PD-ABA-859

isn 65990

NON-FEDERAL AUDIT REPORT
CATHOLIC RELIEF SERVICES PL-480 TITLE II
PROGRAM IN INDIA
MADRAS AND BOMBAY ZONES

AUDIT REPORT NO. 5-386-90-01-N

MARCH 29, 1990

While food was being distributed to the needy, serious problems continue to exist in the CRS program in India -- beneficiaries actually received less food than recorded, commodity losses were substantial but rarely reported; oversight reviews were superficial or not performed, known problems were not corrected, and stored commodities were not properly protected. Also, commodity statements were not reliable, internal controls were not adequate, and compliance with requirements was poor.

AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT
— Singapore —

U.S. POSTAL ADDRESS:
American Embassy
AID/RIG
FPO San Francisco 96699

INTERNATIONAL ADDRESS:
c/o American Embassy
30 Hill Street
Singapore 0617
Tel: 225-1033

March 29, 1990

MEMORANDUM FOR D/USAID/India, Robert Bakley

FROM: Acting RIG/A/Singapore, Alfred M. Clavelli

SUBJECT: Non-Federal Audit of Public Law 480 Title II, Program Administered by the Catholic Relief Services in India - Madras and Bombay Zones

Audit Report No. 5-386-90-01-N

The enclosed Price Waterhouse non-Federal audit report presents the final results of a financial audit of the Catholic Relief Services' (CRS) Public Law 480, Title II Program for two of the four zones in India.

Under the Program in India, food commodities are donated to combat malnutrition, promote economic and community development, and provide food for the needy. After receipt in India, the commodities are despatched to CRS "Counterparts" who make further distributions to smaller organizations called "Operating Partners" for the actual distribution to beneficiaries. During the two-year audit period (fiscal years 1987 and 1988), CRS reported that 93,415 metric tons of food, valued at $21.8 million, was distributed by its operating partners to about one million beneficiaries under the MCH and FFW Programs in the two zones reviewed.

The audit was initiated at the Mission's request. The objectives were to determine if commodity statements for fiscal years 1987 and 1988 were accurate, internal controls were adequate, requirements were met, and known problems were corrected. The audit scope included a review of Program implementation practices in effect, at the time of the audit during 1989, for assisting in formulating an opinion on operations and reports for fiscal years 1987 and 1988.

Price Waterhouse concluded that food was being distributed to the needy, but that commodity statements were not reliable, internal controls were not adequate, compliance with requirements was poor, and known problems were not corrected. An overall summary is provided in Part II of the report, and Part VI discusses the problems in detail under the following four separate but interrelated findings:

-- Beneficiaries actually received less food than recorded, and commodity losses were substantial but rarely reported.

-- Oversight reviews were superficial, incomplete, or not performed so officials did not have a complete understanding of actual activities; thus, operators were allowed to implement the Program in ways which were inconsistent with objectives and requirements.

-- CRS did not provide adequate management attention to the Program, thereby allowing significant known problems to continue.

-- Stored commodities were not being protected due to a lack of dunnage, leaking oil containers, torn sacks, improper rotation, and poor ventilation.

Based on information disclosed by the auditors, CRS initiated investigations at seven locations, (see Appendix C) because there were instances of significant abuse. The investigative staff of the Office of the Inspector General also conducted investigations at two locations, and a Report of Investigation on one location was completed and forwarded to Mission officials.

When informed of the preliminary audit findings, the Mission required CRS to immediately correct the deficiencies as a condition for continuing the Program, and CRS moved to remedy many of the problems. To illustrate, CRS closed locations, provided accurate measuring equipment, improved the reliability of the records, and required changes in warehousing operations. Also, CRS alerted the operators in the other two zones (which were not part of this audit) of 13 serious problems which had been identified. The operators were told that if similar problems existed, corrective action would be expected for the Program to be continued.

Such action has improved the Program's effectiveness. In fact, the audit of the remaining two zones in India (also initiated at the Mission's request) which is now being completed disclosed operational improvements over the first two zones. This indicates that with a higher level of management attention, CRS would be able to operate an effective Program.

To help in this regard, Price Waterhouse made 15 recommendations. CRS officials stated that they generally accepted the recommendations as being useful tools and that corrective actions have been initiated to remedy identified weaknesses. However, they also stated the report's conclusions were based on factual errors, speculations, and misrepresentations. They did not accept the report's opinions, believed the audit duration was too long, questioned the qualifications of the Price Waterhouse audit team, and complained that the Mission's early release of an advance copy of the draft report to "external parties" jeopardized the Program's future. CRS's comments are summarized after each finding followed by Price Waterhouse's rebuttal. The full text of CRS's comments is presented in Appendix E. Mission officials fully concurred with the 4 findings and the 15 recommendations. Their comments are included in Appendix F.

Throughout the audit and at its conclusion, numerous meetings were held with CRS, Mission, and Price Waterhouse officials to discuss the audit findings. A representative from this office also attended the majority of these meetings. CRS officials, especially those at the zone level, agreed with most of the points discussed. Therefore, it was surprising to receive a written response from CRS which, while indicating apparent agreement with the recommendations, materially disputed the findings.

We certainly do not agree with CRS's position. The three adverse opinions expressed by Price Waterhouse in Parts III, IV, and V of the report are fully supported by the findings in Part VI. The comments added by Price Waterhouse after each finding adequately addresses all of CRS's pertinent comments relating to the individual findings. We would, however, like to comment on three of CRS's statements which were not related to a specific finding and therefore were not addressed by Price Waterhouse.

-- The nine-month duration of the audit was long. However, this was mainly due to the disclosure of very serious problems necessitating expanding the audit tests within the two zones under review and initiating a separate audit in the remaining two zones. Also, CRS officials understandably requested that the draft report not be issued in early December due to the holiday period and staff leave plans through early January. So, Price Waterhouse did not issue the draft until late January. Thus, the long duration of this audit was not the fault of Price Waterhouse.

-- Price Waterhouse's auditors were very qualified to perform the review. The audit team was based in India and had extensive experience auditing voluntary organizations and other USAID activities. Additionally, our office assigned a senior audit manager to provide continuous oversight throughout the assignment. It is our belief that Price Waterhouse's review was highly professional and more thorough than would have been feasible had our staff performed the entire audit.

-- The advance copy of the draft report, which was released early by the Mission because of the disclosure of certain serious problems, accurately portrayed the results of the audit. While changes were made before the "official" draft report was issued, they were editorial in nature. If the future of CRS's Program is in jeopardy (as mentioned by CRS), it is not due to the Mission's early release of the report.

Since CRS disagreed with most of the problems discussed in the report and since most of the problems had been repeatedly pointed out to CRS in the past but were not corrected, the Mission needs to be much more aggressive in its oversight. Accordingly, in addition to the recommendations made by Price Waterhouse, the following two recommendations are being addressed to the Mission:

Recommendations

We recommend that USAID/India:

1. Require CRS to prepare an Action Plan that will help ensure the Program is managed and operated in accordance with agreements. This Plan, at a minimum, should address commodity accountability and distribution, loss reporting, oversight reviews, management activities, Food-for-Work projects, and warehousing functions. The Action Plan should specifically show the corrective measures that will be taken to resolve the noted problems, include milestone target dates for completion, and require quarterly progress reports until fully implemented.

2. Within one year, based upon on-site testing and in conjunction with CRS, prepare a report to the Administrator that will clearly show the extent the Action Plan was implemented. If operations were not satisfactorily improved, the report should contain recommendations for limiting the Program in future periods.

The above two recommendations have been discussed with Mission officials who stated general agreement. The recommendations could be resolved based on the Mission's written response to this final report and will be closed upon completion of the actions which need to be taken.

I appreciate the courtesies and cooperation the Mission extended to Price Waterhouse and our staff during the course of this audit. Also, although CRS officials did not agree with most of the final report, they too were helpful and courteous even during difficult periods.

At this time, we would like to request your final comments to this report within 30 days.

PRICE WATERHOUSE REPORT ON
NON-FEDERAL AUDIT OF THE CATHOLIC RELIEF SERVICES
PL-480 TITLE II PROGRAM IN INDIA
MADRAS AND BOMBAY ZONES
FOR THE PERIOD OF TWO YEARS ENDED SEPTEMBER 30, 1988

NON-FEDERAL AUDIT OF THE CATHOLIC RELIEF SERVICES
PL-480 TITLE II PROGRAM IN INDIA
MADRAS AND BOMBAY ZONES

TABLE OF CONTENTS

		PAGE NO.
TRANSMITTAL LETTER		
PART I -	INTRODUCTION	
	A. Background	1
	B. Audit Objectives and Scope	2
PART II -	SUMMARY RESULTS OF AUDIT	4
PART III -	AUDITORS' OPINION ON COMMODITY ACCOUNTABILITY REPORTS	8
PART IV -	AUDITORS' OPINION ON INTERNAL ACCOUNTING CONTROLS	10
PART V -	AUDITORS' OPINION ON COMPLIANCE WITH LAWS AND REGULATIONS	12
PART VI -	FINDINGS AND RECOMMENDATIONS	
	A. Commodity Distributions and Accountability	14
	B. Program Oversight	26
	C. CRS Operations	34
	D. Commodity Warehousing	46
PART VII -	APPENDICES	
	A. Summarized Commodity Status Report	
	B. Summarized Recipient Status Report	
	C. Summary of CRS Investigations	
	D. Description of Operations at Four Counterparts	
	E. CRS' Comments to Draft Report	
	F. Mission Comments to Draft Report	
	G. List of Abbreviations	

B-102 Himalaya House
23 Kasturba Gandhi Marg
New Delhi 110 001
India
PO Box 466

Telephone : 3316157, 3314591
3312856
Telex : (031)-63070
Telecopier : (011)-332-3183
Cable : PRICEWATER NEW DELHI

Price Waterhouse

March 26, 1990

Mr. Reginald Howard
Regional Inspector General/Audit/Singapore,
U.S. Agency for International Development
16 Raffles Quay, #31-01
Hong Leong Building
Singapore 0106

Dear Mr. Howard,

NON-FEDERAL AUDIT OF CATHOLIC RELIEF SERVICES, PL-480 TITLE II PROGRAM IN INDIA, MADRAS AND BOMBAY ZONES

This report presents the results of the audit of Catholic Relief Services, PL-480 Title II Program in the Madras and Bombay Zones for the fiscal years 1987 and 1988.

The background, audit objectives and scope, and the summary results of the audit are contained in Parts I and II of this report. Parts III, IV, and V include our audit opinions on the commodity accountability reports, the internal controls, and the compliance with laws and regulations. The related findings and recommendations are contained in Part VI, as supported by Appendices A to D.

The comments of CRS officials are summarized under various sections of the report. These comments are also presented in their entirety in Appendix E to this report.

In response to the comments received from CRS we have felt it necessary to include certain further observations to the report. These have been provided under the caption "Auditor's Comments" in Part VI, for each of the four findings (A to D).

Mission officials, in their comments to the report, concurred with the findings and recommendations. Their response is presented in Appendix F.

Yours faithfully,

Price Waterhouse

NON-FEDERAL AUDIT OF THE CATHOLIC RELIEF SERVICES
PL-480 TITLE II PROGRAM IN INDIA
MADRAS AND BOMBAY ZONES

PART I - INTRODUCTION

A. Background

USAID/India engaged Price Waterhouse, New Delhi to perform a non-Federal financial and compliance audit of the Catholic Relief Services' (CRS), Public Law 480, Title II Program in two of the four zones in India - Madras and Bombay. Under the Title II Program, the United States Government donates food commodities to meet urgent relief requirements, combat malnutrition, promote economic and community development, and provide food for the poor and needy.

The United States Government began supporting voluntary agencies in India with the promulgation of the Indo-U.S. Agreement. Under this 1951 agreement, donated Title II commodities are allowed duty-free entry into India and the Government of India provides for primary in-country commodity storage and inland transportation.

The commodities are supplied free of charge to CRS, a voluntary agency in India. CRS provides the organization and the administrative staff to distribute the commodities to the beneficiaries. CRS administers the Program through its Headquarters in New Delhi and its four zone offices in Bombay, Calcutta, Cochin, and Madras. Within the four zones, the Program operates largely through the Catholic diocese hierarchy.

The commodities are cleared through various Indian ports by Government of India-appointed clearing and forwarding agents and despatched to CRS "Counterparts" (CP). The CPs distribute the commodities to smaller organizations under their jurisdiction called "Operating Partners" (OP). The OPs do the actual food distribution to the beneficiaries mainly under the following two categories:

-- Food-for-Work (FFW) - FFW is meant to provide wages partly in food to compensate laborers for a variety of jobs performed. FFW was created to provide jobs for the poor, increase agricultural production,

improve the economic position and living standards of the poor, and promote community development. Commodities provided are bulgur wheat and oil. FFW activity represented approximately 45 percent of the Title II commodities distributed in the two zones.

-- Maternal and Child Health (MCH) - MCH provides health and nutrition benefits to mothers and children through a periodic ration of food and health care follow-up. Commodities used are bulgur wheat, oil, and corn soya blend/milk. MCH activity represented approximately 40 percent of the Title II commodities distributed in the two zones.

The remaining commodities (15 percent) distributed by CRS were not part of this audit. A.I.D. Regulation 11 requires CRS to provide supervisory personnel to effectively implement, control, and evaluate the Title II activities and to make reviews, including end-use checks. Regulation 11 holds CRS responsible for improperly distributed commodities through any act or omission. It requires that CRS pay the U.S. the value of commodities lost, damaged, or misused unless it is determined by A.I.D. that such loss could not have been prevented by CRS under normal circumstances with reasonable care.

During the two-year period (October 1, 1986 to September 30, 1988) covered by this audit, CRS received shipments of around 198,000 metric tons of commodities valued at about $48 million. The Madras and Bombay zones utilized approximately 60 percent of these commodities. In addition, a sizeable inventory of commodities was carried over from the prior period.

B. Audit Objectives and Scope

The audit objectives were to determine whether (1) CRS's commodity statements presented fairly the results of operations in accordance with generally accepted accounting principles; (2) CRS and its related CPs and OPs established adequate internal controls over the operations; (3) CRS and its related CPs and OPs complied with applicable laws, regulations, and agreement provisions; and (4) adequate actions were taken to rectify problems identified in previous audits conducted by the

A.I.D. Office of the Inspector General and CRS's New York internal auditors.

The audit covered operations at CRS's offices in New Delhi and two of the four zones - Madras and Bombay. Within the two zones, the audit covered various CP and OP activities. Field reviews were basically made at 28 of the 67 CPs and 106 of approximately 2,300 OPs. Within this sample, visits were made to selective project sites for OPs operating in more than one location. The criteria followed for selecting the CPs and OPs for field review included earlier review/internal audit findings, beneficiary levels, accessability, past history of operations, and zone office suggestions. This effort was adequate, in our opinion, to provide an understanding of CRS's operations in the two zones audited.

The audit covered records of fiscal years 1987 and 1988 and was extended into 1989 wherever considered necessary for observing Program activity and examining related records as practicable. Results of the reviews of Program implementation practices during 1989, which form an important part of the audit observations, were considered in formulating an opinion on operations and reports for fiscal years 1987 and 1988. Field work for the review took place during April through August 1989.

The audit was performed in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1988 revision) and accordingly included such tests of the records and such other auditing procedures as we considered necessary to accomplish the audit objectives.

NON-FEDERAL AUDIT OF CATHOLIC RELIEF SERVICES
PL-480 TITLE II PROGRAM IN INDIA
MADRAS AND BOMBAY ZONES

PART II - SUMMARY RESULTS OF AUDIT

CRS established a system for distributing large quantities of Title II donated food to needy people. However, because of the various problems revealed by the audit, we concluded that commodity statements were not reliable, internal controls were not adequate, compliance with applicable requirements was not satisfactory, and known problems were not corrected.

There were problems of varying degrees at the 28 CPs and 106 OPs visited. Some locations had so many problems as to indicate a complete breakdown in effective operations. In fact, the problems at seven of the CPs reviewed (25 percent) were serious enough to be referred to CRS for investigation due to inconsistencies noted at either the CP or OP. In addition, two other CPs, including one which we were scheduled to review, were selected by CRS for investigation and we were requested to exclude them from our review. Five of these nine investigations have been completed (see Appendix C for details). The investigation reports recommended that operations at all five locations be discontinued. Commodities allocated to these five CPs during fiscal years 1987 and 1988 represented approximately 10 percent of the total commodities distributed over the two-year period.

Although the various problems which were disclosed detracted from the Program's effectiveness, food was still being provided to the needy. However, since the commodity statements were generally not reliable and since other problems indicated questionable distributions, it was not possible to determine the amount of food actually reaching the "targeted" beneficiaries.

CRS did prepare, as part of its reporting requirements, two important statements to provide management with information on commodity accountability and operational results - the Commodity Status Report (CSR) and the Recipient Status Report (RSR). These reports were compiled from data submitted by the CPs/OPs, as well as zone information.

The reports for fiscal years 1987 and 1988 which were submitted to the Mission have been summarized and included in Appendices A and B of this report. However, it is our opinion (see Part III), based on the reviews performed at the two CRS zone offices and at 28 CPs and 106 OPs, that these reports for 1987 and 1988 did not reflect actual operations and could not be relied upon.

The information reported was apparently generated to make sure that the commodities recorded as being received plus the inventory on hand, reconciled with records showing distributions to the approved number of targeted beneficiaries at the approved ration rates. The supporting records were found to be unreliable to a significant extent and were often prepared without regard to actual operations. Although it was not possible to quantify the impact on the status reports, the audit revealed material instances of operations not being accurately reported, oversight being deficient, and known problems not being corrected.

The problems associated with the two reports are discussed primarily in Finding A, Commodity Distributions and Accountability (see Part VI of this report). This finding as well as the other findings in this report are interrelated and indicate serious internal control and compliance problems (see Parts IV and V for audit opinion). For presentation purposes, the findings have been separated into the four different areas summarized as follows:

-- Commodities were not properly distributed or accounted for by the CPs and OPs. The quantities distributed were normally insufficient as a result of incorrect measurement containers and improper distributions, but the records indicated correct and proper distributions. Also, losses were not reported and instead shown as consumption, and the records did not reflect actual operations. Thus, reliance could not be placed on the information reported to USAID, and as a result, there was not adequate assurance that the targeted beneficiaries received the reported amount of commodities (see Finding A).

-- CRS's oversight activities were generally not effective or reliable. Reviews were not performed, were very cursory, or were incomplete in certain

important aspects. Thus, while serious problems existed, they were seldom disclosed or reported to enable corrective action (see Finding B).

-- CRS did not provide adequate management attention to areas such as correction of known problems, FFW projects, compliance with requirements for fees charged to beneficiaries, cash controls, recovery of claims, adequacy of publicity, Government of India's distribution requirements, and annual estimates of requirements. Consequently, various operational aspects of the Program were in need of substantial improvements (see Finding C).

-- Commodities were not being properly stored at many locations. Storage problems included lack of dunnage/segregation/proper stacking, poor rotation, unrepaired containers, and infestation. Consequently, commodities were not properly protected (see Finding D).

Details on each of these findings are presented in Part VI of this report. In addition, the results of our review at four CPs, including two CPs where the fewest problems were noted, are presented in Appendix D to provide a more complete understanding of the problems disclosed during the audit.

CRS officials initially indicated agreement with the findings which had been thoroughly discussed on various occasions -- after each field visit to a CP/OP location, upon completion of work in each zone, and in summary meetings at the end of the audit. In fact, when the seriousness of the problems became known during the course of this audit, CRS officials initiated various corrective actions to improve operations and conducted further investigations (see Appendix C) resulting in decisions to close down certain CPs and OPs. In their written reply to the 15 recommendations made in the draft report, CRS stated:

> " CRS generally accepts the recommendations as useful tools for improving the Title II Food Program."

* * *

" We accept that the audit report's recommendations will improve program management in a difficult operating environment, an objective shared by both CRS and A.I.D. Corrective actions have already been initiated to remedy the weaknesses identified in this report."

In their written reply to other parts of the draft report, however, CRS officials took the position that (1) the major report conclusions were based on problems identified in only five CPs, (2) the findings were extrapolated to other CPs and earlier years without qualification, (3) the audit was counterproductive and the findings were exaggerated, (4) inconsistent sample sizes were used, (5) the auditors' unfamiliarity with the program led to incorrect conclusions, and (6) the report's conclusions "... are based on factual errors, speculation and, at times, misrepresentation." While CRS officials stated they accepted the recommendations, their comments indicate that they believe the recommendations have only limited applicability. Consequently, we believe CRS does not fully appreciate the seriousness of the problems disclosed or the extent of corrective actions necessary.

CRS's comments are presented in their entirety in Appendix E. We fully considered these comments in preparing this report. CRS's comments pertinent to the findings are summarized after each finding, followed by additional auditor's comments which refute CRS's nonconcurrence.

Mission officials stated that they concurred with both the findings and recommendations (see Appendix F). It should be mentioned that Mission officials became actively involved in requiring CRS to implement immediate corrective actions and requested us to extend the audit to the CRS Calcutta and Cochin Zones. The problems which were noted in these other zones were not as severe as those discussed in this report. A separate audit report is currently being prepared on these two additional zones.

NON-FEDERAL AUDIT OF CATHOLIC RELIEF SERVICES
PL-480 TITLE II PROGRAM IN INDIA
MADRAS AND BOMBAY ZONES

PART III - AUDITOR'S OPINION ON COMMODITY ACCOUNTABILITY REPORTS

We have examined the Summarized Commodity and Recipients Status Reports of CRS's PL-480 Title II Program in Madras and Bombay Zones for fiscal years 1987 and 1988 (Appendices A and B). The preparation of the individual status reports, which we used to develop these summarized reports, is CRS's responsibility. It is our responsibility to express an opinion thereon, based on our audit.

We conducted our audit examination in accordance with generally accepted auditing standards and the U.S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1988 Revision). Accordingly, our review included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, in conformity with the Audit Objectives and Scope (Part I). The review was also extended to fiscal year 1989 to observe Program implementation practices and procedures. This we believe provided us a reasonable basis for our opinion.

As stated in the Summary Results of Audit (Part II) and the detailed findings (Part VI), significant deficiencies were identified in commodity distribution and accountability, reporting commodity losses, recording attendance and inventory information, CRS's internal/administrative operations, and warehousing. While these matters together with the lack of effective oversight raise significant questions about the Program's operations as well as the reliability of the underlying records, the effects thereof on the Summarized Commodity and Recipient Status Reports of the CRS Madras and Bombay Zones for the fiscal years 1987 and 1988 could not be determined by us.

In our opinion, due to the considerable effect of the matters discussed in the preceding paragraph, the Summarized Commodity and Recipient Status Reports for the

fiscal years 1987 and 1988 are not reliable as they do not fairly present the commodities which were received and distributed by CPs and OPs under CRS's PL-480, Title II Program in the Madras and Bombay Zones.

This report is intended solely for the use of United States Agency for International Development, New Delhi. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Regional Inspector General for Audit, Singapore, is a matter of public record.

New Delhi
August 23, 1989

NON-FEDERAL AUDIT OF THE CATHOLIC RELIEF SERVICES
PL-480 TITLE II PROGRAM IN INDIA
MADRAS AND BOMBAY ZONES

PART IV - AUDITOR'S OPINION ON INTERNAL ACCOUNTING CONTROLS

We have examined the Summarized Commodity and Recipients Status Reports of CRS's PL-480 Title II Program in Madras and Bombay Zones for fiscal years 1987 and 1988 (Appendices A and B). Our examination, conforming to the Audit Objectives and Scope (Part I), 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" (1988 Revision). As part of our examination of the aforementioned reports, we made a study and evaluation of the system of internal accounting controls and observed Program implementation practices and procedures in the following areas:

-- Commodity distribution and accountability

-- Program oversight

-- CRS operations

-- Commodity warehousing

Our review of the internal accounting controls was made primarily to enable us to express an opinion on the aforementioned Summarized Commodities and Recipient Status Reports and could not be expected to disclose all material weaknesses in the system. CRS is responsible, through its Headquarters and zone offices, as well as its counterparts and operating partners, for establishing and maintaining a system of internal accounting controls. Due to inherent limitations in any system of internal accounting controls, errors or irregularities may occur and not be detected. The objectives of such a system are to:

-- Ensure transactions are executed in accordance with proper authorizations and are recorded properly to permit the preparation of accurate Commodity and Recipient Status Reports.

-- Provide management with reasonable, but not absolute, assurance that all commodities are safeguarded against loss from unauthorized use or disposition.

-- Confirm adherence to approved regulations and requirements.

The results of our study and evaluation made for the limited purpose described in the first paragraph, and as discussed in Part VI, disclosed serious lapses by CRS in ensuring that an adequate system of internal accounting controls was established and maintained for the purpose of preparing accurate Commodity and Recipient Status Reports of the PL-480 Title II Program in Bombay and Madras Zones. Further, we were unable to obtain adequate assurance that commodities, in addition to those discussed in Appendix C, were properly safeguarded against unauthorized use and were correctly accounted for, or that regulations and requirements were followed. The conditions disclosed during our study and evaluation were considered in determining the nature, timing, and extent of audit tests applied in examining the Commodity Accountability Reports.

In our opinion, for the records and transactions examined by us, the system of internal accounting control of CRS PL-480 Title II Program in Bombay and Madras Zones, in effect during fiscal years 1987 and 1988, resulted in more than a relatively low risk of errors or irregularities, in terms of commodity quantities and number of beneficiaries reported by the Commodity and Recipient Status Reports, occurring and not being detected in a timely manner.

This report is intended solely for the use of United States Agency for International Development, New Delhi. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Regional Inspector General for Audit, Singapore, is a matter of public record.

New Delhi
August 23, 1989

Ruie Walthoney

NON-FEDERAL AUDIT OF THE CATHOLIC RELIEF SERVICES
PL-480 TITLE II PROGRAM IN INDIA
MADRAS AND BOMBAY ZONES

PART V - AUDITOR'S OPINION ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the operations of the CRS's PL-480 Title II Program in the Madras and Bombay Zones for fiscal years 1987 and 1988. Our examination, conforming to the Audit Objectives and Scope (Part I), 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" (1988 Revision).

Our examination included tests of compliance with applicable laws and regulations and other requirements covering:

-- Agreement provisions and applicable local requirements

-- Provisions of A.I.D. Handbook 9 in general, and A.I.D. Regulation 11 in particular

-- CRS Manuals

CRS is responsible for complying with the applicable laws, regulations, and other requirements. In connection with the examination referred to above, we selected and tested transactions and records to examine CRS's compliance with those laws and regulations, the noncompliance of which could have a material effect on the Summarized Commodity and Recipient Status Reports (Appendices A and B). We believe that the examination performed provides a reasonable basis for our opinion.

Results of our audit tests summarized in Part II and detailed in Part VI disclosed that for the transactions and records examined, CRS had not ensured adequate compliance with significant regulations and requirements noted in the second paragraph.

In our opinion, because of the noncompliance referred to in the preceding paragraph, CRS did not comply in all

material respects with the requirements, as evident from the transactions examined by us. As a consequence, we do not express an opinion on the remaining transactions and records of fiscal years 1987 and 1988 not tested by us.

This report is intended solely for the use of United States Agency for International Development, New Delhi. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Regional Inspector General for Audit, Singapore, is a matter of public record.

Price Waterhouse

New Delhi
August 23, 1989

NON-FEDERAL AUDIT OF THE CATHOLIC RELIEF SERVICES
PL-480 TITLE II PROGRAM IN INDIA
MADRAS AND BOMBAY ZONES

PART VI - FINDINGS AND RECOMMENDATIONS

A. Commodity Distributions and Accountability

The methods used to distribute commodities did not ensure beneficiaries received the correct quantity of food at the correct time. Also, the commodity and attendance records which reported these distributions did not accurately reflect actual operations. These conditions occurred because measurement containers used to distribute commodities to beneficiaries were short (an estimated 15 to 20 percent or $3 to $4 million for the two-year period), commodity distributions were often improper and contrary to the requirements, losses were seldom reported, and information used for official reports was generated in such a manner as to ensure records reconciled as opposed to reflecting actual operations. As a result, beneficiaries were not receiving the commodities reported to have been distributed, the extent of losses was unknown, attendance and inventory records were unreliable, and the Program was operated in an atmosphere whereby commodities could be misused with little risk of detection.

Discussion

CRS, through the clearing and forwarding (C&F) agent and the CPs/OPs, is responsible for ensuring that the commodities reach the approved beneficiaries and that reports on the distribution of these commodities accurately reflect operations. These responsibilities were not being adequately fulfilled.

The following problems were very interrelated and indicate serious internal control and compliance deficiencies, especially when viewed in their totality. For presentation purposes, they have been separated into the three areas discussed in the following sections:

Commodity Distribution. The methods and procedures used to distribute commodities need to be improved at all stages. The present system did not ensure that authorized

beneficiaries received the correct amount of food at the proper intervals. However, the records normally reflected that the proper amount of commodities were distributed at the correct times to the right beneficiaries.

One significant problem concerned the containers used for measuring the commodities to be distributed to the individual beneficiaries. We found that such measurement containers were inaccurate at 74 of the 89 OPs where we were able to test for accuracy, resulting in insufficient food being distributed. For example, for oil distribution, most MCH OPs used a measure in the range of 400 to 450 grams, instead of 500 grams. For FFW projects, most OPs used oil measures in the range of 80 to 90 grams, instead of 100 grams, and for bulgur approximately three kilograms per man-day was distributed, instead of four.

When the number of feedings as well as the number of beneficiaries are considered, the cumulative difference is significant. To illustrate, the incorrect measurement containers used at most OPs visited provided about 15 to 20 percent less than the approved and recorded ration. If this was representative of all OPs in the two zones, approximately $3 to $4 million in commodities did not reach the approved beneficiaries during the two-year period.

Various additional problems with commodity distribution were noted at the CPs and OPs visited. In fact, a number of recorded food distributions did not take place at 7 of 106 OP's visited. Following are some examples:

-- At two MCH centers, beneficiaries received standard rations only three to four times a year as opposed to the recorded bi-weekly distribution.

-- At three FFW OP's, beneficiaries received cash in lieu of the food recorded as distributed. However, records show that the commodities were distributed regularly. It appeared that, contrary to regulations, the commodities were sold. This leads to significant breakdowns in control.

Actual distributions at 14 of the 50 FFW OPs reviewed were based on the quantity of work done, but records indicated distribution on basis of man-days. Also, different

quantities of commodities were distributed between men and women, but the records reflected equal issues.

The effect of all of these problems raises questions as to the appropriateness of the distributions and the reliability of the reports generated. While this does not necessarily mean the commodities were misused, it does show that correct quantities were not distributed or accounted for by the OPs. CRS needs to provide standard measurement devices and to require OPs to properly distribute commodities.

Reporting Commodity Losses. In the majority of cases, normal commodity shrinkage and losses caused by damaged packages as well as other losses were not reported by the CPs and OPs. This not only contributed to inaccurate records but prevented CRS and Mission officials from determining with any degree of accuracy the extent of losses occurring and the corrective action which might be necessary.

The A.I.D. Handbook and CRS's Operational Manuals require losses to be accurately reported. The total value of in-country losses reported during the years 1987 and 1988 was only about one percent. We reviewed loss reports for oil (the most expensive and vulnerable commodity) from the 67 CPs in the two zones. We found that only 31 CPs reported railway losses, only 25 reported losses at the CP level, and only 2 reported losses at the OP level. However, at the CPs and OPs reviewed, it was noted that losses were widespread and should have been reported by a large number of CPs/OPs. Losses were likely to occur due to the following:

-- Short receipt of commodities from railways was common. However, such losses were not reported since obtaining documentary evidence from the railways was at times not possible.

-- Unfit commodities were disposed of without the requisite approvals and, as a result, were not reported.

-- Reconstituted commodities received by CPs/OPs were accounted for in standard weights even though the net weight was less. The following picture of two bags

of bulgur at a CP in the Bombay Zone illustrates obvious and significant differences in weights. However, both bags were listed as weighing 50 kilograms.

Damaged packaging resulted in spillage/leakage but losses were not reported. The following pictures from two CPs illustrate obvious commodity losses.

Examples of losses not being reported are also discussed in Finding D. The losses were observed to be widespread and were confirmed by operating personnel. Instead of reporting the losses, they were being routinely shown as issues, without corrective action by CRS. Such action was not only contrary to the requirements but created an atmosphere among CPs/OPs whereby it was a common practice to maintain incorrect records. In such circumstances, commodities could be misused with almost no risk of detection.

While it is not possible to estimate the extent of unreported losses, we believe it could be significant. Without accurate information about losses, CRS and Mission officials were not aware of the extent of the problem or the nature of corrective action required.

The aversion to reporting losses may be due to widespread attitudes that loss reporting results in extensive paper work, possible claims, and delays in future commodity receipts. CRS needs to overcome this aversion by ensuring CPs/OPs are familiar with the requirements and by streamlining loss reporting procedures. Suitable monetary and/or quantitative thresholds may be needed whereby CRS is not required to examine minor losses reported prior to approving a write-off.

Attendance and Inventory Records. Attendance and inventory records examined at most CP/OP locations did not reflect actual operations. This occurred because the CPs and OPs reported information which was generated in such a manner as to ensure records reconciled as opposed to reporting actual operations.

The records at 28 CPs and 106 OPs in the two zones were reviewed and found to be unreliable at most locations. Major problems included improper recordings because of the inaccurate measurement containers used to distribute the food to the beneficiaries, improper or non-existent commodity distributions, and lack of loss reporting. While these problems have been discussed, they also have a direct impact on the reliability of the inventory records and attendance reports.

There were other problems with the records. For example, attendance records were often inaccurate, as is illustrated by what was noted at the following five locations:

Attendance Reported to CRS	Approximate Actual Attendance	Percent Records Inaccurate
300	180	40
150	80	46
240	140	40
300	250	17
200	50	75

Such inaccurate information was reported over an extended period. For example, in the last case above, 50 names were reported four times on the same days in order to show 200 beneficiaries.

In all cases, the records showed that the commodities were distributed based on the "Reported Attendance" information. In addition, it was observed that the attendance records normally showed no or minimal absenteeism for considerable periods of time.

It was not possible to determine what exactly happened to the commodities which were not distributed. However, an OP in the Bombay Zone (the second example in the above

schedule) reported that the undistributed commodities were used by the OP institution.

We also attempted to verify the physical stock on hand with the records at 31 CPs (three CPs were added for this test) and 96 OPs. The stock at 8 CPs and 14 OPs could not be counted or verified due mainly to improper stacking. The following pictures, one from a CP and one from an OP, illustrate how badly some commodities were stacked.

Of the remaining locations where a physical count could be performed, there were differences at 9 of the 23 CPs and 24 of the 82 OPs. Six CPs had large differences including one CP who purposely tried to cover up about $37,000 in missing commodities by stacking the commodities in such a way as to hide a hollow center. This is illustrated in the following two pictures:

One outside wall of commodities stacked at a Madras Zone CP.

Inside of the stack after top cover hiding the hollow center was removed.

The stock differences at the above CP as well as at one OP were further examined by CRS officials as a result of our findings. Their review disclosed large scale misappropriation of commodities, and the operations at the CPs involved were closed (see Appendix C).

In the case of OPs, the inventory differences were not significant in terms of total value. However, in terms of the percentage of stock held by certain OPs, these differences could be considered material. For example, an OP in the Bombay Zone actually had only 136 bulgur bags but should have had 271. Another OP in the Madras Zone actually had 16 cases of oil but should have had only 11 cases.

For the 106 OPs visited, we noticed 12 instances where distributions were recorded at a time when there were inadequate stocks (per the records) on hand or were recorded in a manner that did not reflect double rations or back feedings. Similarly, instances were noticed where the CP's records regarding the OPs operations were in conflict with information supplied by the OPs.

The CRS Operation Manuals require CPs and OPs to both report commodity utilization and the number of beneficiaries receiving the food. The various reports are designed to support each other, e.g. number of beneficiaries fed should reconcile with the commodities issued. Based on this information, CRS Zone offices generate two quarterly reports, the Commodity Status Report (CSR) and the Recipient Status Report (RSR) -- see Appendices A and B. These are the principal reports submitted to USAID which account for the commodities and show operational results. The Mission uses this information to review and report on the overall operations.

As discussed above, however, attendance and inventory records were not accurate; and as a result, correct information was not being reported to USAID. In fact, based on our review at the CPs and OPs, we concluded that the information used in support of these quarterly reports was generally prepared in a manner as to ensure the recorded receipts and the inventory on hand reconciled with the distribution records. Actual operations were found to be substantially different from the information recorded, and as discussed above, distributions and losses were not accurately reported. Accordingly, our audit

opinion on these reports (Part III) stated that the CSR and RSR do not present reliable information.

It was not possible to quantify the difference between recorded operations and actual operations. However, for the reasons discussed above as well as the investigation results discussed in Appendix C, we believe the difference would be significant. CRS needs to ensure that the CSR/RSR reports are prepared correctly.

Recommendations

We recommend that the Mission require CRS to:

1. Provide standard measurement devices corresponding to approved ration rates and ensure their proper utilization.

2. Ensure distributions are proper and comply with requirements.

3. Advise CPs/OPs to strictly adhere to loss reporting procedures and requirements, and streamline the loss reporting procedures with introduction of suitable monetary and/or quantitative thresholds.

4. Ensure that CPs/OPs maintain records which record actual operations and accurately report information used in the CSR and RSR.

Comments by CRS Officials

CRS officials stated (see our page numbers 6 through 9 in Appendix E) that they disputed this finding. In response to the section in the finding on commodity distributions, CRS did not agree with our conclusion that commodities were not being properly accounted for or that correct rations were not being distributed. CRS officials stated they did not concur mainly because we (1) used incorrect conversion factors, (2) formed prior year conclusions based on current year observations, (3) interviewed too few people, (4) inaccurately portrayed seven cases as representative of all the OPs visited, and (5) misinterpreted the regulations which actually allow FFW distributions to be based on work performed.

CRS acknowledged problems with loss reporting but stated our conclusion about unreported losses being significant was "speculative". The officials also indicated that our review of actual attendance was not thorough enough and that isolated cases and speculation does not support the audit conclusion about inventory records.

CRS provided other comments about the CSRs and RSRs, the quality and size of the commodity packaging, local environmental constraints, etc. but these comments were not related to the points being made in this finding. CRS did not comment on the specific recommendations.

Auditor's Comments

The information presented in this finding fully supports the need for substantial and immediate improvements. However, CRS's comments do not portray an agreement that there were serious problems which needed correction. As stated in the finding, measurement problems were found at 74 of 89 OPs tested. Use of the different conversion factors suggested by CRS would have no significant effect on this finding for either factor results in a significant shortage. Also, CRS did not comment on the MCH oil or the FFW bulgur shortages which were an important part of the finding.

The audit disclosed widespread incorrect measurement problems during the current period. Through interviews with the individuals who measured and distributed the commodities at the time of the audit, we were able to confirm that similar problems existed in prior periods. Such audit procedures, together with the fact that smaller measurement devices were actually in use in 1989, adequately supports the conclusions reached.

The seven cases CRS officials referred to in their reply were not portrayed as being representative of the 106 OPs visited. All that was stated in the finding was that certain recorded distributions never took place at these seven OPs. There were various other serious distribution problems discussed in this section of the finding. Also, as stated in the report, the findings are all interrelated and other parts of the report also cite related problems which supports our adverse opinion on the commodity accountability reports (Part III).

Although FFW distributions may be made based on work performed, the point discussed in the finding was that the records did not reflect such distribution practices or the different ration rates for men and women. Instead, the records reflected that the commodities were distributed based on man-days of effort at standard and consistent rates. Thus, OPs distributed the commodities one way but recorded the distributions in a different way which certainly made the records inaccurate.

CRS is correct in stating that we could not determine the full extent of unreported losses. However, our conclusion that the amount of such losses is significant is not speculative as CRS stated. The pictures shown in this report and the statistics provided (only two CPs reported any oil losses at the OP level) clearly supports the conclusion that unreported losses are significant. Further, routine adjustments of losses as issues not only results in unreliable distribution records but also prevents management from assessing the need for corrective action.

Inspite of the serious problems disclosed, CRS believed that the audit of the attendance records was not thorough. We fully considered what the OPs as well as what the individual beneficiaries told us about alternate feeding and distribution days in making our conclusion. This information did not support CRS's contention that the commodities were often distributed on alternative days. Also, as stated in the finding, attendance records normally did not show any absenteeism even though such absenteeism was widespread. This was confirmed by the OPs. In fact, one OP even stated that the undistributed commodities were used by the OP institution and not distributed to beneficiaries on alternative days.

Inventory differences were found at 9 of 23 CPs and 24 of 82 OPs. As stated in the finding, while some of the differences were minor, others were very significant. We did not make any speculations about this problem for the facts presented were serious enough to warrant immediate action from CRS.

In summary, CRS's specific reply to this finding indicates general disagreement. Therefore, the Mission needs to view with caution CRS's other comments which indicate an acceptance of the recommendations.

B. Program Oversight

CRS's oversight activities need substantial improvements. Most CPs were either not documenting reviews performed or were not performing reviews of OPs' activities. Also, CRS's zone reviews of CP and OP activities were normally either not thorough enough to be effective or were not performed. Finally, CRS's Headquarters (New Delhi) office reviews of zone operations did not review certain important Program aspects. As a result of inadequate oversight, significant problems which existed at all levels of the CRS Program were not being disclosed or corrected. Also, zone and CP monitoring that was performed provided incomplete and at times misleading information about the actual effectiveness of CRS's operations.

Discussion

Oversight is required by A.I.D. Regulation 11, and CRS has assigned responsibilities to each level of the Program in India:

-- CPs are to review the operations of the OPs under their control.

-- CRS's zone offices are to review the operations of both the CPs and OPs within the zone.

-- CRS's New Delhi office is to review the operations of all zone offices.

These oversight reviews are required by CRS's manuals and are necessary to provide assurances that the Program is operating effectively and in accordance with various regulations. In addition to the above, CRS's home office (Baltimore) reviews CRS operations in India.

While CRS had assured the Mission that the reviews were being performed, serious deficiencies were found with most reviews at all levels. As discussed in the following sections, the cumulative effect of these deficiencies was sufficient in magnitude to mislead officials about the Program's effectiveness.

CPs Review of OP Operations. According to CRS's Operating Manuals, CPs were to perform annual supervision reviews of each OP. The Counterpart Manual states that the CP should provide field supervision of all OPs regularly or at least once a year to ensure the OPs are planning and conducting the Program in accordance with the prescribed procedures and standards.

Our visits to 28 CPs disclosed that 22 CPs either did not perform or did not document any of the required reviews. To illustrate, one CP in the Madras Zone with 32 OPs had not documented reviews for any of the OPs' operations during the past two years. Similarly, a CP in the Bombay Zone with 25 OPs had no documented reviews during the past five years. These two examples were typical of most of the CPs without documented reviews.

At these OPs as well as other OPs with no documented oversight reviews, we found numerous problems. Most of these problems are discussed in Findings A and D. If the CPs adequately performed and documented the required reviews, many of these problems would have been noted and corrective action could have been initiated.

Even if the CP did document an OP review, the documentation normally did not reflect actual conditions at the OP. For example, a CP review of an OP in the Madras Zone which was performed on May 9, 1989, did not disclose any problems. However, the very next day, when we visited the OP, we found that:

-- Measures used for distributing food were incorrect so the reported amount of food was not reaching the beneficiaries.

-- Rations were distributed on the basis of work output while records were maintained on a man-day basis.

-- Attendance records were not reliable and did not agree with other information.

-- Stock on hand did not agree with the records.

-- Work on a FFW project stated to have been completed was substantially incomplete.

These are examples of the problems noted at the OPs in both zones but not being disclosed by the CPs. Accordingly, stringent measures need to be taken by CRS to overcome the inadequacies of the CP's reviews of the OP's operations.

Frequency of CRS's Zone Reviews. The number of CP and OP operational reviews performed by the zone offices did not comply with the requirements. The CRS Operation Manual requires zone offices to visit each CP every year and each OP every four years. Each zone had a maximum of five field reviewers during 1987 and 1988.

In the Bombay Zone, 45 of the 47 CPs were reviewed in 1987 and 28 of the 37 CPs in 1988. The CPs which were not reviewed during these two years were reviewed in the early part of fiscal year 1989 based on a prioritized list. Thus, there was a reasonable number of CP reviews in this zone. It was not possible to determine whether the OPs in this zone were being reviewed at least once every four years. However, a reasonable number of OPs had been reviewed during the two years under audit.

In contrast, the Madras Zone was unable to provide an inspection schedule for the CPs or OPs reviewed for the two years under audit, and there was no readily available information to ensure reviews were made at least every four years for OPs. The zone office did not have any summary listing showing which CPs/OPs had been reviewed or those scheduled for review. Such a list was, in our opinion, necessary in view of the limited staff resources devoted to oversight.

By examining 1987 and 1988 review reports in the Madras Zone, it was determined that reviews were made at 28 of the 37 CPs in 1987 and 19 of the 31 CPs in 1988. It appeared that there were relatively few visits to the OPs in this zone, so the four-year requirement was generally not being met. In fact, one OP visited by us had not been reviewed in at least the last eight years.

As also discussed in the other findings in this report and in Appendix C, there were numerous problems at the CPs and OPs which were not being detected and corrected. Therefore, zone reviews are essential for identifying problems and recommending corrective action. In order to ensure the proper review frequency, the Mission should require CRS to implement its oversight guidelines, prepare inspection schedules, and document all reviews.

Quality of CRS's Zone Reviews. Review quality is a much more important issue than the number of reviews performed. If a review was performed and disclosed no problems, management officials understandably would conclude that the CP and OP operations were proper. However, the reviews performed in both zones were incomplete and some could even be categorized as superficial, thereby providing an inaccurate assessment to management. For example, we noted that:

-- Reviews placed reliance on records which were unreliable.

-- Reviewers never commented on the fact that CPs and OPs seldom reported any losses or that the records maintained did not reflect actual program activity.

-- Reviewers generally did not include observations on food distributions, interviews with beneficiaries, or important aspects of FFW site visits.

-- The size of measurement containers used to distribute food to beneficiaries was never checked.

-- Warehousing deficiencies, stock rotation problems, poor condition of stock, etc. were seldom mentioned in reports.

-- CP reviews of OPs were not commented on.

-- Stock was unevenly distributed amongst the OPs. For example, one OP may be short stocked on an item whereas another OP under the same CP may have surplus of the same commodity. Also, commodities in excess of

a three-month supply were sent from the CP to the OP without regard to the OP's storage capacity. CPs explained that such practices were done in order to minimize transport/handling costs. Since this indicates that CPs/OPs might be unable to provide the required support for effective program implementation, zone reviewers should have been alert for such problems.

The zone reviews normally disclosed few, if any of these problems. For example, one CP had been reviewed by the zone office and found to be in excellent condition because the records were neatly maintained and food items were properly stored. However, we found such serious problems that the CP was referred for investigations. Upon investigation by CRS, it was found that this CP was unofficially maintaining five warehouses which contained stocks that were recorded as having been issued to the beneficiaries.

While recent zone reviews of two other CPs (one in each zone) did not indicate any significant problems, our audit disclosed that the problems were substantial, and both CPs had to be referred to CRS for investigation.

Additional examples of the problems which should have been detected by zone reviewers are contained in the other findings in this report. Although there were many such problems, the majority of CRS's reviews gave the impression that no significant problems existed and that CP/OP records were substantially accurate. Such an impression was seriously misleading.

There were various reasons for the poor oversight reviews. The reviewers were not always independent of the activity being reviewed and were not properly trained. They hesitated to ask direct questions to avoid upsetting CP/OP officials. Additionally, no surprise reviews were performed, and the reviews were always scheduled far in advance and only at times agreeable to the CP/OP. Also, there was poor follow-up on prior findings.

If the zones had performed adequate reviews, the various problems noted during this audit would have been disclosed and possibly corrected by CRS. The Mission, therefore, needs to require CRS to perform the required reviews,

improve the review quality, properly train its reviewers and ensure their independence, conduct some reviews on a surprise basis and with limited notice, follow-up on prior findings, and monitor review reports.

CRS New Delhi Reviews. The reviews performed by CRS's Headquarters in New Delhi were substantially better than the reviews performed by zone offices. The New Delhi reviewers were more independent and better trained. Their reviews disclosed problems in the operations. However, this review function was staffed with the equivalent of two internal auditors during fiscal years 1987 and 1988.

The New Delhi reviews did not normally comment on the inadequate CP reviews or the lack of thoroughness of the CRS zone reviews. Additionally, the reviewers generally did not observe actual food distributions or interview beneficiaries.

In the Bombay Zone, the reviews for 1987 and 1988 only dealt with commodity losses and did not extend the review to other aspects of the zone's activities such as CP/OP operations, FFW projects, etc. Had the scope of these Headquarters reviews been more complete, many of the problems we noted might have been disclosed and corrective action considered. Accordingly, the Mission should require CRS to improve and extend the oversight functions performed by the Headquarters internal auditors.

CRS's home office in Baltimore also performs reviews. However, in the past eight years, only two such reviews were conducted. In light of problems previously reported, these reviews should be more frequent.

Recommendations

We recommend that the Mission require CRS to:

1. Enforce the requirement that CPs review the operations of their OPs each year to help identify problems, improve operations, and ensure compliance with regulations. Such reviews should be documented and should be commented on by CRS during zone reviews.

2. Perform the required number of CP/OP zone reviews. Schedules should be established showing the priority in which the review should be performed and a summary record showing when the last review was made for each CP/OP should be maintained. Some reviews should be on a surprise basis and others should allow very little notice to the CP/OP. Monitoring activities should be documented and the reports prepared by the zone offices should be submitted to CRS Headquarters for review and comment.

3. Improve the quality at all levels of review by checking records and reports, observing food distribution, interviewing beneficiaries, reviewing measurement containers used for distribution, visiting FFW sites, observing condition and quantity of stock, determining whether losses are reported, etc.

4. Increase oversight resources, properly train reviewers, ensure reviews are independent from CP/OP influence, and increase the frequency of CRS's home office reviews.

5. Include in the review program direct questions about how the program is operating and what is actually happening to the commodities and place greater emphasis on follow-up actions to ensure prior problems were corrected.

Comments by CRS Officials

While CRS officials stated (see our page numbers 9 through 11 in Appendix E) they recognized that oversight should be improved, no specific comments were provided to the above recommendations. CRS did state that all CPs were advised to begin documenting their reviews of the OPs' activities and that the quality of field reviews could be improved. However, the officials also provided certain combined statistics and stated that the frequency of the zone reviews came much closer to the requirements than the finding indicates.

Auditor's Comments

CRS's comments certainly indicate that some improvements will be initiated. However, it is important to point out

that improvements other than those mentioned by CRS are necessary. For example, CPs need to perform reviews effectively, not just document reviews performed. The emphasis should be on quality reviews, while achieving satisfactory quantitative targets. Oversight resources need to be increased and the adequacy of all oversight reviews needs to be monitored. We believe that these are important improvements which must be implemented.

CRS indicated disagreement with the information we provided in the finding concerning the frequency of the zone reviews. As stated in the finding, the Bombay Zone did perform a reasonable number of reviews, but the Madras Zone did not perform at the required level. Numbers and examples were provided on page 28 of this report. The combined information supplied by CRS does not alter this fact or change our conclusion that the reviews preformed in the Madras Zone were not frequent enough.

C. CRS Operations

CRS's internal/administrative operations were in need of improvement. Adequate management attention had not been given to matters such as correcting known problems, approving and reviewing FFW projects, complying with requirements for charging fees, controlling cash, recovering claims, providing publicity, completing Government of India certification requirements, and preparing annual estimates of requirements accurately. Improvements in the above areas would help ensure compliance with the requirements as well as increase the Program's effectiveness.

Discussion

There are various internal policies and practices which CRS is required to follow. We found many areas, however, where adequate management attention had not been given to ensuring proper operations. The cumulative adverse impact of these problems reduced and/or prevented effective operations.

Previous Audit Reports. A number of problem areas identified in prior reports have remained uncorrected. The more significant prior reports include the A.I.D.'s Office of the Inspector General report, dated March 1984, and the CRS's New York Internal Audit reports dated April 1987 and March 1989. The problems identified in these reports which remained uncorrected included the following:

-- FFW projects were poorly managed and the documentation and controls were inadequate.

-- Commodity losses were not reported. Instead, the records were adjusted to show that the commodities were actually distributed to the beneficiaries.

-- Claims for unaccounted/misused commodities were not filed, and actions were not taken against defaulters.

-- The frequency and quality of zone oversight reviews were not consistent with the requirements. The review reports did not disclose the extent or seriousness of problems, thereby preventing adequate corrective action.

-- Commodities were diverted from regular programs without proper documentation.

-- Accountability over funds generated under the program was seriously lacking.

-- Certificates of distribution were not filed or submitted on a timely basis.

-- The Program was too large, varied, and scattered to be effectively managed by the limited resources. Thus, CRS staffing was not sufficient to ensure compliance with A.I.D. regulations.

Since these same problems were also disclosed during this audit, CRS was not adequately resolving audit recommendations or correcting problems previously reported.

Food-For-Work Projects. FFW projects were generally not being properly approved and implemented. We reviewed selective FFW projects at 50 OPs in the two zones and found the following major problems which were in addition to all of the accountability problems discussed in Finding A:

-- The approval review process neither covered the possibility of commercial use of FFW projects nor considered the utilization of funds generated from such commercialization. For example, an OP in the Madras Zone required payment for use of an FFW irrigation canal. Other OPs under a CP in the Madras Zone utilized FFW commodities valued at approximately $35,000 to run a commercial brick kiln. The bricks produced were sold at an estimated market value of $101,000. In neither case was the commercial aspect of the project disclosed by the OPs reports.

-- A.I.D. Handbook 9 states that projects on private land may be considered only if they result in significant corollary public benefits. However, projects on private land were not adequately reviewed to ensure there was benefit to the community at large, and utilization of the projects was left to the discretion of the landowner. For example, villagers were able to get water from a FFW well only after the landowner's personal requirements had been met, and the villagers were required to pay for the water they did obtain. Further, selection of landowners, which is at the discretion of OPs, could not be justified based on the economic status of the owners.

-- FFW projects did not provide for any payments in cash to beneficiaries as a part of their wages. Usually the specified rations should not exceed 50 percent of the wages (Ref. paragraph 10C (1a) of A.I.D. Handbook 9). The cash should normally come from the community or landowners benefiting from the project. While many projects benefited private landowners and/or generated revenues, none of the 50 FFW OPs reviewed provided for supplemental cash payments.

-- Actual FFW projects were at times different from those approved. For example, (1) an OP in the Madras Zone distributed 2,000 kilograms of bulgur and 42 kilograms of oil without performing any work, (2) an OP in the Bombay Zone did not conduct the number of projects approved, and (3) some OPs showed a project as complete only if it was successful while others showed it as complete whenever the approved amount of commodities were issued regardless of the actual status. Also, project measurements reported on completion were always the same as what was approved. However, actual measurements at certain sites visited did not appear to be as per the approvals.

-- Some CPs function as FFW OPs, thereby significantly reducing the internal controls. In fact, two of the nine CPs investigated by CRS were also FFW OPs. As a result of the investigation, their operations were discontinued (Ref. Appendix C). Two other such CPs utilized FFW commodities valued at approximately $24,000 for developing their own farmlands, instead of carrying out the approved projects.

-- At three FFW locations, workers interviewed stated that they were required to make a nominal contribution for participating in FFW projects. No guidance had been sought from A.I.D. permitting such collections and using such funds (refer paragraph 6B (4) of A.I.D. Handbook 9).

The above examples clearly indicate that CRS must provide a greater degree of involvement in FFW projects. If the approval is to be delegated to CPs, as is the case in Madras Zone, the projects should receive additional oversight from CRS.

Fees Charged. OPs charge MCH beneficiaries a nominal sum for participation in the program. If the beneficiaries can afford it, charging is allowed by USAID regulations. However, there were no formal provisions for waiving the charge for beneficiaries who could not afford to pay.

Our interviews with beneficiaries disclosed that they were able to make arrangements to get the funds. However, some beneficiaries may not be showing up for the food if they were unable to pay. Therefore, without more formalized provisions for waiving the fee, the very people the program is designed to help may at times be excluded. The Mission should require CRS to ensure that formal provisions are in place so that beneficiaries who cannot afford to pay are not charged.

Cash Controls. Improved controls were needed over the cash collected by the CPs and OPs. Funds are generated from sale of empty containers and from beneficiary contributions. The CPs are required to furnish CRS with annual audited statements. This enables CRS to monitor the funds generated to ensure they are utilized in accordance with program guidelines.

Many CPs did not submit audited statements. Even the statements which were submitted did not appear to have been reviewed by CRS to ensure that funds were utilized for authorized purposes. Following are some examples of questionable payments which were made by the CPs:

-- Loan, $9,880 (Rs 163,050)

-- Scholarship, $1,420 (Rs 23,500)

-- Coconut seedlings, $3,300 (Rs 54,472)

-- Gifts and donations, $340 (Rs 5,725)

-- Contingency, $1,320 (Rs 21,923)

The zone offices were unable to provide any evidence of review for such payments, the cumulative total of which may be significant.

CRS guidelines also require that funds generated under this Program be segregated from other funds. However, CPs and OPs did not always segregate the funds and the receipts could often not be reconciled with the number of beneficiaries. Thus, CRS needs to be much more actively involved in reviewing the use of cash generated from this Program. Audit reports should be obtained and reviewed, and oversight visits should include a review of the cash records.

Recovery of Claims. Transportation costs and loss recovery claims were not always being collected. Under the Indo-U.S. agreement, the Indian Government is responsible for commodity transportation costs from the port to the CP. Part of this cost is the road transportation from the railhead to the CPs' godown. The CPs pay this cost and CRS is required to file a claim for recovery. In addition, A.I.D. Regulations require CRS to lodge claims against third parties for losses due to negligence.

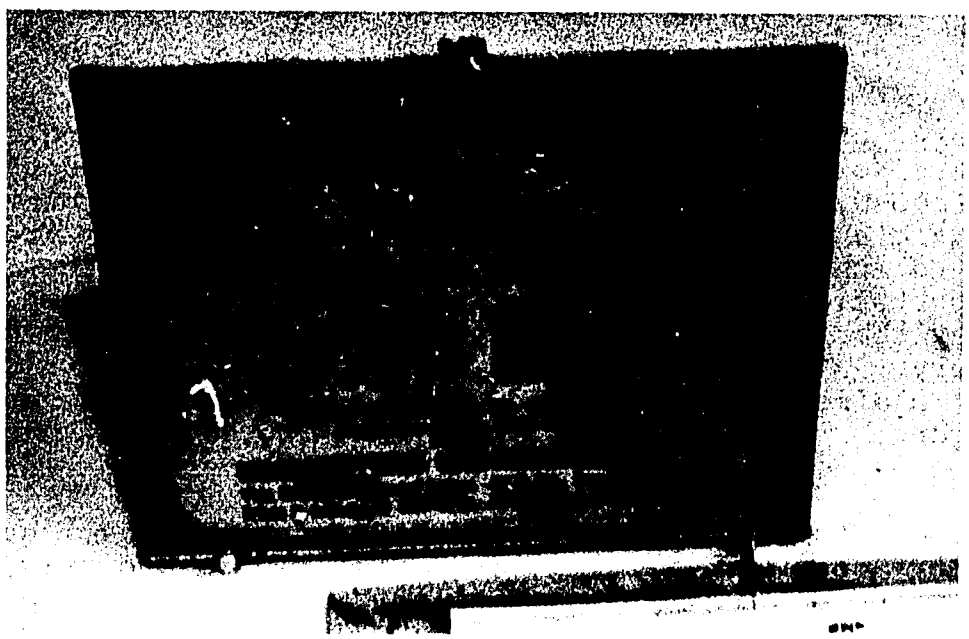
In respect to transportation reimbursement claims, neither CRS nor the CPs were filing the claims promptly. For example, no claims were filed in the Madras Zone for the period April 1988 to June 1989. The claim was submitted in June for $77,000 after we discussed this issue with zone officials.

Transportation claims valued at about $200,000 have also been outstanding for extended periods. For example, claims through one clearing agent totalling about $32,000 have been outstanding since March 1987. While part of the problem in recovering transportation and railway loss claims concerns improved cooperation from the Government

of India, CRS still needs to take more aggressive follow-up action including obtaining additional assistance from USAID if necessary.

Similarly, review of loss claims actually filed indicate that follow-up action on the part of CRS needs to be strengthened considerably, especially for railway claims (some of which date back to the 1970's). In addition, considering the extent and nature of losses observed at CP/OP level (discussed in the next finding), it appears that CRS needs to file claims against CPs/OPs for commodity losses due to negligence.

Publicity. A.I.D. Regulation 11 requires CRS to provide publicity about the commodities being donated by the United States Government. The following picture shows the type of sign which should normally be displayed in different languages at OP distribution centers.



It was observed, however, that 69 of the 106 OPs visited did not provide adequate publicity. Also, CPs and OPs were selling empty containers, mostly to scrap dealers, without removing or obliterating the U.S. markings. A.I.D. Regulation 11 requires removal or obliteration of such markings prior to the commercial use of the containers. The Mission needs to require CRS to provide required publicity and ensure that CPs and OPs dispose empty containers in accordance with A.I.D. Regulations.

Government of India Certification Requirements. The Indian Government requires a certificate regarding free and proper distribution of Title II commodities, signed by the appropriate District Officer. Of the 28 CPs visited, 6 did not submit these certificates and 16 either submitted the certificates beyond the six-month period stipulated or failed to distribute the proper copies.

Such non-compliance exposes CRS/USAID to the risk of duty being levied by the customs authorities. Accordingly, CRS needs to instruct CPs to ensure that certificates of distribution are properly prepared and submitted.

Annual Estimates. The basis of the zone's budgeted Annual Estimate of Requirements (AERs) for FY 1987 and 1988 was not documented. In addition, allocation of the approved AER to the CPs did not conform to the CP's requirements/capabilities. For example, one CP may be allocated more than requested whereas another CP may be allocated less than requested. The zone offices maintained no documentation/justification for such allocations.

We noted other problems with the AERs. For example, Bombay's AER request for fiscal year 1988 assumed a zero balance of commodities at the beginning of the year while the actual balances ranged from 10 to 25 percent of the AER.

It also appears that CRS's call forwards and commodity allocations practices need to be reviewed since there were excessive stocks at the CP and OP levels in the Bombay Zone. At the start of the fiscal year 1989, at least 30 of the 37 Bombay CP's had greater than a year's requirement of each commodity allocated to them (i.e. the total of stocks at CP/OP level as well as stock in transit/pending despatch). While the Bombay Zone is taking steps to overcome the problems of excess allocations, additional attention must be given to the call forwards.

In addition to the above, CRS does not have an adequate system for measuring and monitoring performance during the year vis-a-vis the AER. The current performance reports (CSR and RSR) only provide data on a quarterly basis and are not cumulative for the year. As a result, performance

at any point during the year can be viewed only by adding up the relevant CSRs/RSRs.

Recommendations

We recommend that the Mission require CRS to:

1. Ensure that when problems are identified in evaluation and audit reports, corrective actions are taken.

2. Provide much greater attention to FFW project approvals and FFW oversight to correct the problems noted.

3. Provide more specific instructions to CPs for waiving fees when beneficiaries cannot afford to pay, and enforce CP cash control requirements by requiring audits, segregating funds, reviewing expenditures, supporting costs, etc.

4. Collect all transportation costs and loss claims as soon as possible, file claims when there are signs of substantial negligence, provide the required publicity, and instruct CPs to comply with Government of India certification requirements.

5. Prepare and monitor AERs and call forwards more accurately and systematically.

Comments by CRS Officials and Auditor's Comments

CRS officials stated (see our page numbers 11 through 15 in Appendix E) that maintaining program quality and improving program operations were concerns they shared with USAID. However, they took issue with most of the eight areas discussed in this finding. We do not believe their response adequately or completely addresses all areas reported by us.

The following comments, in the order presented in the

finding, were provided by CRS officials. For ease of comparison, our comments are supplied immediately following CRS's statements.

CRS's Comments

1. CRS stated that when problems were identified, actions were taken to close recommendations and that the recurrent nature of many of the problems was inherent to the operating environment. Also, CRS officials took the position that many of the problems were beyond their control.

Auditor's Comments

While prior recommendations were closed, the problems identified in earlier audit and evaluation reports were not corrected. This was also pointed out in the 1984 Inspector General audit report. Only a few of the problems mentioned were inherent to the environment in India or beyond CRS's ability to control (such as the collection of railway claims). To illustrate, although the problems with oversight reviews were very serious, they were correctable if CRS would direct reasonable efforts towards the reviews. Similarly, fund accountability, FFW project management, loss reporting, etc. were within CRS's ability to control. Therefore, for the Program to be effective, CRS needs to be much more actively involved in correcting known problems and ensuring that the problems do not recur.

CRS's Comments

2. CRS officials agreed that FFW projects should not be used to develop private holdings, and stated that in 1989 they had increased oversight and reduced the tonnage allocated to FFW projects. However, they took issue with several of the examples and even stated that the examples were portrayed in a misleading manner. For example, they stated the brick kiln was fully justified and that some of the FFW projects mentioned in the report were actually allowable afforestation efforts. The officials did state that they recognized improvements were needed, had already made some changes, and planned a reduction in the number of FFW projects.

Auditor's Comments

Although CRS officials agreed that FFW improvements were needed, they did not agree with any of our examples. CRS's statements about the examples were contrary to what was found to be actually occurring as well as what was discussed at various meetings. To illustrate, while the brick kiln projects may have been designed to produce bricks for low-cost housing or a water tank, there was no evidence to support such use. This was confirmed by the OP. Also, there was no revolving fund and the revenues generated by the brick kiln were not reflected in the OP's cash records. The commodities reported to be used for the afforestation projects were, contrary to approvals, actually used for paying workers to construct a boundary wall and to farm land managed by the CP who in this case was also a FFW OP. Many other problems with FFW projects were discussed in this section but CRS did not address them. Therefore, we believe the FFW recommendation needs to be stringently applied by CRS.

CRS's Comments

3. Concerning fees charged, CRS officials stated it was their policy to distribute commodities regardless of the beneficiary's ability to contribute. They also mentioned that we never observed beneficiaries being denied food.

Auditor's Comments

Even though it may be CRS's policy not to deny food to beneficiaries unable to pay, the point we were making and which CRS did not address was that there were no formal procedures for waiving fees when beneficiaries were unable to pay. Also, while we did not observe any beneficiaries being denied food, beneficiaries did tell us that they would not show up for a distribution if they were unable to pay the fee.

CRS's Comments

4. To improve cash controls, CRS stated that revised procedures will incorporate a more thorough review of financial transactions. However, the officials stated that audited statements were not necessary in 1987 and that the statements for the quarter ending June 1989 were available. They also stated that the cited examples of problems were exaggerated since three of the five cases mentioned were taken from one CP.

Auditor's Comments: Although audited statements were not required in 1987, quarterly reports were required but were often not submitted. Also, as the finding states, even when audited statements or quarterly reports were submitted, they were not adequately reviewed by CRS. Therefore, just having the statements/reports was not enough -- they needed to be reviewed. The examples cited in the finding were not exaggerated as they were actual cases illustrating questionable payments requiring review and follow-up action by CRS.

CRS's Comments: 5. Regarding recovery of claims, CRS officials stated that procedures relating to road transport charges should not fall under the purview of this audit, that all railway claims were vigorously pursued, and that the Mission's support will be requested to help collect transportation claims. CRS also believed that it should be recognized that:

> " ... India is one of only a handful of countries in the world that continues to honor its agreement to cover inland transportation costs for Title II commodities, at a cost of approximately two million U.S. Dollars each year. What is remarkable is not the slowness of the Indian bureaucracy but the consistent support provided by the GOI since the program began in 1951."

Auditor's Comments: Collection of transportation costs from the Government of India was within the purview of this audit since it was a requirement of CRS's agreement. CRS addressed the problems and delays with collecting claims against the railways; however, no comments were provided about the claims against CPs or OPs.

CRS's Comments: 6. On the publicity issue, CRS stated that posters were provided and were displayed.

Auditor's Comments: While publicity posters may have been provided (no date was mentioned as to when the posters were provided), they were not displayed at 69

of the 106 OPs visited. CRS provided no comments on the issue concerning obliterating the markings on empty containers prior to sale.

CRS's Comments

7. CRS did not comment on the issue concerning the distribution certificates required by the Government of India.

Auditor's Comments

Since no comment was provided, we have nothing further to add on this matter.

CRS's Comments

8. CRS agreed that improvements were needed with the AERs and in monitoring performance. However, they stated that since the improvements had been made, the examples in the finding were not valid.

Auditor's Comments

While recent corrective action was taken by CRS, the points on the AERs were valid at the time of the audit.

D. Commodity Warehousing

Commodities were not being properly stored at about half of the locations reviewed. This occurred because damaged packages were not always repaired, commodities were not adequately tested for fitness, dunnage was not used, commodities were not properly stacked or segregated, stock was not rotated properly, and storage facilities were not always adequate. As a result, the commodities were exposed to unnecessary deterioration.

Discussion

Warehousing activities were reviewed at 30 CPs and 96 OPs in the two zones as well as the C&F agent's warehouse. During these visits, no serious problems were noted at 10 of the CPs and 54 of the OPs. In fact, as illustrated in the following picture, we often found commodities to be properly stacked, on dunnage, in a manner which allowed for good ventilation. This is illustrated in the following picture.

Various warehousing problems, however, were noted in the remaining 20 CPs, 42 OPs, and the C&F warehouse which adversely affected the protection provided the commodities. More than one type of problem was normally noticed at these locations. Therefore, when viewed in their totality, the following warehousing problems are significant.

Damaged Packages. CPs/OPs are required to repair/reconstitute damaged containers as soon as possible to protect the commodities and prevent further losses. When this is not accomplished, contents are exposed to the environment, and infestation is accelerated resulting in food items spoiling. However, we found unrepaired damaged food containers at 15 of the 30 CPs and 31 of the 96 OPs visited. In many instances, these packages were infested with various bugs.

It was also noted that CPs/OPs did not make a special effort to distribute food from damaged packages on a priority basis. Instead, the unrepaired damaged packages remained in the warehouse for extended periods, increasing the possibility of food spoilage or contamination. The following picture shows the conditions noted:

At one location in the Madras Zone, the situation was so bad that there was a layer of oil on the ground. The oil came from damaged containers which had been in the warehouse for over one month without being reconstituted. In the Bombay Zone, there were also two CPs with oil on the floor from damaged containers. Following are some pictures of these situations:

CRS should require CPs/OPs to reconstitute damaged packages as early as possible and ensure that reconstituted commodities are distributed on a priority basis.

Fitness/Infestation. CPs/OPs are required to ensure that commodities distributed were fit for human consumption. At 7 of 30 CPs and 11 of 96 OPs visited, we noted serious fitness/infestation problems. However, CPs/OPs generally distributed such food without testing.

Samples taken by us from commodities of questionable fitness were tested and found unfit for human consumption in 13 out of 16 cases. Following is a picture of infested commodities stored at a warehouse awaiting distribution:

CPs/OPs should be required by CRS to ensure that only commodities fit for human consumption are distributed. In case of doubts as to fitness, appropriate tests or other reviews should be conducted.

Dunnage/Stacking/Segregation. Important aspects of storing food commodities include providing protection from ground moisture, ensuring proper air circulation, and separating damaged/infested commodities. We noted serious problems with these requirements at 20 of 30 CPs and 42 of 96 OPs.

CRS requires CPs/OPs to use dunnage at the base of stored commodities. Adequate dunnage was frequently not provided, and in one extreme case, dunnage was actually used for fencing.

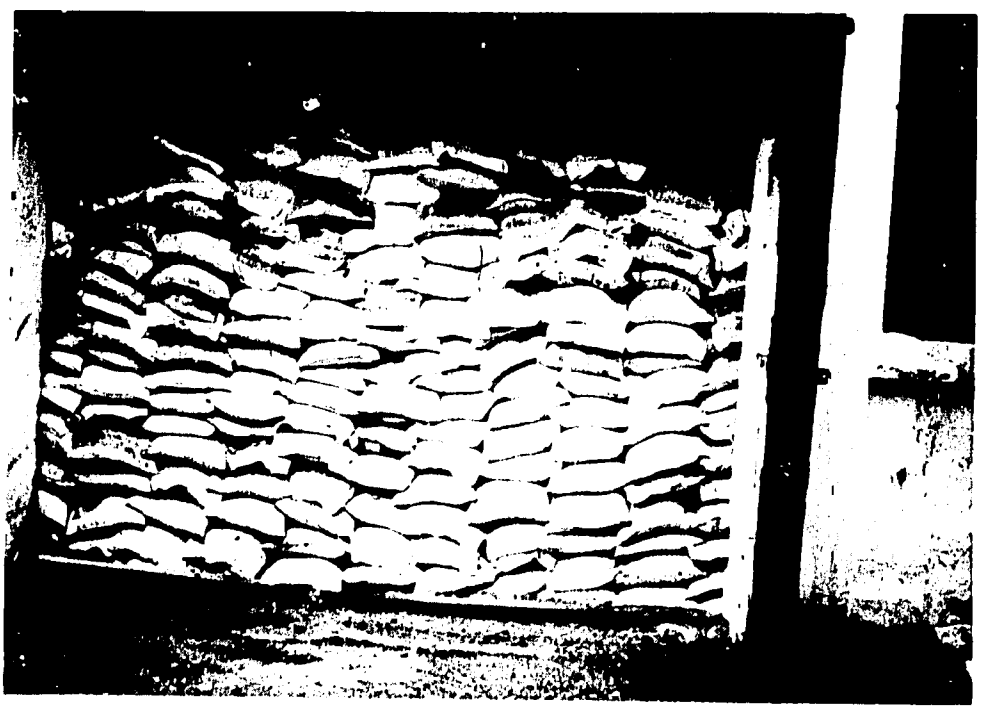
The following pictures as well as the other pictures shown illustrate the lack of dunnage.

Proper stacking to allow for air circulation and adequate segregation to prevent damage to commodities are required by the CP/OP manuals. Adherence to these requirements was often not followed as illustrated by the following pictures:

According to the CPs/OPs, it was not always possible to follow the prescribed storage standards because of excessive shipments and limited storage facilities. However, even in cases where storage space was adequate, commodities were not stacked and segregated as per CRS guidelines. CRS should ensure that CPs/OPs adhere to prescribed storage guidelines if they are to participate in the Program.

Stock Rotation. CRS's manual clearly establishes stock rotation procedures which should be followed by the CPs and OPs. However, in our discussions with the CPs and OPs, it was found that there was often a lack of knowledge about these procedures. Consequently, commodities were not properly rotated which resulted in older stock being retained for periods longer than necessary and recent receipts being issued first.

Problems concerning stock rotation were noted at 17 of the 30 CPs and 26 of the 96 OPs reviewed. The stock in these cases was stored in such a manner as to make stock rotation on a regular basis impossible. This situation is clearly demonstrated in the following picture showing how it was impossible to get to the older stock in the rear of the warehouse.



CPs and OPs indicated an inability to rotate the stock due to shortage of storage space, excessive stock levels, and the inability to provide the required manpower for ensuring that older stock is issued first. CRS, therefore, needs to ensure that if CPs/OPs are to continue in the Program, they are able to properly rotate stock.

Physical Storage. The physical storage facilities available at some CP/OP locations were inadequate. Such problems were noted at 8 of 30 CPs and 19 of 96 OPs visited. The warehousing structure at these locations did not offer the protection required for commodities, such as waterproofing, ventilation, freedom from rodents and other pests, and did not provide adequate space.

CRS needs to ensure that the physical storage facilities being provided by the CPs/OPs conform to requirements.

C&F Agent's Warehouse. We visited five of the nine storage sheds used by the C&F agent. The following problems were noted:

-- Commodities were not stacked or segregated properly, and dunnage, fumigation, and pest control had not been provided. At one warehouse damaged CSB bags were kept adjacent to unfit bulgur.

-- Commodities requiring reconstitution were not dealt with promptly. For example, damaged CSB bags were stored at a warehouse in unhygenic conditions for over six months.

-- Commodities requiring reconstitution were not examined for fitness despite considerable delays in the reconstitution. For example, bulgur and oil were reconstituted and despatched eight months after arrival.

-- Unfit commodities were not disposed of timely. Some had been stored for over one year.

-- The inventory as per the C&F agent and CRS could not be reconciled due largely to the lack of information about despatches to CPs by the C&F agent.

Although responsibility for reconstitution lies with shipping agents and the C&F agent is responsible for storage, CRS need to perform a greater liaison role to ensure that the interests of the program are safeguarded.

Recommendation

We recommend that the Mission require CRS to ensure proper reconstitution of damaged packages, fitness testing or other reviews when appropriate, use of dunnage, correct commodity stacking and segregation, stock rotation, and adequate physical storage.

Comments by CRS Officials

CRS agreed (see our page numbers 15 through 17 in Appendix E) that CP/OP storage practices and facilities needed improvements. Officials stated they planned to revive a Food Storage Improvement Program which will include "... pictorial do's and don'ts regarding storage problems ...."

CRS officials, however, believed that most examples cited in the finding were based on incorrect figures and that the use of photographs "... sensationalize isolated situations." They also stated that we provided very little data to support our position about the damaged packages, ignored the operating environment, and neglected to comment on the deterioration of the commodity containers supplied by the United States Government.

Concerning the fitness/infestation issue, CRS officials stated they rejected the findings, never approved distribution of suspect commodities, and found only 7 of the 13 samples mentioned in the finding (page 48) to be unfit. The officials also stated that they require CPs/OPs to submit medical certificates for commodities suspected of being unfit.

No specific comments were provided for the sections of the finding dealing with dunnage/stacking/segregation, stock rotation, or physical storage. CRS did point out that it does not maintain warehousing of its own and that the "... commodities are stored in as safe and hygienic condition as the local environment permits."

Officials also stated that we inflated the number of warehouses considered problematic because we included locations we were unable to examine.

CRS officials did not believe a greater liaison role on their part would be sufficient to ensure C&F agents comply with requirements. They did state that a cooperative effort between USAID and CRS would be more effective.

Auditor's Comments

While CRS officials agreed that improvements in warehouse practices were needed, their other statements indicate disagreements about the use of photographs as well as with the majority of the examples cited in the finding.

Accurate figures were provided to support all conclusions. For example, as stated in the finding, damaged packages were found at 15 CPs and 31 OPs, dunnage/stacking/segregation problems were found at 20 CPs and 42 OPs, stock rotation problems were found at 17 CPs and 36 OPs, and physical storage problems were found at 8 CPs and 19 OPs. Although CRS stated "The auditors have provided very little data to support their claims.", CRS did not provide any comments taking exception to these statistics. Also, this data and other details had been made available to CRS on a number of occasions during the audit.

Concerning the use of photographs, we were directed by USAID's Office of the Inspector General to use photographs whenever we believed such use would help demonstrate the point being discussed. While the photograph on page 21, (depicting commodities stacked in a manner to purposely cover up a very large shortage) was an isolated example, the other photographs portrayed situations commonly found. These photographs, as well as the statistics provided, support our position that there were serious problems with commodity warehousing.

The test results we obtained disclosed that 13 of 16 commodity samples were unfit. CRS officials specifically rejected this finding. They reviewed the test results and stated only seven samples tested unfit. While seven is still a significant number since only 16 samples were

tested, the difference between our 13 and CRS's 7 can be explained. We had provided CRS zone officials with the test results about July 1989. However, these results apparently were not made available to CRS New Delhi officials. In late February 1990, CRS's New Delhi officials requested the test results to assist them in preparing their reply to the draft report. In the rush to supply the results we inadvertently provided incorrect copies. The corrected copies have now been provided which fully supports that 13 samples tested unfit.

We did not state that CRS approved distribution of suspect commodities. The CPs/OPs make the distributions, not CRS; therefore, the suspect commodities could be distributed without CRS's knowledge.

While CRS's policy does require medical certificates for unfit food being disposed of, routine test of suspect food were not performed. In fact, the food in question was not deemed to be unfit by the CP/OP. This was the point of this section of the finding -- unfit commodities were awaiting distribution.

We do not agree with CRS that the commodities were stored as best as the local environment would permit. We fully considered local standards and conditions during our audit. In fact, as stated on page 51, commodities were not properly stored even where storage space was adequate. Thus, this finding demonstrates substantial warehousing improvements were needed. It should again be mentioned that CRS is responsible for ensuring CPs/OPs maintain adequate warehousing compatible with the volume of commodities received. If this cannot be accomplished, A.I.D. Handbook 9 prohibits providing the commodities.

CRS's comment that we inflated problems by including warehouses we were unable to inspect is not valid. The main reason for inconsistent sample sizes (a point which CRS was critical about on the first page of the reply) was due to the fact that we were unable to perform certain tests at certain locations. When this occurred, the sample size was reduced. For example, the sample size for measurement containers (first finding) was 89 OPs while the sample size for damaged packages was 96 OPs.

Since CRS's reply to this finding indicates general disagreement with the seriousness of the problems noted, the Mission may have to increase its oversight.

NON-FEDERAL AUDIT OF THE CATHOLIC RELIEF SERVICES

PL-480 TITLE II PROGRAM IN INDIA

MADRAS AND BOMBAY ZONES

PART VII - APPENDICES

SUMMARIZED COMMODITY STATUS REPORT
FOR FISCAL YEARS 1987 AND 1988

M A D R A S Z O N E

	Commodities In Metric Tons							
	CSM/B		Oil		Bulgur		Total	
Particulars	1987	1988	1987	1988	1987	1988	Quantity	US$'000
Starting Inventory	3,350	3,518	566	375	1,014	1,965	10,788	$ 3,055
Receipts	13,098	11,660	2,874	3,010	23,067	33,384	87,093	21,392
Total Available	16,448	15,178	3,440	3,385	24,081	35,349	97,[illegible]91	$24,447
Less Distribution:								
MCH	6,991	7,500	1,284	1,203	5,073	4,505	26,556	$ 7,430
FFW	-	-	210	248	8,821	5,592	14,871	3,032
Others	175	184	306	283	3,252	2,973	7,173	1,691
Total Distribution	7,166	7,684	1,800	1,734	17,146	13,070	48,600	$12,153
Balance	9,282	7,494	1,640	1,651	6,935	22,279	49,281	$12,294
Less Adjustments:								
Losses - Marine	4	237	4	3	3	464	715	$ 156
- In-country	51	14	24	11	87	26	213	64
Unfit for Human consumption	199	9	-	-	189	1	398	90
Transfers	5,510	6,348	1,237	1,150	4,691	19,090	38,026	9,320
Total Adjustments	5,764	6,608	1,265	1,164	4,970	19,581	39,352	$9,630
Closing Inventory	3,518	886	375	487	1,965	2,698	9,929	$2,664

The Summarized Commodity Status Report presented above is for information only in order to show what was reported to the Mission. As explained in the Auditors' Opinion, Part III, the information presented does not fairly reflect actual operations.

The notes appearing on page 3 are an integral part of the Summarized Commodity Status Report appearing above.

SUMMARIZED COMMODITY STATUS REPORT
FOR FISCAL YEARS 1987 AND 1988

B O M B A Y Z O N E

	Commodities in Metric Tons							
	CSM/B		Oil		Bulgur		Total	
Particulars	1987	1988	1987	1988	1987	1988	Quantity	US$'000
Starting Inventory	790	708*	196	375	6,124	1,833	10,026	$ 2,315
Receipts	1,958	2,081	1,017	1,542	16,782	25,542	48,922	10,858
Total Available	2,748	2,789	1,213	1,917	22,906	27,375	58,948	$13,173
Less Distribution:								
MCH	1,853	2,053	259	332	1,176	1,259	6,932	$ 1,923
FFW	-	-	418	677	16,928	19,243	37,266	7,569
Others	106	167	152	409	2,425	2,343	5,602	1,383
Total Distributions	1,959	2,220	829	1,418	20,529	22,845	49,800	$10,875
Balance	789	569	384	499	2,377	4,530	9,148	$ 2,298
Less Adjustments:								
Losses - Marine	38	23	2	3	324	-	390	$ 80
- In-country	16	60	7	6	77	129	295	66
Removed from Inventory	-	-	-	-	-	27	27	5
Transfers	-	91	-	10	-	63	164	43
Short Landed	36	-	-	-	143	-	179	36
Total Adjustments	90	174	9	19	544	219	1,055	$ 230
Closing Inventory	699*	395	375	480	1,833	4,311	8,093	$ 2,068

* The 9-ton difference between the closing and starting CSM/B inventory amount could not be explained by CRS.

The Summarized Commodity Status Report presented above is for information only in order to show what was reported to the Mission. As explained in the Auditors' Opinion, Part III, the information presented does not fairly reflect actual operations.

The notes appearing on page 3 are an integral part of the Summarized Commodity Status Report appearing above.

NOTES TO SUMMARIZED
COMMODITY STATUS REPORTS
MADRAS AND BOMBAY ZONES

1. The commodity status statements were summarized from the zones' Quarterly Commodity Status Reports prepared by CRS and submitted to USAID/India. CRS prepares these reports based on information submitted by CPs/OPs as well as from zone information. All commodities are shown in metric tons (one metric ton equals 2,200 lbs).

2. The rates used for valuing commodities are the average prices during fiscal years 1987 and 1988 used by USAID/India for valuing Annual Estimate of Requirements.

3. Programs other than MCH and FFW included in the statements have not been subject to audit, and "Transfers" include movement of stock between and within zones.

4. The Madras Zone Commodity Reports have not been adjusted for emergency program distributions partly reported under FFW (568 and 14 metric tons of bulgur and oil respectively) and drought program distributions reported under FFW (167 metric tons of oil).

5. The inventory balances reported are as per records and are not adjusted for losses pending approval; thus, losses reported in a period do not necessarily pertain to that period.

6. The submitted commodity accountability statements do not indicate the extent to which CP/OP reports are missing or pertain to previous periods.

SUMMARIZED RECIPIENT STATUS REPORTS FOR FISCAL YEARS 1987 AND 1988

MADRAS ZONE

Program Area	Recipients * Reached		Commodities in Metric Tons							
			CSM/B		Oil		Bulgur		Total	
	1987	1988	1987	1988	1987	1988	1987	1988	Quantity	US$'000
MCH	272,250	235,580	7,424	6,278	1,446	1,090	4,942	4,214	25,394	$ 7,180
FFW	36,440	17,487	-	-	218	119	8,866	4,452	13,655	2,738
Others	-	-	193	159	322	241	3,229	2,668	6,812	1,609
Total			7,617	6,437	1,986	1,450	17,037	11,334	45,861	$11,527

BOMBAY ZONE

Program Area	Recipients* Reached		Commodities in Metric Tons							
			CSM/B		Oil		Bulgur		Total	
	1987	1988	1987	1988	1987	1988	1987	1988	Quantity	US$'000
MCH	70,622	76,049	1,693	1,868	324	330	1,207	1,292	6,714	$ 1,891
FFW	213,049	66,208	-	-	400	412	16,253	16,926	33,991	6,801
Others	-	-	136	128	272	315	3,306	2,692	6,849	1,626
Total			1,829	1,996	996	1,057	20,766	20,910	47,554	$10,318

* Average per month

These Summarized Recipient Status Reports are presented for information only in order to show what was reported to the Mission. As explained in the Auditor's Opinion, Part III, the information presented does not fairly reflect actual operations.

The notes appearing on page 2 are an integral part of the Summarized Recipient Status Report appearing above.

NOTES TO SUMMARIZED RECIPIENT STATUS REPORTS MADRAS AND BOMBAY ZONES

1. The recipient status statements were summarized from the zones' Quarterly Recipient Status Reports prepared by CRS and submitted to USAID/India. CRS prepares these reports based on information submitted by CPs/OPs. All commodities are shown in metric tons (one metric ton equals 2,200 lbs).

2. The rates used for valuing commodities are the average prices during fiscal years 1987 and 1988 used by USAID/India for valuing Annual Estimate of Requirements.

3. Programs other than MCH and FFW included in the statements have not been subject to audit.

4. The number of recipients indicated in the summarized Recipient Status Report reflect the average number of beneficiaries reached every month, extracted from CRS quarterly reports.

5. The submitted commodity accountability statements do not indicate the extent to which CP/OP reports are missing or pertain to previous periods.

6. The number of FFW recipients stated per the Bombay Zone Recipient Status Report is not consistent with commodity consumption reported. Based on the commodity consumption reported, the number of recipients reached is overstated in fiscal year 1987 by approximately 130,000 and understated by approximately 7,000 in fiscal year 1988.

SUMMARY OF CRS INVESTIGATIONS

Certain problems disclosed during the audit indicated a serious breakdown in effective operations at the CPs/OPs. The scope of our work in such instances was limited to determining, as far as practicable, the extent of commodities not accounted for by the CPs/OPs. However, as there were widespread problems at these locations requiring additional review, we referred seven CPs to CRS for further investigation. In addition, we were requested not to review operations at two other CPs because of CRS's investigation plans. Thus, nine investigations were to be conducted, of which five had been performed by the time we completed our field work. This information is summarized below:

Zone	Total CPs	CPs Reviewed in Audit	Identified for Investigation By PW	Identified for Investigation By CRS	Investigation Completed
Madras	30	14	3	1	3
Bombay	37	14	4	1	2

Investigation reports for the following CPs were received as of preparation of this audit report.

Zone	CP Code	Date Investigated
Bombay	0005	June 26 to July 7, 1989
	0020	July 14 to July 29, 1989
Madras	0014	June 1 to June 9, 1989
	0041	June 12 to June 28, 1989
	0045	January 25 to February 10, 1989

As a result of these investigations, operations at all five CPs were discontinued. The commodities allocated to these five CP's during fiscal years 1987 and 1988 amounted

to approximately US$1.9 million or 10 percent of total commodities distributed to beneficiaries under the MCH and FFW programs in the two zones. CRS investigations determined the following type problems:

-- Unquantifiable misuse and sale of commodities were widespread at these locations and claims will need to be filed based on estimates.

-- Inventory and attendance records were adjusted to agree with stock on hand.

-- OP records were maintained by CPs, thereby eliminating any possible application of internal controls.

-- Commodities were utilized extensively for FFW projects on private land with no related community benefit.

-- Commodity losses were generally not reported by CPs and OPs.

-- Warehousing was inadequate.

-- Zone oversight reviews were poorly planned and perfunctory.

-- Zone offices did not properly evaluate CP project requests.

-- Recommendations made by reviewers were seldom examined or followed up.

-- Compliance with regulations was often ignored.

To illustrate the seriousness of the investigation findings, following are some excerpts from CRS's investigation reports:

-- " ...the quantity of food not available with CP (US$37,432) is considered to be misappropriated. During the course of investigation we came to know that bulgur was available in the market for sale. We therefore arranged for purchase of bulgur from three shops and sent the sample of bulgur purchased along with samples of other Title II [bulgur] for laboratory tests. The test report indicated that both had the same features. However, we were not able to establish the source of supply to these shops. We were also able to find the bulgur with a poultry feed dealer."

-- " ...bulgur is sold in original sealed containers as well as gunny bags at Rs.2.20 per Kg. They (the investigators) bought one bag of bulgur having CATHWEL mark bearing contract No.70850 (or 70670). The shop owner confirmed that he is able to supply one truck load of bulgur every week, provided the order is placed a week in advance."

-- " The team interviewed villagers to obtain firm information about the alleged use of CRS commodities as wages to Mission workers. The villagers confirmed that the workers including farm workers of these mission stations received wages in terms of CRS food commodities."

-- " During verification of records, both at the counterpart and operating partner level, the team found that, most of the records of operating partners are prepared by the counterpart clerks."

-- " FFW attendance registers though maintained, do not reflect the actual distribution of commodities."

-- " It was found by the team [investigators] that the projects are not implemented as per approved workdays."

-- " Generally losses are not reported either by counterpart or by operating partners, but are adjusted in distribution reports."

-- " CRS/Bombay approved more working days for this counterpart despite the observation made in the last investigation reports."

-- " It was found that most of the operating partners do not have basic infrastructure such as office, qualified staff, warehouse etc. CRS food commodities are mainly stored in operating partners/village elite residence, and even in commercial premises such as flour, oil mills."

-- " ...almost all the operating partners distribute commodities in sealed containers. [These quantities were far too large and such a practice is contrary to requirements.]"

-- " ...findings reveal documented cases of illegal sales and misuse of wheat and oil provided in 1988 for the intended implementation of a drought FFW program. Also, uncovered was evidence that sales of Title II commodities occurred in 1985 which was brought to the attention of [CP] authorities but never reported to CRS."

-- " The counterpart does not have basic infrastructure to monitor the program such as godown, qualified staff etc."

These investigation findings substantiate many of our findings enumerated in Part VI. The recommendations made by the CRS investigation teams were also very similar to those made by us, especially with regard to commodity distributions and accountability, loss reporting, attendance and inventory records, commodity warehousing, and Program oversight.

DESCRIPTION OF OPERATIONS AT FOUR COUNTERPARTS

In order to provide the reader with a clearer understanding of CP/OP operations, audit results from four CPs and their related OPs are included in this part of the report. Examples of two CPs (CP 08 from the Madras Zone and CP 044 from the Bombay Zone) with the fewest problems were included to show the difference between better operated CPs and CPs with more problems. While the two other CPs (013 from the Madras Zone and 001 from the Bombay Zone) had more problems, the conditions did not warrant referral to CRS for investigation.

CP08-Madras Zone. This CP was located approximately 200 miles from the port and was responsible for 40 OPs. The Program size was as follows:

Fiscal Year	MCH Beneficiaries	FFW Man-days	Value of Food Allocation US$
1987	14,800	95,000	$305,000
1988	16,200	Drought	249,000
1989	17,500	90,000	348,000
Total			$902,000

In addition to the CP, we visited three OPs (one MCH and two FFW). There were no discrepancies between stock records and stock physically verified at the CP or at two of the OPs. The warehousing facilities and condition of stock were found adequate at the CP and OP warehouses. Some of the problems noted were as follows:

-- There were no formal provisions to waive the participation fee for those beneficiaries who could not afford to pay, and there was non-compliance with certain other USAID requirements such as publicity and charging fees.

61

-- Centers did not provide publicity about the food being donated by the U.S. and empty containers were sold without obliterating A.I.D. markings.

-- Approved ration rates were distributed at the MCH center, but at one FFW site approved rates were not adhered to, as illustrated below:

	Ration Given		Approved Ration	
	Bulgur Kg	Oil Kg	Bulgur Kg	Oil Kg
Men	6	0.100	4	0.100
Women	4	0.050	4	0.100

-- At one MCH center, the rations for absentee beneficiaries were given to other beneficiaries.

-- Field reviews conducted by CP were not adequate, stock records were not maintained, and losses were not reported according to CRS guidelines.

-- Road transport claims had not been submitted to the zone office since 1980.

CP044 Bombay Zone. This CP was located approximately 400 miles from the port and was responsible for 20 OPs. We reviewed the operations at the CP and four OPs (one MCH and three FFW). The Program size was as follows:

Fiscal Year	MCH Beneficiaries	FFW Man-days	Value of food Allocation US$
1987	1544	548,880	$474,000
1988	2100	525,420	623,000
1989	3050	423,840	522,000
Total			$1,619,000

he found that the stock on hand reconciled with the records. The warehousing facilities were generally adequate, correct measurement containers were usually used, records were reasonably well maintained, and individuals appeared knowledgeable about Program requirements. Some of the problems noted were as follows:

-- The CP was also an approved OP for FFW projects, thereby reducing internal controls. One of the projects undertaken was reforestation on diocesan society land. While 100,000 trees were reported as planted, our site visit could only confirm that approximately 6,000 saplings had been planted. It appeared that the commodities were instead used to pay workers to construct a boundary wall.

-- Oversight reviews were not documented and publicity that commodities were donated by the U.S. was not adequate.

-- The CP had issued all its stocks to the OPs prior to our visit. This resulted in the OPs having more than twice their quarterly requirements on hand.

-- One FFW OP did not use any measures for distributing commodities. Instead, estimated quantities were distributed to the beneficiaries.

CP013 - Madras Zone. This CP was about 250 miles from the port and was responsible for 37 OPs. The Program size was as follows:

Fiscal Year	MCH Beneficiaries	FFW Man-days	Value of food Allocation US$
1987	13,550	51,000	$253,000
1988	13,250	200,000	420,000
1989	14,700	78,000	303,000
Total			$976,000

Our review of the CP and three OPs (one MCH and two FFW OPs) revealed the following problems:

-- Warehousing did not offer adequate protection for the commodities, and commodities in damaged containers had not been promptly reconstituted.

-- Measurement containers used to distribute commodities provided insufficient quantities.

-- Poor food allocation by the CP to the OPs resulted in project delays and interruptions in feeding programs.

-- Records submitted by the OPs were inaccurate but were not reviewed by the CP prior to submission of information to the zone office and eventually USAID.

-- The CP did not have adequately trained staff to monitor OP activities, and reviews were not documented.

-- One OP had repeated 50 names four times in order to show 200 workers engaged in a FFW project. Also, contrary to CRS guidelines, cash was collected by OPs from FFW workers and not accounted for.

-- Commodities meant for approved FFW projects were sold to generate cash to pay workers at a brick kiln which was a commercial activity mainly benefiting the project holder.

-- An OP was found to have fabricated attendance records and gave the commodities to a community within the village. (The CP subsequently instructed the OP to suspend any further distribution pending a review).

-- Losses were written off without CRS approval and records did not agree with loss reports submitted to CRS.

-- Certificates of distribution were not submitted to local government officials as required.

CP001 - Bombay Zone. The CP was located approximately 500 miles from the port and was responsible for 25 OPs. The Program size was as follows:

Fiscal Year	MCH Beneficiaries	FFW Man-days	Value of Food Allocation US$
1987	2,213	37,200	$ 89,525
1988	2,213	28,868	77,195
1989	2,113	41,376	94,130
Total			$260,850

Our review at the CP and four OPs (two MCH and two FFW) revealed the following problems:

-- CP reviews of OP operations were inadequate.

-- Physical stock counted at CPs warehouse were greater than the recorded balances.

-- Measurement devices at one MCH OP were incorrect.

-- Both FFW OPs distributed quantities based on the institutions' (a blind school and a vocational training center) need which had no relation to Program ration rates.

-- Warehousing practices did not conform to CRS guidelines and did not offer adequate protection to the commodities. Damaged commodities were not reconstituted or segregated. At the CP warehouse, oil leaking from the cases had collected on the floor.

-- Reconstitution losses and shortages were generally not reported.

-- Attendance records at two OPs did not agree with what was reported. In addition, a FFW OP did not maintain separate attendance records, and the number of beneficiaries reported/recorded by one FFW OP did not agree with actual operations.

-- At both FFW OPs, instances were noted where the quantities of stock reported as issued did not agree with quantities that should have been issued for the work performed.

-- Publicity for U.S.-donated commodities was lacking, and certificates of distribution were not being submitted within the stipulated six-month period.

CRS

CATHOLIC RELIEF SERVICES
P. O. Box 3534
New Delhi - 110024 INDIA

2, Community Centre, East of Kailash
Telex : 031- 2812
Cable : Cathwel New Delhi
Telephone : 643-2745, 643-2746

March 16, 1990

Mr. Robert N. Bakley
Director
USAID Mission
US Embassy - West Building
Chanakyapuri
New Delhi 110 021

Dear Bob,

Attached please find the CRS India Program's response to the final Draft of the non-federal Audit of Title II activities in Madras and Bombay Zones.

We have drafted the summary responses for Sections A through D of Part VI of the Audit and more detailed text for Attachment as Appendix E to Part VII. These are included in Section II of the report.

We expect that our summary responses will be incorporated into the Final Audit Report without changes so that our views are faithfully and fairly reflected.

With kind regards,

Sincerely yours,

James DeHarpporte
Country Representative

Encl: as s.a.

RECEIVED
19 MAR 1990

CRS Response
Non-Federal Audit of Title II Program
Bombay and Madras Zones
16 March 1990

TABLE OF CONTENTS

I. Summary 1

II. Summaries of Parts A, B, C, D 2

III. Response to findings

A. Commodity Distributions/Accountability
Summary 4
Detailed Response..... 4

B. Program Oversight
Summary 7
Detailed Response 8

C. CRS Operations
Summary 9
Detailed Response..... 10

D. Commodity Warehousing
Summary 13
Detailed Response..... 13

IV. Conclusion 15

SUMMARY OF CRS RESPONSE TO PART II

SUMMARY RESULTS OF AUDIT

CRS believes that audits are both necessary and useful, and invests significant resources to provide for external and internal audits of its programs throughout the world. At times, however, this non-federal audit of the CRS India Program was counterproductive. Its nine-month duration disrupted on-going CRS activities and management improvements planned well before the commencement of the audit. USAID/Delhi's circulation of an early draft report, a draft which did not incorporate corrections of fact later accepted by the auditors, to external parties not directly involved in the audit process has jeopardized the future of a program which has provided much-needed assistance to millions of impoverished Indians for more than three decades. Further, the report's opinions are not accepted by CRS as these opinions are based upon factual errors, speculation and, at times, misrepresentation.

However, CRS does accept the report's findings as serious with respect to five (of eighty-two) Counterparts and their Operating Partners. Three of these cases were identified by CRS through its internal review system, and two of these had already been investigated by CRS before the audit began in March 1989. CRS suspended these five and as the audit states, "CRS immediately initiated various corrective actions to improve operations and conducted further investigations resulting in decisions to close down certain Counterpart and Operating Partners."

CRS generally accepts the recommendations as useful tools for improving the Title II Food Program. However, CRS must express its concern with the audit methodology and the manner in which conclusions are drawn and presented in the report:

1) The major conclusions of the report are based on problems identified in 1989 in five Counterparts and extrapolated to other CP's and earlier years without qualification.

2) Findings are exaggerated by referring to a group of nine Counterparts 37 times in 43 paragraphs without so informing the reader.

3) Incorrect figures, eg., the weight per volume of Edible Oil, are used to challenge the reliability of Title II reports.

4) Inconsistent sample sizes are used throughout the report.

15

5) The auditors' unfamiliarity with program practices and documentation lead to incorrect conclusions with regard to beneficiary attendance records and Title II reports.

To help the reader understand the context in which this audit was conducted, during the audit period CRS received 220 million pounds of Title II commodities through the Ports of Bombay and Madras. These commodities were distributed on a regular basis to 650,000 needy Indians by 82 Counterparts through 2,600 Operating Partners, ie., grassroots organizations covering an area of approximately 650,000 square miles. Serious and continuing efforts have been and are being made to maintain program standards to meet the objective of helping the people of India - where 85% of the children are malnourished and nearly half the population lives in poverty.

A more complete discussion of these issues can be found in Appendix E.

CRS RESPONSE TO PART VI - FINDINGS

A. COMMODITY DISTRIBUTIONS AND ACCOUNTABILITY

CRS disputes the finding, which appears to be major factor in the adverse opinion on commodity accountability reports, that Title II Commodities were distributed in incorrect quantities.

The auditors' field tests of edible oil distributions were based on incorrect calculations. The auditors initially calculated that 100 milliliters of oil weighed 80 grams. While this was later changed by the auditors to 85 grams per milliliter, the correct weight of 100 milliliters of oil equals 92 grams according to the commodity credit corporation (CCC). While this may seem to be a minor discrepancy, the 15% difference, when coupled with the auditors' confusion over rations described in PART VI SECTION A, calls into question the validity of the audit's conclusions.

CRS RESPONSE TO PART VI - FINDINGS

B. PROGRAM OVERSIGHT

CRS acknowledges that program oversight can be improved in some areas. However, within the narrow definition of effectiveness applied in this section, CRS makes the following observations:

1) CRS requires CP'S to monitor OP'S, and monitoring does take place. While it has not always been the practice to formally document these visits, we acknowledge that such

documentation is important. Appropriate instructions have already been issued to this effect, and training sessions to improve the scope and effectiveness of program monitoring by counterparts will begin shortly.

2) During the audit period, CRS zonal field reviews reached 73% of the targeted CP'S and 92% of the targeted OP'S. For the same period CRS received over 1,000 field reports covering 2,667 CP'S and OP'S in the two zones. Training programs were held to strengthen CRS monitoring in early 1989 and again in 1990. It should be noted that CRS detected three of the five serious cases repeatedly discussed in this audit report.

A more complete discussion of these issues can be found in APPENDIX E.

CRS RESPONSE TO PART VI - FINDINGS

C. CRS OPERATIONS

Maintaining the quality of and improving program operations is a concern shared by CRS and USAID. However, CRS takes issue with some of the statements in this section:

1) When problems were identified by AID and by CRS reviews, remedial action was taken. This has been formally acknowledged by AID: All previous audit recommendations were closed with AID'S concurrence.

2) The two examples cited by the auditors of FFW being used to support commercial activities were investigated by CRS and the concerned CP'S and found to be inaccurate as described in APPENDIX E. CRS recognizes that there is a degree of inherent risk associated with FFW projects in that they are numerous, difficult to monitor and implemented outside traditional institutional structures. Despite these risks, CRS and other cooperating sponsors support these programs based upon the demonstrated benefits they confer upon beneficiary communities. In 1989 CRS increased its oversight of FFW projects and reduced the tonnage allocated to this program pending further review.

3) AID REGULATION 211.5.I encourages voluntary contributions to defray program costs. It continues to be CRS policy that commodities are distributed regardless of the beneficiary's ability to contribute. There has never been a documented instance of a beneficiary being denied food due to inability to contribute. At no time has CRS turned away beneficiaries for this reason; nor did the auditors observe any such situations.

17

4) While a minor point of the audit report, the issue of GOI inland transportation reimbursement and AER documentation is discussed in detail in APPENDIX E.

CRS RESPONSE TO PART VI - FINDINGS

D. COMMODITY WAREHOUSING

The majority of examples cited in this section of the audit report are based on incorrect figures. The audit report states that 13 of 16 commodity samples which appeared to be unfit for human consumption were tested by health authorities and were reportedly found to be unfit. CRS obtained the lab results of these tests. Three of the samples were not Title II Commodities; one was a duplicate sample; three tests were inconclusive; two were found to be fit for human consumption; and seven samples, from two counterparts, were found to be unfit. The unfit commodities were never distributed to beneficiaries as the language in the audit report implies. CRS requires CP'S/OP'S to submit Medical Certificates for food which they have reason to suspect may be unfit since fitness of Bulgur, Oil, and CSB cannot always be determined by visual inspection. This practice is in compliance with SECTION 211.8 of AID REGULATION 11.

CRS has additional comments on this section which are provided in APPENDIX E.

A. COMMODITY DISTRIBUTIONS AND ACCOUNTABILITY

CRS disputes the finding, which appears to be major factor in the adverse opinion on commodity accountability reports, that Title II Commodities were distributed in incorrect quantities.

The auditors' field tests of edible oil distributions were based on incorrect calculations. The auditors initially calculated that 100 milliliters of oil weighed 80 grams. While this was later changed by the auditors to 85 grams per milliliter, the correct weight of 100 milliliters of oil equals 92 grams according to the commodity credit corporation (CCC). While this may seem to be a minor discrepancy the 15% difference, when coupled with the auditors' confusion over rations described in PART VI SECTION A, calls into question the validity of the audit's conclusions.

DETAILED RESPONSE TO PART A, DISTRIBUTION & ACCOUNTABILITY

The audit opinion that CRS' records are not reliable is based on the auditors examination of the Commodity Status Report (CSR) and Recipient Status Report (RSR). It appears

that the contents and purpose of these documents are not well understood by the auditors.

The auditors claim that these documents are not reliable because inaccurate inventory information is being reported in the RSR and because the RSR and CSR should reconcile. In fact, inventory information is recorded in the CSR, not in the RSR; the two documents are independent of each other.

The documents provided in appendices A & B were compiled by the auditors and are incomplete representations. The actual CSR format includes many other important items, such as emergency, transfers and late deliveries by shipping companies, which affect the balance of commodities. The auditor's summary schedules misrepresent CRS reporting. For instance, in appendix A, P.2, the 9 ton discrepancy is due to the fact that CSM and CSB were reported separately in two columns in 1987 and, since CSM was no longer available in 1988, they were recorded together in one column in 1988. By consolidating the two columns and failing to include stocks carried over from 1987, the auditors create a difference of nine tons. Contrary to what is stated in the footnote in appendix A of the audit report, this was explained to the auditors on August 18, 1989.

The issues mentioned in this section are constraints commonly faced in food storage and handling operations in environments such as India's, and should not be taken out of context. CRS agrees with the auditors that methods and procedures used to distribute commodities need to be improved at all levels, from the packaging and delivery of commodities from the United States until they reach the ultimate beneficiaries. The US Government (USG) can help CRS and other agencies do this by reversing decisions regarding commodity packaging which have critically impaired our ability to minimize commodity losses. For example, Bulgur was previously packaged in 22.68 KG bags. It now arrives in 50 KG bags and, given their greater weight, are moved with hooks, a customary port handling practice. Obviously, torn bags do not hold up well multiple handling. The packaging of CSB bags has been reduced from 5-ply paper to 3-ply, and the oil tins currently in use do not withstand repeated handling.

1. COMMODITY DISTRIBUTION

CRS does not accept the blanket conclusion that the correct ration was not distributed by OP'S to beneficiaries for the following reasons:

A) The auditors used an incorrect factor for converting oil, the most expensive commodity, from a liquid to a weight measure. The ratio used by the auditors was 100 milliliters to an average of 85 grams. According to

19

the Commodity Credit Corporation (CCC) the correct ratio is 100 milliliters to 92 grams. This means that a larger ration with greater volume and value, reaches the beneficiaries. This fifteen percent difference in conversion factors, while seemingly minor, calls into question the auditors' opinion about the reliability of commodity reporting.

B) The auditors' conclusions cover FY 1987-88, but their measurements are based on field tests performed during 1989 when the ration rates were different. In FY 87-88, CRS had ten different ration rates for six program categories operated through 5,300 centers in 25 states.

C) The auditors interviewed only a few people who actually measure and distribute the commodities. Instead, they extrapolate from demonstrations performed in 1989 by OP staff, many of whom are not the actual distributors during the period covered by the audit.

Further, the auditors did not seek refinements, such as whether the commodities were heaped or leveled within the containers, which are important when measuring accuracy.

D) The seven FFW and MCH cases cited in the audit report should not be portrayed as representative of the 106 OP's visited, nor generalized to the 2,600 OP's with which CRS works in the two Zones.

E) With regard to FFW, distribution on the basis of work done rather than by man-days is acceptable under the regulations. Fourteen of 50 FFW OP's use the local "THAKA" or block work system because it increases project productivity and quality. CRS/India's Title II procedures for FFW reporting are standardized and require OP's to report in man-days. Due to this reporting procedure some inconsistencies may appear in the records of OP's which use the block work system.

2. REPORTING COMMODITY LOSSES

The auditors acknowledge that it is not possible to estimate the extent of unreported losses. Their claim that unreported losses could be significant is therefore speculative. However, CRS shares their concern that loss reporting procedures may not be consistently applied. CRS acknowledges that CP's and OP's need further training in these procedures and that the procedures should be simplified.

3. ATTENDANCE RECORDS

The auditors claim that distribution records did not reflect actual operations. The auditors witnessed d'stributions at very FFW centers. Many centers have four distribution days per month in order to accommodate local needs and practices. To accommodate mothers who cannot attend on a given day, distribution takes place on alternative days. All mothers are recorded as attending on the same day because the attendance forms in use do not accommodate multiple dates.

Consequently, the records may indicate complete distribution on one or two days per month rather than on several days as is often the case. The auditors did not see 100% attendance during their single visits to a FFW centers, and they therefore concluded that distribution records were not accurate. This was explained to the auditors by the OP's during site visits. So that records cannot be misconstrued in the future, CRS has employed an Accounting firm and held workshops with all of its field staff to determine ways in which record-keeping forms can be modified to include the recording of several distribution dates per month, as well as other variations that occur.

4. INVENTORY RECORDS

The audit report states that inventory differences were not significant in terms of total value. However, by extrapolating from the physical inventory variances noted at the OP level, it claims that CP records are inaccurate. On the basis of such extrapolation, differences could be considered material. However, isolated cases and speculation should not support an audit conclusion.

CRS has traced the six instances cited; of these. only one is significant, and the CP in question has been suspended. Differences between book balances and inventories in the other five were not material, and were reconciled without difficulty. For instance, the auditors' inventory of one CP found one tin of oil fewer than its stock record of 470 tins; this was due to leakage. At another CP, the auditors indicated a shortage of 3 bags of Bulgur from the book balance of 2475 bags, and a surplus of three tins of oil over the book balance of 1476 tins.

B. PROGRAM OVERSIGHT

CRS acknowledges that program oversight can be improved in some areas. However , within the narrow definition of effectiveness applied in this section, CRS makes the following observations:

1) CRS requires CP'S to monitor OP'S, and monitoring does take place. While it has not always been the practice to formally document these visits, we acknowledge that such

91

documentation is important. Appropriate instructions have already been issued to this effect, and training sessions to improve the scope and effectiveness of program monitoring by counterparts will begin shortly.

2) During the audit period, CRS zonal field reviews reached 73% of the targeted CP'S and 92% of the targeted OP'S. For the same period CRS received over 1,000 field reports covering 2,667 CP'S and OP'S in the two zones. Training programs were held to strengthen CRS monitoring in early 1989 and again in 1990. It should be noted that CRS detected three of the five serious cases repeatedly discussed in this audit report.

DETAILED RESPONSE, PART B, OVERSIGHT

CRS recognizes that program oversight should be improved and will continue to work to improve the effectiveness of program monitoring.

Nevertheless, below are just a few of the examples within the narrow definition of effectiveness used in this report with which CRS takes exception:

1. COUNTERPART REVIEWS OF OPERATING PARTNERS

While CRS requires CP's to monitor OP's. it has not been the practice to require formal documentation of these reviews. However, to move from the lack of (not required) documentation of reviews to the implication that reviews did not occur is both speculative and incorrect. In fact, many CPs do document their reviews, and others keep informal records such as diaries. CRS agrees that a more formal system will strengthen this aspect of the program. CRS has advised all Counterparts to begin documenting their reviews of OP programs, and a number of CPs have begun to do so. These changes will be incorporated in revised manuals and agreements, and will be included in scheduled Counterpart training workshops.

2. FREQUENCY OF CRS ZONAL REVIEWS

Although Bombay and Madras Zones did not reach their target number of field reviews in 1987 and 1988, they came much closer to these targets than the audit report implies, reaching 73% of the targeted CPs and 92% targeted OPs. Through routine field reviews, CRS does detect deficiencies and takes corrective action. In fact, CRS reviewers detected three of the five serious cases discussed repeatedly in the audit report. CRS has already begun work on a computerized system for tracking Field Reviews to facilitate better analysis and follow-up.

92

3. QUALITY OF CRS REVIEWS.

CRS has over thousand of field reports covering its 2,667 CP's and OP's in Bombay and Madras Zones. The auditors' conclusion that field reviews are of poor quality is based on a non-quantified subset of field reports within their sample of 134 CP's/OP's. Still, CRS agrees that the quality of field reviews can be improved. This was noted in the most recent CRS Internal Audit. Action has been initiated to correct the problem. CRS has conducted Training Seminars to strengthen existing staff and is also hiring additional staff. Reviews are now being scrutinized at the national office. Moreover, an External Audit Firm has been contracted to conduct quality assurance reviews to maintain a higher, consistent standard of Internal Reviews.

CRS RESPONSE TO PART VI - FINDINGS

C. CRS OPERATIONS

Maintaining the quality of and improving program operations is a concern shared by CRS and USAID. However, CRS takes issue with some of the statements in this section:

1) When problems were identified by AID and by CRS reviews, remedial action was taken. This has been formally acknowledged by AID: All previous audit recommendations were closed with AID'S concurrence.

2) The two examples cited by the auditors of FFW being used to support commercial activities were investigated by CRS and the concerned CP'S and found to be inaccurate as described in APPENDIX E. CRS recognizes that there is a degree of inherent risk associated with FFW projects in that they are numerous, difficult to monitor and implemented outside traditional institutional structures. Despite these risks, CRS and other cooperating sponsors support these programs based upon the demonstrated benefits they confer upon beneficiary communities. In 1989 CRS increased its oversight of FFW projects and reduced the tonnage allocated to this program pending further review.

3) AID REGULATION 211.5.I encourages voluntary contributions to defray program costs. It continues to be CRS policy that commodities are distributed regardless of the beneficiary's ability to contribute. There has never been a documented instance of a beneficiary being denied food due to inability to contribute. At no time has CRS turned away beneficiaries for this reason; nor did the auditors observe any such situations.

4) While a minor point of the audit report, the issue of GOI inland transportation reimbursement and AER documentation is discussed in detail in APPENDIX E.

87

DETAILED RESPONSE, PART C, CRS OPERATIONS

1. PREVIOUS AUDIT REPORTS.

CRS closed all previous audit recommendations. Many recurrent problems identified by this audit and CRS Internal Reviews are inherent to the operating environment. This points to the need to reexamine the regulations under which Title II programs operate. The audit report takes note of some of these constraints, such as the inability to document Rail Losses. Other examples have been provided to the auditors.

Under the Indo-US Bilateral Agreement, shipment and delivery of perishable commodities is the responsibility of the donor and the Indian Government. CRS is in constant contact with Local Officials in order to overcome chronic problems of port clearance and inland transport and has, at times, sought USAID's intervention. These negotiations have resulted in significant improvements since the 1984 audit, including the appointment of new clearing and forwarding agents and haulage by road rather than rail in some areas. The latter improvement has resulted in significant reductions in Inland Transport Losses. However, CRS notes once again that many factors affecting the handling of Title II Commodities are beyond the control of CRS.

2. FOOD FOR WORK.

CRS takes issue with several of the examples cited in this section of the audit report. For instance, several so-called "Commercial" projects are discussed. One, an Irrigation Canal, has no commercial component. Another is an approved Income-Generating Project For Brick-Making; The bricks were used to construct low-cost housing, to build a water tank in a drought-prone area, and to create a revolving fund with which to continue producing bricks for the community's benefit without further CRS assistance. Finally, the auditors mention a water well project in which the villagers must pay the owner of the well for water used. CP investigations revealed that the villagers are charged not for the water, but for the electricity used to pump the water and for maintenance of the well.

CRS agrees that FFW should not be used to develop individual land holdings. The cases mentioned in the audit report are portrayed in a misleading manner. They are actually afforestation projects in which the project holder donated land to village community public trusts for use as three nurseries; saplings were given to the beneficiaries for replanting.

Prior to the commencement of the audit CRS recognized the need to improve the planning and monitoring of FFW projects.

84

This effort is supported by a 1988 US Government Grant to CRS. Each FFW project must now be visited annually by the CP and CRS is providing training in project monitoring and evaluation for CP's, OP's, and its own staff. CRS has also retained external consultants to evaluate and provide technical review to FFW Projects. These improvements are significant and are detailed in recent Progress Report on the Title II Program. The delegation of approval authority to CP's for FFW projects was tested in the Madras Zone on an experimental basis in 1987 and 1988. The delegation of FFW Project approval has been discontinued and all approvals are now made only by CRS.

Nevertheless, CRS shares the auditors' concern about the FFW program and has complemented program improvements with a substantial reduction in the amount of commodities programmed for FFW.

3. FEES CHARGED.

At no time has CRS or the auditors observed that beneficiaries were denied Title II Commodities due to their inability to make a nominal contribution. The auditors make no mention of practices which are common and easily observed, such as the distribution of medicines and supplementary food free of charge to needy beneficiaries.

4. CASH CONTROLS.

CRS negotiated formal agreements with its OP's in FY 1988, when the requirement of annual audited statement was introduced. To test compliance during 1987, when the rule was not yet in effect, is improper. It is true that not all audited statements were received in 1988 when the requirement first went into effect. However, CRS does have audited statements for the Quarter ending June 1989, by which time compliance with the requirement had increased. CRS continues its efforts to obtain audited statements for earlier periods from CP's which have not yet submitted them. Finally, findings regarding questionable payments discussed in the audit report are exaggerated. Three of the five examples are from the books of a single CP.

The revised procedures for end-use checking will incorporate a more thorough review of Title II financial transactions.

5. RECOVERY OF CLAIMS

Procedures relating to road transport charges are not USAID requirements, but services voluntarily provided by CRS to its counterparts. Technically this should not fall under the purview of the audit as these transactions are between the counterpart and the GOI, and CRS merely facilities these transactions. A change in the procedures and the omission

25

of this facility in the new contract between the GOI and its clearing and forwarding agents during the period in question did not only delay but prevented CRS from submitting bills of collection until this matter was rectified. Since 1987 CRS has presented 1,703 bills to clearing and forwarding agents in Madras and Bombay Zones; these are valued at $ 295,923, of which $ 102,855 has been collected to date. CRS continues to follow up with the GOI to obtain payment for transportation claims, and will enlist the support of USAID as the Auditors recommend.

There are documented difficulties in collecting claims against the railways. In fact, in 1984 the Area Auditor-General (AAG) Auditors recognized this and recommended that AID/Washington review the matter of unsettled claims resulting from the refusal of GOI instrumentalities to accept liability for negligent losses...to make a determination if the write-off of such losses is acceptable...advise the mission of what is or will be required of CRS to comply with the intent of the regulation. Contrary to statements made in this audit report, CRS vigorously pursues pending claims by promptly sending quarterly statements to the railways, by seeking intervention from the Ministry of Social Welfare, an by seeking legal assistance. Only through persistence has CRS been successful in settling 43 of 67 claims in 1987, and 101 of 144 claims in 1988 with railway officials in Bombay zone. Finally, it should be recognized that India is one of only a handful of countries in the world that continues to honor its agreement to cover inland transportation costs for Title II commodities, at a cost of approximately two million US Dollars each year. What is remarkable is not the slowness of the Indian bureaucracy but the consistent support provided by the GOI since the program began in 1951.

6. PUBLICITY

CRS partners have been provided with publicity posters which are displayed at the offices, distribution centres, and godowns. For example, weight charts used in MCH centres in the Madras Zone include captions stating that the food used in the program is a donation from the people of the USA.

7. ANNUAL ESTIMATES OF REQUIREMENTS (AER)

CRS agrees that an improved system of monitoring performance against AERs is desirable and has contracted a Systems Consultant to assist in its development. CRS has corrected the problems with Call Forwards and commodity allocations in the Bombay Zone. Examples given in the Audit Report are therefore invalid. For instance, when Bombay's 1988 AER incorrectly showed a zero balance for bulgur when stocks actually did exist, the mistake was detected by CRS/Delhi and rectified in a subsequent document, the 1988 third

96

quarter Call Forward. Despite repeated explanations by CRS at the beginning of the Audit in April 1989, in July 1989 and again in February 1990, the Auditors refused to remove this finding from the report.

CRS RESPONSE TO PART VI - FINDINGS

D. COMMODITY WAREHOUSING

The majority of examples cited in this section of the audit report are based on incorrect figures. The audit report states that 13 of 16 commodity samples which appeared to be unfit for human consumption were tested by health authorities and were reportedly found to be unfit. CRS obtained the lab results of these tests. Three of the samples were not Title II Commodities; one was a duplicate sample; three tests were inconclusive; two were found to be fit for human consumption; and seven samples, from two counterparts, were found to be unfit. The unfit commodities were never distributed to beneficiaries as the language in the audit report implies. CRS requires CP'S/OP'S to submit Medical Certificates for food which they have reason to suspect may be unfit since fitness of Bulgur, Oil, and CSB cannot always be determined by visual inspection. This practice is in compliance with SECTION 211.8 of AID REGULATION 11.

DETAILED RESPONSE, PART D, WAREHOUSING

CRS agrees that CP and OP storage practices and facilities require improvement. The examples cited in this section, however, demonstrate that the Auditors use incorrect figures to substantiate their assertions, and that they lack understanding of the complexity of CP/OP operations. In particular CRS draws the reader's attention to item two below, and again registers objection to the use of photographs to sensationalize isolated situations.

1. DAMAGED PACKAGES

The Auditors have provided very little data to support their claims. Again, ignoring the operating environment they neglect to mention that the durability of containers in which the commodities are packed by the USG has deteriorated over the years. As detailed by CRS in its response to Part A above, this has increased the number of damaged units received by OP's/CP's, makes the handling of commodities much more difficult for these organizations, and greatly increases CRS' liability.

2. FITNESS/INFESTATIONS

CRS rejects the findings in this section. CRS requires CP's/OP's to submit medical certificates for food which they

91

have reason to suspect may be unfit. At no time has CRS ever approved distribution of suspect commodities. Fitness of bulgur, oil, and CSB cannot be determined by visual inspection alone as the audit report indicates. CRS obtained the lab results of the 16 tests. Upon examination, we found that only seven samples - not 13 as stated in the Audit Report - were deemed unfit. The actual test results were as follows:

A) 3 samples were not drawn from Title II commodities
B) 2 were determined to be fit for human consumption
C) 1 is a duplicate sample
D) 3 tests were inconclusive
E) The remaining 7 samples were drawn from only 2 CPs and were labeled unfit.

3. WAREHOUSE PROCEDURES

CRS does not maintain warehousing of its own, but depends on the GOI, CPs, and OPs to provide the necessary facilities to store the commodities donated by the USG. The overall storage capacity of these organizations totals an estimated 40,000 metric tons. While godowns contain commodities almost continuously, most units remain in storage only two to three months. The Auditors fail to recognize that CP/OP warehouses are not commercial operations. There is no daily activity rather, distributions occur an average of two times per month. Many OPs have small programs and their godowns are maintained by part-time workers. Although these rural structures and procedures may not meet ideal standards, commodities are stored in as safe and hygienic conditions as the local environment permits.

The reader should be aware that the number of warehouses considered problematic has been inflated in this section by including warehouses which the auditors were unable to examine due to the unavailability of project holders or warehouse-keepers on the day of their visit. Also, the Auditors fails to mention that their visits took place at a time when CPs/OPs were forced to accommodate, at one time, two-thirds of their annual requirements of food stocks; this was due to off-scheduled arrivals at Bombay port in the period immediately preceding the Audit.

Finally, CRS agrees that improvements in CP/OP warehouse practices are desirable. CRS plans to revive a Food Storage Improvement Program (FSIP) which it conducted beginning in 1980 with joint funding from USAID. During the five years of the FSIP, CRS designed pictorial do's and don'ts regarding storage problems and their control which were used by Technical Consultants and CRS staff to train CPs/OPs.

48

4. C AND F AGENTS

Although responsibility for reconstitution lies with shipping agents and C and F agents are responsible for storage, the Auditors state that CRS should perform a greater liaison role to ensure that the interests of the program are safeguarded. CRS agrees that many of the loss and storage problems of the Title II program can be attributed to C and F agents upon whom we depend to transport commodities to remote distribution points throughout India. CRS has had numerous contacts with the C and F agents, as well as with the GOI, Ministry of Welfare, and USAID. A liaison role on the part of a non-profit organization is not sufficient to ensure that C and F agents comply with the requirements of a Title II Program. Past experience has proven that a cooperative effort between USAID and CRS is more effective than either party acting independently to resolve these problems.

CONCLUSION

CRS usually finds audits, internal and external, to be constructive. Although this non-federal audit of the CRS India Program was, in the opinion of CRS, unduly prolonged and sometimes adversarial, we appreciate the concerns raised by the Auditors about the five counterparts cited so frequently in the report. These five counterparts, however, are not representative of the programs eightytwo counterparts, and the problems identified in these isolated cases are not representative of the programs as a whole. CRS is unable to accept the Auditors' reliance on extrapolations and generalizations which has inaccurately portrayed the situation in this way.

We accept that the audit report's recommendations will improve program management in a difficult operating environment, an objective shared by both CRS and AID. Corrective actions have already been initiated to remedy the weaknesses identified in this report. While this audit has been an expensive one for both CRS and USAID, we are committed to continued investment in India to assist the many poor people for whom the program provides great benefit.

However, CRS wishes to reiterate that it does not accept the report's conclusions which, are based on factual errors, speculation and, at times, misrepresentation.

This particular audit was performed by a contractor with limited prior experience in Title II activities. Given our experience during this audit, we question whether the interests of CRS, USAID and the American public would not have been better served had this audit been performed by the staff of the Inspector General's Office, staff skilled and familiar with Title II programs throughout the world.

*****

A9

UNCLASSIFIED NEW DELHI 006301

ACTION AID4 INFO DCM

VZCZCGP0693
OO RUEHGP
DE RUEHNE #6301 0750509
ZNR UUUUU ZZH
O 160509Z MAR 90
FM AMEMBASSY NEW DELHI
TO AMEMBASSY SINGAPORE IMMEDIATE 7189
BT
UNCLAS NEW DELHI 06301

LOC: 273 678
16 MAR 90 0454
CN: 21147
CHRG: AID
DIST: AID

ADM AID

FOR REG HOWARD - RIG/A/S FROM BAKLEY - MISSION DIRECTOR

E.O. 12356: N/A
SUBJECT: MISSION COMMENTS ON RIG/A DRAFT AUDIT
- REPORT ON CRS TITLE II PROGRAM
- MADRAS AND BOMBAY ZONES)

AS WE STATED IN MEETING ON FEBRUARY 15, 1990 MISSION CONCURS IN FINDING AND RECOMMENDATIONS CONTAINED IN PRICE WATERHOUSE NON-FEDERAL AUDIT; AND IN THE TWO RECOMMENDATIONS DIRECTED SOLELY TO THE MISSION. AFTER REVIEW OF CRS COMMENTS WE MAY PROVIDE DETAILED COMMENTS TO MAIN AUDIT. CLARK

BT
#6301

NNNN

UNCLASSIFIED NEW DELHI 006301

RECEIVED
16 MAR 1990

40

LIST OF ABBREVIATIONS

AER	-	Annual Estimate of Requirements
C&F	-	Clearing and Forwarding Agent
CP	-	Counterpart
CRS	-	Catholic Relief Services, India
CSB	-	Corn Soya Blend
CSM	-	Corn Soya Milk
CSR	-	Commodity Status Report
FFW	-	Food-For-Work
MCH	-	Maternal Child Health
OP	-	Operating Partner
RSR	-	Recipient Status Report
USAID	-	Office of United States Agency for International Development, New Delhi (The Mission)