetown and confirmed the proper condition of the various facilities, with commodities stacked in a professional manner. During our field visits to distribution centers in Makeni, Kabala, Koribondo and Kenema, we also observed proper storage facilities. Publicity is adequately provided by marking of the containers, posters of health education with the USAID logo, and nurses' discussions with recipients at the clinics. All beneficiaries observed qualify under the established criteria. CRS/SL regional representatives in the Diocesan areas make regular field visits to the clinics to provide adequate supervision. Visits to the local markets in the towns mentioned above did not indicate any sale of PL 480 commodities.

STATEMENT OF WORK

As stated under Article II - Objectives, the survey shall be conducted in accordance with the Audit Survey Phase outlined in Chapter 3 of the "Guidelines for Financial and Compliance Audits of Aid-Financed Agreements (by non-Federal Auditors). In the case of this specific survey, the survey examination shall include the following:

Contractor shall perform the specific survey steps identified below, in sufficient depth, to lead to one of two survey outputs:

- i) a survey report identifying actionable recommendations where appropriate. Such a report would be self-contained and not lead to any further in-depth review follow-on work;
- ii) a survey report identifying the existence of various serious problems that require extensive in-depth follow-on work, with actionable recommendations beheld in abeyance pending completion of the follow-on (Phase II) review.

The survey should be performed in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions (1981 revision)" and accordingly include such tests to determine:

- a) whether the expenditure and commodity statements of the audited entity present fairly the financial position and results of financial operations in accordance with generally accepted accounting principles;
- b) whether the entity has complied with the laws, regulations and policy guidelines that may have a material effect on the financial statements.

This work order is being initiated to perform a financial compliance survey of the PL 480 Title II Agreements. (FY 84, 85, 86) in Sierra Leone, for a three year amount of about \$4.3 million.

The objective of the survey is to gain familiarity with all aspects of the program, and to make a determination to what extent it complies with all the terms and conditions of all agreements and other applicable governing documents. The specific functional issues to be addressed in this connection are whether:

1. Required reports are properly and accurately prepared and are submitted promptly.
2. Adequate accounting is being maintained over the arrival, storage, shipment, and distribution of the donated commodities.
3. Proper facilities exist for storage and handling to ensure ultimate distribution of the commodities in good condition.
4. Commodities are used by the beneficiary or his family and are not sold or exchanged by him.
5. Commodities are distributed free to eligible recipients or as part payment of wages.
6. Adequate publicity is given to the fact that the commodities are donated or furnished by the people of the United States.
7. Proceeds from sales of containers and/or recipient contributions are accounted for and used only for approved program expenses.

INTERNAL CONTROLS

At CRS/SL warehouses, we were able to verify:

- . stock books showing movements in and out of the warehouses;
- . single number or groups of internal transport documents (way bills);

A sample of 76 despatches (about 15%) to regional clinics was selected and we were able, without exception, to trace the receipt of the commodities into the regional clinic's stock book.

Our tests, however, revealed the following weaknesses which were taken into account when determining the levels of testing.

- i) 39 waybills which did not bear the shipping arrival (PL number) were identified from FY 1985 onwards.
- ii) several waybills were grouped together to make single entries onto the stock records, and cancelled waybills were not clearly marked.
- iii) in 1985 and 1986 waybills were not correctly filed in the Ship Arrival file, often being filed loose in batches.

8. Beneficiaries qualify as eligible recipients under established criteria.
9. Commodities unfit for human consumption are promptly reported and disposed of only by approved methods.
10. All losses and misuses of commodities are promptly reported to Mission and to the cooperating sponsors' headquarters, in accordance with the regulations; reasonable efforts have been made to pursue claims against third parties, and claims proceeds payable locally have been deposited with the United States Disbursing Officer.
11. Adequate supervision is being provided to the program. Auditors shall be alert to situations of transactions that could be indicative of fraud, abuse and illegal expenditures and acts. If such evidence exists, the non-federal auditor should contact the Regional Inspector General for Audit (RIG/A) before extending audit steps and procedures to identify on the entities financial statements.

Auditors, during the survey phase, should undertake tests of sufficient depth to identify areas requiring detailed review, if any. This would also assist in the determination of "Go/No Go" decision, with respect to such a detailed review.

The survey should follow the natural flow from one activity to the next, from the central warehouses to the distribution centers. For reporting purposes, the survey report should discuss findings on a functional basis, as is shown in greater detail in Addendum I (attached).

12. In addition to functional issues covered under items 1 through 11 the survey shall also review the individual grant agreements with CRS and express an opinion concerning compliance with their respective terms and conditions.

13. The survey shall also review the various bilateral internal transport arrangements, compliance to their respective terms and conditions, and adherence to prevailing tariff provisions.

The survey report should discuss findings on a functional basis"

A. Reporting Requirements

1. Normally the cooperating sponsor is expected to conduct one complete comprehensive audit annually or a series which when combined would present a complete audit examination in conformance with AID's guidelines. The report should show where actions were taken or proposed to correct problems found. Reports or such audits should be submitted to Mission Officials and the Food for Peace Program officer far enough in advance of the due date for submission of the country food assistance program to enable the Mission to properly assess the feasibility of the proposed program. Determine if these procedures are being followed. If not, why not?
2. Obtain and review copies of the internal audit reports made by the cooperating sponsor. Are they adequate?
3. Using the audit report, determine what weaknesses have been identified and the status of corrective actions.

B. Accounting for the Commodities

1. From the "Shipment File" or other documentation supporting acceptance of commodities at the port(s) of entry, trace all shipments into the central accounting records.
 - a. Check commodity arrivals against applicable bills of lading.
 - b. Verify that commodities were received in satisfactory condition and quantities, that outturn reports were obtained and that the cooperating sponsor has reported losses to the Mission.
2. Schedule consignments to central warehouses and, on a test basis, trace into the warehouse stock records. Note any discrepancies and obtain and evaluate explanation for any major differences.
3. By reference to warehouse issue documents, verify the correctness of entries in central stock accounting records for commodities withdrawn for distribution.
4. Verify arithmetical accuracy of the central stock accounting records.
5. Scan central stock records for adjustment and determine that the nature of and support for the adjustments was proper.
6. If warehouse stock records are maintained, cross-check entries for receipts, issues, adjustments, etc., with similar entries in the central stock accounting records. Investigate discrepancies.

C. Port Handling Facilities and Methods

1. Visit port(s) of entry and observe the arrival and discharge of commodities and their clearance through customs.
 - a. Note any unusual processes in unloading commodities at the port of entry (excessive amount of handling, rough handling, inadequate temporary storage facilities, problems in having cargoes surveyed, obtaining duty free entry, etc.) and review these with the distributing agency's representative.
 - b. Ascertain that the commodities being unloaded are properly labeled in English and, insofar as practicable, in the language of the cooperating country as being donated or furnished by the people of the United States and that the AID of Alliance emblem is affixed to bags and containers.
 - c. Note and review with the distributing agency representative any unusual time spread between arrival at port and delivery to distributing agency.

D. Warehousing and Inventory Controls

1. Inspect central warehouses, noting whether they are tightly constructed, waterproofed, adequately ventilated, and have doors and windows which can be securely locked
2. Observe the manner in which commodities are stacked, noting whether dunnage is used under all commodity stacks, commodities are not stacked against walls or close to the ceiling, classes of commodities are stacked separately, and whether sufficient space is left between stacks to allow for easy access and removal and taking of physical inventories.
3. Inspect commodities in warehouse, noting condition and any old items. Ascertain if commodities are released from warehouses on a first-in-first-out basis.
4. If feasible, observe the taking of inventories at central warehouses and:
 - a. Review inventory procedures.
 - b. Make test counts of commodities and trace into inventory listing.
 - c. Test inventory extensions and footings.
 - d. Compare inventory records with result of physical counts and follow up on disposition of differences.
 - e. Review inventory records for unusual entries. Trace unusual entries to original sources on a test basis.
 - f. Determine that the book inventory accurately reflects the physical inventory of commodities in the central warehouses and distribution centers covered.
 - g. Do alternative testing (if you are unable to observe and inventory) to determine if inventory records are reliable.

5. Review release authorizations to distribution centers for proper preparation and approval. Determine on a test basis that acknowledgements are received for the applicable shipments to distribution centers. Follow up on any differences between shipments and acknowledgements for proper disposition (such as initiation of claims, record keeping, and reporting).

E. Processing

1. Determine that any commercial processing of food commodities is covered by a written contract approved by the Mission.
2. Obtain schedule of shipments to the distributing centers to be visited and trace shipments in the records maintained by the distributing centers

F. Distribution Centers

1. Obtain a list of the distribution centers showing the number of recipients and rate of distribution, and arrange for visits to selected centers.
2. Obtain schedule of shipments to the distributing centers to be visited and trace shipments in the records maintained by the distributing centers.
3. Observe safeguards (for commodities in stock) at the distribution center.
4. Take an inventory of commodities on hand and:
 - a. Compare with stock records. Note and follow up on any differences.
 - b. Compare stocks on hand to the approved average monthly consumption to determine if stocks are excessive in relation to immediate requirements.
 - c. Ascertain if commodities are distributed on a first-in-first-out basis.
5. Observe a distribution, noting the adequacy of distribution procedures, the adequacy of publicity at the centers, the orderliness and timeliness of distribution, and cleanliness of workers and facilities.
6. Review records of selected beneficiaries in the light of the criteria established for their eligibility.
7. Compare number of recipients actually receiving food per the distributing center records with the listing obtained in paragraph 1 above.

- a. Note any distribution less than or more than the approved rate. Obtain and evaluate explanations for differences from the approved rate of distribution.
8. Ascertain whether disposal of damaged commodities has prior approval of the Mission or the Diplomatic Post.
9. By inquiry, observation and examination of records determine that
 - a. Food is not being received by the recipients from more than one cooperating sponsor.
 - b. Recipients are aware that the commodities are made available to them by the people of the United States.
 - c. Commodities are not sold or bartered by recipients or persons making distribution.
 - d. Distribution is being made only to eligible recipients, without solicitations of compulsory donations, and without discrimination with regard to race, color, or creed.
10. Determine the frequency and adequacy of reviews to update eligibility lists. Confirm that recipients are eligible to receive commodities under criteria established for eligibility.
11. Visit and inspect local markets for evidence of commodities being illegally offered for sale.
12. Determine that required reports are accurate, properly prepared, and submitted promptly by the distributing centers.

G. Processing

1. Determine that any commercial processing of food commodities is covered by a written contract approved by the Mission.
2. Compare amounts of commodities utilized in commercial processing with the amount authorized by the contract to produce a given amount. Obtain explanations for substantial differences.

H. Miscellaneous Receipts

1. Review adequacy of procedures and controls over funds raised by sales of containers or for charges for school lunch and maternal child-health programs.
2. Determine that:
 - a. Funds are used only for the purposes authorized by the Title II Regulations.

- b. Markings are removed or obliterated as required by the Title II Regulations.

I. Disposal of Commodities Unfit for Human Consumption

1. Determine that:
 - a. Commodities were inspected by a public health official or other competent authority.
 - b. Notification has been given to the Mission or the Diplomatic Post.
 - c. Commodities were disposed of in accordance with the instructions given by the Mission or the Diplomatic Post.
2. If unfit commodities are sold, account (fully) for the disposition of sales proceeds. Ascertain the health implications of such sales.

J. Claims for Losses and Misuse in Country of Distribution

1. Review procedures, records, and reports and of the cooperating sponsor relating to loss and misuse of commodities.
2. Verify that reports are timely, complete and include:
 - a. A description and the quantity of the commodities lost or misused.
 - b. Contract number or other identifying marks, including types sizes, and quantities of containers.
 - c. Time and place of the loss, misuse, or diversion.
 - d. The identity of the persons, agency, carrier, or warehouse having possession of the commodities at the time of loss or misuse.
 - e. The disposition made of damaged or deteriorated commodities including the amounts and disposition of proceeds realized from the sales of these commodities, or the amounts and disposition of proceeds received as restitution for loss or misuse of any commodities.
 - f. The amount of any claim asserted by the cooperation sponsor against others considered responsible for the loss or misuse of the commodities and the basis used in computing this amount.
 - g. Other details of the circumstances under which the commodities were lost or misused, including a statement relative to the cause of the loss or misuse and any extenuating factors to be taken into consideration.
3. Evaluate efforts to collect claims from warehousemen, carriers, or others.

- K. Determine when there may be noncompliance with the agreement of AID Handbook 9
- L. Ensure that performance under the agreement is being monitored where appropriate.

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