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ISA 70392

**AUDIT OF  
MANAGEMENT OF THE FOOD PROGRAM  
IN INDIA**

**AUDIT REPORT NO. 5-386-90-12**

**JULY 31, 1990**

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**USAID/India was providing oversight to two voluntary organizations who distributed \$16.1 million worth of commodities to 19.5 million beneficiaries during the two-year audit period. While the Mission properly handled many of its oversight roles, more stringent measures needed to be taken when known problems went uncorrected, substantially more field monitoring needed to be performed, and more reliable commodity loss information needed to be obtained.**

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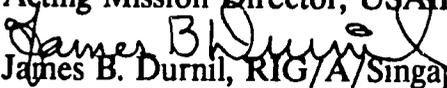
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July 31, 1990

MEMORANDUM FOR: Mr. Dale B. Pfeiffer  
Acting Mission Director, USAID/India

FROM:   
James B. Durnil, RIG/A/Singapore

SUBJECT: Audit of the Management of the Food Program  
in India (Audit Report No. 5-386-90-12)

The Office of the Regional Inspector General for Audit/Singapore has completed its audit of the Management of the Food Program in India. Enclosed is the final report for your review and appropriate action.

The comments you provided to the draft report are summarized after each finding and included in their entirety as Appendix A to this report. We have carefully reviewed the comments you provided to the draft audit report. However, we still do not agree with your position on most of the reported recommendations and have provided additional auditor's comments after each finding addressing the disagreements. Because of the disagreements, none of the three recommendations can be considered resolved.

We would like you to provide this office any additional comments you might have to the final audit report within 30 days. After receipt of your final comments, we will review your position again and, if necessary, forward information on the unresolved recommendations to A.I.D./Washington for resolution. If you do not believe it is necessary to provide any additional comments, please advise.

We want to express our appreciation for the cooperation and courtesies Mission officials extended our staff during the course of this audit and we will work with your office to seek a just and reasonable solution to the reported recommendations.

# EXECUTIVE SUMMARY

The PL-480, Title II program in India is mainly conducted through two voluntary organizations—the Cooperative for American Relief Everywhere and the Catholic Relief Services. The voluntary organizations distributed 283,000 metric tons of commodities (valued at \$76 million) to 9.3 million beneficiaries in 1988 and 295,000 metric tons (valued at \$85 million) to 10.2 million beneficiaries in 1989. USAID/India is responsible for overseeing these operations to ensure effective operations and compliance with various requirements.

During recent years, USAID/India was also involved in overseeing the receipt and distribution of Section 416 commodities donated for alleviating food shortages caused by a drought and the sale of commodities to provide funds for enhancing activities under the CARE program.

Our office conducted a performance audit to evaluate USAID/India's management of the food programs. The audit disclosed satisfactory performance in various important areas but the following areas required improvements:

- Necessary steps were not taken to ensure voluntary organizations took timely action to correct known problems. This seriously detracted from the effectiveness of the operations and the compliance with requirements.
- Field monitoring of the voluntary organizations was minimal due to staff reductions and fund restrictions. Consequently, the voluntary organizations' operations received almost no oversight and many problems went undetected.
- Few commodity losses were being reported. Thus, officials were unaware of how serious the losses were or what action was necessary to attempt to reduce the losses.

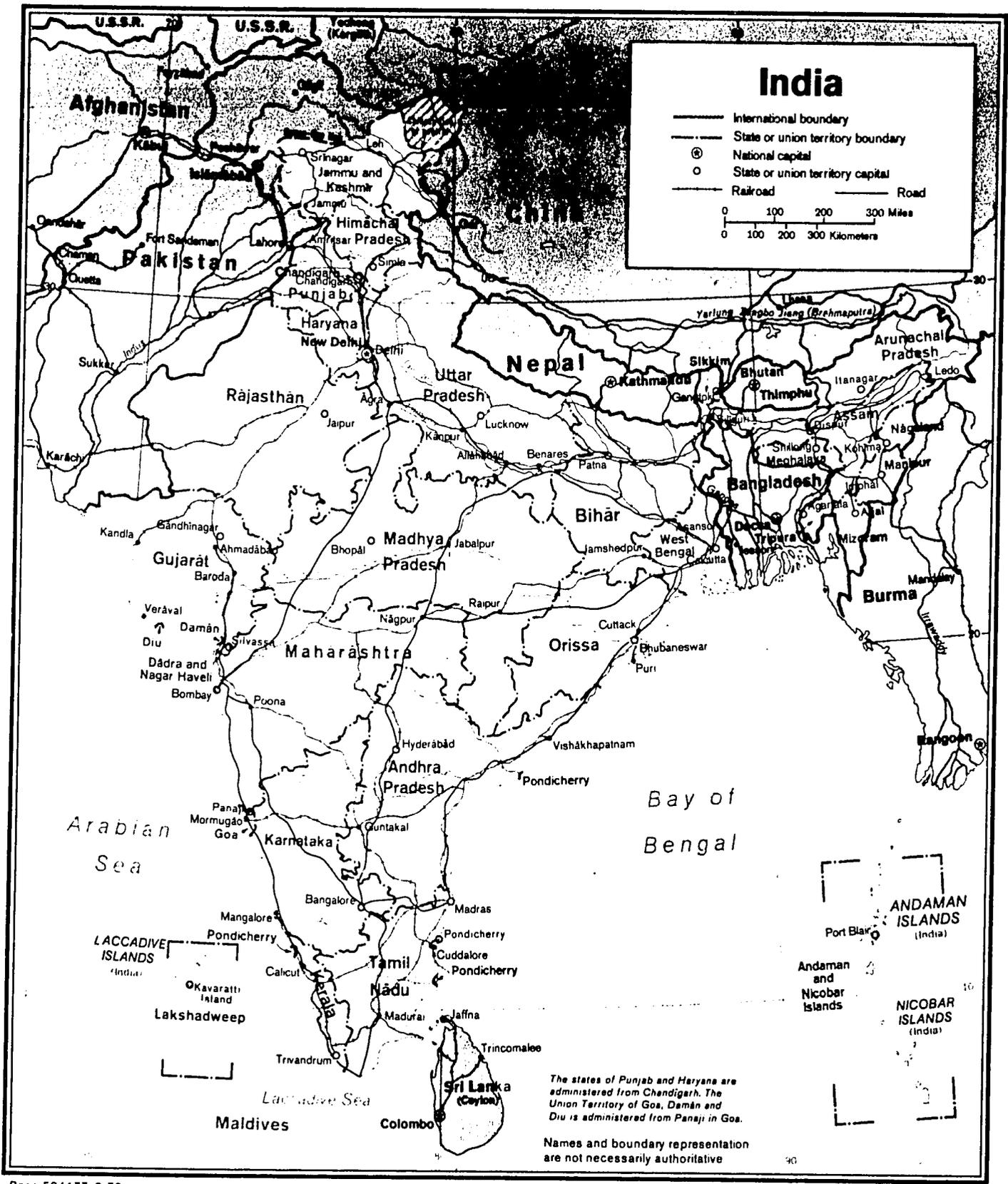
This report has three recommendations to address these issues. In their comments to the draft report, USAID/India officials indicated extensive disagreement with the findings. They believed that too much emphasis was placed on the problems found at one voluntary organization and that the audit lacked objectivity. USAID/India's comments are summarized after each finding and are presented in their entirety in Appendix A. Additional auditor comments are also provided after each finding addressing all major disagreements. Since there was no agreement, the recommendations are considered unresolved. Accordingly, based on any additional comments which USAID/India may provide within the 30 days allowed, this report will be forwarded to A.I.D./Washington for resolution.

*Office of the Inspector General*

Office of the Inspector General  
July 31, 1990

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**AUDIT OF  
MANAGEMENT OF THE FOOD PROGRAM  
IN INDIA**

**PART I - INTRODUCTION**

**A. Background**

India has the largest PL-480, Title II Program in the world. The food is primarily distributed by the Cooperative for American Relief Everywhere (CARE) and the Catholic Relief Services (CRS). The following table shows the magnitude of their activities:

	<u>CARE</u>		<u>CRS</u>	
	<u>1988</u>	<u>1989</u>	<u>1988</u>	<u>1989</u>
Metric Tons (thousands)	192	203	91	92
Value* (millions)	\$54.5	\$62.4	\$21.2	\$23.1
Number of States	9	10	23	23
Recipients (millions)	8.1	9.0	1.2	1.2

\* Excludes sea freight cost which is about 40 percent of the commodity value.

USAID/India is responsible for monitoring the voluntary organizations' administration of the food program. Within the Mission, this responsibility has been assigned to the Food for Development office (Food Office) with oversight provided by a Food Aid Committee.

CARE and CRS do not distribute the food directly to the beneficiaries but work through Indian organizations—CARE through various state Integrated Child Development Services schemes and educational offices, and CRS through diocesan social service societies of the Catholic Church in India.

CARE has a staff of 429 who are located at a central office in Delhi and in the 10 states where food is distributed. (CARE does not participate in similar programs conducted in the other states in India.) The operating expenses are primarily provided by the Government of India. CARE oversees the distribution of food mainly through two programs:

- **Integrated Child Development Services** — Provides food for small children and pregnant and nursing women through what is essentially a maternal/child health program.
- **Mid-Day Meal** — Provides food to children through a school feeding program.

CRS has a staff of 113 who are located at a central office in Delhi and in four zone offices that administer programs in 23 states. The operating expenses are provided by the CRS organization with only limited assistance from A.I.D. grants. CRS oversees the distribution of food mainly through the following programs:

- **Maternal/Child Health** — Provides food for pregnant and nursing women and their young children.
- **Food-for-Work** — Provides food in exchange for work on A.I.D.-approved small development projects such as digging wells, improving roads, and constructing low cost housing.

In addition to responsibilities for the CARE and CRS programs, USAID/India monitors the commodities donated under Section 416 of PL-480 for disaster relief.

### **B. Audit Objectives and Scope**

The Office of the Regional Inspector General for Audit/Singapore made an audit of the management of the food programs in India. The objectives of the audit were to evaluate USAID's management of the various programs and the oversight provided the voluntary organizations. This audit was made in accordance with generally accepted government auditing standards.

The review primarily covered the activities of the USAID Food Office during fiscal years 1988 and 1989. When considered necessary to more fully develop certain issues, we extended the review to earlier years. We reviewed monitoring activities by analyzing field trip reports made by the Food Office staff for a three-year period (fiscal years 1987 - 1989) and by holding discussions with voluntary organization officials. We reviewed other oversight and control functions through discussions with Food Office personnel and examinations of available documentation. We also reviewed the work of the Food Aid Committee and discussed food activities with the Controller's Office, the Regional Legal Advisor, and the Office of Program Development and Project Support.

We used the results of the following audits, reviews, and evaluations of the Title II program in India to form an opinion on the effectiveness of the voluntary organizations' operations:

- Two recent audits of CRS by Price Waterhouse that were made according to scopes of work prepared by the RIG/A/Singapore.
- Prior audits of CARE and CRS that were conducted by the A.I.D. Inspector General.
- Internal reviews of CARE by local auditor Omkar Nath Seth & Company and of CRS by the CRS audit staff, both conducted according to guidelines in A.I.D. Handbook 9.
- Evaluations of the CARE and CRS programs that were prepared by teams selected by USAID/India.

These reviews, especially the two recent CRS audits, had a direct impact on our opinion concerning the effectiveness of the Title II program in India.

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**PART II - RESULTS OF AUDIT**

USAID/India was managing many parts of the food program effectively. The Food Office was very involved in various activities of the overall program such as negotiating the Annual Estimate of Requirements, reviewing the Section 416 commodities intended to alleviate food shortages caused by a drought, and selling vegetable oil to provide funds for increasing the development impact of the CARE program. The Mission handled the many functions required by these activities, even though there was a reduction in staff.

The oversight provided the voluntary organizations, however, was seriously lacking. We found that while the Food Office had a staff of very knowledgeable professionals, they did not effectively monitor program activities due in large part to a reduction in the size of the staff and restrictions on travel funds. Specifically, we found the following:

- Adequate measures were not taken to require voluntary organizations to correct known problems. This occurred, in part, because the Mission had not used the more stringent enforcement measures at its disposal. Thus, serious problems continued to reduce the effectiveness of the program.
- Field monitoring was extremely limited due to staff reductions and travel restrictions. Consequently, the voluntary organizations were not being effectively reviewed and were left to operate with minimal oversight.
- Reliable information on commodity losses was not being reported by the voluntary organizations. The Mission, therefore, was unaware of the actual amount of losses and could not gauge the need for corrective action.

Details on these three findings are presented in Section A. This report contains three recommendations which mainly involve using more stringent enforcement measures, increasing field oversight, and obtaining more accurate information on losses.

The major compliance and internal control problems which were noted were limited to the above areas and are discussed in Section B. Also, in the "Other Pertinent Matters" section (Part C) of this report, we discuss an issue concerning the adequacy of the Mission's Internal Control Assessment.

USAID/India's comments to the draft report were generally negative. The officials believed that the report lack objectivity and was distorted by the results of the CRS audits. However, as stated on page 2 of this report, we used the results of various audits, reviews, and evaluations of both CRS and CARE to form our opinions. All three findings discussed situations found at both CRS and CARE; but due to the seriousness of the problems disclosed by both the current as well as the prior CRS audits, CRS did receive more emphasis.

The Mission also stated that we used a "small element" of the total program to measure the whole. Mission officials stated that the CRS program represents only three percent of the feeding stations and that CRS's portion of total tonnage was only 16.8 percent during fiscal years 1988 and 1989.

Feeding stations were not the most appropriate measurement of the program's size. CARE's feeding centers are normally very small since they distribute cooked food normally for immediate consumption. CRS, however, distributes much larger amounts of food for beneficiaries/workers to take home. Similarly, total tonnage can be misleading for it does not show dollar values and includes other activities. Accordingly, we believe the dollar value is the most uniformly accepted method to gauge the size of a program. As such, CRS accounts for about 30 percent of the activity, not 3 percent or 16.8 percent as implied by the Mission. This is not a "small element."

In their reply to the draft report, officials stated that in 1986 the Food Office was effectively "abolished" because it was placed under another office. However, while the office had been renamed "The Food and Development Division" and placed under the Office of Development, Planning, and Organization in 1986, the function of the office continued. As the Mission also stated, in October 1987 this office was renamed back to the Office of Food for Development. Thus, the statement that the office had been "abolished" seems too strong. Additionally, the period of our audit was fiscal years 1988 and 1989 which was after the naming change had taken place.

The Mission did not agree with any of the findings and expressed specific disagreement with almost all the recommendations. The comments relating to the three findings are summarized after each finding along with additional auditor comments which refutes the Mission's nonconcurrence. The full text of the Mission's reply is present in its entirety in Appendix A.

## **A. Findings and Recommendations**

### **1. USAID/India Needs to Enforce Requirements of the Food Program More Effectively**

While various attempts were made over the years, the Mission was not successful in getting voluntary organizations to place adequate emphasis on complying with important USAID requirements or in obtaining corrective action on known problems. This occurred because, until recently, the Mission had primarily limited its efforts to working jointly with the voluntary organization and did not use certain more stringent enforcement measures which were available—such as limiting the program when systemic problems went uncorrected, reviewing warehousing activities adequately prior to providing certificates, and making claims against the voluntary organizations for negligence. As a result, since significant problems were not corrected, the effectiveness of the program was adversely affected and there was widespread noncompliance with requirements.

#### **Recommendation No. 1**

We recommend that USAID/India:

- (a) Require voluntary organizations to fully resolve all known problems by establishing a specific plan to periodically follow up on reported problems to make sure adequate action was fully taken to correct the deficiencies. If adequate action is not taken in a reasonable time, the Mission should take steps to reduce the program.
- (b) Inform the voluntary organizations that the required Bellmon certification will be withheld if commodities are not properly stored.
- (c) Notify the voluntary organizations that claims will be assessed against them where negligence is involved, and/or collection against a third party is not possible because adequate collection action had not been pursued.

#### **Discussion**

Although the voluntary organizations have day-to-day responsibility for implementing the food program, the Mission is responsible for overseeing their activities to help ensure effectiveness. As discussed in the following sections, we found that Mission officials need to be much more actively involved in assuring voluntary organizations exercise proper controls and comply with important requirements of the program. Additional attention should be given to correcting known problems, reviewing storage facilities, and assessing claims against the voluntary organizations.

**Action on Known Problems** - Various audit and evaluation reports concerning the voluntary organizations' (CRS and CARE) activities have been issued. As stated in the summary section of this report, our opinion as to the seriousness of the problems

reported has been influenced by the problems disclosed in the recent CRS reports as well as by other reports. We reviewed all of the following available reports:

- IG Audit Report of CARE-1982
- IG Audit Report of CRS-1984
- Evaluation Report of CARE-1986
- Evaluation Report of CRS MCH Program-1987
- Evaluation Report of CRS FFW Program-1987
- Internal Review Report of CARE-1988
- Internal Review Report of CRS-1988
- IG Audit Reports of CRS-1990

Most of these reports contained serious problems which were similar in nature and which required immediate corrective action. For example, the March 1984 CRS report contained this overall summary:

" Implementation and management problems continue to exist in the CRS program. Our audit disclosed weaknesses, a lack of records and controls, losses of commodities, non-payment of claims, and surveillance efforts that were not adequate to ensure that commodities and program generated funds were used effectively in accordance with A.I.D. regulations."

The March 1990 CRS report contained a very similar overall summary:

" 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."

The CARE Internal Review Report for 1988 stated the auditors found that food was provided to beneficiaries but that some centers were feeding less than the specified ration and feedings were delayed at a number of centers because of poorly planned food distribution. The report also noted commodities were kept in a warehouse that was unfit for food storage, irregularities in container fund accounting, and failures to report losses. These problems were similar to those previously reported.

Mission officials were aware that adequate corrective actions were not being implemented. This is illustrated by the following two memos:

- A December 1987 internal Mission memo stated that it was anticipated that problems previously reported would be found in the then planned CRS audit. The memo discussed questionable beneficiary selection procedures, poor execution of health activities, falsified attendance records, inaccurate reports, and irregularities in the Food for Work program. These problems were similar to

those previously reported but not corrected. [The recent CRS audits did in fact disclose that deficiencies were widespread and that adequate action had not been taken to correct problems previously identified in past audit and evaluation reports.]

- In another Mission memo, written on October 16, 1989, deficiencies which would probably be disclosed in the planned CARE audit were discussed. The memo noted poor warehousing procedures, food distribution irregularities, and poor execution of the health activities. While the audit of the CARE program is just starting, the recent CARE internal review report noted above disclosed many of the same problems previously noted. Based on these documents, it appears that the CARE program has problems which were not corrected.

It should be mentioned that Mission officials actively requested audits of the voluntary organizations, partly because they were concerned about these problems. They also requested that this audit of the Food Office be performed to help determine whether the Mission was properly performing its role in the food program. While requesting audits was certainly a step in the right direction, Mission officials still have the responsibility of effectively managing the program and could have been more forceful in correcting the problems.

We believe there were other measures the Mission could take to help ensure improvements. For example, as discussed later, even though there were extremely serious problems with CRS's warehousing activities, the Mission automatically recertified the adequacy of the warehousing activities without qualification. Also, the Mission never held CRS responsible for any losses and provided only minimal oversight to field monitoring operations.

The recent CRS audits again brought serious problems to the attention of Mission officials, but this time the problems received the attention of top Mission officials who took firm, even though unpopular, action involving a program reduction. CRS was actually put on notice that improvements were necessary if the program was to be continued in India—and CRS did start correcting the problems. Subsequent reviews showed obvious signs of improvements. Such firm action is necessary if the program is to be operated effectively. This kind of continuing action is required in order to avoid having known problems remain uncorrected over long periods of time, as well as to avoid serious noncompliance with requirements.

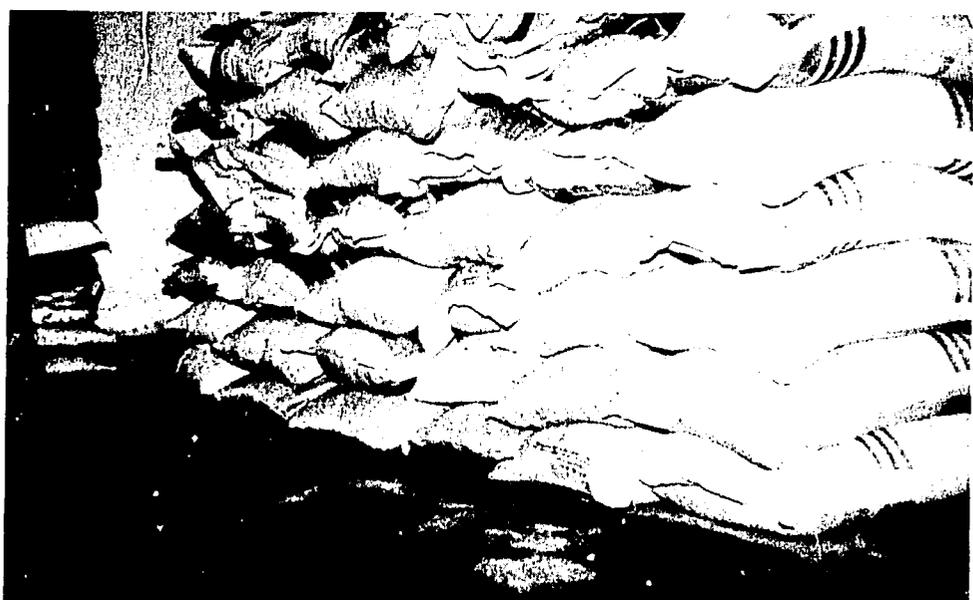
The Mission must ensure the voluntary organizations are conducting effective programs and are requiring activities under their direction to comply with the regulations. If the organizations are not conducting effective programs, the Mission must be willing to take necessary action, even though this could mean a reduction in the level of operations. While such action is severe and should only be taken as a last resort, it must at times be taken, as recently demonstrated by the Mission, to ensure that the commodities are properly distributed to the beneficiaries.

Bellmon Certification - Section 401 of PL-480 requires that adequate storage facilities must be available in the recipient country at the time of exporting the commodity to prevent spoilage or waste. In submitting the voluntary organizations' Annual Estimate of Requirements, the Mission certified that CRS/CARE have:

" Assured USAID that sufficient storage capability exists in India for the receipt and handling of Title II commodities. During the course of administration, field operation reviews, and port visits, USAID's Food for Development Division will monitor the level and suitability of Title II commodity dispatch and storage facilities."

The Mission, in effect, has been automatically certifying or accepting CRS/CARE's assurances as to the suitability of warehousing activities while knowing that the problems were widespread. Following are some pictures of the widespread storage conditions noted at Counterparts and Operating Partners under the CRS Program—no dunnage, poor stacking, unrepaired packages, inadequate ventilation, and stock commingling.







Additional pictures showing poor storage conditions are contained in the last finding. As all of these pictures demonstrate, CRS had many storage problems. We believe that since Mission officials knew of such problems and/or knew they were not going to monitor storage facilities (see Finding 2), the unqualified certification should not have been automatically given.

To ensure compliance with storage requirements, the Mission needs to inform the voluntary organizations that future certification will be withheld, and the shipment of food stopped, reduced, or delayed if commodities are not properly stored.

Claims Against Voluntary Organizations - The Mission has never assessed a claim against the voluntary organizations. However, in our opinion, there were many indications of negligence as well as signs that the voluntary organizations did not actively pursue claims against third parties.

Regulation 11, Section 211.9(d) states that the voluntary agency or its operators shall pay to the United States the value of commodities lost, damaged, or misused if the commodities were improperly distributed; knowingly used for a purpose not permitted; or if the loss/damage was caused by improper storage, care, or handling. The voluntary agency is not responsible, however, if it is determined by the Mission that such improper distribution or use, or such loss or damage, could not have been prevented with proper management by the voluntary agency.

As stated in the CRS reports, important requirements such as performing oversight reviews, ensuring losses are reported, approving FFW projects, ensuring attendance information is accurate were not followed. Also, during the last three fiscal years, there were increasing numbers of cases of commodities lost by bad or prolonged storage in the CARE Program.

In order to help ensure that the voluntary organizations are not negligent in their control over program commodities, some deterrent is necessary. Accordingly, we believe that the voluntary organizations should be placed on notice that claims will be assessed against them when negligence on their part is involved. Such claims should also be assessed if the voluntary organizations do not adequately pursue (see last finding) claims against third parties whether or not negligence on the part of the voluntary organization is involved.

#### Comments by USAID/India and Auditor's Reply

USAID/India officials indicated complete disagreement with this finding and the different parts of the recommendation. In support of their position, they provided various comments which are summarized below (see Appendix A for full text of the reply). To assist in understanding the difference between our position and the Mission's, additional auditor's statements are presented immediately following each of the Mission's comments.

#### Mission's Comment

Mission officials stated they were surprised the report did not mention that the CRS program was suspended in June 1989 or that three cases had been turned over to the Government of India's Central Bureau of Investigation because of possible fraud.

#### Auditor's Reply

On page 7 we stated that the Mission requested various audits and that when one of the audits disclosed serious problems, firm action was taken involving a program reduction. As also stated on page 7, the action recently taken by the Mission is the type of stringent action we believe is necessary when known problems are not corrected, especially given the history of some problems.

We did not believe it appropriate to mention details on the possible fraud cases. However, because of what had been disclosed by a recent audit, the Mission is correct in stating that India's Central Bureau of Investigation became involved.

#### Mission's Comment

Officials stated they had no problems with the first part of recommendation 1(a) but requested deletion of the part pertaining to a program reduction. They stated:

"Our submission is made on the fact that the recommended program curtailment cannot be formulated in relation to the inadequate actions by the PVOs. Fixing norms acceptable to both PVOs will be a cumbersome process."

### Auditor's Reply

Mission officials indicated that it would not be practical to reduce a voluntary organization's program if adequate action was not taken to correct a known problem within a reasonable time. Mission officials believed that fixing norms acceptable to both voluntary organizations would be cumbersome. This reaction is not consistent with the actions Mission officials took as a result of the CRS audit. As stated in the finding, the Mission took firm action to reduce CRS's program because of serious problems. These actions did not have to be acceptable to CRS. Also, the actions taken against CRS had no direct bearing on the other voluntary organization - CARE. Therefore, we believe this recommendation is valid in its entirety and should be implemented.

### Mission's Comment

The Mission believed recommendation 1(b) should be deleted because we did not correctly interpret the Bellmon Requirement. The Mission stated that:

"... the Bellmon Amendment requires that adequate storage facilities be available in the recipient country at the time the food commodity is exported from the U.S. ... There is no question that both CRS and CARE, and the Government of India have adequate, satisfactory storage facilities. The problem, however, is that in many cases warehousing practices (not a Bellmon consideration) ... have been abominable. ... Also, for your information, the Mission has done more than most in getting the PVOs to improve their warehousing practices but it is a slow and continuous process since we are dealing with lowly paid, unskilled labor which turns over regularly in remote locations across a sub-continent (an important context to consider)."

### Auditor's Reply

The Bellmon Requirement does concern adequate storage facilities being available. We believe this means available and used. In fact, Handbook 9 specifically states that adequate storage facilities must be available to handle, store, and distribute commodities without spoilage or waste. If such facilities were available but not used, this should be reflected. The point we were making in the finding was that the Mission was automatically certifying to the acceptability of warehousing activities even though, as the Mission states, such activities may have been "abominable". We believe the Mission could have used the Bellmon Requirement to force corrective action by informing the voluntary organization with serious warehousing problems that food shipments could be stopped, reduced, or delayed if commodities were not properly stored.

The Mission officials also stated that they have done more than most in getting voluntary organizations to improve warehousing practices. While we have no basis to evaluate this statement, the program in India has been in existence for about 40 years. The CRS program is even considered by some to be the "flagship" program. The fact that a "flagship" program has "abominable" warehouse conditions supports our contention that improvements must be required. We believe there has been more than adequate time to encourage such improvements, and it is now time to require them if the program is to continue.

### Mission's Comment

The Mission believed our summary of Regulation 11 Section 211.9(d), on page 10 was inaccurate and therefore recommendation 1(c) was inappropriate because we did not make a distinction between when a voluntary organization is directly involved in distributing the commodities and when a third party is directly involved. The Mission stated that a voluntary organization cannot be held liable "merely" because a third party improperly distributes, stores, or handles commodities or knowingly permits their improper use.

The officials also stated that they had received revised Regulation 11 published in the Federal Register on June 11, 1990. Since the revised version contains several new procedures for the claim actions, they requested us to reassess the need for this recommendation.

### Auditor's Reply

We scrutinized our summary of the regulation and found it to be very accurate, even with the June 11, 1990 version. Section 211.9(d) does not make any distinction between a voluntary organization and a third party—no third party responsibility is even mentioned. However, Section 211.9(e)(2) does discuss third party responsibility. It states that the voluntary organization needs to make every reasonable effort to pursue collection of claims, when appropriate, against liable third parties and that if such effort is not made then the voluntary organization could be held responsible. This discussion is clearly in addition to the discussion in Section 211.9(d) which states, among other things, that a voluntary organization "shall" be held responsible for the commodity if it knowingly permits misuse or causes loss or damage through any act or omission.

In an attempt to resolve the difference in opinion about Section 211.9(d) of the regulation, we contacted Mission officials and requested clarification. We were informed that the Mission's position was based on recent information received from A.I.D./Washington (State 169231). This document does discuss claims against voluntary organizations and claims against third parties. Nowhere does it limit claims against voluntary organizations to those situation where the voluntary

organization is directly involved in commodity distribution. In fact, it even refers to Section 211.9(d) when making reference to claims against a voluntary organization.

It was never suggested that a voluntary organization be held liable "merely" because a third party improperly used the commodities. As stated in the report, there were many indications of negligence on the part of a voluntary organization. In these situations, claims could be filed. Such action is consistent with the guidance given the Mission by two Regional Legal Advisers stating that a voluntary organization can and should be held responsible for certain actions. Following are some excerpts from one of the advisers:

"Assertion of a claim against CRS in this instance may serve as a real incentive for CRS to improve its supervision and control over its Title II projects. In any event consideration of a claim by USAID could result in formulation of a responsible procedure for monitoring and supervision of Title II commodities by a cooperating sponsor in the future."

"... the Mission can pursue a claim directly against CRS based upon their failure to act in accordance with their responsibilities imposed in Regulation 11 section 211.5. This course of action would require USAID to assert specific acts, or failure to act, which led to misuse, loss or damage to the commodity."

"If CRS was clearly derelict in their duty of supervising and managing Title II programs, then, in my estimation, it will be difficult for the Mission not to make a claim directly against CRS."

The other Regional Legal Adviser stated:

"... USAID can hold it [voluntary organization] monetarily liable for the value of commodities lost, misused or damaged by third parties if the ... [voluntary organization] was not diligent in its monitoring of such third parties...."

We believe the above clearly supports the rights of the Mission to assess a claim against a voluntary organization. Accordingly, the recommendation to notify voluntary organizations that claims will be assessed against them for negligence as well as for not actively pursuing claims against a third party should be implemented for it would help ensure compliance with the requirements.

## 2. USAID/India Has Not Been Adequately Monitoring the Food Program

The Mission's field monitoring of the food program has been very limited since 1986. While trouble shooting reviews were performed, Mission officials stated that the required comprehensive monitoring was not performed mainly because of operating expense limitations. As a result, the actual operations of the voluntary organizations were not being systematically reviewed to help ensure correction of known problems, compliance with requirements, and effectiveness of operations.

### Recommendation No. 2

We recommend that USAID/India:

- (a) Establish and implement a field monitoring plan for the voluntary organizations which includes annual visits to all state/zone offices and some site visits below the state/zone level to review actual operations. Such a monitoring plan should be in addition to any specific trouble shooting or special purpose reviews which need to be performed by the Mission.
- (b) Ensure that the field monitoring performed under this plan covers all important operation areas, especially the results of the voluntary organizations' oversight activities.
- (c) Randomly request the voluntary organizations' oversight reports on specific locations for "desk review" to evaluate their adequacy and to stay current on actual operations at the lower levels.
- (d) Require the voluntary organizations to submit the quarterly Commodity Status Reports and the Recipient Status Reports by state/zone, in addition to the consolidated reports they now submit.
- (e) Prepare written criteria establishing the general operating requirements for voluntary organizations and a procedure for using the criteria.

### Discussion

Handbook 9, Chapter 2, requires missions with PL-480, Title II programs to monitor the administration, implementation, and operation of the food programs to ensure compliance with regulations and agreements. Given the wide variety of voluntary organizations, the conditions in different countries, and the fact that the voluntary organizations—not the missions—have the specific day-to-day responsibility for effective program operations, the monitoring requirements mentioned in the Handbook are understandably general. Nevertheless, according to the Regional Legal Advisor, the Mission's monitoring should be sufficient enough to help ensure proper functioning of the program.

As discussed below, however, we found that the Mission's field monitoring was very limited and the reviews which were performed did not ensure the voluntary organizations were functioning properly. Also, to improve certain management controls, the Mission needs to increase the use of the voluntary organizations' oversight reviews, increase the usefulness of quarterly status reports by requiring certain information by state/zone, and develop administrative criteria by which to gauge the voluntary organizations.

Monitoring Performed - During the past three years, the Food Office staff made 72 field trips to review actual operations—an average of about two per month. As shown below, most of these field trips were for various reasons other than for actual monitoring or oversight of voluntary organizations.

<u>Purpose of Trip</u>	<u>Number of Field Monitoring Trips</u>			<u>Total</u>
	<u>1987</u>	<u>1988</u>	<u>1989</u>	
Program Review:				
CRS	6	-	-	6
CARE	-	2	-	2
Trouble Shooting:				
CRS	2	7	8	17
CARE	-	-	5	5
Section 416 Commodities	-	4	3	7
Workshops/Seminars	4	5	4	13
Accompany Visitors Officials	3	6	3	12
Familiarization Observation	1	3	4	8
Other	-	2	-	2
Totals	<u>16</u>	<u>29</u>	<u>27</u>	<u>72</u>

As can be seen, for the two main voluntary organizations, only eight (6 + 2) trips in three years were listed as being a program review, and only 22 (17 + 5) trips were for trouble shooting (to review a specific problem such as a loss at a particular location). Thus, only 30 trips could be classified as field monitoring of the two voluntary organizations.

The remaining 42 trips were for such purposes as workshops, accompanying visitors, review of Section 416 commodities, familiarization, etc. While such trips serve an important function, they cannot be considered field monitoring of voluntary organizations.

For the largest PL-480, Title II food program in the world, this limited amount of field monitoring did not provide the necessary assurance that the commodities donated by the United States Government were being properly used. The problems

disclosed by past reviews, those in the current CRS audits, and those anticipated in the CARE audit (based on the Mission's recent memo mentioned in the first finding) clearly showed that more thorough field monitoring was necessary.

The Food Office had requested travel funds to perform additional monitoring but such funds were not made available. For example, on August 25, 1988, \$50,950 was requested for field trips to be performed in 1989 but only about \$16,000 was made available. A similar request was made in 1990 but not approved. Also, staffing was reduced from 16 to 10. Mission officials stated this was due to operating expense budget constraints. However, we believe that the Mission must be more actively involved in reviewing actual operations of the voluntary organizations.

Although the Handbook does not give specific monitoring requirements, certain minimum levels can be established. CARE manages and monitors its program through 10 state offices. CRS has four zone offices. These 14 locations should be reviewed annually, which would average out to just over one field trip per month. Such reviews would concentrate on what the voluntary organizations are doing to ensure effective operations.

Performing more site visits would also help Mission officials identify problems and make suggestions to improve program operations. Otherwise, subelements of the voluntary organizations will believe they can operate independent of the requirements. Accordingly, the Mission should prepare a monitoring plan which would include visits to the 14 state/zone offices at least once a year. (In the event no problems are found, such visits should still not be less frequent than once every other year.) The plan should also include some visits to activities below the state/zone levels to help ensure the quality of the voluntary organizations' monitoring.

Review Design - The design of the field reviews performed in the past three years was very limited. While 8 program and 22 trouble shooting reviews were conducted, they were generally restricted to specific issues and did not include many important compliance matters. Following are some examples:

- A February 1987 program review of the CRS Madras Zone Office mentioned only various matters concerning the MCH program, a new committee to review FFW proposals, misleading information in some CRS program reports, new arrangements for transporting commodities, and the last physical inventory complying with the A.I.D. Handbook. While field monitoring was also mentioned as a weakness, no follow-up action was listed as being needed.
- A March 1987 program review at the CRS Calcutta Zone Office mentioned commodity transportation matters, a failure to provide MCH services, feeding ineligible beneficiaries, and irregularities in the physical inventories. Also, poor field monitoring was mentioned but no follow-up action was listed as being needed.

- A November 1987 program review at the CARE Bihar State office mainly mentioned only a variety of MCH health matters.
- A two-day trouble shooting review performed in November 1988 was to "assess and streamline the commodity inventory control handled by the Clearing and Forwarding Agent of CRS/Bombay".
- A two-day trouble shooting review performed in January 1989 at the CRS Calcutta office discussed problems in the handling of commodities distributed for earthquake disaster relief and certain large losses of PL-480 commodities.
- A December 1988 trouble shooting review performed at the CARE Orissa State office covered the problem of short weight oil pails. The review also covered specific examples of alleged commodity misuse that had been reported in the local newspapers.

These were typical examples of the 30 trip reports prepared during the past three years. As mentioned above, such trips do serve a useful purpose but they do not take the place of a full monitoring review. In fact, the program reviews did not cover many of the serious compliance deficiencies mentioned in the CRS report. Further, the trouble shooting reviews dealt only with the handling of specific problems and generally did not address the more broadly based compliance issues covered in the CRS audit.

There was one noteworthy exception to the above. A four-day Cochin Zone review performed in August 1989 (after the various CRS problems were brought to the Mission's attention), touched on very important issues such as CRS monitoring, loss reporting, inventory control, and problems with FFW projects. This review clearly shows that Mission officials can identify serious problems without having to spend an inordinate amount of time in the field.

The need for more thorough field monitoring like this August 1989 review is demonstrated by the widespread problems described in the CRS audit report such as:

- Measurement containers provided incorrect quantities of food at 74 of the 89 locations tested.
- Attendance records seldom showed any absenteeisms for extended periods of time.
- There were many examples of poor or nonexistent oversight reviews.
- Commodity losses were seldom reported for long periods of time by some states/zones.
- Serious storage problems existed at many locations.

- Many operating partners—69 of 106 tested—failed to provide publicity that the commodities were donated by the United States Government.
- There were many examples of poor control over FFW projects which allowed for commercial use of projects, questionable projects on private land, irregular payments to the workers, etc.
- There were no formal procedures for waiving payment when MCH beneficiaries were unable to pay the nominal fee charged for participation in the program.

The Mission's field reports were limited due to funding problems. Thus, they made very little, if any, reference to these problems. Also, the problems mentioned in a current internal audit report and those the Mission anticipates during the CARE audit indicates a need for more monitoring of the CARE program.

The Mission needs to ensure that the activities reviewed during field monitoring visits include the important operations of the voluntary organizations. Also, as discussed next, one very critical activity that needs reviewing is the oversight provided by the voluntary organizations.

Use of Voluntary Organization Monitoring - Section 211.5 of Regulation 11 requires the voluntary organizations to provide adequate supervisory personnel for the efficient operation of the program. In complying with these regulations, CRS requires the zone offices to review each cooperating partner annually and to review each operating partner every four years. In addition, the cooperating partners are required to review all operating partners annually. CARE requires its state offices to review each block office four times a year and to review six percent of the feeding centers a year.

Although these are very important requirements, the actual CRS and CARE monitoring was generally not reviewed by Mission officials. For example, only a few of the 30 field reviews performed by the Mission during the last three years even made reference to the voluntary organizations' oversight reports. Such reports should always be reviewed.

In the course of the CRS audit, the auditors found serious problems with the quality of the reviews made by the CRS staff. Many of the reviews were incomplete and some were considered superficial. Most of the reviews performed did not include observations of actual food distribution to beneficiaries, comments on the lack of loss reports, interviews with beneficiaries, etc. The reviewers were not properly trained and were often not independent of the activity being reviewed. Also, with the Mission's full knowledge, none of the reviews were on a surprise basis.

A review of the voluntary organizations' monitoring should be a principal part of the Mission's oversight program. This review would not only help ensure that the voluntary organizations' monitoring was effective, but it would provide Mission officials with a better understanding of food program operations in the field. Also,

since all such reviews cannot be performed in the field, the Mission could randomly identify locations and request a copy of the voluntary organization's monitoring reports for a "desk review" to help evaluate the adequacy of the monitoring and to stay more current of actual operations at all levels.

Consolidated Reports - A.I.D. Handbook 9, Chapter 7, requires the voluntary organizations to submit quarterly Commodity Status Reports and Recipient Status Reports. These quarterly reports are the main reports that the voluntary organizations submit to the Mission during the year.

The voluntary organizations submit these reports in consolidated form—CRS consolidates the activities of four zones and CARE consolidates the activities of 10 states. The consolidated reports, however, are very general and do not provide certain important information about the voluntary organizations' field activities. For example, the Mission is unaware of losses (including those under \$300) by zone/state or inventory levels by zone/state.

The Mission needs to have the voluntary organizations submit, in addition to the consolidated status reports, the individual status reports from each zone for CRS and each state for CARE.

Administrative Criteria - Handbook 9, Chapter 2 requires missions to determine whether the voluntary organizations' programs are adequately planned, financed, and logistically sound, and whether technical and administrative skills are available to accomplish program objectives. Although the Handbook is not specific as to how the determination should be made, missions are, nevertheless, required to make such evaluations.

Following the third and fourth IG audits disclosing so many problems, CRS is now making cuts in its program to better match its staff and the program requirements. CARE, on the other hand, is increasing its program to help keep pace with the expansion of the Government of India's Integrated Child Health Services scheme.

The Mission, however, has no standards or other criteria by which to review these changes. Therefore, the Mission will have difficulty determining whether CRS has reduced its program to the point that it can be effectively managed with the available resources or whether CARE has increased its resources sufficiently to deal with its new responsibilities.

To cope with this problem, the Mission should prepare written policy setting forth the normal general operating requirements which voluntary organizations need to comply with to help ensure effective food programs in India. Also, a procedure on how and when this policy will be applied is needed. Such a policy should touch on the number of locations which could possibly be covered with the available staff, geographical spread, the number of reviewers needed, the volume of commodities processed, etc.

### Comments by USAID/India and Auditor's Reply

USAID/India officials did not agree with any of this finding or any parts of the recommendation. Following are the comments they provided (see Appendix A) which relate to this finding. As with the first finding, additional auditor statements have been provided following the Mission's comments.

#### Mission's Comment

Mission officials stated that concurrent with a fundamental programmatic change, it was decided that more responsibility would be placed on voluntary organization for monitoring the food distribution system, supplemented with trouble shooting review by the Mission. It was felt that targeted trouble shooting would be more effective than the old style "program compliance" reviews. Officials also stated that it was recognized that CRS needed strengthening if more reliance was to be placed on its program monitoring. So, grants were provided to CRS and an independent audit under our supervision was requested.

#### Auditor's Reply

We agree that more monitoring responsibility needed to be placed on the voluntary organizations. However, as the recent audits of CRS disclosed, the monitoring actually performed was often "superficial". Thus, the Mission needs to ensure that this responsibility was being effectively implemented—providing a grant and requesting an audit were not enough. While we did not have a problem with the trouble shooting reviews per se, as a rule they were too limited in scope to get an accurate picture of what was being accomplished by the voluntary organizations and they did not cover the voluntary organizations' monitoring. These trouble shooting reviews, therefore, should be in addition to, not in place of, regular monitoring reviews.

#### Mission's Comment

Concerning recommendation 2(a) the officials did not agree that travel restrictions caused by reduced operating expense funds attributed to weak oversight. They stated that:

"The text of this recommendation attributes weak oversight due to travel restrictions resulting from reduced operating expenses. In this context, let me make the Mission position clear to you. We reduced travel (for the Mission as a whole) because it had gotten out of hand. Now every travel request is approved in the Director's office and not a single valid program relevant trip has been curtailed. It might be added that in 1988 the Mission spend \$5,375 to train one food officer in the intricacies of maternal child health operations. We certainly would not have approved that training if it would have been at the expense of necessary operational travel."

They suggested we rewrite the recommendation to include a statement that the field monitoring be performed by the Mission "subject to the availability of OE funds or alternatively, arrange monitoring tasks through contracting agencies, also subject to availability of funds."

The officials also stated that recommendation 2(b) makes sense only if it is reworded to take into account the suggested change. Mission officials did not respond to the point in the finding concerning staff reductions.

### Auditor's Reply

Operating expense restrictions did limit oversight. If funds were not a limiting factor, the alternative recommendation the Mission suggested would not include the phrase "subject to availability of funds". Beginning with the entrance conference for this audit, we were told that program monitoring was limited and that we should not even suggest an increase because travel funds were just not available. To illustrate, the Food Office was limited to only \$24,937 in travel funds for fiscal year 1988. In fiscal year 1989, this office requested \$50,950 but was only allowed to spend \$14,815. A request for \$65,000 was made for fiscal year 1990 but at the time of the audit it appeared that the office would only get about what they had received in 1988 or 1989.

Travel funds were clearly not provided to accomplish the necessary monitoring. For example, in a February 21, 1990 memorandum to our office, the Food Office Director stated that fund constraints prohibited implementing comprehensive monitoring of the voluntary organizations. Similarly, on November 28, 1989, the Mission Director forwarded the 1989 Internal Control Assessment and specifically stated that the Mission would have "... to identify innovative ways to do field monitoring in the light of existing budget realities." Five of the control techniques affecting monitoring were also rated unsatisfactory. Four of these unsatisfactory ratings were because of operating expense constraints. It was specifically stated that:

"Scarcity of OE funds for travel purposes has restrained the Mission from ensuring adequate systems to monitor warehousing, stock control, distribution/sale of food aid and use of recipient contributions and empty container funds."

We believe that recommendations 2(a) and 2(b) should be implemented without the modification suggested by the Mission.

### Mission's Comment

Mission officials provided no comments to recommendation 2(c), and requested recommendation 2(d) be deleted because the two quarterly status reports have limited utility as monitoring tools. They stated that the reports are submitted long

after the periods they cover because of the difficulties in gathering the required data and that the reports do not include any information on program compliance issues. They also stated the consolidated reports serve other useful purposes.

#### Auditor's Reply

Although no comments were received for recommendation 2(c), we believe it would improve the voluntary organizations' oversight if it was known that the Mission was randomly reviewing the reports. Thus, action is needed on this recommendation.

Recommendation 2(d) should not be deleted. Obtaining certain quarterly information by zone/state (amount of losses, inventory on hand, etc.) could be very useful in trend analysis or for highlighting potential problems. This information would be helpful when planning a monitoring visit. As clearly stated in the finding as well as in the recommendation, the quarterly zone/state status reports should be in addition to the consolidated, country-wide quarterly reports currently submitted.

#### Mission's Comment

The Mission requested recommendation 2(e) be deleted because a revised Regulation 11 was effective June 11, 1990. Officials stated program operating requirements are now embodied in the new regulation and compliance by the voluntary organizations is mandatory. Thus, it was felt that it would be redundant to repeat policies and procedures similar to those required for the voluntary organizations.

#### Auditor's Reply

The draft report was issued on April 20, 1990 before the revised regulation became effective. If the new regulation covers the areas discussed in the finding (that is whether programs are adequately planned, financed, sound, etc.) then this recommendation can be considered resolved. It will be closed when the Mission implements the requirements. However, it should be mentioned that "mandatory" requirements (monitoring, loss reporting, proper warehousing, etc.) were not always followed, so it may still be necessary for the Mission to have some procedure for applying the new requirements.

### 3. USAID/India Needs to Ensure Commodity Losses Are Properly Reported and Not Treated as Consumption

Accurate information on the extent of commodity losses was not available. The Mission had not ensured voluntary organizations were following established loss reporting procedures. Instead, losses were normally shown as consumption. Also, for those losses which were reported, resolution was delayed and effective analysis was not performed timely. As a result, reports on losses were substantially understated thereby depriving management officials, at all levels, of important information needed to gauge the effectiveness of the program and the possible need for corrective action.

#### Recommendations

We recommend that USAID/India:

- (a) Assign responsibility for monitoring the completeness of loss reporting and be more actively involved to ensure that corrective actions are taken where losses are not reported.
- (b) Establish procedures to prepare timely loss analysis reports and to more effectively follow up on outstanding claim uncollectible or claim payment reports.
- (c) Set target dates for resolving loss reports and for obtaining required legal opinions.

#### Discussion

A.I.D. Handbook 9, Chapter 8E states that the voluntary organizations are responsible for issuing claims against third parties for commodities lost or damaged while in the third party's custody. When claims are filed, the Mission is responsible for ensuring satisfactory resolution.

In order to implement this requirement, the Mission requires the voluntary organizations to report all losses exceeding \$300 on a Damaged and Missing Commodity Report (loss report). In the last three fiscal years, loss reports prepared by CARE and CRS were as follows:

Losses Reported by CRS \*

Type of Loss	1987		1988		1989		Total	
	No.	Value	No.	Value	No.	Value	No.	Value
Railway	83	\$ 86	61	\$ 48	118	\$137	262	\$ 271
Others	<u>159</u>	<u>617</u>	<u>30</u>	<u>57</u>	<u>124</u>	<u>411</u>	<u>313</u>	<u>1,085</u>
Subtotal	<u>242</u>	<u>\$703</u>	<u>91</u>	<u>\$105</u>	<u>242</u>	<u>\$548</u>	<u>575</u>	<u>\$1,356</u>

Losses Reported by CARE \*

Railway	66	\$ 148	55	\$ 79	26	\$ 26	147	253
	45	276	24	63	29	88	98	427
Storage	14	23	28	56	61	154	103	233
Others	<u>106</u>	<u>270</u>	<u>142</u>	<u>205</u>	<u>164</u>	<u>309</u>	<u>412</u>	<u>784</u>
Subtotal	<u>231</u>	<u>\$ 717</u>	<u>249</u>	<u>\$403</u>	<u>280</u>	<u>\$ 577</u>	<u>760</u>	<u>\$1,698</u>
TOTAL	<u>473</u>	<u>\$1,420</u>	<u>340</u>	<u>\$508</u>	<u>516</u>	<u>\$1,125</u>	<u>1,329</u>	<u>\$3,053</u>

\* All values in \$000.

During this period, about \$210 million of commodities were received in India. This indicates a loss rate of about 1.5 percent. In light of the stock losses caused by normal shrinkage and other factors observed during the recent CRS audits, we believe that the loss rate is understated by a very substantial amount and that the Mission has not taken adequate action to ensure reliable loss reporting. Also, those loss reports which were received were not acted on timely.

Loss Reporting - The Mission's control over the voluntary organizations' loss reporting was weak and officials took no action when there was clear evidence that losses were not being reported. To illustrate, no losses (other than railway) were reported in CRS's Madras Zone in 1987, and only two losses valued at \$4,014 were reported in 1988. During this two-year period, 55,735 metric tons of commodities valued at \$14 million were distributed by this zone. However, in 1989, after the audit of this zone, 38 losses valued at \$238,514 were reported.

Similarly in the Calcutta Zone, there were six reported railway losses in 1987 and one in 1988. The total value of these losses was \$5,239. During these two years, \$10.5 million in commodities were distributed. However, 63 losses valued at \$81,941 were reported in 1989.

The Mission took no action on the fact that so few losses were reported. However, the following pictures illustrate common conditions of unreported losses noted in the CRS Program:



Oil was obviously leaking from the containers at this CRS Counterpart located in Nagpur but no losses were reported.



Bulgur bags were broken at this CRS Counterpart located in Ambikapur but no losses were reported.

In one of CARE's states, Madhya Pradesh, only 10 nonrailway losses valued at \$27,828 were reported in the past three years. In another state, Andhra Pradesh, no railway or port losses were reported in the past three years and only three storage type losses were reported. These states, Madhya Pradesh and Andhra Pradesh, annually receive an average of \$6 million and \$5.8 million worth of commodities respectively. The Mission took no action on this information.

The above examples were typical of the conditions noted country wide but the Mission did not take action to ensure accurate reporting. Consequently, we believe losses were substantially understated. This deprived management officials, those of the voluntary organizations as well as those in USAID, of critically important information to make judgements concerning program effectiveness and need for corrective action.

The Mission should assign responsibility for monitoring the completeness of loss reporting and be more actively involved to ensure that corrective actions are taken where losses are not reported.

Loss Report Analysis - In order to help control losses, the Mission should periodically analyze the commodity loss reports by the type and cause. The Mission prepared an analysis of CRS loss reports for fiscal year 1987 and fiscal year 1988 but did not analyze the losses reported by CARE. Such analysis is needed. For example, CARE's losses resulting from bad and prolonged storage were increasing—from 14 cases reported in 1987 to 61 in 1989.

To show the actions taken on the loss reports, the voluntary organizations must issue either a Claim Uncollectible Report or a Claim Payment Report. Although only about 21 loss reports per month were received from CARE during the last three fiscal years, the Mission did not know how they were resolved because the loss reports were not matched with the uncollectible or payment reports.

A Mission official said that the reports were not matched because many of the claim reports were not referenced to the loss reports. The Mission, however, had not follow up with CARE to obtain the information needed to match the claim reports. As a result, the Mission had little control over CARE's collections because they did not know which losses had been resolved and which were still outstanding.

In the case of CRS, with about 16 reports per month being submitted, the Mission matched the reports so the number of unresolved loss reports was known. However, while the Mission was compiling lists of unresolved loss reports and sending the lists with a reminder letter to the CRS zone directors, this action was not getting the results needed.

As shown in the following page, at the end of 1989, 575 loss reports were issued by CRS in fiscal years 1987 to 1989, and 482 were still outstanding.

### CRS Loss Reports

<u>Fiscal Year</u>	<u>Loss Reports Issued</u>	<u>Value ('000)</u>	<u>Loss Reports Unresolved</u>	<u>Value ('000)</u>
1987	242	\$ 703	189	\$ 663
1988	91	105	57	71
1989	<u>242</u>	<u>548</u>	<u>236</u>	<u>548</u>
	<u>575</u>	<u>\$1,356</u>	<u>482</u>	<u>\$1,282</u>

Even minimal follow-up was not possible for CARE because the Mission did not know which loss reports issued by CARE were still unresolved. Thus, the Mission needs to prepare timely loss analysis reports and actively follow up on outstanding uncollectible or payment reports.

Target Dates for Resolving Loss Reports - The Mission did not set target dates for resolving the commodity losses. As a result, the voluntary organizations often took years to collect claims or determine them as uncollectible. For example, of the \$23,235 of commodity loss claims that CRS collected in fiscal years 1988 and 1989, \$21,441 related to losses prior to fiscal year 1987. In fact, several of these collections related to claims filed in 1983 and 1984.

Some examples of time lapses between approval of the loss report by the Mission to the collection of the claim by CRS are as follows:

#### Claims Collected by CRS

<u>Payment Report</u>	<u>Amount Realized</u>	<u>Loss Report</u>	<u>Date of Approval</u>	<u>Date Collected</u>
044	\$ 855.33	C-1271	3/10/83	10/17/88
033	1,404.90	C-1874	4/30/84	10/29/87
035	869.69	C-1944	8/01/85	10/29/87

Following the Regional Legal Counsel's suggestion in October of 1984, the Mission required an external legal opinion on the claim uncollectible reports issued by the voluntary organization to establish whether or not there may be grounds for claim against the third parties. However, we found that in the case of CARE, the Mission had not kept track of the claim uncollectible reports sent for legal opinion. At our request, the Mission checked and found there were 53 outstanding opinions as of February 1, 1990, due from the external legal counsel.

Although the Mission kept track of the outstanding legal opinions required for the CRS commodity losses, 67 out of 102 cases (as of February 1, 1990) related to fiscal year 1987 and earlier. A Mission official said that it usually takes at least six months to obtain the legal opinion and in some cases longer than a year. Such delays could

lead to additional difficulties in collecting old claims or loss of civil redress due to the ages of the claims. The Mission should set target dates for the voluntary organizations to resolve the loss reports issued, as well as to obtain legal opinions where required.

### Comments by USAID/India and Auditor's Reply

USAID/India officials provided specific comments on two parts of the recommendation (see Appendix A for the complete text of the Mission's comments). These comments, followed by additional auditor statements, are presented below.

#### Mission's Comment

Mission officials requested that we reword recommendation 3(a). They stated that part of the recommendation cannot be implemented because they have no mechanism for detecting field losses if those losses are not reported by the voluntary organization. The Mission also noted that since the voluntary organizations are mandated to adhere to the terms and conditions covering loss reporting, the recommendation should be worded as follows:

"Assign responsibilities for monitoring the completeness of loss reporting and be more actively involved to ensure that the PVOs strictly monitor the loss reporting by the field implementing agencies."

#### Auditor's Reply

We believe that the Mission does have a "mechanism" for detecting when losses may not be reported. This was the main point in recommendation 3(b) which the Mission did not address. As the finding states, certain analyses can be made by the Mission. One of the examples given in the finding was that one entire CRS zone (Madras) reported no losses in 1987, two relatively small losses in 1988, and because of an audit 38 losses in 1989. We believe the lack of loss reporting was an indication of a problem which should have initiated inquiries by Mission officials.

Another example mentioned concerned field visits. During field visits—be they complete program reviews, trouble shooting reviews, or even familiarization reviews—situations are noted which indicate losses are occurring. However, Mission officials have not taken steps to ensure that such losses are reported.

The Mission's suggested change to the recommendation would result in an improvement over past operations. However, we believe the Mission needs to be much more directly involved in this aspect. Complete reliance cannot be placed on the voluntary organization. Accordingly, we believe that parts 3(a) and 3(b) of this recommendation need to be implemented.

### Mission's Comment

The Mission officials suggested that we delete recommendation 3(c) because they assumed that our intention was to set target dates for resolving claims covering commodity losses.

### Auditor's Reply

We did not recommend that the Mission set target dates for final claim settlement. We were recommending target dates for the steps leading to the establishment of valid claims. Voluntary organizations should make timely determinations on whether loss reports are collectible or not, and the Mission needs to move expeditiously to get the necessary legal opinion and to take any other appropriate action. The example given stated that of the 575 CRS loss reports issued from fiscal year 1987 to fiscal year 1989, 482 reports were still unresolved at the time of the audit. We think it is reasonable to establish target dates to, if nothing else, help trigger follow-up action. There would certainly be no problem with changing target dates when the circumstances warrant it. As it is now, the process is very open ended with almost no follow-up. Accordingly, we do not believe this recommendation should be deleted.

## **B. Compliance and Internal Controls**

### **Compliance**

The following compliance issue is discussed in the audit findings section:

- Finding 1 notes that USAID/India did not adequately review the voluntary organizations storage facilities to ensure compliance with the Bellmon certifications.

### **Internal Controls**

The following internal control issues are discussed in the audit findings:

- Finding 1 notes that controls to ensure correction of known problems were weak.
- Finding 2 notes that internal control over field activities was weak because the Mission did not have a planned monitoring program and did not have standards for meeting the requirement to evaluate voluntary organizations' resources.
- Finding 3 notes that internal control over commodity losses was weak because the Mission was not effectively monitoring losses or following up on open loss reports.
- In the "Other Pertinent Matters" section of this report we discuss the need to ensure Internal Control Assessments accurately reflect actual conditions.

Although not discussed in the report's findings, we reviewed the controls over planning requirements in the approval of the Annual Estimate of Requirements and found that they had been improved. Also, our review of the Mission's involvement with the Section 416 commodities and its involvement with the sale of commodities for the CARE maternal/child health activities disclosed no internal control problems.

### **C. Other Pertinent Matters**

Missions are required to make an annual assessment of the effectiveness of their internal controls. The 1988 Internal Control Assessment for the Food Office (the first one conducted for this office) contained 20 applicable control techniques. While various qualifying statements were provided, all control techniques were shown to be "satisfactory" except for one. The one technique rated "unsatisfactory" concerned a Mission manual and the rating was later changed to "satisfactory".

The numerous serious problems that had been noted with the two voluntary organizations should have indicated that there were significant problems with the Mission's internal controls. Therefore, we believe that many of these control techniques should have been rated "unsatisfactory". This could have called attention to some of the problems the Mission stated it was facing (lack of staff and funds) and may have helped bring about a solution.

The 1989 assessment contained the same control techniques, plus one more applicable to the Food Office. This time, however, six control techniques were rated "unsatisfactory". This is a more realistic assessment of the actual situation. These rating changes may have been a result of this on-going audit of the Food Office and the problems disclosed in the CRS audits.

Since the 1988 assessment was the first one performed of the Food Office and since many qualifying statements were made, we are not making a formal recommendation on this issue. However, the Mission needs to ensure that the conditions reported in the Internal Control Assessment reflect actual conditions in the food program.

**AUDIT OF  
MANAGEMENT OF THE FOOD PROGRAM  
IN INDIA**

**PART III - APPENDICES**

ACTION AID4 INFO DCM

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OO RUEHQP  
DE RUEHNE #6549/01 2011316  
ZNR UUUUU ZZH  
O 201315Z JUL 90 ZDK ZUI RUEHQP 0093 SYC  
FM AMEMBASSY NEW DELHI  
TO AMEMBASSY SINGAPORE IMMEDIATE 7350  
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CN: 55747  
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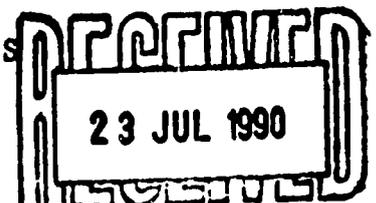
FOR JAMES DURNIL, RIG/A  
FROM DALE B. PFEIFFER, DIRECTOR(A), USAID/I

E.O. 12356: N/A  
SUBJECT: DRAFT AUDIT REPORT ON THE MANAGEMENT OF FOOD  
PROGRAMS IN INDIA

REFERENCE: NEW DELHI 015712

(1) THE FOLLOWING CABLE PROVIDES INFORMATION WITH REGARD TO THE DRAFT AUDIT OF USAID/INDIA'S MANAGEMENT OF ITS PL 480 FOOD PROGRAMS WHICH WE HOPE CAN BE TAKEN INTO CONSIDERATION PRIOR TO FINALIZING THE AUDIT. WE REQUESTED THIS AUDIT TO GIVE MISSION MANAGEMENT A CLEAR PICTURE OF OUR STRENGTHS AND WEAKNESSES IN MANAGING A LARGE, COMPLEX PL 480 PROGRAM. WE BELIEVE THE VALIDITY OF THE AUDIT AND, THEREFORE, ITS UTILITY AS A MANAGEMENT TOOL CAN ONLY BE ENHANCED BY ALTERING ITS CURRENT SKEWED PRESENTATION OF THE SITUATION.

(2) USAID/INDIA WAS SURPRISED UPON RECEIPT OF THE DRAFT AUDIT BECAUSE OF THE RADICAL SHIFT IN ITS TONE AND CONCLUSIONS FROM THAT CONVEYED TO US BY THE AUDIT TEAM IN THEIR VERBAL DEBRIEFING AND WRITTEN COMMENTS THEY LEFT WITH US (WHICH WE THOUGHT WAS AN INITIAL DRAFT OF THE AUDIT). THE AUDIT TEAM SPENT CONSIDERABLE TIME HERE GOING THROUGH OUR RECORDS AND REVIEWING MATTERS WITH OUR STAFF. OUR STAFF WAS COMPLETELY OPEN WITH THEM. TO DISCOVER THAT THIS TEAM'S FINDINGS WERE THEN TAKEN AND RESHAPED BY RIG/A/S INTO A MUCH DIFFERENT REPRESENTATION WAS FRANKLY SEEN AS DIRTY POOL. THE RESHAPED VERSION CLEARLY STATES THAT IT REFLECTED THE RESULTS OF ANOTHER AUDIT, THAT OF THE CATHOLIC RELIEF PROGRAM. OUR PROBLEM WITH THIS IS THAT IT DISTORTS THE PICTURE, USING A SMALL ELEMENT OF OUR PROGRAM AS THE MEASURE FOR THE WHOLE. IT ALSO CALLS INTO QUESTION THE OBJECTIVITY OF AUDITS PER SE. THE CRS PROGRAM REPRESENTS ONLY THREE PERCENT OF THE FEEDING STATIONS IN INDIA RECEIVING PL 480 FOOD (ALTOGETHER THERE ARE 144,500 SUCH STATIONS OF WHICH CRS DEALS WITH 4,500). FURTHER, FOR FY 88 AND 89, THE CRS PORTION OF TOTAL TONNAGE FOR THE TITLE II AND SECTION 416 PROGRAMS WAS ONLY 16.8 PER CENT. IT WAS OUR EXPECTATION AND UNDERSTANDING THAT THE FOOD AID MANAGEMENT AUDIT WOULD EXAMINE OUR PERFORMANCE VIS A VIS



THE WHOLE PL 480 PROGRAM, NOT JUST A SMALL PART.

(3) BELOW ARE A NUMBER OF POINTS WE WOULD LIKE TO OFFER FOR CONSIDERATION BY RIG/A/S AS A WAY OF PROVIDING THE AUDIT WITH THE OBJECTIVITY IT CURRENTLY LACKS. OUR POINTS ALSO INCLUDE A NUMBER OF CHANGES IN PREVAILING REGULATIONS/REQUIREMENTS WHICH HAVE SINCE BEEN ISSUED.

(4) TO PLACE ALL THE ISSUES IN PROPER CONTEXT, IN 1986 THE OFFICE OF FOOD FOR DEVELOPMENT IN USAID/INDIA WAS EFFECTIVELY ABOLISHED. THE STAFF IN THAT OFFICE WAS PLACED UNDER THE SUPERVISION OF AN ASSISTANT PROGRAM OFFICER IN OUR PROGRAM OFFICE. OFFICERS, WHO PREVIOUSLY WORKED EXCLUSIVELY ON FOOD MONITORING, WERE TO BE RETRAINED TO FOCUS ON THE PROGRAM EFFECTIVENESS RATHER THAN ON COMPLIANCE ORIENTED TASKS. THE FOOD PROGRAM, WORLDWIDE, HAD CHANGED FROM A FOCUS ON WELFARE TO A FOCUS ON DEVELOPMENT. IN THE INDIA MISSION, THE FOOD AID PROGRAM WAS INTEGRATED WITH THE MISSION'S CHILD SURVIVAL PROGRAM WITH PRIORITY GIVEN TO FEEDING PREGNANT/LACTATING MOTHERS AND CHILDREN BELOW THE AGE OF THREE TO USE FOOD AS A NUTRITIONAL RESOURCE. CHANGES WERE ALSO MADE IN THE OPERATIONS OF THE PVOS. BOTH CARE AND CRS WERE PROVIDED GRANTS TO RETRAIN THEIR RESPECTIVE STAFFS.

(5) CONCURRENT WITH THE ABOVE FUNDAMENTAL PROGRAMMATIC CHANGE, IT WAS DECIDED THAT MORE RESPONSIBILITY WOULD BE PLACED ON THE PVOS THEMSELVES FOR THE MONITORING OF THE FOOD DISTRIBUTION SYSTEM, SUPPLEMENTED WITH TROUBLE-SHOOTING INTERVENTIONS BY THE MISSION. THE CONSIDERED JUDGEMENT AT THAT TIME WAS THAT TARGETTED TROUBLE-SHOOTING WOULD BE MORE EFFECTIVE THAN THE OLD STYLE QUOTE PROGRAM COMPLIANCE (ADMINISTRATIVE-CUM-FIELD REVIEWS) UNQUOTE ASSIGNMENTS. IT APPEARED, THE AUDIT TEAM CONCURRED THAT TROUBLE-SHOOTING ASSIGNMENTS WERE EFFECTIVE. THEY REVIEWED ALL OF THE REPORTS AND FOUND THEM OF HIGH QUALITY. IT WAS RECOGNIZED AT THAT TIME THAT CRS NEEDED STRENGTHENING IF WE WERE TO PLACE MORE RELIANCE ON THEIR PROGRAM MONITORING. TO THIS END THE MISSION PROVIDED GRANTS TO CRS AND REQUESTED AN INDEPENDENT AUDIT UNDER THE SUPERVISION OF THE RIG/A/S.

(6) IN OCTOBER, 1987 A NEW MISSION DIRECTOR DECIDED THE

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SIZE AND COMPLEXITY OF THE PL 480 ACTIVITIES WOULD BE BETTER SERVED BY RE-CREATING THE OFFICE OF FOOD FOR DEVELOPMENT. ALSO, IN NOVEMBER 1987, AN INTER-OFFICE FOOD AID COMMITTEE WAS ESTABLISHED TO ADD A FURTHER CAPACITY FOR PROGRAM MANAGEMENT, INTER ALIA, IT REVIEWED WHETHER IT WAS MORE EFFICIENT TO TRANSFER PROGRAM EFFECTIVENESS (THAT IS THE CHILD SURVIVAL ACTIVITIES) TO THE MISSION'S OFFICE OF HEALTH, POPULATION AND NUTRITION (HPN) RATHER THAN RE-TRAIN TRADITIONAL FOOD AID OFFICERS. (EVENTUALLY THE MISSION DID TRANSFER THE PROGRAM EFFECTIVENESS TO HPN).

(7) GIVEN THE ABOVE OVERVIEW, WE ARE SURPRISED THAT NONE OF THIS IS MENTIONED IN THE DRAFT AUDIT REPORT AS IT IS DIRECTLY MATERIAL TO THE AUDIT OF OUR MANAGEMENT EFFORTS.

(8) THE AUDIT CONCLUDES THAT USAID/INDIA HAS NOT BEEN PURSUING WITH DUE DILIGENCE ALL OF THE TOOLS IT HAS AVAILABLE TO ENFORCE THE PVOS TO COMPLY WITH USAID REGULATIONS AND REQUIREMENTS. SURPRISINGLY, HOWEVER, THE REPORT DOES NOT MENTION, IN ANY PLACE, THAT THE CRS PROGRAM WAS SUSPENDED IN JUNE 1989, A PERIOD COVERED BY THE AUDIT. THE REPORT ALSO DOES NOT MENTION THE THREE CASES TURNED OVER TO THE GOVERNMENT OF INDIA'S CENTRAL BUREAU OF INVESTIGATION WHERE THE MISSION BELIEVED THAT A POSSIBILITY OF FRAUD EXISTED.

(9) COMMENTS ON AUDIT RECOMMENDATIONS:

RECOMMENDATION NO. 1(A) READS QUOTE REQUIRE VOLUNTARY ORGANIZATIONS TO FULLY RESOLVE ALL KNOWN PROBLEMS BY ESTABLISHING A SPECIFIC PLAN TO PERIODICALLY FOLLOW UP ON REPORTED PROBLEMS TO MAKE SURE ADEQUATE ACTION WAS FULLY TAKEN TO CORRECT THE DEFICIENCIES. IF ADEQUATE ACTION IS NOT TAKEN IN A REASONABLE TIME, THE MISSION SHOULD TAKE STEPS TO REDUCE THE PROGRAM. END QUOTE.

WHILE WE HAVE NO RESERVATIONS ABOUT THE FIRST PART OF THE RECOMMENDATION, WE REQUEST THE DELETION OF THE LATTER PART PERTAINING TO PROGRAM REDUCTION. OUR SUBMISSION IS MADE ON THE FACT THAT THE RECOMMENDED PROGRAM CURTAILMENT CANNOT BE FORMULATED IN RELATION TO THE INADEQUATE ACTIONS BY THE PVOS. FIXING NORMS ACCEPTABLE TO BOTH PVOS WILL BE A CUMBERSOME PROCESS.

RECOMMENDATION 1(B) READS QUOTE INFORM THE VOLUNTARY ORGANIZATIONS THAT THE REQUIRED BELLMON CERTIFICATION WILL BE WITHHELD IF COMMODITIES ARE NOT PROPERLY STORED. END QUOTE.

WE REQUEST THE DELETION OF THIS RECOMMENDATION IN TOTO BASED ON THE FOLLOWING SUBMISSION:

THE REPORT CRITICIZES THE MISSION FOR CERTIFYING COMPLIANCE WITH THE BELLMON AMENDMENT DESPITE CASES OF UNACCEPTABLE WAREHOUSING PRACTICES BY CRS, IMPLYING PRESUMABLY, THAT SHIPMENTS SHOULD BE SUSPENDED UNTIL CORRECTIVE ACTION IS TAKEN. TO SUPPORT ITS CASE THE

AUDIT REPORT INCLUDES SIX PICTURES. THESE ARE THE SAME SIX PICTURES THAT ARE INCLUDED IN THE CRS AUDIT. UNFORTUNATELY, RIG/A/S HAD NOT APPROPRIATELY INTERPRETED THE INTENT OF THE BELLMON AMENDMENT, NOR INVESTIGATED THE REASONS THE AMENDMENT WAS INTRODUCED. SPECIFICALLY THE BELLMON AMENDMENT REQUIRES THAT ADEQUATE STORAGE FACILITIES BE AVAILABLE IN THE RECIPIENT COUNTRY AT THE TIME THE FOOD COMMODITY IS EXPORTED FROM THE U.S. - REG. 11 (AS YOU MAY RECALL IN A CASE IN AFRICA FOOD WAS FOUND ROTTING AT THE DOCKS BECAUSE THERE WERE NO STORAGE FACILITIES). THERE IS NO QUESTION THAT BOTH CRS AND CARE, AND THE GOVERNMENT OF INDIA HAVE ADEQUATE, SATISFACTORY STORAGE FACILITIES. THE PROBLEM, HOWEVER, IS THAT IN MANY CASES WAREHOUSING PRACTICES (NOT A BELLMON CONSIDERATION) REPEAT PRACTICES HAVE BEEN AROMINABLE. ASSUMING RIG/A/S WANTS TO ADDRESS THIS PROBLEM, WE SUGGEST THAT THIS PORTION OF THE RECOMMENDATION IS CHANGED TO REQUIRE THAT THE BELLMON AMENDMENT BE RE-WRITTEN TO INCLUDE WAREHOUSING PRACTICES AS WELL. THAT RECOMMENDATION SHOULD BE ADDRESSED TO THE SENATE AGRICULTURE COMMITTEE. ALSO, FOR YOUR INFORMATION, THE MISSION HAS DONE MORE THAN MOST IN GETTING THE PVOS TO IMPROVE THEIR WAREHOUSING PRACTICES BUT IT IS A SLOW AND CONTINUOUS PROCESS SINCE WE ARE DEALING WITH LOWLY PAID, UNSKILLED LABOR WHICH TURNS

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OVER REGULARLY IN REMOTE LOCATIONS ACROSS A  
SUB-CONTINENT (AN IMPORTANT CONTEXT TO CONSIDER).

RECOMMENATION NO. 1(C) READS QUOTE NOTIFY THE VOLUNTARY  
ORGANIZATIONS THAT CLAIMS WILL BE ASSESSED AGAINST THEM  
WHERE NEGLIGENCE IS INVOLVED, AND/OR COLLECTION AGAINST  
A THIRD PARTY IS NOT POSSIBLE BECAUSE ADEQUATE  
COLLECTION ACTION HAD NOT BEEN PURSUED. END QUOTE.

IN THIS CONTEXT, WE REPRODUCE BELOW THE COMMENTS OF  
MISSION'S RLA FOR YOUR PERUSAL:

QUOTE THE SUMMARY OF REGULATION 11, SECTION 211.9(D)  
INCLUDED IN THE AUDIT REPORT SUGGESTS THAT IF  
COMMODITIES ARE IMPROPERLY DISTRIBUTED, KNOWINGLY USED  
FOR AN IMPERMISSIBLE PURPOSE, OR LOST OR DAMAGED DUE TO  
IMPROPER STORAGE, CARE OR HANDLING, REGARDLESS WHO HAD  
RESPONSIBILITY FOR DISTRIBUTION, USE, STORAGE OR  
HANDLING, THE COOPERATING SPONSOR WOULD BE HELD LIABLE  
BY AID. THIS SUMMARY IS INACCURATE.

SECTION 211.9(D) MAKES A DISTINCTION IN THE LIABILITY OF  
THE COOPERATING SPONSOR (AND THEREFORE THE BASIS FOR A  
CLAIM) BETWEEN (1) WHERE THE COOPERATING SPONSOR IS  
INVOLVED IN DISTRIBUTION OR OTHER HANDLING AND  
IMPROPERLY DISTRIBUTES, STORES OR HANDLES THE  
COMMODITIES, PERMITS A THIRD PARTY TO USE THE  
COMMODITIES IMPROPERLY, OR OTHERWISE CAUSES LOSS OR  
DAMAGE TO COMMODITIES BY ITS ACTIONS OR FAILURE TO ACT,  
AND (2) WHERE A THIRD PARTY IS RESPONSIBLE FOR OR  
OTHERWISE INVOLVED IN DISTRIBUTION OR OTHER HANDLING OF  
THE COMMODITIES AND IS RESPONSIBLE FOR LOSS, MISUSE OR  
DAMAGE.

IN THE FIRST CIRCUMSTANCE, THE COOPERATING SPONSOR CAN  
BE HELD LIABLE UNLESS THE MISSION DETERMINES THAT THE  
IMPROPER DISTRIBUTION OR USE OR LOSS OR DAMAGE COULD NOT  
HAVE BEEN PREVENTED BY THE COOPERATING SPONSOR'S PROPER  
EXERCISE OF ITS RESPONSIBILITIES. IN THE SECOND  
SITUATION, THE USAID COULD ASSERT A CLAIM AGAINST THE  
COOPERATING SPONSOR IF THE COOPERATING SPONSOR FAILS TO  
FILE A CLAIM OR FAILS TO MAKE REASONABLE EFFORTS TO  
COLLECT THE CLAIM AGAINST THE THIRD PARTY. THE  
COOPERATING SPONSOR CANNOT BE HELD LIABLE MERELY BECAUSE  
A THIRD PARTY IMPROPERLY DISTRIBUTES, STORES OR HANDLES  
COMMODITIES OR KNOWINGLY PERMITS THEIR IMPROPER USE.  
END QUOTE.

THE MISSION DOES NOT DISPUTE THE NEED FOR IT TO ANALYZE  
WHETHER OR NOT A BASIS FOR A CLAIM AGAINST THE  
COOPERATING SPONSOR EXISTS WHEN A LOSS OF, DAMAGE TO OR  
MISUSE OF COMMODITIES OCCURS. WE DO WANT TO ENSURE,  
HOWEVER, THAT WE ARE HELD ACCOUNTABLE FOR APPLYING THE  
STANDARDS STATED IN SECTION 211.9(D) AND NOT THE  
MISINTERPRETATION AS SUMMARIZED IN THE AUDIT REPORT.

FURTHER, AT THE TIME OF WRITING THIS RESPONSE, MISSION  
HAS RECEIVED REVISED REG. 11 PUBLISHED IN THE FEDERAL

REGISTER ON JUNE 11, 1990. SINCE THE REVISED VERSION CONTAINS SEVERAL NEW PROCEDURES FOR THE CLAIM ACTIONS, WE REQUEST YOU TO ASSESS THE NEED FOR RETAINING THIS RECOMMENDATION.

RECOMMENDATION NO. 2(A) READS QUOTE ESTABLISH AND IMPLEMENT A FIELD MONITORING PLAN FOR THE VOLUNTARY ORGANIZATIONS WHICH INCLUDES ANNUAL VISITS TO ALL STATE/ZONE OFFICES AND SOME SITE VISITS BELOW THE STATE/ZONE LEVEL TO REVIEW ACTUAL OPERATIONS. SUCH A MONITORING PLAN SHOULD BE IN ADDITION TO ANY SPECIFIC TROUBLE-SHOOTING OR SPECIAL PURPOSE REVIEWS WHICH NEED TO BE PERFORMED BY THE MISSION. END QUOTE.

THE TEXT OF THIS RECOMMENDATION ATTRIBUTES WEAK OVERSIGHT DUE TO TRAVEL RESTRICTIONS RESULTING FROM REDUCED OPERATING EXPENSES. IN THIS CONTEXT, LET ME MAKE THE MISSION POSITION CLEAR TO YOU. WE REDUCED TRAVEL (FOR THE MISSION AS A WHOLE) BECAUSE IT HAD GOTTEN OUT OF HAND. NOW EVERY TRAVEL REQUEST IS APPROVED IN THE DIRECTOR'S OFFICE AND NOT A SINGLE VALID PROGRAM RELEVANT TRIP HAS BEEN CURTAILED. IT MIGHT BE ADDED THAT IN 1988 THE MISSION SPENT USD 5,375 TO TRAIN ONE FICD OFFICER IN THE INTRICACIES OF MATERNAL CHILD HEALTH OPERATIONS. WE CERTAINLY WOULD NOT HAVE APPROVED

THAT TRAINING IF IT WOULD HAVE BEEN AT THE EXPENSE OF NECESSARY OPERATIONAL TRAVEL.

WE, THEREFORE, SUGGEST THAT THIS RECOMMENDATION BE REWRITTEN TO INCLUDE THAT THE FIELD MONITORING BE PERFORMED BY THE MISSION SUBJECT TO THE AVAILABILITY OF FUNDS OR ALTERNATIVELY, ARRANGE MONITORING TASKS THROUGH CONTRACTING AGENCIES, ALSO SUBJECT TO AVAILABILITY OF FUNDS.

RECOMMENDATION NO. 2(B) READS QUOTE ENSURE THAT THE FIELD MONITORING PERFORMED UNDER THIS PLAN COVERS ALL IMPORTANT OPERATION AREAS, ESPECIALLY THE RESULTS OF THE VOLUNTARY ORGANIZATIONS' OVERSIGHT ACTIVITIES. END QUOTE.

THIS RECOMMENDATION MAKES SENSE ONLY IF RECOMMENDATION NO. 2(A) IS REWORDED AS PER OUR ABOVE COMMENTS.

RECOMMENDATION NO. 2(D) READS QUOTE REQUIRE THE VOLUNTARY ORGANIZATIONS TO SUBMIT THE QUARTERLY COMMODITY STATUS REPORTS AND THE RECIPIENT STATUS REPORTS BY STATE/ZONE, IN ADDITION TO THE CONSOLIDATED REPORTS THEY NOW SUBMIT. END QUOTE.

WE REQUEST DELETION OF THIS RECOMMENDATION IN TOTO BASED ON THE FOLLOWING SUBMISSION:

THE CSRS AND RSRS HAVE VERY LIMITED UTILITY AS MONITORING TOOLS (1) BECAUSE OF THE VERY LARGE GEOGRAPHICAL SPREAD OF BOTH THE CARE (TEN STATES) AND CRS (FOUR ZONES) PROGRAMS, THESE REPORTS MUST, OF NECESSITY, ARRIVE MONTHS AFTER THE PERIODS REPORTED ON, AND (2) THESE REPORTS DO NOT, OF COURSE, PROVIDE A DESCRIPTION OR ANALYSIS OF ANY KIND ON THE PROGRAM COMPLIANCE ISSUES OF CONCERN.

THESE REPORTS SERVE OTHER USEFUL PURPOSES:

(1) KEEPING TRACK OVERALL OF THE PVO'S PROGRESS IN MEETING ITS ANNUAL TONNAGE/RECIPIENT TARGETS (2) ESTABLISHING TREND-LINES OF PAST PERFORMANCE TO USE IN ANALYZING THE CALLS FORWARD. FOR EXAMPLE, WE DECLINED TO APPROVE ONE-THIRD OF THE FY 92 FOURTH QUARTER CALL FORWARD FOR CARE SINCE OUR TREND ANALYSIS OF THE LAST FIVE CSRS AND RSRS INDICATED THAT CARE HAD OVERESTIMATED ITS PLANNED DISTRIBUTION FOR THE NEXT SIX MONTHS AND CONSEQUENTLY WOULD END UP WITH A LARGER THAN DESIRED INVENTORY AT THE END OF THE FISCAL YEAR. IMPLEMENTATION OF THIS AUDIT RECOMMENDATION WOULD SIMPLY GENERATE ADDITIONAL PAPERS WITH LIMITED UTILITY, THE OPPOSITE OF GOOD MANAGEMENT. IT SHOULD BE POINTED THAT IN 1986/87 USAID SUCCESSFULLY RESISTED CRS PLANS TO SUBMIT ZONAL CSRS AND RSRS, ARGUING THAT A CONSOLIDATED STATEMENT WAS WHAT WAS MOST REQUIRED AND USEFUL. WE STILL BELIEVE THIS TO BE TRUE.

RECOMMENDATION 2(E) READS QUOTE PREPARE WRITTEN POLICIES ESTABLISHING THE GENERAL OPERATING REQUIREMENTS FOR

VOLUNTARY ORGANIZATIONS AND A PROCEDURE FOR USING THE POLICY. END QUOTE.

WE REQUEST DELETION OF THIS RECOMMENDATION IN VIEW OF THE REVISED REG. 11 WHICH BECAME EFFECTIVE JUNE 11, 1992. AS THE PROGRAM OPERATING REQUIREMENTS ARE NOW FULLY EMBODIED IN THE REVISED REG. 11 AND THE COMPLIANCE OF THE REGULATIONS BY THE PVOS IS MANDATORY, WE FEEL IT REDUNDANT TO REPEAT THE SAME REQUIREMENTS FOR A MISSION TO DEVELOP POLICIES AND PROCEDURES ON SIMILAR LINES FOR PVOS.

RECOMMENDATION NO. 3(A) READS QUOTE ASSIGN RESPONSIBILITY FOR MONITORING THE COMPLETENESS OF LOSS REPORTING AND BE MORE ACTIVELY INVOLVED TO ENSURE THAT CORRECTIVE ACTIONS ARE TAKEN WHERE LOSSES ARE NOT REPORTED. END QUOTE.

THE LATTER PART OF THE RECOMMENDATION CANNOT BE IMPLEMENTED AS THERE IS NO MECHANISM WHEREBY THE MISSION CAN DETECT THE FIELD LOSSES WHEN THEY ARE NOT REPORTED THROUGH THE PVOS. HAVING SIGNED THE COOPERATING SPONSOR AGREEMENT, EACH PVO IS MANDATED TO ADHERE TO ALL TERMS AND CONDITIONS REGARDING LOSS REPORTING. THUS THIS RECOMMENDATION SHOULD BE REWORDED TO READ AS:

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QUOTE ASSIGN RESPONSIBILITIES FOR MONITORING THE COMPLETENESS OF LOSS REPORTING AND BE MORE ACTIVELY INVOLVED TO ENSURE THAT THE PVOS STRICTLY MONITOR THE LOSS REPORTING BY THE FIELD IMPLEMENTING AGENCIES. END QUOTE.

RECOMMENDATION NO. 3(C) READS QUOTE SET TARGET DATES FOR RESOLVING LOSS REPORTS AND FOR OBTAINING REQUIRED LEGAL OPINIONS. END QUOTE.

IT APPEARS THAT RIG/A/S INTENTION IS TO SET TARGET DATE FOR RESOLVING CLAIMS AND NOT TARGET DATES FOR RESOLVING LOSS REPORTS. THE IMPLEMENTATION OF THIS RECOMMENDATION POSES A SERIES OF PROBLEMS AS WE CANNOT BY ANY STRETCH OF IMAGINATION FIX A TARGET DATE FOR ULTIMATE CLAIM SETTLEMENT. FYI: OF LATE SOME CLAIM ACTIONS ARE REFERRED TO THE INDIAN COURTS WHICH CAN MEAN THAT THE SETTLEMENT MAY DRAG ON FOR YEARS TOGETHER. END FYI. IN OTHER CASES, THE PVOS ARE TO COLLECT ADEQUATE DOCUMENTARY EVIDENCE TO PROVE THE ONUS OF THE CLAIM WHICH IS TIME CONSUMING. WE RECOGNIZE CONSIDERABLE DELAY HAS TAKEN PLACE IN THE CLAIM SETTLEMENT PROCESS. HOWEVER, DUE TO THE PRACTICAL REALITIES IN THE IMPLEMENTATION OF THIS RECOMMENDATION AND TAKING INTO ACCOUNT THE INDIAN LEGAL ENVIRONMENT, CHANGING THE SITUATION IS BEYOND OUR CONTROL. WE, THEREFORE, SUGGEST DELETION OF THIS RECOMMENDATION OR THAT YOU IDENTIFY AN IMPLEMENTABLE SOLUTION. NOTE THE REVISED REG. 11 LAYS DOWN CHANGES IN PROCEDURES ON CLAIM ACTION TO FOLLOW UNDER SECTION 211.9(F)(4).

(12) CONCLUSION  
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WE BELIEVE THE ABOVE PROVIDES RIG/A/S WITH INPUT WHICH WILL ADD TO THE QUALITY OF THE AUDIT. WE TRUST YOU WILL AGREE. CLARK

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